Regional Integration in Southern Africa - Vol. 9

# Deepening Integration in SADC

## Tanzania - Torn between EAC and SADC

Oswald Mashindano, ESRF
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Daniel Ngowi, ESRF

A study conducted for the
Friedrich Ebert Foundation

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February 2007

# Impressum

Published by

**Friedrich Ebert Foundation -**
**Botswana Office**
ISBN 99912-564-8-2
February 2007

# Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community (SADC) is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa; and support the socially disadvantaged, through regional integration.

Amongst the various measures Governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation, through its office in Botswana, and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on "Deepening Integration in SADC – Macroeconomic Policies and their Impact".

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries responded to the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana, and in April 2005 in Stellenbosch, South Africa, the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study of the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks, as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and Non-State Actors vis á vis SADC. A study on South Africa's international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussions among the participating institutions, as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana, as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled, "Regional Integration in Southern Africa".

The 9th volume, presented here, contains the findings of the Country Study and Survey from Tanzania by the *Economic and Social Research Foundation, ESRF* in Tanzania, My special thanks go to the authors, to Oswald Mashindano, Daniel Ngowi and Dennis Rweyemamu for writing and revising the document, to Patrick Ebewo for editing, Sara Wagner for proof reading as well as to Peter Maina Kamiti and MacDonald Gotora for the design and layout.

Gaborone, January 2007

Dr. Marc Meinardus
Resident Representative
Friedrich Ebert Foundation
Botswana Office

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# Deepening Integration in SADC

Tanzania – Torn between EAC and SADC

## Part: 1

Macroeconomic Policies and Their Impact in Tanzania

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# Executive Summary

The Southern African Development Community (SADC) has been in existence since 1980. The main objective of SADC is to accelerate Member States' economic growth, investment, employment and balanced intraregional development. This study focuses on macroeconomic convergence (MEC) measures, along with trade, finance, investment, and labour market policy frameworks in the SADC region.[1] SADC (2003) is convinced that regional economic integration and macroeconomic stability are preconditions to sustainable economic growth and for the creation of a monetary union in the region.[2]

More specifically, the study objectives aimed at providing the mechanism for the implementation of the SADC policy framework; assessing the policy-impact linkages, and identifying the MEC implementation and achievements to date. The study methodology was based on a desk review. It used the existing data and information, and analysed them according to the Terms of Reference (TOR) by using the suggested instruments. In addition, the study employed investigative research restricted to interviews with relevant policy makers as per TOR. The result of this study is summarised below as follows.

## Tanzania Macroeconomic Convergence Programme

The aim of macroeconomic convergence is to create regional levels of macroeconomic stability. This entails maintaining low inflation, sustaining debt, maintaining stable and realistic exchange rates, and fostering prudent and efficient fiscal and monetary management. The upshot of these efforts is to stabilise government expenditure, thus allowing for increased spending on poverty reducing social programmes, reducing interest rates, facilitating job creation, investment and growth as well as increasing confidence in the economies of Member States.

The study shows that Tanzania has made commendable progress towards achieving macroeconomic convergence (Table 1A). Inflation, external reserves, and central bank credit to the Government are within agreed target levels. Progress is also evident on several other convergence indicators. In particular, real GDP growth achieved in 2004/05 (6.4%) is

1 Macroeconomic convergence means the convergence by Member States to low and stable levels of inflation, sustainable budget deficits, public and publicly guaranteed debt and current account balances.

2 SADC, Memorandum of Understanding on Macroeconomic Convergence, Feb 2003.

close to the 7% target rate of growth by 2008. Also, budget deficit as a percentage of GDP during 2004/05 was 11.8% before grants, but 4.5% after grants, which is within target levels. Similarly, external debt as a percentage of GDP was 75% in 2004 - a level that is close to the 2008 target of 60% of GDP. Expected debt relief to Tanzania by G8 countries should reduce Tanzania's debt further, facilitating the achievement of this convergence target.

Progress is low in several indicators. Domestic savings was 16% in 2004/05 compared with a target of 25% by 2008. Domestic investments in 2004/05 was only 18.6% compared with a target of at least 30% by 2008. Little progress is also evident in fostering interconnection of payments and clearing systems with SADC Member States, finalising the legal and regulatory framework for dual and cross listing of the regional stock exchange and liberalisation of the current account transactions between Member States.

**Table 1A: Successes in Achieving Macroeconomic Convergence Targets**

| Numeric Values of Target Indicators | 2008 | 2012 | 2018 | Tanzania performance assessment |
|---|---|---|---|---|
| Real GDP growth rate | 7% | 7% | 7% | Slightly below target value. Real GDP growth was 6.4% in 2004. (IMF, 2004). However, estimates for 2005 shows Tanzania will be within target for this indicator. |
| Core inflation | 9% | 5% | 3% | Within target stability programme. Average inflation in year ending June 30th 2005 was 4.6%. (Bank of Tanzania, June 2005) |
| External reserves (import cover in months) | 3 | 6 | 6 | Within target stability programme. 2004 external reserves were adequate to cover 8 months of imports. |
| Central bank credit to Government | 10% | 5% | 5% | Within target stability programme. In 2003/04 Government made payments to the Central Bank to reduce domestic debt, equivalent to 0.3% of GDP (IMF, 2004). |
| Liberalise exchange controls | | | | Completed (Bank of Tanzania |

## Progress in Implementing SADC Trade Protocol

SADC's Trade Protocol was signed in 1996 and came into effect in October 2000. The protocol aims at removing intraregional trade barriers and turn the community into a free trade area for 85% of goods by 2008, and for all goods by 2012. Tanzania is making commendable progress in implementing SADC Trade Protocol. Barriers to intra-SADC trade are progressively being dismantled - particularly those related to removal of tariffs and non-tariff barriers and import duties. The liberalisation of Tanzania's trade regime has resulted in a reduction of its tariffs by more than 7 percentage points since the mid 1990s. While other countries in Eastern and Southern Africa have liberalised as well, Tanzania's import duties have fallen clearly below the regional average. It is also worth noting that all tariffs are ad valorem, and there are no seasonal duties, tariff quotas, or variable levies.

Despite much progress in implementing SADC Trade Protocol, Tanzania's trade flows remain almost the same in the past decade, showing a slight shift towards greater trade with regional partners. Trade with Europe is highest, accounting for over 50% of all trade in goods and services, followed by Asia (24%), Africa (10.7% - largely South Africa) and America (7%). With regard to regional trade, Tanzania has two regional trade agreements (RTAs) - the EAC and SADC. Studies conducted by Kweka and Mboya (2004) show that Tanzania's trade relationship with other African countries has intensified in recent years, both in terms of the volume of trade and the scope of traded goods. However, total trade with African countries remains low and over 90% of the trade is with members of EAC or SADC, under the terms of preferential market access.

## Tanzania's Labour Market Policy Framework

Tanzania's total population is about 34 million people. Of this number, about 14 million constitute the labour force of ages 15-64 years. Over 30% of the labour force is either unemployed or underemployed. The Poverty and Human Development Report (2003) stated that there are about 700,000 new job seekers annually in Tanzania, but the economy can only generate about 40,000 new jobs, largely in the private sector. Estimates by the 1997 National Employment Policy shows that the informal sector has the capacity to employ 62.5% of the yearly increase in labour force. However, the capacity of the formal sector is only 8.5%. The main reason for low employment capacity is inadequate domestic and foreign investment. Investments in all sectors have been low, contributing to low growth in employment.

Tanzania is making concerted efforts at facilitating the creation of jobs within the economy. The 1997 National Employment Policy and Tanzania Investment Policy encourages investments in industry, agriculture and the services in order to create more jobs. The National Strategy for Growth and Poverty Reduction (MKUKUTA in Swahili) accords resource allocation priority to sectors such as agriculture, education, health, transport and communications, and water as a way of reducing widespread poverty and creating employment to the people.

With regard to labour standards, Tanzania has ratified all ILO labour-related core conventions. The Government has also strengthened labour laws and regulations to ensure these cope with the social strains of globalisation, while ensuring decent work for all its citizens.

## Social Impact of Policy Frameworks

The social impact of Tanzania's policy frameworks has not been encouraging. Gross national income per capita (GNI) is still among the lowest in the world (USD 290 or using PPP USD 610/capita) - about half the average for Sub-Saharan African countries (World Bank, 2005). Life expectancy at birth has declined from 53 years in 1987 (World Bank, 1989) to 43 years in 2002 (World Bank, 2005).

Other social indicators are also worrisome. Poverty continues to be widespread and deep as revealed in a 2000/01 Household Budget Survey. About 32% of the population lives without sustainable access to improved water sources (UNDP, 2004). Over 19.9% of the population lives on less than USD 1 per day (UNDP, 2004). Only 89% of Tanzania's one year olds are fully immunised against measles. Under 5 mortality is high - at 165 per 1,000 (UNDP, 2004). Adult literacy rate ages 15 and above is around 77% (World Bank, 2005). Net primary enrolment has improved from about 50% in 1990 (UNDP, 2004) to about 90.5% in 2004 (URT, 2005). However, the quality of education has not improved. HIV/AIDS prevalence is high, at about 8.8% for ages 15-49 years (UNDP, 2004). Therefore, Tanzania has a monumental task in achieving its National Vision 2025 that aims at reducing poverty and improving living standards for all Tanzanians.

## Major Macroeconomic Challenges Facing Tanzania

There are several challenges that Tanzania (and other SADC Member States) has to address in order to deepen integration. Foremost, is the HIV/AIDS pandemic. Estimates show that by 2004, Tanzania had over 1.5 million productive adults infected by the deadly virus. Other SADC Member States are also facing this problem. The increasing loss of experienced workers due to the HIV/AIDS epidemic implies replacing them with younger less experienced workers, resulting in reduced labour productivity, and at times reduced output. A strong SADC requires all Member States to develop policies, plans and strategies for reducing and eventually eliminating the spread of HIV/AIDS.

Another challenge relates to inadequate human capital and capacity for economic management. Experience shows that well educated and skilled people are key for creating, sharing, disseminating, and using knowledge effectively to spur growth and innovation. The main challenges Tanzania and other SADC members face include expanding coverage to achieve universal access to basic and secondary education; providing quality tertiary education, which is generally weak; improving the linkages between formal and informal education systems, improving the productivity of labour; and raising the overall quality of learning. These are essential if SADC as a block has to be competitive in a global world.

Lack of adequate infrastructure to act as a catalyst for rapid economic growth is another challenge. Inadequate and erratic power supply, poor roads, transport and telecommunication systems, water shortages for domestic and industrial use, and other related infrastructure pose a major challenge for Tanzania and other SADC countries. Member States needs to work out a strategy for developing infrastructure within the SADC region by taking advantage of each country's resource endowments.

Another important challenge relates to good governance. Tanzania performs well in the area of governance as measured by: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Studies done by Kaufman et al. for World Bank (2005) shows that Tanzania performs better than other countries in the low-income category. However, more improvement is needed in fostering good governance, not only in Tanzania, but in all SADC Member States. Deeper integration requires each country to take concerted measures to create a responsive and accountable state that can accelerate social-economic development and foster-shared benefits of that growth.

## Recommendations

Tanzania is performing well in implementing credible policies that are consistent with the SADC macroeconomic convergence programme. However, good performance in the macroeconomic framework has not resulted in reduced poverty levels for the majority of Tanzanians. It is therefore, essential for all SADC Member States to develop social safety networks and income re-distribution mechanisms that will foster more equitable sharing of the fruits of growth.

Equally important is strengthening institutional structures for economic management and growth. It is vital for all SADC Member States to strengthen the coordination of economic policy formulation and implementation. In particular, there is need to strengthen monitoring and evaluation of the SADC macroeconomic convergence programme, implementation of the SADC Regional Indicative Strategic Development Plan, the SADC Trade Protocol, and other agreements that are essential for deepening integration.

There is also a need to deepen integration through developing better trade-industry-infrastructure linkages. The SADC region as a whole has vast natural resources that can be strategically used to create a competitive industrial base, with South Africa playing supportive role, given her higher technological base compared with other Member States.

# 1 Introduction

## 1.1 Background

The Southern African Development Community (SADC) has been in existence since 1980, when it was formed as a loose alliance of nine majority-ruled States in Southern Africa known as the Southern African Development Coordination Conference (SADCC). The main aim of SADCC was to coordinate development projects in order to lessen economic dependence on the then apartheid South Africa. The transformation of the organisation from a Coordinating Conference into a Development Community (SADC) took place in August 17, 1992 at Windhoek, Namibia, when the Declaration and Treaty was signed at the Summit of Heads of State and Government, thereby conferring on the organisation a legal character.

The SADC Member States are: Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe. SADC headquarter is in Gaborone, Botswana.

This study is partly focusing on macroeconomic convergence (MEC) measures, along with trade, finance, investment, and labour market policy frameworks in SADC region.[3] SADC (2003) is convinced that regional economic integration and macroeconomic stability are preconditions to sustainable economic growth and for the creation of a monetary union in the region.[4] Thus, SADC intends to:

- Achieve and accelerate economic growth, investment, employment and balanced intraregional development;
- Achieve compatibility among national and regional policies, strategies and programmes for dynamic, sustainable and credible regional economic entity;
- Develop policies aimed at the progressive elimination of obstacles to the free movement of capital and labour, goods and services and of the residents in the region;
- Improve economic management and performance through increased regional cooperation and coordination in the

[3] Macroeconomic convergence means the convergence by Member States to low and stable levels of inflation, sustainable budget deficits, public and publicly guaranteed debt and current account balances.

[4] SADC, Memorandum of Understanding on Macroeconomic Convergence, Feb 2003.

implementation of sustainable macroeconomic policies to reduce the divergence in macroeconomic aggregates in the region; and

- Create appropriate institutions and mechanisms for the implementation of programmes and operations, good governance, accountable and transparent public resource management.

Senaona (2005) has stated that the essential aim of macroeconomic convergence is to create regional levels of macro economic stability.[5] The basic elements of macroeconomic stability include low and stable inflation, sustainable levels of debt, exchange rates that are stable and sustainable, prudent and efficient fiscal management, sound and credible monetary policies. Macroeconomic stability is a crucial pre-condition for longterm sustained development, low and stable real interest rates, increased investor confidence in the economies of SADC Member States and job creating productive investment, which in turn is not only important in enabling many people to raise their standards of living above the poverty line, but also is critical in enabling increased spending on poverty reducing social programmes.

The CCGBG (2004) has also stated that MEC is a prerequisite and lays the foundation for the formulation of a future monetary integration (monetary union) in the SADC region.[6] The MEC target values apply to all SADC Member States, and they have agreed to prepare their national convergence programmes, which can lead to a deeper form of integration including FTA, CU and monetary union. The national convergence programmes indicate how SADC intends to adjust its economic policies and programmes over time to achieve the set common targets. The programmes contain measurable intermediate targets according to which annual progress towards convergence within the country concerned are measured. Also, the convergence programmes are submitted to the SADC Peer Review Mechanism (PRM) consisting of the Committees of Ministers and Central Bank Governors, who recommend adjustments and approve the convergence programmes, inter alia.

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5 Senaoana, M.P. (2005): Deepening Regional Integration in SADC: "The Current Status of Macroeconomic Convergence in SADC Region"; FES, Stellenbosch, South Africa. 2005.

6 Committee of Central Bank Governors (CCBG): Annual Report 2002/2003. SADC CCBG Secretariat. 2004.

## 1.2 Objectives of the Study

The main objectives of the study are as follows:

To Provide the Status of Implementation of the Policy Frameworks: The study provides broad stock-taking of the status of the policy frameworks of Tanzania with respect to the MOU on MEC criteria, with a view to provide policy advice to SADC and national policy makers. The study describes and analyses the present status of the implementation of the various processes, including SADC protocols, legal instruments and policy matters in relation to fiscal, monetary, trade and labour market areas that directly affect MEC and deepening SADC integration.

*To Assess the Policy-Impact Linkages*: This study identifies the main linkages (and causality) between the policy frameworks and their economic and social impacts in Tanzania. The causal chain analysis serves to identify the significant cause-effect links between greater SADC integration and its eventual economic, social and environmental impacts. Both target and process indicators are used. While target indicators serve to indicate the impact that macroeconomic policies for deepening SADC integration have on development in the context of the MEC criteria, the process indicators assess the compatibility of the policy decisions taken on long-term sustainable development.

*To Identify the MEC Implementation and Achievements:* The study identifies the successes, weaknesses and problems in attaining MEC targets. In addition, it suggests critical policy issues and mitigation measures in MEC areas for the processes of accelerating the deepening integration and enhancing the overall impact of MEC on regional development.

## 1.3 Methodology

This study is principally based on a desk review. It uses the existing data and information, and analyse them according to the Terms of Reference (TOR) by using the suggested instruments. In addition, the study employs investigative research restricted to interviews with relevant policy makers as per TOR. The result of this is purely qualitative analysis. The study has collected information on the national macroeconomic policy frameworks relating to fiscal, monetary, trade and labour market policies (such as National Development Plans, Medium Term Expenditure Frameworks, Tanzania Development Vision 2025, Poverty Reduction Strategy (PRS) Paper, National Strategy on Growth and Poverty Reduction (NSGRP) - MKUKUTA etc).

The study describes and analyses the present status of the implementation of the various SADC protocols, legal instruments and macroeconomic convergence aiming at deepening SADC integration, especially the Memorandum of Understanding (MOU) on macroeconomic convergence and related Memorandum of Understanding that fall under the SADC Finance and Investment Protocol.

Further, the study analyses the economic and social impacts of trade and macroeconomic convergence measures, along with labour market policy frameworks on Tanzania. In carrying out the social impact assessment, the study determines integration measures, which have significant impacts on Tanzania. The study scopes out the appropriate areas of coverage of the social impact assessment, taking into account each of the integration measures identified to have significant impact. Using the social impacts assessment methodology, the study then prepares a full synthesis of the impacts assessed.

The study tries to quantify the potential economic and social costs that might occur for Tanzania in the process of deepening of integration with SADC, the adherence to convergence criteria and the implementation of the Trade Protocol according to the schedules stipulated in the RISDP. This synthesis identifies some mitigation measures that may enhance the overall impact of SADC integration on regional development.

## 1.4 Structure of the Report

After this introductory section, the report outlines the goals and objectives of RISDP in Chapter 2. Chapter 3 provides a summary of the key macroeconomic convergence programme and the SADC policy, followed by the macroeconomic stability indicators in chapter four. Chapter 5 and 6 detail Tanzania's progress in implementing SADC's macroeconomic convergence programme. Chapter 7 discusses the social impact, followed by the main macroeconomic challenges facing Tanzania in Chapter 8. Chapter 9 outlines special issues and areas for future research, while Chapter 10 makes the major conclusions and recommendations.

# 2 Regional Indicative Strategic Development Plan (RISDP) Goals and Objectives

## 2.1 Scope and Focus of the RISDP

The RISDP is an implementation instrument of the SADC priority agenda. It was formulated in 2003 and provides the SADC Member States with a comprehensive integration and therefore, development agenda on social and economic policies over the coming 15 years (SADC 2003). The plan is designed to provide strategic guidance and/or direction in implementing the SADC programmes, projects and activities. In terms of its scope, RISDP links up strategic objectives and priorities with policies and strategies that ought to be implemented for realisation of specified integration and development goals. In addition to priority and/or strategic intervention areas, RISDP has presented a financing mechanism where various sources of funding and strategies of resource mobilisation are also discussed.

Most of the past SADC policies, strategies and programmes were not properly coordinated because they were designed independently by individual Sector Coordinating Units before they were grouped into clusters under various Directorates. Thus, intersectoral linkages tended to be weak. The RISDP has subsequently identified and strengthened the sectoral linkages with a view to improve efficiency and delivery of the SADC Programme of Action (SPA). It should further be noted that in view of the need to monitor and evaluate (measure) progress, the plan sets targets that indicate major milestones towards the attainment of the set goals.

## 2.2 RISDP Goals and Objectives

As noted earlier, SADC has adopted a Regional Indicative Strategic Development Plan (RISDP) primarily to be able to strategically provide direction in designing and formulating the SADC programmes, projects and related activities. This plan is further intended to provide guidelines and development policy agenda to key implementers of SADC programmes, projects and activities.

The ultimate objective of the RISDP is to deepen the integration agenda of SADC with a view to accelerating poverty reduction and the attainment of other economic and non-economic development goals (SADC 2003). According to the RISDP, SADC is committed to deepening the integration processes amongst its 14 members as part of its strategy to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of the region, and provide support to the socially disadvantaged through regional integration. As can be depicted from the Memorandum of Understanding (MOU) on Macroeconomic Convergence adopted in 2001, chief among the vital measures, is for Governments to facilitate deepening integration processes by ensuring sound macroeconomic management in their respective countries.

In addition to poverty reduction, economic and social development goals, other SADC goals as reflected in the RISDP and which are also critical in ensuring successful deepening of the integration process include the following: the SADC region should be a Free Trade Area (FTA) by year 2008; should become a Custom Union by year 2010; should become a regional Common Market by year 2015 and, should form a Monetary Union by year 2016 (see Senaoana, 2005). These are finance and investment sub sector targets which are pursued through the Finance and Investment Protocol (FIP) under the Directorate of Trade, Industry, Finance and Investment (TIFI).[7] The process to develop FIP commenced in 1998 through the bottom-up approach and it entails development of specific Memoranda of Understanding (MOUs) focusing on the areas of fiscal and monetary policies, financial markets, central banks, investment, taxation, development finance and non banking regulators. Various Technical Committees were formed to develop MOU in defined sub-sectors in the areas listed above. The committees were also tasked with the implementation of the MOUs after their adoption.

A Free Trade Area is an initial stage towards an Economic Union. It is a free trade area in that no tariffs exist among the member countries. However, each of the Member States has a different tariff rate against trade partners outside the FTA. A Customs Union on the other hand means that a group of countries renounces all tariffs between the

[7] Protocol not yet ratified by member states.

Member States. However, they will impose a common tariff against other trade partners outside the union. Customs unions combine free trade with protectionism because conventionally they lower tariffs within the union and establish a joint outer tariff wall.

The core of the Common Market is the Customs Union. A Common Market is an advanced stage of regional integration, which goes beyond trade of merchandise and services to include factors of production such as labour and capital input. Thus, a common market allows mobility of the two major components of trade namely, merchandise and services, but also factors of production mainly labour and capital inputs. A Monetary Union is another advanced stage of regional integration where Member States agree on use of one currency as an acceptable medium of exchange throughout the region. In most cases, Member States under Monetary Union have maintained their local currencies.

## 2.3 Implementation of the SADC Trade Protocol

Deepening integration is a process, which has to pass through different checkpoints and/or stages. According to the 2003/04 SADC Annual Report 11, Member States are implementing the protocol through their tariff reduction schedules and the so-called special agreements for some sectors (SADC, 2004). Angola for example, is said to have complied with the protocol, and the SADC Secretariat has been providing technical assistance to backstop the Government of Angola in the preparation of the country's tariff reduction offers for consideration by other Member States. Commitments and adherence by Member States to the protocol is a reflection of whether or not the region as a whole is moving towards the RISDP goal of achieving deeper regional integration. As noted earlier, standards, quality assurance, accreditation, metrology, technical regulation, customs cooperation and trade facilitation are some of the critical elements in the implementation of the protocol.

Most of the activities under the SADC arrangements are meant to ensure that products transacting within the region are competitive and comply with internationally acceptable standards, quality accreditation and metrology requirements.

As pointed out earlier, the regional integration process is intended to harmonise economic policy and promote trade, but to a significant extent it is also motivated by political objectives (URT, 2005). In Tanzania the process toward attainment of the RISDP goals has been gradual, partly due to the engagement of the country in more than one regional trade arrangement. A number of measures have been taken to facilitate customs cooperation and trade. These include a road map that would facilitate the establishment of a customs union, training programme for customs officials, regional transit procedures, guidelines and regulations, and an instrument (a Conformity Assessment Mechanism (CAM)) for monitoring the implementation process on all decisions taken at both regional as well as international levels.

As noted earlier, some of the challenges disrupting the process of integration in the SADC and hence, implementation of the trade protocol, is commitment with regards to dual membership of some Member States. Some of the SADC Member States are also members of other regional organisations such as the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Customs Union (SACU). In addition to that, reduction of tariffs has been slow due to the wide disparity between SACU and non-SACU members.

# 3 Macroeconomic Convergence and SADC Policy

## 3.1 The Memorandum of Understanding (MOU) on Macroeconomic Convergence (MEC)

As discussed in the preceding chapters, SADC region has issued a Memorandum of Understanding (MOU) on macroeconomic convergence (MEC), which was adopted by Member States in 2001. The MOU provides for the following issues:

### (a) MEC Policies

The SADC Member States have agreed that macroeconomic stability is a desirable outcome of MEC. In order to achieve and maintain macroeconomic stability, the Member States need to converge on stability-orientated economic policies implemented through a sound institutional structure and framework (SADC, 2003).[8] The stability-oriented economic policies include, but they are not limited to:

- Restricting inflation to low and stable levels;
- Maintaining a prudent fiscal stance by avoiding large fiscal deficits, monetisation of deficits, and high or rising ratios of public debt to gross domestic product (GDP);
- Avoiding large financial imbalances in the economy; and
- Minimising market distortions.

### (b) MEC Indicators

The SADC has specified a set of implementable, measurable and monitorable MEC indicators in its MOU. The MEC benchmarks to which Member States must converge during specified time period are given in Table 1 below.

Table 1: The Forecasts of Macroeconomic Convergence Indicators and/or Measures

| Core Target Indicators (and Annual Changes) | | 2008 (FTA) | 2012 (CU) | 2018 (RCM&MU) |
|---|---|---|---|---|
| 1 | Core Inflation | 9 | 5 | 3 |
| 2 | Budget Deficit as percentage of GDP | 5 | 3 | 1 |
| 3 | External Debt as percentage of GDP | 60 | 60 | 60 |
| 4 | Current Account Deficit as percentage of GDP | 9 | 9 | 3 |
| 5 | Economic Growth Rate | 7 | 7 | 7 |
| 6 | External Reserves (Import Cover in Months) | 3 | 6 | 6 |
| 7 | Central Bank Credit to Government | 10 | 5 | 5 |
| 8 | Domestic Savings Rates | 25 | 30 | 35 |
| **Other Target Indicators (Annual)** | | | | |
| 9 | Raising Domestic Investment as percentage of GDP | 30% of GDP | | |
| 10 | The Interconnection of Payments and Clearing System | Interconnected | | |
| 11 | Currency Convertibility | Full Convertible | | |
| 12 | Legal and Regulatory Framework for Dual and Cross Listing of Shares on Regional Stock Exchanges | Operational Framework | | |
| 13 | Exchange Controls on Current Account Transactions | Full Liberalised by 2006 | | |
| 14 | Exchange Controls on Capital Account Transactions | Full Liberalised by 2010 | | |

*Source: Study Terms of Reference, 2005*

As can be depicted from the table the following trends are eminent.

Firstly, the SADC core inflation rates are projected to decline at about 1% annually during 2008-2013 and remain stable between 3-4% during 2014-2018 periods. However, although at a decreasing rate, any increase in a nation's inflation leads to a decrease in the value of TZS and increase in the supply of TZS; rise in the relative price of the nation's goods; demand for more imports by domestic consumers and decrease in exports; a core source of external reserves.[9] Overall, high inflation swiftly erodes the standard of living of the people in the SADC.

Secondly, SADC countries' economic growth is projected to stabilise at 7%. Stability in economic growth assumes slowing growth in countries monetary aggregates to combat inflation. High inflation rates

9 SADC, Memorandum of Understanding on Macroeconomic Convergence, Feb 2003.

are inevitably accompanied by high money growth and high inflationary expectations.

Thirdly, this indicates that for MEC to be achieved, external debt and/or aid is very necessary. However, the ratio of funding to floating debt had fallen, and this precludes the possibility of reducing the main debt (principal).

Fourthly, as percentages of GDP, both budget deficit and current account deficits would demonstrate a declining trend at the rates of 3% and 7%, respectively, while external debt to GDP ratio stabilises at 60%. Logically, the increased government budget deficit is associated with larger deficit in the current international payments accounts, implying a faster build-up of both Government and external debt. However, since both the budget deficit and current account deficits would be declining, there is the possibility for countries to stabilise the external debt to GDP ratio, as estimated at 60% during the forecast period. Repayments of both debts over time would become very burdensome for domestic residents because it requires a greater sacrifice for future consumption.

Lastly, the rising trend in external reserves and domestic savings will be at their respective average rates of 30% (or 25% as real rate) and 5% during 2008-2018. Both the external reserves and saving rates need to rise in order to meet the domestic consumers' requirements of goods likely to be affected by the inflationary pressure. Also, the real saving rate would grow at an average of 42% per annum, the level that SADC believes will produce growth without inflation.

### (c) Institutional Arrangements

SADC has created various institutions, formulated the medium-term objectives and steps to coordinate and monitor implementation of the MEC criteria. The approved institutions include:

*(i) Committee of Ministers for Finance and Investment (CMFI)*

CMFI is comprised of the respective Ministers assisted by the Senior Treasury Officials of the SADC Member States. The CMFI is responsible for:

- Establishing a collective surveillance procedure to monitor MEC in SADC region, determine specific targets, assess progress relative to the targets and provide advice on corrective actions;
- Evaluating and monitoring of annual convergence programmes submitted by the MS, determine whether they satisfy the common guidelines, advise on possible changes, compare outcomes with previous programmes and make recommendations they may deem appropriate in accordance with the SADC treaty;
- Issuing a communiqué explaining the assessments;
- Reviewing the SADC macroeconomic convergence programme; and
- Making amendments to the MOU.

*(ii) Committee of Central Bank Governors (CCBG)*

The SADC Member States are required to observe the MEC indicators and implement them through, inter alia, the CCBG. Specifically, the CCBG is responsible for:

- Formulating, implementing and maintaining fiscal and monetary policies that are transparent, consistent and contribute towards the achievement of the MEC;
- Formulating and implementing sustainable fiscal and monetary policies that minimise negative spill over effects on other Member States;
- Enhancing collaboration with the CMFI;
- Harmonising and coordinating macroeconomic and monetary policies as well as concepts;
- Fostering gradual interconnection of payments and clearing system;
- Promoting banking networks within the region;
- Promoting sub-regional and regional stock exchanges;
- Strengthening and harmonising banking and financial supervision;
- Making assessment of the macroeconomic performance against convergence criteria; and
- Launching of the monetary union as a take off stage of common central bank, currency and exchange rate mechanism in the region.

*(iii) Member States (MS)*

The MS are responsible for:

- Providing adequate and internationally acceptable data (in accordance with IMF standards) and reports required for the implementation and monitoring of the MOU;
- Presenting to the CMFI an annual convergence programme covering a review of recent economic developments in the MS; progress report relative to previous targets; medium term objectives for the agreed convergence criteria; and specific targets for these indicators over a three-year period;
- Formulating protocol on finance and investment matters in accordance with the treaty;
- Identifying common guidelines for each of the MEC and other complementary indicators that may be specified, including structural performance and financial conditions; and
- Reviewing and terminating (if necessary) its participation to the MOU.

All the Member States address those areas to reach and maintain high level of convergence while working for an acceptable overall outcome.

## 3.2 The National Response

Following Article 4 of the macroeconomic convergence MOU, which requires each SADC Member State to formulate, implement and maintain fiscal and monetary policies that are transparent, consistent and contribute towards the achievement of the principles referred to in Article 2 of the MOU, the Government of Tanzania appointed a team of 9 members to form a Task Force which is entrusted to formulate the National Macroeconomic Convergence Programme to be submitted to SADC Secretariat by March 2006.

The membership of the Task Force consists of representatives from Ministry of Finance (MoF), Presidents Office - Planning and Privatisation (PO-PP), National Bureau of Statistics (NBS), the Central Bank of Tanzania (BOT), and Economic and Social Research Foundation (ESRF).

The Task Force has started to work on the National Macroeconomic Convergence Programme as provided in the SADC Macroeconomic Convergence Implementation Programme Guideline Template. Before embarking on the programme, the Task Force is working on specific background reports that focus on the convergence performance of the respective macroeconomic variables in the country.

## 3.3 SADC Trade Protocol, Finance and Investment Protocol and Labour Market Policy

### 3.3.1 Trade Protocol (TP)

SADC has a Trade Protocol (TP) for trade in goods and services as one of the major areas of cooperation among the Member States. The TP stipulates that an integrated regional market will create new opportunities for a dynamic business sector. The TP recognises the provisions of other regional trade arrangements, bilateral trade agreements, and multilateral trade arrangements and rules under the GATT and WTO. TP states that SADC notes the provisions of the Abuja Treaty that calls for the establishment of regional and sub-regional economic groupings as building blocs for the creation of the African Economic Community.

The TP is committed to linking the liberalisation of trade to a process of viable industrial development, as well as cooperation in finance, investment and other sectors. Also, the TP provides a framework of trade cooperation among Member States based on equity, fair competition and mutual benefits that contribute to the creation of a viable development community in Southern Africa.

The implementation aspect of the TP is highlighted in 39 Articles and Annexes. SADC launched its Free Trade Area in September 2000. Once fully implemented in 2008, the free trade area will include 200 million people. At present, the 14 participating states have begun phasing-in an eight-year programme for the elimination of tariffs on all categories of goods originating in their countries. The Member States have also pledged to eliminate, during the implementation, all existing non-tariff barriers to trade that exist in the region. As the SADC Free Trade Area comes into being, it will greatly improve the investment climate in the SADC region by offering foreign and domestic investors access to a larger single market.

TP has registered impressive results as reflected in improved social and economic development in SADC. For instance, the trend analysis of SADC exports and imports for years 1998-2003 shows that there has been positive growth of export trade of some of the products that are needed in their primary form. However, some products showed deterioration of their market access especially agricultural ones. It seems that competition and value addition is gradually forcing some of the suppliers of unprocessed agricultural products out of the market. Further analyses of value addition revealed that they are insignificant.

### 3.3.2 Finance and Investment Protocol

SADC as a group is making efforts to create conditions that are favourable to both domestic and foreign investments. To this end, SADC, in its Regional Indicative Strategic Development Plan (RISDP), has set out policy objectives and strategies. The policy objectives include working towards economic stability and convergence through prudent fiscal and monetary policies; putting in place a framework for cooperation in the area of finance; promoting the development of sound investment policies and mobilising savings; attracting investment flows and technology transfer. To achieve these policy objectives, SADC has spelt out strategies which include pursuit of macroeconomic convergence, coordination of policy with respect to direct and indirect taxation, liberalisation of current and capital account transactions, reform of payments systems, resource mobilisation through development finance institutions and other financial entities and harmonisation of investment codes and incentives. To translate these into concrete action, a protocol on finance and investment is in the process of being developed. In this regard, Memoranda of Understanding (MOUs) on almost all the themes have been prepared and signed. These are part and parcel of the protocol, which has still to go through the approval process before it is ratified by the national parliaments.

Efforts to attract foreign direct investment to SADC have not been easy since most countries are rated in the high-risk category, either because of conflicts within the respective countries or in the neighbouring countries. In particular, the economic outlook has suffered from the scars of long military conflicts in Angola and the Democratic Republic of Congo (DRC). In addition, the diverse investment framework in member countries has been an impediment. However, the end of the civil war in Angola and the relative calm in DRC and the implementation of the reform agendas have ushered in a period of optimism. In this context, it may be observed that some SADC countries that have created an enabling environment in terms of putting in place laws and regulations and provisions for supporting mechanisms to ensure the viability and competitiveness of investments, have succeeded in attracting substantial investments.

Under the MOU on cooperation in investment, Member States have, through their Investment Promotion Agencies (IPAs), agreed to facilitate and stimulate investment flows and technology transfer and innovation into the region. The MOU covers elements of a would-be SADC investment framework, including most favoured nation treatment, general exemptions, transparency, repatriation of investment and returns, investment protection, corporate responsibility, sourcing of requisite skills, promotion of local and regional entrepreneurs and optimal use of natural resources. It also covers environmental measures, right to regulate, capital movements, competition, taxation, trade, investment and industrial policy, harmonisation of policies and laws, conditions favouring least developed countries, adherence to international conventions and practices, and regional cooperation and investment.

In addition, the MOU provides for investment promotion agencies, assists SADC Secretariat, promotes relationship with other organisations; it also provides for bilateral investment treaties, access to courts and tribunals, and settlement of investment disputes. While the MOUs are not legally binding, some of them are being implemented. An example of this is the MOU on cooperation in respect of development finance institutions (DFIs). Under this MOU, Member States have agreed to establish a Network of Development Finance Institutions of SADC made up of all DFIs. The objectives of the network include: collaboration in project financing, investing jointly in new institutions, collaborating in the establishment of appropriate institutional arrangements and mechanisms to facilitate the cooperation of DFI and to meet the development finance needs in SADC region; and cooperating in capacity building initiatives including the exchange of personnel. In order to strengthen the network, it was also agreed to establish a sub-regional Development Finance Resource Centre (SADC-DFRC) as a centre of excellence and a hub of the network, as well as to create a SADC Development Fund. However, in 2003, a report presented to SADC recommended the establishment of a Project Preparation Development Fund (PPDF) instead of the SADC Development Fund. The objectives of the PPDF include creating an improved investment climate in the region by financing regional projects; providing pre-financing capacity by filling funding gaps in the form of technical assistance for project identification, preparation and feasibility studies; and participating in project financing. These mechanisms would support the DFIs in their efforts to address development and poverty eradication in the region. The Network and DFRC are up and running.

The core responsibilities of DFRC include, inter alia, capacity building and training of managers and staff of DFIs; providing support for the strengthening of DFIs in their operations; offering policy research and analysis capability for the SADC region, and engaging in confidence building measures within the SADC region for the purpose of supporting investment. These are important functions, which if carried out effectively, could help build robust DFIs that are needed to develop the private sector including SMEs in the SADC region. Functioning DFIs would help to fill the supply gap for long-term development finance. Also, they would serve not only as effective vehicles for channelling financial resources destined to private sector, but as partners with international financial institutions. As we shall see below, the limits to the effectiveness of EU financial institutions in assisting SMEs development are partly set by the lack of credible development finance institutions capable of working with them in a complementary manner.

In addition to the above strategy to provide an enabling environment for investment, another complementary strategy being pursued by SADC is the Spatial Development Initiative (SDI). An SDI is a flexible approach to planning and implementing an economic development effort in a defined spatial area. Its principal goal is to stimulate investment and job creation in areas with under-utilised economic potential. Underlying the SDI approach are important principles which include existence of real economic potential, the necessity of mobilising private sector resources, the necessity of applying scarce public sector resources where they can make most impact, and the necessity of sharing benefits of economic growth with those who were previously excluded. A critical characteristic of the SDI strategy is to develop first class competitive infrastructure as a precondition for attracting investment into export oriented business. Also, the strategy requires that countries in the region should pursue sound economic policies that lead to consistent and relatively stable growth rates, prices, exchange and interest rates and low inflation.

The successful implementation of the Maputo Development Corridor and other development corridor initiatives is an indicator of their potential to bring in much needed private investments into areas of under-utilised economic potentials.

The recent moves toward deeper market integration under the SADC Trade Protocol are a significant development that complements efforts being made to attract the much-needed FDI. The protocol is expected to create an enlarged regional market with free movement of capital and finished products. In addition, greater effort is being directed to ensuring sustained performance of macroeconomic fundamentals, continued political stability and the implementation of, and commitment to, financial sector reforms that are aimed at integrating the region's financial services market. Also, priority is being given to the development of infrastructure such as transport and communication, electricity and water, as well as human resources.

Implementation of the various initiatives cited above will go a long way in making SADC an attractive environment for private investment.

## 3.4 Labour Market Policies

The SADC labour market policy aims for improved growth in employment and employability of the human resources. Employment is a critical criterion for sensitivity, especially in agriculture that is the main employer in SADC region. However, the major challenge facing SADC countries is the over increasing number of new job seekers per annum, and this merit consideration for the protection of productive sectors that are likely to be affected by unregulated trade liberalisation. In determining the sensitive lists on employment criteria, the first sector to protect is the agriculture and livestock sector that employs approximately 60-80% of the SADC population and does not require high skills, at least at the moment. The second sector to protect is the manufacturing sector with labour intensive operations such as agro-industries, textiles, leather and leather goods. The third sector to consider is the work of arts that exploits inherent skills on arts and crafts.

# 4.0 Macroeconomic Stability Indicators

## 4.1 Introduction

Tanzania's macroeconomic stability indicators are within target stability programme for inflation, budget deficit and current account deficit. Public debt is higher than target value and real growth is below target value (Table 2). Other important indicators not included in the SADC MOU such as real growth and investment show improvement but the performance is far below that required to meet Tanzania's Development Vision 2025 or Millennium Development Goals 2015 for accelerated development and poverty alleviation.

## Table 2: Tanzania Trends in Selected Macroeconomic Indicators, 1996-2004

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|
| Real GDP Growth - %[1] | 4.2 | 3.3 | 4.0 | 4.7 | 4.9 | 5.7 | 6.2 | 5.7 | 6.7 |
| GNI Per Capita (USD 2002 prices) [1] | 160 | 160 | 190 | 210 | 240 | 270 | 286 | 300 | 300 |
| Inflation - annual average - %[2] | 21.0 | 16.1 | 12.9 | 7.8 | 6.0 | 5.2 | 4.5 | 4.4 | 4.2[10] |
| Exchange Rate (Tshs/USD) - annual average[2] | 580.0 | 612.1 | 664.7 | 744.8 | 808.4 | 876.4 | 966.6 | 1038.6 | 1098.6 |
| Merchandise Exports (mil. USD) - FOB[2] | 763.8 | 752.6 | 588.5 | 543.3 | 663.3 | 776.4 | 902.5 | 1142.4 | 1325.2 |
| Merchandise Imports (mil. USD) - FOB[2] | 1212.6 | 1148.0 | 1382.2 | 1415.4 | 1367.6 | 1560.3 | 1511.3 | 1973.0 | 2280.8 |
| Export/Import Ratio Goods) - % | 63.0 | 65.6 | 42.6 | 39.7 | 49.6 | 52.0 | 58.7 | 57.9 | 58.1 |
| Current Account Balance (mil. USD)[3] | -265.1 | -403.4 | -905.4 | -829.5 | -498.6 | -480.0 | -251.1 | -337.2 | -538.4 |
| Current Account Balance % of GDP (incl. Transfers) [3] | -7.2 | -7.1 | -11.0 | -10.0 | -5.8 | -5.0 | -4.7 | -4.8 | -5.3 |
| Domestic Investment/GDP ratio - %[2] | 16.5 | 14.7 | 16.0 | 15.4 | 17.6 | 17.0 | 18.9 | 18.5 | 21.0 |
| Domestic Savings/GDP ratio -%[2] | 4.6 | 5.4 | 1.5 | 2.8 | 9.2 | 8.8 | 12.9 | 9.7 | 9.8 |
| Foreign Direct Investment (FDI) - mil. USD[2] | 148.5 | 157.8 | 172.2 | 516.7 | 463.4 | 327.2 | 240.4 | 247.8 | 260.2 |
| Foreign Reserves (months of imports) [2] | 2.4 | 3.8 | 3.0 | 4.1 | 5.6 | 6.3 | 8.3 | 8.9 | 7.6 |
| Govt. Domestic Revenue (% of GDP) [4] | 13.5 | 12.6 | 12.5 | 11.3 | 12.2 | 12.1 | 12.8 | 13.4 | 13.8 |
| Total Govt. Expenditure[11] (% of GDP) [4] | 17.3 | 17.4 | 17.6 | 18.3 | 20.6 | 19.1 | 23.4 | 24.9 | 26.6 |
| Bank of Tanzania Credit to Government (net, % of GDP) | 1.85 | -0.62 | -.0.48 | 0.02 | 0.11 | -0.25 | -0.69 | -0.11 | -0.41 |
| Fiscal Balance (before grants) - % of GDP[3] | 1.3 | -1.7 | -2.3 | -2.3 | -5.7 | -4.6 | -4.9 | -8.1 | -9.9[12] |
| Fiscal Balance (after grants) - % of GDP[3] | 3.3 | 0.2 | 0.8 | -1.6 | -1.2 | -1.1 | -0.5 | -1.6 | -3.4[13] |
| Growth of Money Supply (M2) - %[2] | 11.6 | 11.0 | 11.1 | 15.0 | 12.5 | 12.3 | 13.0 | 14.2 | 19.2 |
| Average Deposit Rate - %[2] | 11.0 | 10.0 | 7.9 | 7.1 | 4.2 | 3.5 | 3.1 | 2.4 | 2.5 |
| Average Lending Rate - %[2] | 26.5 | 24.0 | 24.5 | 22.1 | 19.6 | 16.4 | 15. 7 | 14 | 14.4 |
| Disbursed External Debt (mil. USD) [3] | 6600.3 | 6435.8 | 6580.3 | 6538.3 | 6312.2 | 6559.7 | 6413.4 | 6730.8 | 6,99.6 |
| Total External Debt (mil. USD) [3] | 7578.5 | 7384.6 | 7669.7 | 7624.8 | 7482.1 | 7464.0 | 7268.17 | 7890.7 | 9,219.3 |
| Total External Debt (% of GDP) | 98.5 | 88.1 | 88.8 | 84.5 | 79.4 | 78.6 | 76.4 | 82.3 | 81.4 |

*Source: 1. National Bureau of Statistics; President's Office - Planning and Privatisation*

*2. Central Bank of Tanzania (BOT)*

*3. IMF Article IV Consultations mission reports; World Bank Country Assistance Strategy FY2001-2003*

*4. Ministry of Finance*

*Notes: Starting from 2004, inflation is based on 2001 constant prices. Total external debt includes* interest on disbursed debt

10 Starting from 2004, inflation is based on 2001 constant prices.
11 Including amortisation.
12 Based or budget estimates 2004/05.
13 Based or budget estimates 2004/05.
14 Including interest on disbursed debt.
13 Including interest on disbursed debt.

## 4.2 Inflation

SADC macroeconomic convergence for inflation is to achieve a single digit level by 2008. Tanzania has sustained this level of convergence since 1999 (Figure 1).

In computing the average inflation (CPI), Tanzania uses the weights shown on Table 3 below:

Figure 1: Inflation in Tanzania

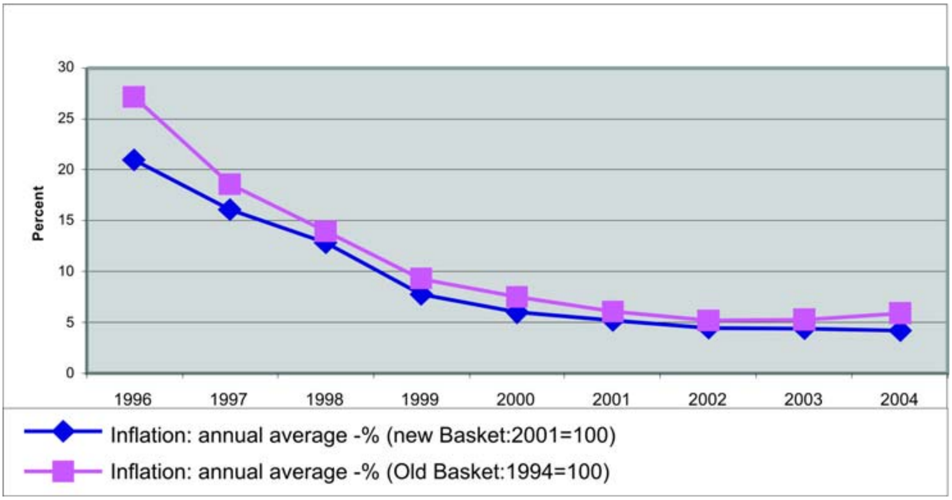



Table 3: Weights Used in Calculating CPI

| Item | Food | Drink & Tobacco | Rent | Fuel, Power & Wate | Clothing & footware | Furniture & Utensil | Household Operation | Personal care & Health | Recreation & entertainment | Transportation | Education | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Weight (Old basket Base: 1994 = 100) | 71.2 | 4.4 | 3.9 | 4.7 | 3.7 | 2.5 | 1.5 | 2.2 | 1.2 | 1.2 | 1.5 | 2.0 | 100 |
| Weight1 (New basket Base: 2001 = 100) | 55.9 | 4.4 | 3.9 | 8.5 | 3.7 | 2.5 | 1.5 | 2.2 | 1.2 | 9.7 | 1.5 | 5.0 | 100 |

*Source: National Bureau of Statistics*

Tanzania began to use the new market basket and weights since September 2004. The revised market basket and weights of goods and services is based on the results of the 2000/01 Household Budget Survey (HBS). CPI is now being calculated using the new market basket that comprises 207 items as compared to 212 in the old market basket.

As Table 3 shows, the weights for food has been reduced while that for fuel, power, water and transport has increased. Thus, the end 2004 CPI using the old basket and weight would have been 5.9%, whereas using the new basket and weights CPI averaged 4.2%. The CPI inflation shown on Table 3 above is based on the revised market basket and weights.

## 4.3 Budget Deficit as a Ratio of GDP

The SADC macroeconomic convergence programme proposes a fiscal deficit to GDP ratio target of less than 5.0% to be attained between 2004 and 2008. As Table 1 indicates, fiscal deficit is within the SADC convergence programme if donor grants are included. However, exclusion of donor grants worsens fiscal deficit, which rises from 8.1% of GDP in 2003 to 9.9% in 2004, implying considerable efforts before convergence is attained. Greater mobilisation of domestic resources, including reforming the tax policy and administration are essential if Tanzania is to attain convergence by 2008.

## 4.4 Ratio of Public and Publicly Guaranteed Debt to GDP

SADC macroeconomic convergence for public and publicly guaranteed debt is 60% of GDP. Tanzania's 2004 level for this variable was 81.4% of GDP (Table 1). Even after taking into account full debt relief under the Enhanced HIPC Initiative, Tanzania has a considerable task of achieving convergence in the future. However, external debt sustainability analysis conducted by the IMF at the HIPC Completion Point[16] shows that Tanzania's external debt is sustainable in the medium term.

16 IMF Article IV Consultations Mission Report, July 23, 2004.

## 4.5 Current Account as a Percentage of GDP

SADC macroeconomic convergence target for this variable is set at a single digit level of 3% to 9% of GDP. Tanzania's balance of payments on current account for 2004 was 5.3% of GDP, which is within target stability programme (Table 2). The deficit has improved from about 11.0% of GDP in 1998 to 5.3% in 2004, partly due to better performance in attracting foreign direct investment and improved exports related to minerals and non-traditional exports.

## 4.6 Other Macroeconomic Indicators

Other macroeconomic indicators not included in the SADC Memorandum of Understanding (MOU) include: economic growth rates, foreign exchange reserves, central bank credit to Government, domestic savings rates and domestic investment rates.

### 4.6.1 Economic Growth Rates

Millennium Development Goal target for real growth is 7% to enable countries reduce poverty. Tanzania's Vision 2025 targets growth between 8-10% to achieve its development goals, including progressive reduction in poverty. As Table 2 above indicates, real growth improved from 5.7% in 2003 to 6.7% in 2004. Given the trend depicted on Table 2 above, Tanzania is posed to achieve its growth targets if further improvements are made in macroeconomic management, fiscal management (particularly in enhancing domestic revenue by enlarging its narrow tax base and improving tax administration) and attracting greater developmental-oriented foreign direct investment.

### 4.6.2 Foreign Exchange Reserves

Tanzania has progressively improved its foreign exchange reserves from about 2.4 months of imports in 1996 to nearly 8 months of imports in 2004 (Table 2). The good performance is associated with improvements in the overall balance of payments. All main accounts improved during this period (current account, capital and financial accounts). If that level of reserves is maintained, these are considered adequate to cover Tanzania's requirements for imports of goods and services.

### 4.6.3 Central Bank Credit to Government

Increasing external financing of the Government budget has enabled Tanzania to avoid recourse to domestic bank borrowing to finance its deficit. As Table 2 indicates, net Bank of Tanzania credit to the Government has been maintained at less than 0.7% since 1997. The IMF Article IV Consultation Report for 2004 observes that the low net domestic financing is appropriate "in light of the comfortable domestic debt position".[17]

### 4.6.4 Domestic Savings Rates

The SADC RISDP has set domestic savings rates numerical target values of 25% of GDP by 2008, 30% by 2012, and 35% by 2018. As shown on Table 2 above, Tanzania's 2004 domestic savings rate was only 9.8% of GDP - about 15.2% below the 2008 target. The data for savings is obtained from World Bank reports and therefore comparable with other SADC countries because of the similar methodology used.

### 4.6.5 Domestic Investment Rates

The SADC RISDP considers an investment to GDP ratio of at least 30% to be essential for achieving desired growth and attaining Millennium Goals of reducing poverty by half by 2015. As Table 2 shows, Tanzania's 2004 investment rate was only 19.9% of GDP - about half of what is required under RISDP. The data is obtained from World Bank reports and are comparable with other SADC countries. The low investment rate is not consistent with levels required to reduce poverty, and this calls for Tanzania to improve further, not only

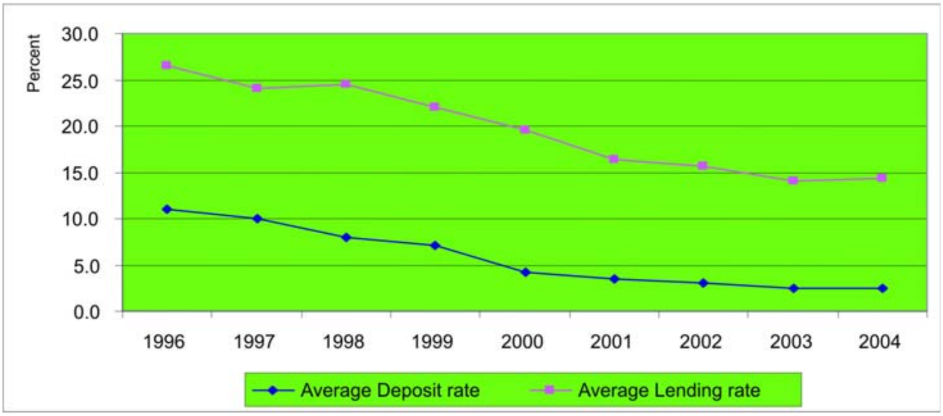
[17] IMF Article IV Consultations Mission Report, July 23, 2004, page 11.

macroeconomic stability, but also put in place a better environment for attracting greater foreign direct investment.

### 4.6.6 Interest Rates

The interest rates on domestic currency - the weighted average lending rate declined to 13.3% at end December 2004 compared to 13.8% in December 2003. The overall weighted time deposit rates increased marginally to 3.9% from 3.8% in December 2003. The discount rate increased from 12.3% in December 2003 to 14.4% in December 2004. The average saving deposit rate increased to 2.6% in December 2004 compared to 2.5% in December 2003. In line with the increase in weighted average yields (WAY) of treasury bills, overall WAY of all maturities rose from 7.7% in December 2003 to 9.6% in December 2004. The margin between 1-year lending rate and 12-month deposit rate narrowed from 11.5 percentage points in January 2004 to 10.7 percentage points in December 2004. In 2004, deposit rate narrowed from 12.0% in January to 11.3% in December (Figure 2). In terms of interest rate on foreign currency, the overall weighted average lending rate declined from 7.1% in January 2004 to 6.1% in December 2004. Likewise in 2003, the lending rate declined marginally from 7.5% in January to 7.4% in December 2004. Saving deposit rate was less than 1% over the year - from 0.8% in January 2004 to 0.7 % in December 2004 compared to an increase of 0.9% in January 2003 to 1.0% in December 2003. Time deposits rates increased from 0.9% in January 2004 to 1.1% in December 2004.

Figure 2: Trends in Interest Rates




### 4.6.7 Exchange Rates

During the year 2004, the nominal average exchange rate fluctuated widely. Overall, the Tanzanian Shilling depreciated against the US Dollar during the first half of 2004. The depreciation in the exchange rate of the Shilling reflected continued increase in demand for foreign currency for the importation of goods and services, which were not commensurate with the increase in export earnings in the country. The nominal exchange rate of the Shilling to the US Dollar appreciated during the latter half of 2004 to an average of Tshs. 1,049.8 per US Dollar. The appreciation was partly due to an increase in supply of US Dollars in the market and weakening of the US Dollar against major currencies in the world. The appreciation of the Shilling against the US Dollar represents a nominal appreciation of 4.3% between July and December 2004. Table 2 above shows the behaviour of the exchange rates prevailing in Tanzania since 1996.

### 4.7 Data Limitations

In accordance with the Terms of Reference, the data used in this study largely relies on existing official statistics. In our view, the data is of sufficient quality to make definitive conclusions about whether Tanzania is moving towards attaining SADC macroeconomic convergence or not.

In order to facilitate comparative analysis with other SADC countries, most of the data used in this reports have been sourced from: World Bank Development Report 2005; UNDP Human Development Report 2004; and IMF Tanzania Article IV Consultations Reports 2004. Where more recent data was needed, these were sourced from most reliable official statistics: inflation, exchange rates, interest rates (Central Bank - Bank of Tanzania); some poverty indicators (Bureau of Statistics as shown in the National Strategy for Growth and Reduction of Poverty (NSGRP) also known in Swahili as MKUKUTA, April 2005); and fiscal performance (Ministry of Finance - Public Expenditure Reviews and Medium Term Expenditure Framework Papers - 2003/04).

# 5 Tanzania Macroeconomic Convergence Programme

## 5.1 Basic Elements and Targets

The aim of macroeconomic convergence is to create regional levels of macroeconomic stability. This entails maintaining low inflation, sustaining debt, maintaining stable and realistic exchange rates, and fostering prudent and efficient fiscal and monetary management. The upshot of these efforts is to stabilise government expenditure, thus allowing for increased spending on poverty reducing social programmes, reducing interest rates, facilitating job creation, investment and growth as well as increasing confidence in the economies of Member States.

The main targets for macroeconomic convergence have been presented in Table 1. However, they are reproduced and shown in Table 4A and Table 5B below for convenience:

**Table 4A: Key Macroeconomic Convergence Stability Targets**

| Numeric Values of Target Indicators | 2008 | 2012 | 2018 |
|---|---|---|---|
| Core inflation | 9% | 5% | 3% |
| Budget deficit as a percentage of GDP | 5% | 3% | 1% |
| External debt as a percentage of GDP | 60% | 60% | 60% |
| Current account deficit as a percentage of GDP | 9% | 9% | 3% |
| Growth rate | 7% | 7% | 7% |
| External reserves (import cover in months) | 3 | 6 | 6 |
| Central bank credit to Government | 10% | 5% | 5% |
| Domestic savings | 25% | 30% | 35% |

**Table 4B: Other Macroeconomic Targets and Variables**

| Indicator | Target |
|---|---|
| Central bank credit to Government | Less than 10% of previous year's tax revenue by 2008 and less than 5% by 2015 |
| Increase in domestic investment level | At least 30% |
| Gradual interconnection of payments and clearing system in SADC | By 2008 |
| Finalise the legal and regulatory framework for dual and cross listing of the regional stock exchange | By 2008 |
| Liberalise exchange controls | |
| Liberalisation of Current account | |
| transactions between Member States | By 2006 and the capital account by 2010 |

## 5.2 Tanzania Basic Macroeconomic Policy Framework

### 5.2.1 Current National Development Strategy

Tanzania's development strategy is enshrined in the 1998 National Poverty Eradication Strategy (NPES) that was revised in 2004 and renamed National Strategy for Growth and Reduction of Poverty (NSGRP or in Swahili MKUKUTA). The strategy provides overall guidance and framework for co-ordination and supervision of the implementation of policies and strategies aimed at poverty eradication and sustained development. The strategy is supported by the Poverty Reduction Strategy Paper (PRSP) that was finalised in 2000 to provide a medium term strategy for implementation in the context of the Enhanced Highly Indebted Poor Countries (HIPC) initiative. The four key aspects of Tanzania's development strategy are: accelerating growth, reducing income poverty, improving human capabilities, survival and social well being, and containing extreme vulnerability. To monitor progress, the Government unveiled the Poverty Monitoring Master Plan in 2001.

### 5.2.2 Tanzania's Development Goals and Objectives

The Tanzania Development Vision 2025 outlines the country's goals and objectives. In a nutshell, the vision is to have a country that has graduated from least developed country to a middle-income country by 2025. The goal/objective is to attain the highest level of human development possible within that period. In order to achieve this goal, the strategy envisions transforming the economy from a low productivity agricultural economy to a semi-industrialised economy. This entails modernising agriculture, industry and services and laying solid foundations for creating a well-managed, dynamic, stable, and competitive economy. To that end, Tanzania should become a nation that has five attributes: high quality of livelihood, peace, stability and unity, good governance, a well educated and learned society and a competitive economy capable of producing sustainable growth and shared benefits.

### 5.2.3 Qualitative Overview of Tanzania's Economy

#### Background

Tanzania achieved independence in 1961 with high hopes. Hopes to rid the nation of three arch enemies: poverty, ignorance and disease. Four decades later, the war is far from being won, and Tanzania remains one of the 10 poorest countries in the world. Despite being endowed with a rich natural resource base, easy geographical access to international markets, peace and tranquillity and political stability, poverty remains widespread and deep. Per capita GNP is less than USD 300. Over 51% of the 34 million Tanzanians live below the international poverty line of USD 1 per day, most dwell in rural areas. According to World Bank data sources, under-five mortality rates are 165 per 1,000 live births.[18] Maternal mortality is 530 per 100,000. The literacy rate is 76%. Although primary enrolment has improved in recent years, secondary enrolment is only 5.8% of relevant age group. Gross tertiary enrolment is only 0.7% of the relevant age group. The ratio of doctor to patient is very high, about 23,000 patients per doctor. Only 11% of Tanzanian families have access to safe water supply. The bleak picture depicted above is compounded by an alarming spread of HIV/AIDS pandemic, which according to the 2004 Africa Competitive Report, has reached 7.8% of the 15-49 years age group. The dismal socio-economic situation has exerted a huge toll on the people of Tanzania whose average life expectancy has fallen from about 54 years in the 1970s to about 44 years in 2004.

#### Infrastructure

Tanzania's infrastructure is inadequate to support high growth. According to the 2004 Africa Competitive Report, only 4.2% of Tanzania's roads are paved. Total rail lines per 1,000 population is only 0.11. Telephone lines per capita are negligible (0.0033). Internet access and use is negligible. Only an estimated 7,500 people use Internet on a regular basis. Electricity is in short supply and less than 10% of the

18 World Bank (2004), World Development Indicators, 2003.

people have access to electricity - mostly in urban areas. The high costs of utilities, port facilities and underdeveloped transportation system erode profit margins and have undermined the development of a vibrant private sector. Currently, the Government is making a concerted effort to improve the country's infrastructure, including priority spending to this sub-sector.

## Limited Structural Transformation and Low Capacity for Economic Management

Despite undertaking structural reforms since mid-1980s, Tanzania's structural transformation of the economy is limited and the achievements are marginal relative to the expectations. Over 87% of the Tanzanian people still live in rural areas. Peasant agriculture that depends on rainfall and backward technology still dominates the economy, contributing over 46.8% of the country's GDP. In contrast with the 1970s, there has been substantial de-industrialisation in Tanzania, with industry contributing only 18.5% of GDP. Recent privatisation of state-owned enterprises (over 300 out of about 400) has paved way for improvement in this sector, but low level of utilisation of science and technology is a real impediment. The share of services in GDP (35%) has remained almost unchanged in the past decade. Overall, Tanzania's development continues to be characterised by low level of mobilisation of domestic, natural, human and financial resources to produce wealth and to raise the standards of living of the people.

Good documented economic plans and strategies have not been matched with effective implementation, monitoring and evaluation - in part due to low capacity for economic management. Implementers of plans and strategies do not "walk the talk", and in recent years corruption and other vices in society have increased the cost of doing business. Although recent African Competitiveness Report (2004) shows Tanzania's corruption index falling substantially compared with other countries, the continued existence of this menace poses substantial challenges for undertaking prudent fiscal and monetary management while fostering good governance.

## Donor Dependence

Tanzania is excessively dependent on external assistance to fund its recurrent and development budget. Nearly 20% of the recurrent and 90% of the development expenditure is financed by foreign aid. This dependence has resulted in the erosion of initiative and lack of ownership of the development process. In addition, the high donor-dependence is not consistent with the country's Development Vision 2025 to address the challenges of development with dignity, confidence, determination and persistence through hard work and creativity with Tanzanians at the driver's seat. Sadly, the education system, although undergoing several quantitative improvements, is not being wholly restructured to search for solutions to the domestic predicament and prepare the nation for the competitive structure engendered by deepening regional integration and globalisation.

### 5.2.4 Government's Expectations about Future Economic Developments

The Government's future expectations are to build a strong and competitive economy by 2025. These expectations involve three key attributes. The first is to have a high quality livelihood for all Tanzanians and this is expected to be attained through strategies that ensure realisation of the following goals:

- Food self-sufficiency and food security;
- Universal primary education, the eradication of illiteracy and the attainment of a level of tertiary education and training that is commensurate with a critical mass of high quality human resources required to effectively respond and master the development challenges at all levels;
- Gender equality and the empowerment of women in all economic and political relations and cultures;
- Access to quality primary health care for all;
- Access to quality reproductive health services for all individuals of appropriate ages;
- Reduction in infant and maternal mortality rates by three quarters of current levels;

- Universal access to safe water;
- Life expectancy comparable to the level attained by typical middle income countries; and
- Absence of abject poverty.

The second expectation is to have a socio-economic system that is characterised by good governance and the rule of law. In particular, an economy characterised by:

- Desirable moral and cultural uprightness;
- Strong adherence to and respect for the rule of law;
- Absence of corruption and other vices; and
- A learning society that is confident; that learns from its own development experience, and that of courses owns and determines its own development agenda.

Last, but equally important, the creation of a strong and competitive economy with the following attributes:

- A diversified and semi-industrialised economy with a substantial industrial sector comparable to typical middle-income countries;
- Macroeconomic stability manifested by a low inflation economy and basic macroeconomic balances;
- A growth rate of 8% per annum or more;
- An adequate level of physical infrastructure needed to cope with the requirements of the National Vision 2025 in all sectors;
- A high economic growth that avoids adverse effects on the environment; and
- An active and competitive player in the regional and world markets, with the capacity to articulate and promote national interests and to adjust quickly to regional and global market changes.

### 5.2.5 Tanzania's Broad Policy Approach and Priorities

#### Fiscal and Monetary Policies

Tanzania follows prudent fiscal and monetary policies consistent with its poverty reduction strategies. With regard to fiscal policy, overall fiscal discipline, defined in terms of recurrent deficit targets, is a key policy objective. The Government target is to maintain fiscal deficit before grants to below 10% of GDP. In 2003/04 the deficit was 7.8% of GDP - a figure below programme target achieved in part because of higher than budgeted revenue collections.[19]

Fiscal policy also continues to focus on domestic resource mobilisation through tax policy reforms, strengthening tax administration and improving expenditure management. In the revenue side, the Government projects collections of 13.8% of GDP in 2004/05, up from about 12.1% of GDP in 2003/04. The improved revenue collection is expected to come from streamlining income tax, reducing tax exemptions and improving tax administration (particularly customs). In the expenditure side, the Government projects an improvement from 19.8% of GDP in 2002/03 to over 25% in 2006/07. The increases in expenditure are necessitated by substantial increase in resources required to finance priority spending under the Poverty Reduction Strategy and a higher wage bill resulting from civil service reform.

With regard to monetary policy, the Bank of Tanzania (BOT) is committed to a prudent conduct of monetary policy that is capable of maintaining core inflation below 5% and official foreign reserves of at least four months of imports. In addition, BOT expects to continue deepening the financial system through promoting the development of efficiently functioning and stable financial market. An important policy also will be reducing velocity of money supply by 10% for the period 2004/05. Consistent with the expected increase in money demand, the BOT will target M3 (extended broad money - the sum of currency in circulation and total deposits held by commercial banks, excluding foreign currency and central government deposits) to grow to 23%. This growth is expected to allow credit to the private sector to grow by about 34% in 2004/05.

In conducting monetary policy, the BOT uses indirect instruments to influence the level of money supply. The main instrument is the Open Market Operations (OMO). OMO takes place when the Central Bank sells or buys Government securities, e.g. Treasury Bills, in order to influence the monetary base. Other indirect instruments include

[19] Tanzania's fiscal year is June-July.

Foreign Exchange Market Operations (FEMO), the Discount Rate, Statutory Minimum Reserves (SMR), and Moral suasion.

## Trade Policy Framework

Tanzania's current National Trade Policy was unveiled in February 2003. Its main focus is to create a competitive export-led growth economy. The main goal of the trade policy is to facilitate smooth integration into the Multilateral Trade System (MTS), while enabling Tanzania identify ways and means of navigating through a viable and steady path towards competitive export-led growth. It is envisaged that success in implementing the trade policy will play a major role in the realisation of the goal of poverty eradication.

After recognising that Tanzania is endowed with a rich and varied natural resource base, including a strategic geographical location and under-utilisation of the country's competitive advantages, the National Trade Policy has set the following ambitious targets:

- Contribute to raising per capita income to levels targeted in the National Development Vision 2025;[20]
- Undertake trade development measures to stimulate and expand domestic demand through product and market diversification;
- Provide limited interim safeguard of domestic economic activity threatened by liberalisation while building economic competitiveness;
- Achieve and sustain a rate of growth in trade of not less than 14% (an average of twice the targeted rate of growth of GDP);
- Achieve and sustain the long-run share of exports in GDP of about 25% and reverse the declining trend in the import-coverage ratio;
- Attain a two-fold increase in manufactured exports for every ten-year interval, and a two-fold increase in trade in services at intervals of 6 years; and
- Raise the value of merchandise export earnings in absolute terms to USD 1,700 million within five years as envisaged in the Export Development Strategy (EDS).

20 Real GDP per capita (using Purchasing Power Parity) rising from the current (2004) USD 570 to about USD 3,000 by 2025.

The measures (policy instruments) that the Government intends to take to influence the direction and pattern of trade development to achieve the above targets are as follows:

- Tariff-based instruments: tariffs, taxation, and duty drawback schemes;
- Non-tariff measures: quotas, import licensing and registration, pre-shipment inspection (PSI), customs valuation, local content requirement and selective administrative barriers;
- Trade defence mechanism: subsidies, safeguards, anti-dumping, and Rules of Origin;
- Trade development policy instruments: Investment Code and Rules, Export Processing Zones (EPZs), export promotion measures, export facilitation measures; and
- International trade policy instruments: Bilateral Co-operation Initiatives, Regional Trade Associations (RTAs) and World Trade Organization (WTO) Agreements.

The policy clearly recognises the role of the public sector as facilitator, and the private sector is the main implementer of the trade policy. The policy recognises the civil society as playing a key role in trade development through supporting initiatives for higher productivity, assisting market development and facilitating domestic as well as export market linkages.

## Labour Market Policy Framework

The National Employment Policy unveiled in April 1997 is Tanzania's labour market policy. Its main task is to facilitate wage and non-wage employment of the labour-force. Out of a total population of about 34 million people, about 14 million constitute the labour force of ages 15-64 years. Over 30% of the labour force is either unemployed or underemployed. The Poverty and Human Development Report (2003) determined that there are about 700,000 new job seekers annually in Tanzania, but the economy can only generate about 40,000 new jobs.

The labour policy has several strategies for reducing unemployment, increasing per capita incomes of employees and facilitating the eradication of poverty. Among these are:

- Modernising industry and trade to increase its capacity for wage employment from the current (2004) level of 17% to 25% by 2007. This is to be achieved through emphasis on the use of science and technology, promoting industrial development and creating a more conducive environment for attracting private investment in industry and trade.
- Modernising agriculture through the use of appropriate technologies in order to increase the productivity of its labour force. Currently, agriculture employs nearly 80% of the country's labour force.
- To provide training and re-training of the labour force in order to improve its productivity and its competitiveness regionally and globally. In this regard, the country's education system, from primary to tertiary levels, is to be re-structured and made more relevant to solve domestic development problems and be more prepared for the challenges entailed by globalisation.
- To encourage self-employment in both rural and urban areas through facilitation of access to credit, business development and removal of bottlenecks - especially those related to licensing and taxation.
- To promote youth and other disadvantaged labour force (women, persons with disabilities) through strengthening vocational training, expanding services for commercial training and creating a special fund for the purposes of covering costs and providing loans for self-employment activities.
- To provide technical skills and counselling to retrenched employees so that they can be re-employed elsewhere or become self-employed.

The labour policy also recognises the important contribution foreign experts can make in building the capacity of Tanzanians in fostering the development process. Investors can employ five experts without permit. Additional employment of experts requires approval by the Ministry of Home Affairs or the Ministry of Labour and Youth Development. Where the skills required are available domestically, priority is accorded to the local staff. In order to reduce "brain drain," the civil service wages are to be made more attractive and competitive under the on-going civil service reform programme.

In terms of implementation of the policy, a National Employment Council (NEC) has been established under the chairmanship of the Office of the Vice President. The Ministry of Labour and Youth Development is responsible for co-ordination and facilitation aimed at creating a better environment for implementation of the labour policy. The Government has reviewed labour laws to ensure that they are more responsive to private sector needs and offer appropriate incentives for investors to create more jobs in the economy. The new labour laws are in place already. The labour law reform was carried out with developmental objectives in mind. The reform sought to generally put in place policies and laws and regulatory structures, which would promote good governance, poverty reduction, sound labour relations, labour productivity, job creation and employment promotion.

### 5.2.6 Time Frames for Implementation

Table 5 presents a list of both the social and economic indicators with the corresponding targets as well as the time set to achieve them.

## Table 5: Implementation Plan

| Indicator | Target and Timeframe |
|---|---|
| Real economic growth | 6-8% by 2010 and 10% or more by 2025 |
| Real growth in manufacturing | From 8.6% in 2004 to 15% by 2010 |
| Real growth in agriculture | From 5% in 2004 to 10% by 2010 |
| Real growth in livestock | From 2.7% in 2004 to 9% by 2010 |
| Rural roads repair | 15,000kms annually by 2010 from 4,500 kms in 2004 |
| Reduced proportion of rural pop. Below basic needs poverty line | From 38.6% in 2000/01 to 24% by 2010 |
| Reduced proportion of rural food poor | From 27% in 2000/1 to 14% by 2010 |
| Increased food crop production | From 9 million tons to 14 million tons by 2010 |
| Maintain Strategic Grain Reserve of at least 4 months of national food requirements. | Annually |
| Reduce proportion of urban population below basic needs poverty line | From 25.8% in 2000/01 to 12.9% in 2010 |
| Reduce the proportion of urban food poor (men and women) | From 13.2% in 2000/01 to 6.6% in 2010 |
| Increase net primary enrolment | From 90.5% in 2004 to 99% by 2010 |
| Increase secondary school enrolment | To at least 50% (ordinary) and 25% (advanced) by 2010 |
| Increase higher & technical education enrolment | 30,000 full time students, 10,00 part time and 15,000 distance learners by 2008 |
| Adult and non-formal education | At least 80% of adults are literate by 2010 |
| Reduce infant mortality | From 95 in 2002 to 50 in 2010 per 1,000 live births |
| Reduce child mortality (under five) | From 154 to 79 in 2010 per 1000 live births |
| Reduce malaria-related deaths | From 12% in 2002 to 8% by 2010 |
| Reduce prevalence of stunting under fives | From 43.8% to 20% by 2010 |
| Reduce maternal mortality | From 529 to 265 in 2010 per 100,000 |
| Reduce HIV prevalence among 15-24 year pregnant women | From 11% in 2004 to 5% in 2010 |
| Reduce HIV prevalence in general | From 11% in 2004 to 10% by 2008 |
| Increase proportion of pop with access to clean water to within 30 minutes of time spent on collection of water | From 53% in 2003 to 65% by 2010 |
| Increase urban pop with access to clean water | From 73% in 2003 to 90% by 2010 |
| Increase access to improved sanitation facilities | From 17% in 2003 to 30% by 2010 |
| Cutback cholera outbreaks | By half by 2010 |
| Reduce pollution levels | Pollution of water from 20% in 2003 to 10% by 2010; reduce harmful industrial and agricultural effluents |
| Improve social protection of vulnerable groups (orphans, disabled, elderly, etc) | At least 40% reached with effective protection by 2010. |
| Access to modern energy services (electricity, solar energy, etc) | At least 10% of the population using alternatives to wood fuel by 2010. |
| Improve roads to become passable | From 50% in 2003 to 75% in 2010 |
| Improve health facilities | At least 90% of schools and 80% of health |
| | facilities in urban and rural areas have the required mix of skilled and motivated workers in place. 100% of eligible older people provided free medical care by 2010 |
| Improve governance and accountability | Continuous |

*Source: URT (April 2005), National Strategy for Growth and Reduction of Poverty (NSGRP).*

Note that all the targets are set consistently with the timeframe allocated for the National Strategy for Growth and Reduction of Poverty (NSGRP) i.e. year 2010.

### 5.2.7 Government's Approach to Sequencing

Tanzania does not have a clear-cut sequencing for achieving its Poverty Reduction Strategy (MKUKUTA by 2010), Millennium Goals (by 2015) and National Vision (by 2025). However, the Government's priorities are clear: increasing growth and creating economic opportunities for the poor, building capacities, and increasing empowerment and accountability. To reduce poverty, the Government's overriding priority is to attain a higher long term sustainable growth rate. Thus, in terms of sequencing, the Government's foremost strategy is to endeavour to maintain macroeconomic stability. The main reason for this focus is that instability makes the macroeconomic environment less predictable, hindering efficient resource allocation decisions, deterring investment and slowing down economic growth.[21]

In terms of resource allocation, the Government has identified sectors with the highest impact on poverty alleviation: education, health, water, rural roads, agriculture, judiciary and HIV/AIDS. In recent years (mid 1990s to date), these sectors have received over 60% of the available total resource envelope. Funding for these sectors has been protected and monitored under the participatory Public Expenditure Reviews (PERs). In addition, these sectors have also been supported by donors through the creation of a Multilateral Debt Fund, which has helped service debt to multilateral agencies. The related budgetary savings have been used to protect expenditures earmarked for those priority sectors.

The new five-year Poverty Reduction Strategy (PRSII, 2005/06 -2009/10) builds on PRSI (2000/01-2002/03) by first addressing observed implementation weaknesses (weak link between policies; lack of comprehensive financing plan - non-priority sectors not seriously considered and planned; weak institutional arrangement for implementation, etc). Second, costing each intervention (priority and

[21] See Ramey et al. (1995), for empirical evidence on macroeconomic instability and growth.

non-priority sectors), focussing more on costs of attaining specific outcomes - related to achieving PRS, Millennium Goals and Vision 2025 targets. Third, developing an implementation strategy that comprises not only Government and donors but also the private sector, CSOs/NGOs and local communities. Forth, strengthening the Poverty Monitoring System (PSM), which was established in 2001 to be able to track progress towards attaining goals and objectives and provide prompt feedback where corrective action is required.

## 5.3 Successes in Achieving Macroeconomic Convergence Targets

Tanzania is making good progress towards achieving SADC macroeconomic convergence targets. In particular, as Table 6 shows, Tanzania is within macroeconomic convergence targets in the area of controlling inflation, maintaining adequate external reserves and abstaining from recourse to domestic central bank borrowing to fund budget deficits.

Table 6: Successes in achieving macroeconomic convergence targets

| Numeric Values of Target Indicators | 2008 | 2012 | 2018 | Tanzania performance assessment |
|---|---|---|---|---|
| Core inflation | 9% | 5% | 3% | Within target stability programme. Average inflation in year ending June 30th 2005 was 4.6%. (Bank of Tanzania, June 2005) |
| External reserves (import cover in months) | 3 | 6 | 6 | Within target stability programme. 2004 external reserves were adequate to cover 8 months of imports. |
| Central bank credit to Government | 10% | 5% | 5% | Within target stability programme. In 2003/04 Government made payments to the Central Bank to reduce domestic debt, equivalent to 0.3% of GDP (IMF, 2004). |
| Liberalise exchange controls | | | | Completed (Bank of Tanzania |

## 5.4 Macroeconomic Convergence Problem Areas

Though there are also areas where Tanzania is making some progress, it is not yet within the SADC macroeconomic convergence targets (Table 7). Before grant budget deficits are still nearly 5% short of target. External debt, although benefiting from HIPC debt relief, is still about 40% higher than targets. Current account deficits, without including external transfers, are approaching convergence targets and should be within required threshold by 2008. Domestic investments are still nearly half SADC convergence targets. Real economic growth is gathering momentum and should be within SADC convergence threshold by 2008.

Implementation of other macroeconomic convergence targets appears to show little progress. In particular, interconnection of payments and clearing system, finalisation of the legal and regulatory framework for dual and cross listing in the regional stock exchange, and liberalisation of current account transactions between Member States. Progress in these areas appears to be constrained by the need to synchronise requirements of the various groupings where Tanzania is a member.

Table 7: Macroeconomic Convergence Problem Areas

| Numeric Values of Target Indicators | 2008 | 2012 | 2018 | Tanzania performance assessment |
|---|---|---|---|---|
| Budget deficit as a percentage of GDP | 5% | 3% | 1% | Higher than target value: 2004/05 before grants deficits were -11.8 of GDP (IMF, 2005). After grants -4.5% of GDP (Within targets). |
| External debt as a percentage of GDP | 60% | 60% | 60% | Higher than target value. Range (based on discounting techniques) as % of GDP: 75-100. (World Bank, 2004) |
| Current account deficit as a percentage of GDP | 9% | 9% | 3% | Higher than target stability programme. 2003/04 current deficits were -10.9% of GDP before official transfers. When official transfers are included the deficits drops to -5.3% of GDP which is within the convergence programme target. (IMF, 2004). |
| Real GDP growth rate | 7% | 7% | 7% | Below target value. Real GDP growth was 6.4% in 2004. (IMF, 2004) |
| Domestic savings | 25% | 30% | 35% | Below target value. 16.1% of GDP (UNDP Human Development Report 2004) |
| Increase in domestic investment level | To at least 30% | | | Below target value. 18.6% of GDP in 2004 (UNDP Human Development Report 2004) |
| Gradual interconnection of payments and clearing system in SADC | By 2008 | | | Little progress |
| Finalise the legal and regulatory framework for dual and cross listing of the regional stock exchange | By 2008 | | | Little progress |
| Liberalisation of current account transactions between Member States | Current account by 2006 | | | Capital account by 2010 Little progress |

## 5.5 Social Impact of Policy Frameworks

The social impact of Tanzania's policy frameworks has not been encouraging. Gross national income per capita (GNI) is still among the lowest in the world (USD 290 or using PPP USD 610/capita) - about half the average for Sub-Saharan African countries (World Bank, 2005). Life expectancy at birth has declined from 53 years in 1987 (World Bank, 1989) to 43 years in 2002 (World Bank, 2005).

Other social indicators are also worrisome. Poverty continues to be widespread and deep as revealed in a 2000/01 Household Budget Survey. About 32% of the population lives without sustainable access to improved water sources (UNDP, 2004). Over 19.9% of the population lives on less than USD 1 per day (UNDP, 2004). Only 89% of Tanzania's one year olds are fully immunised against measles. Under-five mortality is high - at 165 per 1,000 (UNDP, 2004). Adult literacy rate ages 15 and above is around 77% (World Bank, 2005). Net primary enrolment has improved from about 50% in 1990 (UNDP, 2004) to about 90.5% in 2004 (URT, 2005). HIV prevalence is high, at about 8.8% for ages 15-49 years (UNDP, 2004).

The key conclusion derived from the broad impact outlined above is that Tanzania has a long way to go to achieve its growth and poverty reduction objectives. In particular, relentless efforts are needed to reverse the declining life expectancy of the people associated with the deadly HIV/AIDS pandemic.

# 6 Detailed Assessment of Macroeconomic Convergence Programme

## 6.1 Main Linkages between Policy Frameworks and Economic - Social Impacts

Following independence in 1961, Tanzania unveiled the first policy framework: the First Five Year Plan for Economic and Social Development published in 1965. It aimed at reducing poverty and accelerating social-economic development. Central planning was introduced in Tanzania in the 1970s to achieve the policy following the promulgation of the Arusha Declaration in 1967. As in other socialist countries, the Planning Commission with the President as its chairman was at the centre of planning, policy formulation and coordination to ensure successful implementation. Unfortunately, neither poverty reduction nor economic growth was attained. So, a new policy framework was unveiled in 1981: the National Economic Survival Programme (NESP) followed by a home-grown Structural Adjustment Programme (SAP) in 1982, and an Economic Recovery Programme (ERP) in 1986. The later replaced medium term planning with short-term economic management focused on fiscal and monetary stabilisation as well as liberalisation of the economy to enhance growth and reduce poverty. This implied a shift in institutional responsibility and power from the Planning Commission to the Ministry of Finance and the Bank of Tanzania, who held the key responsibility for the implementation of the ERP. The initial efforts and relative successes in economic stabilisation during the second half of the 1980s were not sustained during the second term of President Mwinyi, when Government's inability to control credit expansion to public enterprises, massive tax exemptions, poor revenue collections, and tax evasion resulted in severe macroeconomic disequilibria, such as large fiscal and balance of payments deficits, high inflation, and a decline in growth - and therefore failed to reduce widespread poverty.

In 1996, the new third phase Government under President Mkapa made it its top priority to restore macroeconomic stability, control corruption and expedite efforts to reduce poverty. In addressing these issues, the Government opted for bold reassignments for economic management that tried to ensure that capacity and credibility of institutions are matched with the task at hand. Specifically, an extraordinary amount of power and influence in the economic management of the country was transferred to the Bank of Tanzania (BoT). Not only was the BoT responsible for monetary management, but with the introduction of a cash budget in 1996, it was also given the responsibility to determine monthly aggregate expenditure ceilings for Government, in line with available resources from domestic revenue and foreign aid. In addition, the BoT also took the lead in managing Tanzania's public debt. The reforms also saw a further weakening of the Planning Commission, as the responsibility for the preparation of the Development Budget was shifted from the Planning Commission to the Ministry of Finance in an effort to unify the budget and strengthen budgetary control. A new policy framework: the Rolling Plan and Forward Budget, which until 1996 had been prepared by the Planning Commission, but which had become virtually irrelevant for economic management, was replaced by the Medium Term Expenditure Framework (MTEF), which is being prepared by the Ministry of Finance.

With the shift to a market based economy, Government rightly embarked on efforts to replace government planning of the economy by a process that is based on greater dialogue between Government and the private sector to address socio-economic development issues. This required a strengthening of private sector institutions, which could effectively engage in this dialogue. The Tanzania Private Sector Foundation was established as a private sector apex organisation to represent the private sector in Tanzania. Tanzania is in the process of formulating the Private Sector Development Strategy (PSDS) scheduled to be completed March-April 2006. Since 1986, the country has been implementing economic reforms aimed at introducing a market-led economy with the private sector as the main economic player. The first generation of reforms, carried out between 1986 and 1995, focused on macroeconomic stabilisation or "price reform" measures to correct the market distortions of the command economy. The second generation of reforms, currently under implementation, entail the necessary institutional reforms for a market economy and private sector led development. During this period, several policy and strategy initiatives have been taken which have implications on the development of the private sector in Tanzania. However, comprehensive and coherent private sector development strategy has not been formulated. It was subsequently realised that the PSDS has to be developed to fill in that gap.

Another significant development with regard to economic management and policy issues relates to the adoption of the Poverty Reduction Strategy Paper (PRSP) process in 2000, which aims at aligning Government policy and public resource allocation with Tanzania's objective of reducing poverty. The key responsibility within Government for the preparation and monitoring of the PRSP lies with the Vice President's Office, while the Ministry of Finance takes the lead role in coordinating the PRSP implementation. In 2004, a new PRSP was unveiled titled: National Strategy for Growth and Reduction of Poverty (MKUKUTA in Swahili). MKUKUTA is the policy framework that focuses on accelerating economic growth, reducing poverty and attaining Millennium Development Goals (MDGs) with the Tanzania's Development Vision 2025 framework. The economic and social impact of these policies is mixed as detailed in Section 6 and 7 of this report. Progress is evident in accelerating economic growth and achieving macroeconomic stability, but poverty is yet widespread and deep - challenges that Tanzania will continue to face in the foreseeable future.

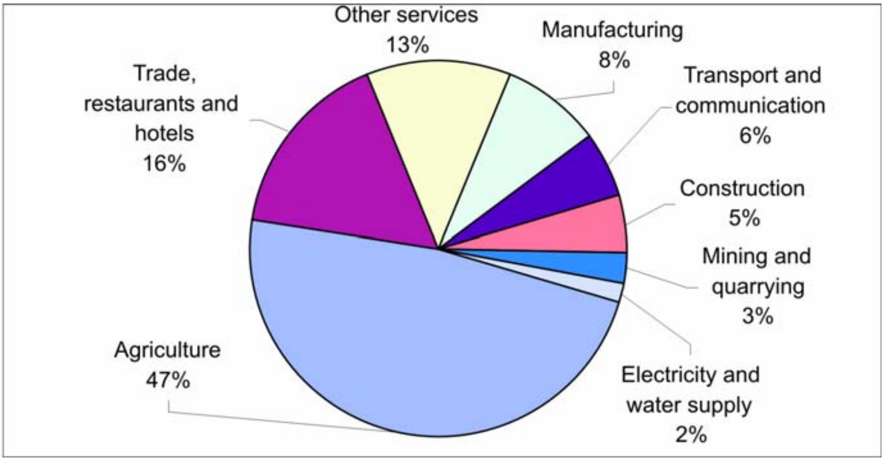
## 6.2 Macroeconomic Conditions Prevailing in Tanzania

### 6.2.1 Economic Structure

Tanzania has a mixed economic structure. The country has been in transition since the mid 1980s, from a socialist to a free market economy. The economic structure enjoys relative political and civic stability. The country adopted multiparty system in 1995 and ever since, Tanzania has been moving towards a fully-fledged democratic society. In addition to Chama Cha Mapinduzi (CCM), the party that has ruled since independence, six political parties are active in Parliament and several others registered more recently will be competing in the elections to be held in October 2005.

Tanzania is largely agrarian and ranked among the 10 poorest countries in the world. Agriculture accounts for nearly half of the country's GDP and export earnings. Over 80% of the poor are in rural areas and their livelihood depends on agriculture. Industry contributes less than 20% of GDP and has remained nearly stagnant over the past decade. Services contribute a little over 30% of GDP. Despite recent surge in the growth of the mining sector, it still accounts for less than 4% of GDP. Figure 3 illustrates the structure of the economy by examining sectoral contribution of each sector to GDP.

**Figure 3: Sectoral Distribution of GDP in 2004 (at 1992 Prices)**




*Source: Based on National Bureau of Statistics Data*

Table 8 shows there have been relatively very small changes in the structure of the economy since 1988.

**Table 8: Structural Change of the Tanzanian Economy, 1988-2004**

| Sector | Average annual growth rate | | | Share in GDP | | |
|---|---|---|---|---|---|---|
| | 1988-93 | 1993-98 | 1998-04 | 1988 | 1998 | 2004 |
| Agriculture | 3.4% | 3.2% | 4.4% | 47.6% | 49.1% | 46.8 |
| Industry | 1.6 | 4.6 | 7.8% | 16.4% | 16.5% | 18.5% |
| Services | 2.3% | 2.8% | 5.7% | 35.9% | 34.3% | 34.8% |
| Private consumption | 3.2% | 4.6% | 4.0% | 86.4% | 82.4% | 77.0% |
| Govt consumption | -0.9% | 5.9% | 6.0% | 16.3% | 10.6% | 15.0% |
| Imports of goods and services | -1.2% | 2.1% | 2.4% | 30.7% | 30.9% | 31.1% |

*Source: National Bureau of Statistics Economic Survey 2003; World Bank TAS FY2001-2003; World Development Report 2005*

## 6.2.2 Economic Growth

## Historical Trend in Real GDP Growth

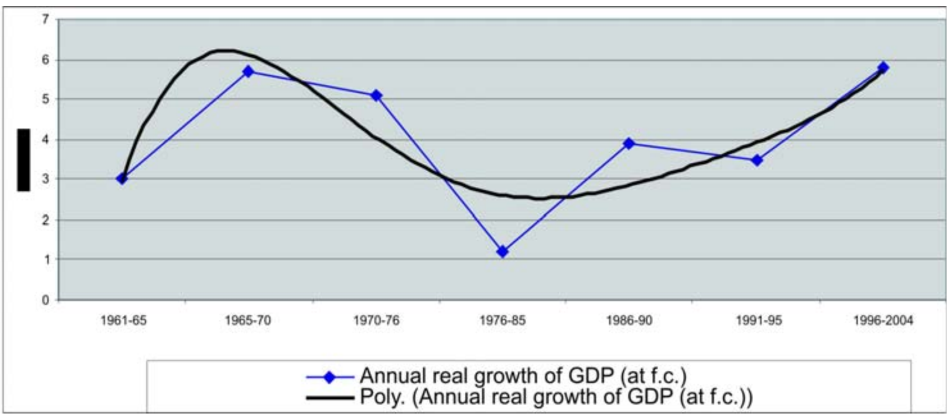
As shown on Figure 4, Tanzania's historical growth trend is uneven. Growth rose steadily after independence in 1961. The onslaught of socialist economic policies under the umbrella of "Ujamaa" or brotherhood in the mid 1960s to mid 1980s, derailed performance, and growth declined to about 1% between 1976 and 1985 - plugging the economy to negative per capita growth (population growth rate has averaged 2.8% over the past three decades). Structural reforms and market-led economic policies initiated in mid-1980s reversed declining growth and deepening reforms has led to sustained growth, averaging over 6% in recent years.

Table 9: Average Annual Real Growth of GDP (at Factor Cost)

| Period | 1961-65 | 1965-70 | 1970-76 | 1976-85 | 1986-90 | 1991-95 | 1996-2004 |
|---|---|---|---|---|---|---|---|
| Annual real growth of GDP | 3 | 5.7 | 5.1 | 1.2 | 3.9 | 3.5 | 5.8 |

*Source: Based on IMF Country Reports and World Development Reports (various years)*

Figure 4: Annual Growth of Real GDP (at Factor Cost, 1961-2004)




*Source: Based on IMF Country Reports and World Development Reports (various year)*

## Sources of Growth

Table 10: Main Sources of Growth by Expenditure Method

| Economic activity | 1986-90 | 1991-95 | 1996-2004 | 1986-90 | 1991-95 | 1996-2004 |
|---|---|---|---|---|---|---|
| | Average annual growth | | | Average contribution to growth | | |
| Real GDP growth | 3.9% | 3.5% | 5.8% | | | |
| Private consumption | 3.2% | 4.6% | 4.0% | 2.6% | 3.9% | 3.6% |
| Govt consumption | -0.9% | 5.9% | 6.0% | -0.2% | 1.1% | 1.3% |
| Gross Domestic Investment (GDI) | 5.4% | -0.8% | 8.6% | 1.2% | -0.2% | 1.9% |
| Private. fixed investment | 19.4% | 1.8% | 2.8% | 1.5% | 0.3% | 0.4% |
| Govt. fixed investment | -8.8% | -8.0% | 23.9% | -1.1% | -0.6% | 1.0% |
| Exports GNFS | 11.1% | 4.2% | 18.9% | 1.5% | 0.7% | 4.2% |
| Imports GNFS | 4.7% | -1.2% | 11.8% | -2.2% | 0.5% | -5.8% |
| Statistical discrepancy | | | | -0.2% | -3.0% | 0.0% |

*Source: National Bureau of Statistics Economic Survey 2003; World Bank TAS FY2001-2003; World Development Report 2005*

The fixed capital and/or investment expenditure as well as expenditure on the country's exports have generally shown to be the most important of all sources of growth. This is followed by domestic investment and consumption.

### 6.2.3 Employment and Unemployment

## Introduction

In 2003, Tanzania had a population of 35.9 million (World Bank, 2005). Among these, 34.9 million were in Tanzania mainland and 1.0 million in Tanzania, Zanzibar. Tanzania has a young population structure - about 44% of the people are below 15 years of age. Elderly population aged 65 years and above account for only 4% of the total population. Thus, the population aged 15 to 64 years that constitute the country's labour force, makes only 54% of the total population.

The average household size is estimated to have remained almost the same in the past decade, at about 4.9 persons per household (URT, 2004). Population density is 40 persons per square kilometre. However, the density differs markedly from one region to another. For example, Lindi region has the lowest density of 12 persons while Dar-es-Salaam, the capital city with nearly 5 million people, has 1,850 persons per square kilometre.

## Labour Force, Employment and Unemployment

Overall, an average of about 650,000 people join the labour force every year (URT, 2004). About half of these are aged between 15 and 29 years and 82% live in rural areas. The survey cited above shows that only 8% of the labour force is economically active, of whom 84% are self-employed in traditional agriculture, 6% in informal sector, 4% in the formal private sector, 3.5% in domestic economic activities, 2% in Government, and 0.5% in public enterprises (parastatals).

The Integrated Labour Force Survey (2002) conducted in 2000/01 revealed that the average dependence of household members to the head of the household is 0.87. The degree of dependence increases as the education level of the head of household increases.

Unemployment for the whole country averages 12.9%, of which about half live in urban areas. The Dar-es-Salaam capital has the highest unemployment rate - about 46.5% of its nearly 5 million people. Unemployment in other urban centres is lower, averaging 25.5% and 8.4% for rural areas. The labour force survey cited above shows that ages 15 to 34 years are most vulnerable to unemployment - with females being most disadvantaged.

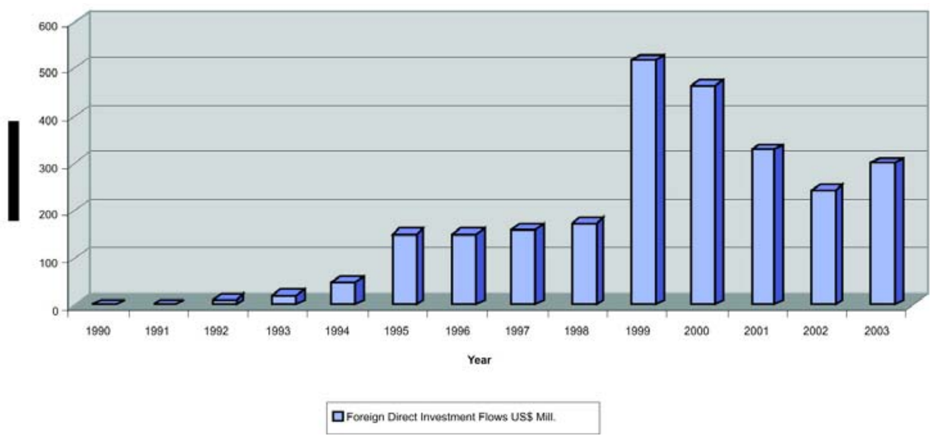
An analysis of employing sectors shows that the public sector, which used to be the main wage employer has seriously declined (due to retrenchment, parastatal divestiture and re-definition of Government roles versus the private sector in economic management). Agriculture continues to be the main employing sector, with mining, industry and informal private sector contributing a little to the serious unemployment problem. Section 6.5 below provides an analysis of the labour market policy framework in Tanzania.

## 6.2.4 Investment Flows to and from Tanzania

### Size and Growth of Foreign Direct Investment in Tanzania

Foreign direct investment flows into Tanzania grew considerably in the second half of 1990s. This is also the period that was marked by improvements in the economic situation, rigorous reform efforts to improve the investment environment, and beginning of the privatisation programme. UNCTAD (2001) notes that the market oriented reforms reached a critical mass and sound foundations for an enabling framework for FDI were put in place, which triggered the positive response from private investors from abroad. Total FDI into Tanzania between 1995 and 2004 totalled USD 2,476.4 million compared to less than USD 2 million between 1986 and 1991. On an annual basis, from 1992 FDI inflows into Tanzania increased faster, reaching USD 150 Million in 1996. Although the growth rate slowed between 1996 and 1998, the achieved rates of FDI inflows were remarkable. The year 1999 and 2000 experienced the highest record of FDI inflows into Tanzania, most of which came forth with the proliferation of mineral prospecting activities in the country.

Figure 5: FDI Inflows into Tanzania, 1990-2003




*Source: Tanzania Investment Centre*

The inward stock of FDI in Tanzania has also grown considerably and was revised (upwards) by the information collected in the BOT/TIC/NBS survey for 2001. As a percentage of GDP, UNCTAD (2001) estimates that the stock of FDI in Tanzania in 1980 was around 0% of GDP. Nevertheless it recovered with the growth of FDI inflows and in 1998, it had reached 2.1%. For the period 1990-1998, the stock of FDI as a proportion of GDP in Tanzania averaged 1.3%. In 1999, FDI stock as a percentage of GDP had reached 11.2% (UNCTAD, 2001).[22] Data from local sources on FDI stocks for years before 1998 is not available. However, the BOT/TIC/NBS survey of foreign firms establishments between 1998 and 1999 and in 2001 revealed that the stock of FDI had grown considerably. FDI stock as a proportion of GDP has almost doubled between 1998 and 2001 from close to 20% in 1998 to 38% in 2001 (Table 11).

**Table 11: FDI Stock in Tanzania 1999-2001**

| | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|
| FDI Stock Millions USD | 1637.7 | 1,903 | 2,891.6 | 3,636.99 |
| GDP (mp) Millions USD | 8382.44 | 8,637.87 | 9,093.69 | 9,476.59 |
| FDI stock as % of GDP | 19.54 | 22.03 | 31.80 | 38.38 |

*Source: FDI stock -Tanzania Investment Centre; GDP-Bank of Tanzania International Economics Department*

## FDI by Mode of Entry, Sectoral Distribution and Ownership

The main channel of FDI entry into Tanzania has been Greenfield investments (Figure 6). According to UNCTAD (2001), acquisitions of companies by foreign investors have been few in numbers but have nevertheless given a significant push to annual FDI inflows. Overall, the share of foreign acquisitions in FDI inflows until 2004 was about 28%, while new investment establishments accounted for 72% of total number of projects in Tanzania. Cumulative data on foreign investment projects approved by TIC between 1990 and 2004 thus points to the dominance of interest in Greenfield investments by foreign investors.

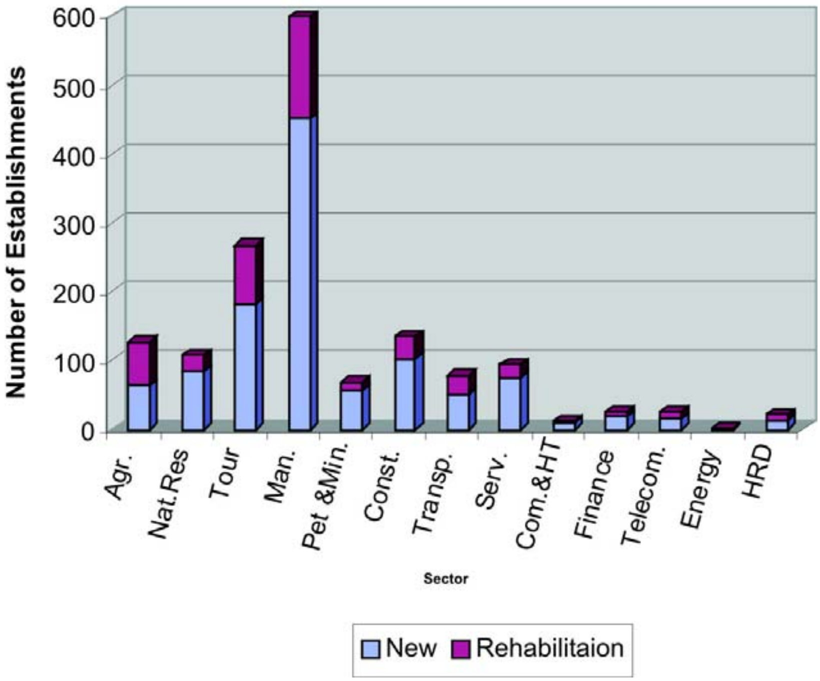
[22] While indicative of the growth trend of FDI flows and stocks TIC/BOT/NBS census of foreign establishments reveals that the UNCTAD reports and many other sources may seriously underestimate the FDI inflows into the country. In 1998 for instance, UNCTAD reported FDI stocks to stand at USD 803 Million, while the census estimated the stocks to stand and USD 1,637.7 Million

Analysis of sectoral structure of FDI distribution has important policy implications. In some cases, sectoral distribution of FDI has not matched the corresponding sectoral economic impact. For instance, evidence by Kabelwa (2003) indicates that services sector accounts for over 85% of all employment generated by South African businesses (excluding mining) in Tanzania. The rest of the 15% is contributed by three sectors: manufacturing (10%), tourism (2%) and others (3%). The same study notes that mining accounts for the largest share (47%) of all South African investment during that period, followed by telecommunication (21%) and manufacturing (16%) while tourism contributes 5%, and services 6%. This implies that although services accounts for a relatively smaller share of total South African investment, the sector has the most significant employment generation potential compared to others.

Based on the number of approved projects by sector (Figure 6), one can observe that the manufacturing sector and tourism seem to have attracted more establishments compared to other sectors of the economy. This may be attributed to a number of reasons one being that establishments in these sectors have been mainly small in size and therefore do not require high initial capital to commence operation. But another reason could be that the efforts to promote local manufactures and tourism activities are paying off and encouraging firms to invest in the sectors.

Given the relative importance of the agricultural sector on economic growth and development in Tanzania, the number of projects attracted to the agricultural sector is still few to be able to make a major impact. Although it is encouraging to note that efforts to counter the bottlenecks of investment in the sector are underway (example the Agricultural Marketing systems Development Programme, and Participatory Agricultural Development Programme, etc.) it is nevertheless too early to assess the direction of the progress. At the moment however, most projects have gone to cut flower sub sectors leaving food crop and traditional cash crop sub sectors lagging behind. Various risks associated with the sector, lack of credit facilities for both long term investment and working capital, and the general lack of incentives specifically designed to attract investment into the sector, still need to be addressed to ensure adequacy of investment, particularly in food crop production.

Figure 6: Foreign Direct Investment Inflows by Sector 1990-2003




*Source: Tanzania Investment Centre*

**Key:**

Agr = Agriculture

Nat. Res = Natural Resources

Tour. = Tourism

Man. =Manufacturing

Pet&Min = Petroleum and Mining

Const.= Construction

Transp. = Transport

Serv. = Services

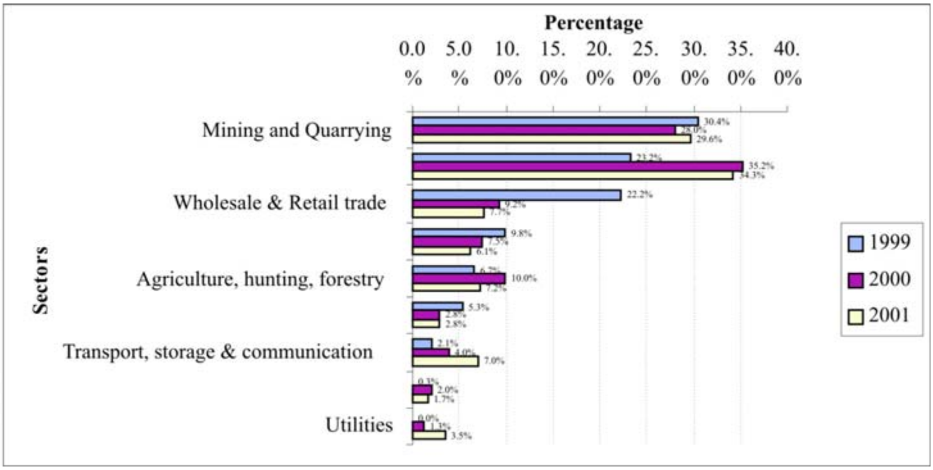
Finance = Financial Institutions

Telecom. = Telecommunication

HRD = Human Resources Development

In terms of stock of FDI in Tanzania however the picture is different. While the manufacturing sector continues to lead, it is being followed by mining and quarrying, and service sectors such as trade (wholesale and retail trade), and financial sector insurance and real estate. Concentration of FDI in the mining sector is possibly due to expensive equipment given the small number of projects attracted to the sector.

Figure 7: Sectoral Distribution of Stock of Foreign Investment Projects in Tanzania 1999-2001




*Source: Tanzania Investment Centre, Report of Census of Foreign investment in Tanzania 2001*

Examination of the key sectors for growth (namely agriculture, manufacturing and services) and the priority sectors for poverty reduction shows that the types of FDI inflow to Tanzania are less poverty focused (Kweka and Mboya, 2004). For instance, the mining sector has very insignificant sectoral linkage and multiplier effects compared to the agricultural cash crop sector such as cotton or a service sector such as tourism. The revealed structure of FDI inflow is more a testimony of FDI preferences and opportunities available in the high concentration sectors than promotion efforts by the TIC in such sectors.

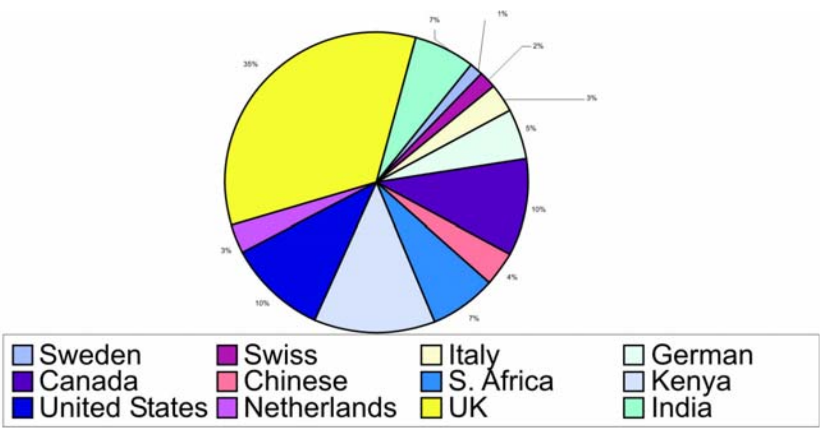
In addition, social sectors identified as key for poverty reduction (in the first PRS) have attracted disappointedly smaller share of total FDI. This implies that the impact of FDI on poverty in Tanzania is not consequential. The small share of FDI into agriculture sector in total FDI is also attributed to the adverse conditions in the agriculture sector (including adverse weather condition, low prices of agriculture products in the world market, insufficient domestic markets and other supply side and institutional bottlenecks). A study by ESRF (forthcoming) analysed the factors constraining significant inflow of FDI into the agriculture sector as being lack of favourable agricultural infrastructure and slow privatisation of existing state owned parastatals. That means, sufficient policy efforts have not been made to attract FDI into the agriculture sector. The Government needs to take deliberate steps to attract more FDI to the agriculture sector as a way of enhancing its efforts to alleviate poverty, expediting land ownership reforms, and addressing the infrastructure and other supply side bottlenecks to rural enterprises.

In terms of ownership structure, there is a growing trend towards formation of joint ventures. Of foreign investment projects that were registered in the country between 1990 and 2003, about 52% were joint ventured, while foreigners-wholly-owned projects accounted for the remaining 42%. This tendency is encouraging, especially because formation of joint ventures is associated with transfer of proprietary knowledge and skills thus, encouraging faster development of human capital through learning by doing. However, the share of local investment in joint ventures has remained low (on average 14%), especially in the service sectors.

## FDI by Country/Region of Origin

Data from TIC on approved projects by country of origin between1990 and 2004 shows that investment from Western Europe (both in value and in numbers) dominated the scene. In numbers, UK has been the largest single source of investment projects coming to Tanzania (35%), followed by Kenya (13%), United States (10%), and India and South Africa (7%) as shown in Figure 8.

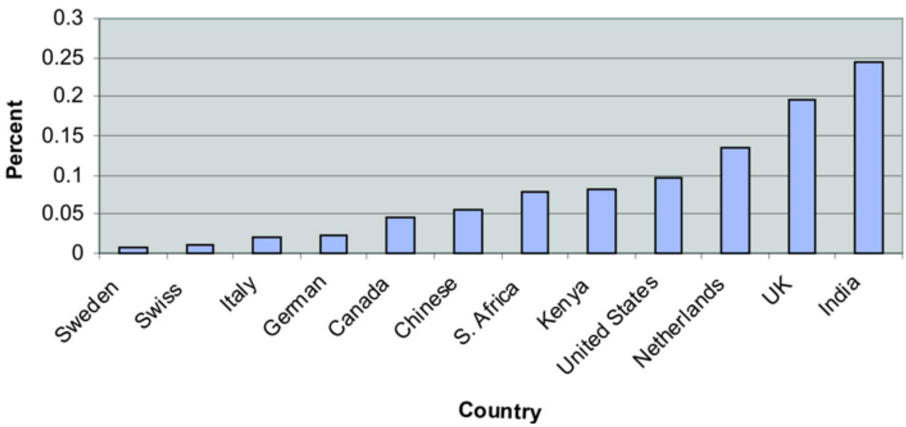
Figure 8: Number of FDI Projects into Tanzania 1990-2002 by Country of Origin




*Source: Tanzania Investment Centre*

The large number of projects from UK may be attributed to the long established relationship between Tanzania and UK, which dates back to the colonial era. In terms of value however, projects from India though few in numbers (accounting for only 7% of all projects with foreign interests established in Tanzania between 1990 and 2002), accounts for the largest share in value terms of all the projects established since early 1990s (see Figure 9). Most projects with Indian interests were established between 2000 and 2002, thus changing the structure, which until 2001 was dominated by investments from UK.

Figure 9: Investment by Country of Origin, Leading Countries 1990-2002




*Source: Tanzania Investment Centre*

## Portfolio Investments into Tanzania

Although most of the foreign investment flow is popularly considered as FDI, it can also take other different forms including portfolio investment. Until the opening up of the Dar-es-Salaam Stock Exchange Market for Equity participation by foreign firms, portfolio investment into Tanzania was close to zero. The Capital Markets and Securities Authority was established in 1994 but it was not until 1998 that the first Stock Exchange market, the Dar-es-Salaam Stock Exchange Market (DSE) started operations with only one company listed - the Tanzania Oxygen Limited (TOL). the number of companies listed to participate in the market has since then increased to six and the opening up of the market for participation by foreign firms has opened the way for portfolio investment funds to flow into Tanzania with more ease. The level of activity in the stock market, however, is low.

### 6.2.5 Basic Approaches Used in Determining Budgetary Frameworks

#### Basic Approach to Tanzania's Budgetary Process

Tanzania's budget process is about the annual budget cycle events and activities. Essentially, the framework for the budget process involves the determination of resources and their uses for attainment of government objectives. A sound budget serves as a tool for economic and financial management and accountability and also serves as a mechanism for allocation of resources among different needs and priorities, as well as bringing economic stability and growth.

Since 1999, the link between policy, planning and budgeting in the medium term expenditure framework (MTEF) has been emphasised in the budget framework, with a view to improve budgeting outcomes at different levels including the macro, and strategic and operational levels. The MTEF replaced short term planning for annual budget that was associated with accumulated over-commitments and inefficiencies at operational level. MTEF creates enough certainty such that agencies plan ahead with better information on which to base operational decisions. Integrating policy, planning and budgeting, is fundamentally about having expenditure programmes that are driven by policy priorities and disciplined by budget realities. The challenge is to manage the tension between "needs" and "available resources" in an effective manner. In the MTEF, "availability of both domestic and foreign resources" is projected beyond one year, and indicative shares are communicated to implementing agencies. "Needs" are then prioritised and made consistent with the resource framework.

Tanzania's structure of the budget comprises two sides, the revenue side and expenditure side. There are two major revenue sources namely: domestic sources and external sources. Domestic revenue is funds raised mainly from tax and non-tax domestic sources. Tax revenue is the main source of domestic revenue in Tanzania. Other tax revenues include: customs duty, value added tax (VAT), and excise duty (imports and local). Non-tax Revenue includes: user charges (e.g. school fees, water, medical charges, rents on government property) and dividends. Revenue from external sources is principally from Development Partners, and is mainly to finance the development expenditure of the Government budget. Main sources are grants and loans from multilateral institutions and bilateral countries.

Expenditure in the budget framework refers to what the Government spends for current and capital goods and services. These are categorised into development budgets and recurrent expenditures.

Recurrent expenditures are the expenses of running and managing the day-to-day operations of the Government machinery. The key components of the recurrent budget are Consolidated Fund Services (CFS), and supply votes.

Consolidated Fund Services (CFS) covers outlays for servicing the public debt (local and foreign) that includes amortisation and interest payments. Other expenses included in this component are remuneration of specified officers' e.g. Chief Justice, Judges, and Chairpersons of established commissions and state house operational costs. Supply votes cover administrative and running expenses for ministries, independent departments, regions, subventions to Local Government and other aided Government institutions. These expenses cater for personal emoluments and other charges for financing operations and maintenance of public assets. Funds for recurrent expenditures are basically internally generated, that is to say, from domestic sources.

Development Budget finances developmental projects or investment activities, which include social infrastructure like education, health and water, and economic infrastructure including transport and communications, power, and agriculture. Funds for Development Budget are raised from domestic and external sources.

## Legal Base of the Government Budget

Tanzania's Constitution provides the legal basis for the Government Budget. The legal base is that body of laws, administrative regulations, which regulate the budget format, timing and procedures as well as the allocation of formal powers and responsibilities and rights in the budget cycle or process. The main legal budget instruments are:

- Chapter 7 of the Constitution of Tanzania, which outlines the provisions regarding the finances of the United Republic of Tanzania. Among other things, it indicates who has the mandate to prepare the budget and submit it to Parliament, the type of revenue receipt, accounts, and authorisation of payments.
- The Annual Finance Act. This act grants powers to the Ministry of Finance to raise money by imposing taxes to raise funds to finance the budget.
- The Annual Appropriation Act. The Annual Appropriation Act provides powers to the Minister of Finance to draw money from the Consolidated Fund and allocate it to the votes. It also provides powers for reallocation of funds between votes.
- The Public Finance Act 2001. This act is a legal instrument of the budget system that repealed the former, Exchequer and Audit Ordinance of 1961. It provides for revenue, expenditure control and accountability requirements.

Thus, Tanzania's budget framework is enshrined in the country's legal framework. The basic principles that govern the legal base for the Government budget are:

- No tax shall be imposed and no money shall be spent without authority of the National Assembly;
- Expenditure shall be made only for the purpose authorised by Parliament;
- There shall be a single fund known as the "consolidated fund" for receiving and recording all revenues and expenditures, unless otherwise directed by Parliament; and
- All monies spend on the consolidated fund must be accounted before Parliament.

## Institutional Arrangement and Roles

Tanzania's budgeting framework is a consultative and participatory exercise. It is based on a principle of partnership between the Government, development partners, and Non-state Actors, including civil society. Plans and actions/strategies for implementation are developed through a participatory and a bottom-up planning approach. The process involves the Government, development partners, and other key stakeholders, such as the private sector, NGOs, and CBOs/Local Communities. This approach is a recent phenomenon initiated under the major macroeconomic reforms that began in mid-1980s. The reforms led to a shift from statist command economy to a more market-oriented system that emphasised better governance and more accountability in the use of public resources. The introduction of Annual Public Expenditure Review (PER) in 1997 provided further avenues for a wide range of stakeholders to participate in the budget process. To date, the key players in the budget process are:

- The Ministry of Finance (MoF): This ministry plays a central role in co-ordinating preparation and execution of the Government budget.
- President's Office - Planning and Privatisation (PO-PP): Along with MOF participates mainly in setting the budget macroeconomic framework, and in elaborating the Budget Guidelines with the MoF.
- Public Expenditure Review (PER) Working Groups (PER - WGs): The PER WGs comprises the Government, development partners, and Non-state Actors (the civil society). The PER monitors, tracks and reviews public expenditures, and provides inputs to the Medium Term Expenditure Frameworks (MTEF), and Budget Guidelines. This is done through sectoral working groups, annual PER reviews/studies, and consultative meetings. The PER studies reviews sectoral budget performance in relation to sectoral development plans and national plans. PER Sector Working Groups (SWG) conduct the studies, sometimes with the support of outsourced consultants. PER studies feed into the development of Sector Budget Guidelines and the overall MTEF and budget processes.
- Sector Ministries: These are responsible for drafting budget proposals according to the Budget Guidelines and for co-ordinating input from agencies that fall under their responsibilities.
- The Cabinet: The Cabinet approves the budget before it is sent to Parliament for final and legal approval.
- Others: There are also Presidents Office Regional Administration, and Local Government (PO - RALG) and other stakeholders (NGOs, CBOs, and communities) and they play an increased role in Local

Government Authorities' planning and budgeting. The expanding role of PO-RALG and Local Government Authorities (LGAs) emanates from Tanzania's Decentralisation Policy.

### Approach for Submission of Revenue and Resource Estimates

Budget estimates at the MoF start with revenue estimates followed by expenditure estimates. Ministries, independent departments, agencies (MDAs), and regions are required to submit their revenue/resource estimates and projections for the three coming years to the Ministry of Finance according to the timetable provided in the Budget Guidelines. Development partners are also urged through the PER to submit their support (commitments and pledges) to the External Finance Department of the MoF in a timely manner.

### Approach to Formulation of Budget Guidelines

After submission of revenue and resource estimates, a process is followed by formulation of budget guidelines. The Budget Guidelines guide strategic decisions in allocating resources over the Medium Term Expenditure Framework (MTEF) period. Initiation of the budget process starts with the drafting of the Budget Guidelines, a joint exercise by the MoF, the PO-PP and Sectoral Ministries, with inputs from PER working groups. The Guidelines highlight policy intentions and strategic outcomes for the coming year, which are linked to financial constraints in a form of budget ceilings. Line ministries provide inputs in the context of national policies and sectoral priorities.

### Approval of Budget Guidelines

The Cabinet approves the guidelines, and the MoF notifies the MDAs and LGAs of the ceilings, and of the accompanying instructions. MDAs and LGAs are then requested to prepare the budget submissions within a given deadline.

## Preparation and Budget Submission

In each ministry, a Budget Committee, usually headed by the Permanent Secretary, comprising of all heads of essential departments, scrutinises the budget proposals to assure impartial coverage of different needs among departments, while respecting genuine priorities of the ministry. The budget submission documents are then finalised and submitted by the Permanent Secretary of the Ministry to the MoF with a copy to the Planning Commission.[23]

MTEF Budget proposals from local governments follow particular guidelines specified by the President's Office Regional Administration and Local Government (PO-RALG). These are adopted from the National Budget Guidelines issued by the MOF and PO-PP. They take into account subventions from the central government, as well as local resources - raised through local bases. Local Government Authorities are required to prepare sound programmes geared towards national and sectoral priorities. It is therefore, important to ensure that their plans and budgets are consistent with the Development Vision 2025, Poverty Reduction Strategies (PRS) and sectoral strategies. Budgets and action plans are developed as much as possible through a participatory process, based on a bottom-up planning approach.

In view of the uncertainty in foreign financing and donor support, and attainment of revenue targets, all MDAs, and LGAs are required to prepare their budget frame in two scenarios. The first is based on the allocations (ceilings) provided for in the Budget Guidelines. The second is to assume expenditure cut of 10% owing to shortfalls in donor support.

### 6.2.6 Fiscal Analysis

## Trends in Public Finances

Table 12 provides the trends in Government finances. The trend in domestic revenue over the past 10 years has been fairly stable; averaging 12.5% of GDP compared with less than 8.0% in the previous

[23] The rules as well as actual practice are not clear here as to whether the document should be sent to the Planning Commission directly or through the MoF. Most MDAs send the document only to MOF.

decade. Improved tax administration, especially introduction of Large Tax Payers Department and markedly reduced tax exemptions, coupled with establishment of (and greater efforts by) the Tanzania Revenue Authority (TRA) to collect taxes, are largely responsible for the relatively good performance. The data from IMF country reports suggest that in the past four years, the revenue-GDP ratio has been rising consistently from 12.1% in 2001/02 to 13.8% in 2004/05. This trend is encouraging given the urgent need for Tanzania to fund an increasing level of total expenditure from domestic resources.

Figure 10 shows the structure of external assistance in recent years.[24] Aid to Tanzania has increased from about 4% of GDP in 1995 to nearly 10% in 2004. A breakdown of the aid inflows indicates that both grants and concessional borrowing are increasing (Table 12). About 50% of aid flows are in the form of programme support, which has been growing since 1999/00. The rising trend in the share of general budget support in the budget has several implications: first, the shift to budget support has meant a larger proportion of external funds are now being captured in the national budget. This has facilitated greater flexibility in the use of the available resource envelope and therefore, improved national ownership of the country's development process. Second, the greater programme support has enhanced the quality of policy and economic management through enhanced donor-government dialogue and participatory evaluation of expenditure, while contributing importantly to the harmonisation of donor support to Tanzania. Third, general budget support has reduced distortions associated with divergent donor policies, greatly reducing transaction costs of dealing with many donors (Tanzania has over 60 donors). fourth, general budget support has made major contribution to harmonisation and alignment of aid to national processes and priorities (Lawson et al., 2005).[25]

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[24] Official Development Assistance (ODA) as defined by OECD/DAC, including HIPC relief from multilateral donors.

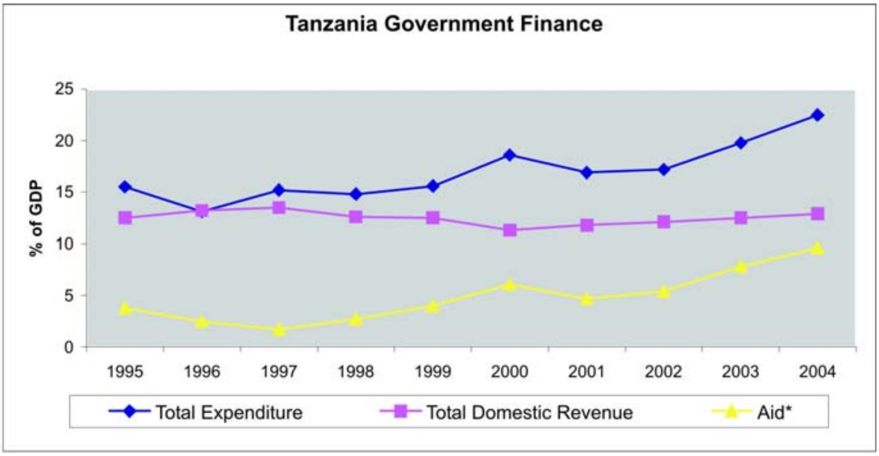
[25] Joint Evaluation of General Budget Support in Tanzania, 1995-2004. Daima Associates and ODI, Revised Final Report, April 2005.

Table 12: Trends in Government Finance (all as % of GDP except*)

| Indicator | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenue | 12.5 | 13.2 | 13.5 | 12.6 | 12.5 | 11.3 | 11.8 | 12.1 | 12.8 | 13.6 | 12.6 |
| Total Expenditure | 15.5 | 13.1 | 15.2 | 14.8 | 15.6 | 18.6 | 16.9 | 17.2 | 20.9 | 23.5 | 17.1 |
| Grants | 2.5 | 1.4 | 2.7 | 2.4 | 3.1 | 4.5 | 3.7 | 4.3 | 6.2 | 6.7 | 3.8 |
| Government debt | 1.3 | 1.1 | -1 | 0.3 | 0.9 | 1.6 | 1 | 1.1 | 1.6 | 2.9 | 1.1 |
| *Aid/Govt Expenditure (%) | 13.9 | 35.6 | 35.0 | 31.5 | 48.0 | 42.0 | 31.2 | 31.5 | 39.5 | 42.8 | 35.1 |
| *Debt relief/Aid (%) | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 2.1 | 11.9 | 12.9 | 9.3 | 7.9 | 4.5 |
| Deficit before grants | -2.5 | 0.8 | 1.3 | -2.3 | -2.3 | -5.7 | -4.9 | -4.9 | -8.1 | -9.9 | -3.8 |
| Deficit after grants | -0.3 | 2.2 | 3.3 | 0.2 | 0.8 | -1.6 | -1.2 | -0.5 | -1.6 | -3.4 | -0.2 |

*Source: IMF (2004)*

Figure 10: Trends in Government Finances




HIPC debt relief has grown in importance since 2000/01, contributing about Tshs 73 billion to Government finances in 2002/03. IMF (2004) projections envisage rising share from debt relief that is expected to reach Tshs 112 billion in 2005/06. According to IMF officials, the debt relief under HIPC has been critical in facilitating achievement of the country's debt sustainability.

## Functional Categories of Expenditure

Table 13 below provides broad categories of Tanzania public expenditure. About 75% of the total expenditure defrays recurrent expenditure such as salaries and wages, interest payments and other goods and services and transfers. The remaining 25% of total expenditure is used for development expenditure. It is worth noting that nearly 80% of the development expenditure is financed by external development partners (donors).

Table 13: Tanzania Government Expenditure (% of GDP), FY98-04[26]

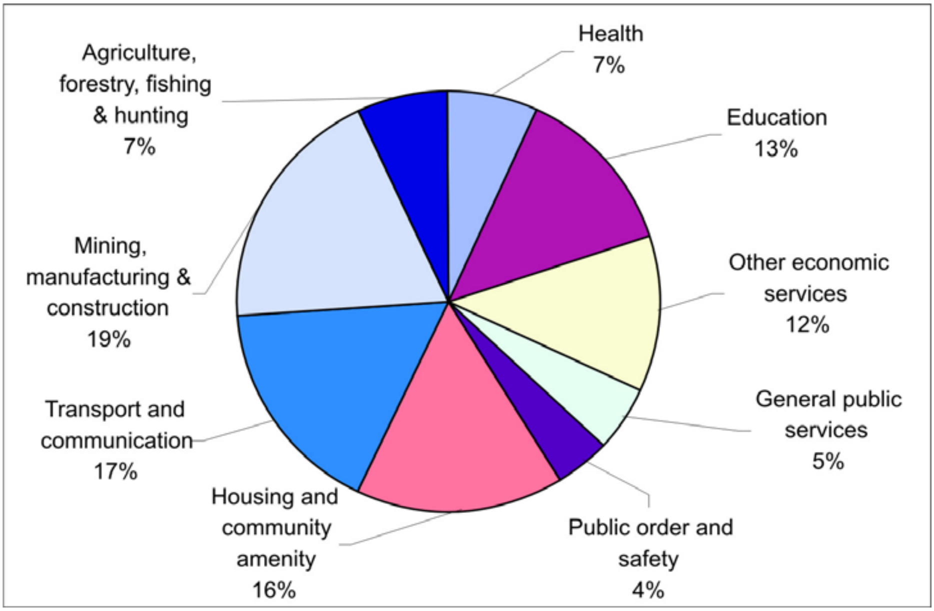
| | FY98 | FY99 | FY00 | FY01 | FY 02 | FY03 | FY04 |
|---|---|---|---|---|---|---|---|
| Total expenditure and net lending | 15.7 | 17.0 | 18.9 | 17.6 | 18.3 | 19.8 | 22.5 |
| Recurrent expenditure | 11.0 | 11.0 | 11.8 | 13.0 | 13.8 | 14.8 | 16.8 |
| Wages and salaries | 4.3 | 3.7 | 4.2 | 4.1 | 4.0 | 4.0 | 4.1 |
| Interest payments | 2.3 | 1.6 | 1.9 | 1.7 | 1.4 | 1.0 | 1.1 |
| Domestic | 1.0 | 0.6 | 1.2 | 1.0 | 0.8 | 0.6 | 0.7 |
| Foreign | 1.3 | 1.0 | 0.7 | 0.7 | 0.7 | 0.4 | 0.4 |
| Other goods, services and transfers | 4.5 | 5.7 | 5.8 | 7.2 | 8.3 | 9.8 | 11.6 |
| Clearance of domestic arrears | 0.8 | 0.8 | 0.1 | 0.4 | 0.7 | 0.1 | 0.0 |
| Bank and parastatal recapitalisation | 0.0 | 1.2 | 1.5 | 0.1 | 0.0 | 0.0 | 0.0 |
| Dev. Expenditure and net lending | 3.8 | 4.1 | 5.3 | 3.8 | 3.4 | 5.0 | 5.7 |
| Domestically financed | 0.5 | 0.3 | 0.3 | 0.5 | 0.6 | 1.0 | 1.2 |
| Foreign financed | 3.4 | 3.8 | 5.0 | 3.3 | 2.8 | 4.0 | 4.5 |
| Net lending | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure float | 0.0 | 0.0 | 0.3 | 0.3 | 0.4 | 0.0 | 0.0 |

*Source: IMF (2004), World Bank (2003)*

Figure 11 illustrates sectoral shares of the development expenditure. The largest share (19%) is allocated to mining, manufacturing and construction (especially roads). Transport and communication is next (17%). Housing and community amenities are third (16%), followed by other economic services (12%). Education is fifth (13%). Agriculture and health are each allocated 7% of the development resource envelope. General public services and public order and safety are each allocated 5% and 4%, respectively.

[26] Tanzania's fiscal year runs from July to June.

Figure 11: Sectoral Shares in Development Expenditure, 2004




*Source: IMF (2004) and BOT (2004)*

## Causes of Budget Deficits

The main reason for Tanzania's budget deficits is inadequate domestic revenue performance. As Table 12 above shows, total domestic revenue in 2004 was only 13.6% of GDP, while total expenditure was 23.5% of GDP. Tax revenue appears to have stagnated at around 12% in the past five years despite much improvement in tax administration and the creation of Large Tax Payers Department that has improved efficiency in collection. IMF country analysis under the 2004 Article IV Consultations notes Tanzania's narrow tax base as a major hindrance to further improvement in tax revenue - especially taking note of the high marginal tax rates.

Tax exemptions also partly explain the inadequate performance of revenue. Measured as percentage of GDP, exemptions increased sharply from 0.9% of GDP in 1996/97 to 4.5% in 1998/99. Subsequently, tax exemptions have averaged 2.8% of GDP. Over 50% of the exemptions were granted to the mining sector in 1997 to foster investments in this sector. Plans are currently underway to review tax exemptions in order to remove them and offer a more level playing field for all investors - and hopefully increase revenue.

In order to reduce deficits further, measures are needed to reduce revenue leakages, curb tax evasion, expand the tax base and improve tax administration and fiscal reporting.

### 6.2.7 Monetary and Exchange Rate Policies and Trends

### Monetary Policy

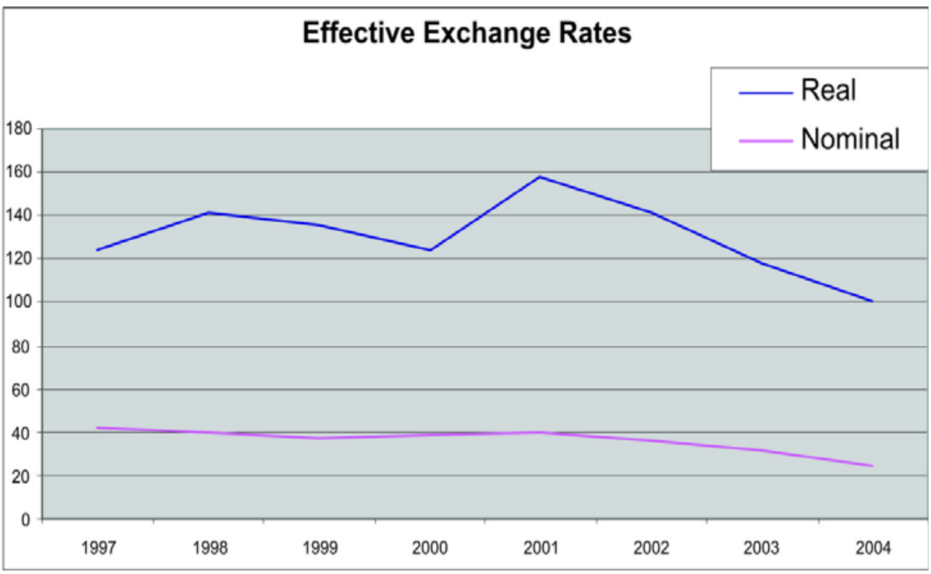
Tanzania, through the central bank - Bank of Tanzania (BoT), adheres to prudent conduct of monetary policy. The aim is to achieve low inflation (below 5%), improve liquidity management and foster efficient financial sector institutions. With regard to control of inflation, the BoT, in collaboration with Ministry of Finance has succeeded in keeping inflation below 10% in the past five years. Liquidity management, however, continues to pose several challenges, especially in the face of high foreign inflows. With the Government depositing foreign aid inflows in the BoT, and subsequently drawing down its deposits in local currency, these inflows tend to increase reserve money and could kindle inflationary pressure, unless BoT sterilises at least part of the inflows. Sterilisation, however, involves difficult choices. First, sterilisation through foreign exchange sales could result in positive appreciation of the exchange rate, and loss of competitiveness. Second, the absorption of the excess liquidity through open market operations using liquidity paper affects BoT profitability, resulting in quasi-fiscal losses, and could lead to short and medium term increases in interest rates, given the thinness of Tanzania's domestic debt markets and imperfect substitutability of financial assets. Thus, BoT weighs all the trade-offs in the course of implementing monetary policy.

The BoT, in collaboration with Ministry of Finance, is also committed to making further reforms of the financial sector. Deepening the financial sector is expected to make it contribute more to the country's economic growth. The Government efforts in these reforms are supported by an IMF Financial Sector Adjustment Programme (FSAP).

## Exchange Rate

Since 1990, Tanzania has gradually introduced flexibility in the management of the exchange rate, moving away from the former pegged system. In particular, foreign exchange bureaus were authorised in 1992 to buy and sell foreign exchange at freely negotiated rates. In 1993, a weekly foreign exchange auction system was introduced by the Bank of Tanzania (BOT), and the official exchange rate was guided by the average rate from these auctions. One important outcome of this system was the gradual decline of the exchange rate premium in the parallel market to below 10% in 1993, compared with their peak of about 400% in 1996. In 1994, the BOT introduced an inter-bank foreign exchange market, thus making Tanzania's exchange rate market-determined. Figure 12 illustrates Tanzania's effective exchange rate trends.

Figure 12: Tanzania: Exchange Rates, Jan 1997 - May 2004 (1995=100; foreign currency per Tanzania Shilling)




*Source: IMF (2004).*

As illustrated in Figure 12, the real effective exchange rate (REER) appreciated in Tanzania in the second half of the 1990s. The REER, based on trade-weighted consumer prices reveals a large appreciation from 1996 to 2001, and a real depreciation since (Figure 12).[27] According to IMF (2004) Article IV - country consultations and programme review, Tanzania's real exchange rate in recent years has depreciated towards its fundamentals, and "is now broadly in line with its equilibrium level".[28] Thus, BoT's exchange rate management is in line with prudent monetary policies that are consistent with maintaining macroeconomic stability.

### 6.2.8 Central Bank (Bank of Tanzania) and Government Monetary-Fiscal Policy Relationships

The primary role of the Bank of Tanzania (BoT) is to ensure that Tanzania follows prudent fiscal and monetary policies consistent with high growth of the economy. In particular, BoT is responsible for protecting the value of the Tanzanian Shilling. This translates into a monetary policy that seeks to achieve the fullest utilisation of resources that is consistent with acceptable rate of inflation. In addition to having to deal with problems arising from external shocks and balance of payment deficits, the BoT is often expected to finance government deficits to defray revenue shortfalls. If the Government makes recourse to bank borrowing, the deficits are converted into increases in the general price level - inflation. Recent experience shows that the Government has desisted from bank borrowing and at times has begun to pay its domestic debt - in part due to improved revenue collection.

According to the IMF (2004 Article IV), BoT has achieved inflation control by targeting broad money (M2). inflation declined drastically as shown above. To influence M2, the BoT controls the expansion of net domestic assets and monitors the base money (reserve money or central bank money), which is directly related to money supply.

Effective July 2000, the BoT shifted from calculation of average interest rates to weighted average interest rates. The gap between deposit rates and lending rates has continued to narrow down as deposit rates have fallen along with the decline in inflation. The spread, however, is still large, in part due to rigidities associated with structural

[27] The IMF calculates this index from its Information Notice System (INS) and covers 23 major trading partners.

[28] The IMF estimates real equilibrium exchange rate based on terms of trade, Tanzania's factor productivity relative to its trading partners, government consumption, trade openness and foreign capital flows.

impediments in the economy, including a large portfolio of non-performing assets, high lending risks, and high operating costs of some commercial banks.

At the heart of BoT's monetary management success, however, is liquidity management amidst high foreign aid inflows. With the Government depositing foreign aid inflows in the BoT, and subsequently drawing down its deposits in local currency, these inflows tend to increase reserves and kindle inflation. BoT sterilises part of the inflows. However, BoT's experience shows that sterilisation involves difficult trade-offs.

First, sterilisation through foreign exchange sales can result in possible appreciation of the exchange rate, and loss of competitiveness. Second, the absorption of excess liquidity through open market operations affects BoT profitability, resulting in quasi-fiscal losses, and can lead to increases in interest rates. This is because domestic debt markets are thin and financial assets are imperfectly substitutable. BoT has used both options in the course of managing liquidity during aid surges, by weighing all the costs. Generally, however, where reserve money targets are exceeded due to higher than programmed build up of foreign reserves, excess liquidity is absorbed through foreign exchange sales.

An equally important function of BoT is to foster a stable financial system that will be efficient in intermediation. In Tanzania, financial markets remain shallow with financial services restricted to a relatively small percentage of the population - largely in urban centres. Deepening financial intermediation and developing rural financial markets is one of the challenges BoT faces amidst increasing number of private banks that offer most of its services in urban centres. Further, revitalising the capital market and liberalising it to attract entry from other countries should foster monetary integration of SADC countries.

### 6.2.9 Institutional Arrangements Prevailing within Tanzania

#### Capacity for Implementing Macroeconomic Convergence Programmes

Tanzania has adequate capacity to implement SADC macroeconomic convergence programmes. At the political level, the Government of Tanzania is supportive of SADC initiatives. This political will emanates from past history of supporting political liberalisation of Member States in Southern Africa. The Ministry of Foreign Affairs and International Cooperation (MFAIC) is the key player in fostering implementation of regional co-operation agreements. Since SADC co-operation involves more than trade matters (such as social matters, infrastructure, security, cultural matters and so on), the Government of Tanzania's link to this grouping is through MFAIC. Thus, for SADC, MFAIC is the ministry that co-ordinates the SADC National Committee.

Although MFAIC co-ordinates SADC activities in Tanzania, the lead role on technical matters rests with the responsible ministry. For example, on matters of trade, the Ministry of Trade and Industries (MIT) plays the lead role. This lead role is conferred to MIT by the National Trade policy (NTP), which states "the lead role (in matters of trade policy) rests with MIT, which has the functional mandate for the trade portfolio." The NTP also states "MIT, as the focal point on trade-related issues, will (…) coordinate policy implementation." MIT has inhouse competent technical staff to implement SADC trade convergence requirements. However there are several factors that may affect effective execution of its role in implementing regional trade agreements. Some of these are:

- Lack of mandate to set tariffs. Ministry of Finance (MoF) considers itself as having the sole responsibility for setting tariffs.
- MoF staff previously working on trade policy were not transferred to MIT, as might have been expected. (MoF staff pay is higher than MIT due to MoF implementation of "Selective Accelerated Salary Enhancement" under the Civil Service Reform Programme).
- Funding for implementation of most trade arrangements is channelled through the "National Authorising Office" (NAO) for

the country - the MoF rather than MIT. Funding for MIT can be constrained by MoF monthly releases under the Government cash budget system.

Another important institution is the Bank of Tanzania (BOT). The BoT has a Trade, Finance and Investment Policies Department in the Directorate of Economic Policy. The BoT has direct responsibility for some key convergence indicators. For example, BoT has interest on trade policy, such as the impact on currency arising from changes in preferences. The BoT capacity in this section has been considerably weakened since the departure of three key technical staff (out of four) in 2003. Although BoT has employed three new staff members, these lack skills and experience.

The President's Office, Planning and Privatisation (POPP) also play some role in facilitating implementation of regional arrangements. POPP is the institution in Tanzania responsible for managing the economy. Within the External Sector Division, the Department of External Trade currently has two fairly competent staff (the third is studying in the UK).

## Capacity Constraints for Implementing Macroeconomic Convergence Programmes

There are several areas where capacity needs to be enhanced to improve implementation. Some of these areas are:

- Co-ordination between ministries. There is general lack of a permanent mechanism for co-ordination between ministries. These constraints implementation not only within ministries, but also efforts to involve the private sector in decision-making processes. Building capacity for co-ordination and supervision is essential for implementing the convergence programme.
- Weak technical committees. Technical committees play a critical role in implementing key interventions that lead to convergence. However, apart from weak technical capacity, some sub-sectors do not have established technical committees to provide guidance and direction that will lead to convergence.
- Weak capacity for advocacy and public relations on issues related to regional macroeconomic convergence. This is essential in order to mobilise national consensus on issues of regional importance. Thus,

resolutions and impediments to programme implementation cannot be resolved timely unless the capacity for advocacy is improved.

- Weak capacity for information dissemination, monitoring and feedback provision. Prompt information sharing is essential, both as a way of monitoring progress towards convergence, and identifying bottlenecks before these become entrenched.
- Weak programme implementation related to inadequate funding. Low capacity to generate internal resources for programme implementation should be addressed.
- Unclear lines of communication and lines of authority between SADC National Committees (SNCs), the Secretariat and other SADC structures.
- Inability by ministers to give priority to SADC issues due to overwhelming work related to national issues. As a consequence, limited time is accorded to the preparation of national positions on issues that are on the agenda of the Council. This has sometimes led to representatives from the same country expressing different views on the same SADC issue. This leads to disjointed and sometimes non-existent follow up of decisions.
- Weak capacity for generating data to monitor implementation of the convergence programme. Each Member State is expected to develop a "National convergence programme" to map out the likely convergence path. However, the capacity to design and implement convergence programmes is weak - particularly due to the many policy trade-offs associated with various regional groupings and individual country agreements.

## Measures to Improve Capacity for Implementing Macroeconomic Convergence Programmes

The following measures should improve capacity for implementing macroeconomic convergence programmes:

- Enhancing the capacity of the Regional Integration Programme Section at Ministry of Industries and Trade (MIT) through training and upgrading of skills.
- Improving capacity to generate internal resources. Low capacity has resulted in excessive donor dependency. Therefore, each country is urged to mobilise greater resources for implementing SADC

programmes. The establishment of the "SADC Regional Development Fund", which has now been included in the SADC Treaty is a good step forward. The formation of a task force to deliberate on "self-financing" of SADC activities and to advise members on mobilisation of internal resources for investment in the region and participation of various stakeholders in financing development programmes and projects in the region should help ameliorate the problem to some extent.

- Improving economic management through capacity building.
- Improving capacity for designing and implementing convergence programme, including that related to trade negotiation.
- Establishing a permanent framework for inter-ministerial co-ordination and improving the capacity of field staff stationed in Gabarone.

### 6.2.10 Evaluation of Institutional Reforms

The main institutional reform in Tanzania relates to the Government's resolve to foster public-private partnership in economic management. In this regard, the Government has shifted progressively from central planning, under the Planning Commission, to greater reliance and dialogue between the government and the private sector. This strategy required the strengthening of private sector institutions. Thus, the Tanzania Private Sector Foundation (TPSF) was established as a private sector apex organisation, to represent the private sector in Tanzania. In addition, the Government has also established the Tanzania National Business Council (TNBC), which is chaired by the President, as the main forum for consultation between the Government and the private sector. Since the two organisations were established, they have been successful in engaging Government in meaningful dialogue on issues ranging from investment promotion, taxation, and enhancing Tanzania's competitiveness in the international markets. The institutions are expected to play a role in fostering macroeconomic convergence, particularly in those areas related to implementation of various agreements, including the SADC Trade protocol. In addition, the private sector can contribute to political decision-making at national and regional levels, providing advice to Government and lobbying for continued implementation of reforms that may lead to convergence sooner, rather than later.

Other reforms relate to those needed to implement the country's National Strategy for Growth and Poverty Reduction (MKUKUTA). The strategy focuses on increasing the rate of economic growth necessary to reduce poverty. The main institution for implementing MKUKUTA rests with the Vice President's Office. This raises a number of important institutional issues that are relevant for SADC macroeconomic convergence. First, the Vice President's Office, although it has clear responsibility in the area of poverty reduction, has no formal role in the broader issues related to economic management for economic growth - which includes trade, industry, agricultural policies and infrastructure - issues important during implementation of SADC macroeconomic convergence. Therefore, the institutional set-up for fostering growth and poverty alleviation has to be reviewed.

The main institutions for facilitating macroeconomic convergence, however, are the Ministry of Finance and the Bank of Tanzania. These institutions have undergone important reforms, including installation of skilled manpower supported with adequate physical infrastructure - especially computerisation and telecommunication. These institutions are doing a commendable job in managing the Tanzanian economy for stability, coordination and formulation of the broader growth agenda. Macroeconomic convergence issues are also vested in these institutions. However, the high and varying responsibilities given to them, exceeds their institutional mandates and capacities and have the possibility of diluting their focus on their core role of fiscal and monetary management.

Reforms in the entire education and learning sector in Tanzania are meant to create a more responsive, learned labour force. This is critical because massive improvements are needed in technical, entrepreneurial, commercial, managerial and policy skills to advance the course of integration. Globalisation is knowledge-based and SADC countries cannot be expected to take advantage of this state of affairs without reforming a country's entire education systems.

## 6.3 Political Priorities of Tanzania

Tanzania's political systems are democratic, transparent and accountable to the people. The main political priority of Tanzania is to assure continued peace and harmony in the country's development process. Within this broad objective, lies resolute commitment, especially by the ruling party, Chama cha Mapinduzi (CCM) to continue implementing widespread reforms that aim primarily at macro-economic stability, further liberalisation of the economy (including privatising remaining public enterprise), and complete withdrawal of the public sector from commercial activities.

Another political priority is to control corruption. Since 1996, the third phase Government under President Mkapa made it a top priority to control corruption. The Anti-corruption Bureau (PCB) has been revitalised and has branches in all the regions of the country. Recent assessment shows corruption has significantly abated, in part due to the political will to stamp out this menace (Dirk Hansohm et al., 2003).

An equally important political priority is to foster greater integration and deepen ties with other African countries as well as other regional blocs. Tanzania plays a major role in re-establishing the East African Community and actively supports deepening of SADC integration. Tanzania's effort to foster cordial ties with other countries plays an important role in mediation efforts in the Great Lake Region (Rwanda, Burundi, DRC, etc). In addition, Tanzania hosts over 300,000 refugees and is resolute to assist them to return to their respective countries as peace and rule of law are restored.

## 6.4 Trade Policies of Tanzania that Affect Macroeconomic Performance and the Processes of SADC Integration

### 6.4.1 Existing Multilateral Commitments

### The East African Community (EAC)

Tanzania is a member of EAC (Kenya, Uganda and Tanzania). There are several existing commitments under the EAC five-year development strategy (2001-2005) that has impact on macroeconomic stability - the move towards the establishment of EAC Customs Union - especially the elimination of internal tariffs, application of Rules of Origin and the establishment of a three band structure of the common external tariff with a minimum of 0%, a middle rate of 10% and a maximum rate of 25% in respect of all products imported into East African Community.[29] Tanzania joined the EAC customs union in January 2005. This entails making extra efforts to realign EAC agreements with those required under SADC. Also, the implementation of the EAC Investment Strategy that places high priority on infrastructural development should foster macroeconomic stability. In particular, efforts underway to implement an EAC Power Master Plan and Road Network Project should improve these countries' infrastructure with positive impact on macroeconomic stability.

### New Partnership for African Development (NEPAD)

Tanzania is among African Union (AU) members that are committed to NEPAD's resolve to eliminate poverty and boost economic development in the continent. In addition, Tanzania is among the 15 AU members that have signed the Memorandum of Understanding that opens up the country for assessment by the NEPAD Africa Peer Review Mechanism (APRM). The peer review mechanism is supposed to ensure transparency, good governance, respect of human rights and economic efficiency - all with high impact on macroeconomic stability.

### African Growth and Opportunity Act (AGOA)

AGOA is a programme approved by the American Congress in 2000 to grant Sub-Saharan African countries an opportunity to access the US market on duty and quota free basis. Although Tanzania has not yet taken up the opportunity conferred by AGOA (partly due to supply side constraints), efforts are underway to rectify this situation. Measures taken include: keeping stakeholders informed on AGOA, provision of

[29] The 0 rated tariff applies to raw materials, capital goods, and meritorious goods, such as medical, pharmaceutical and educational supplies. 10-rated tariff applies to intermediate goods. 25-rated tariff applies to finished goods.

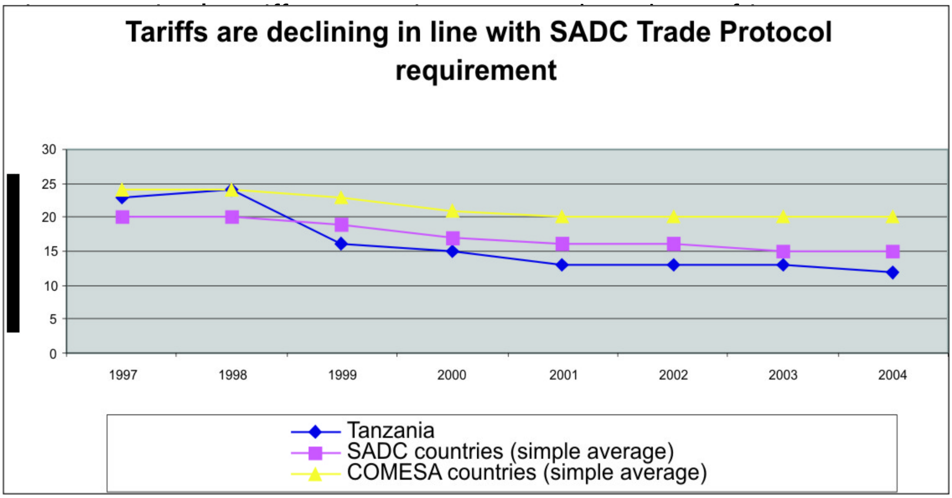
incentives to investors intending to produce for AGOA, and the establishment of Export Processing Zones (EPZ) to encourage production for the export market, including AGOA. These measures have important bearing on macroeconomic stability, especially on the country's balance of trade as they take off.

### 6.4.2 How Membership in SADC Influences Tanzania's Macroeconomic Framework Stability

Tanzania's membership in SADC and other groupings influences the country's macroeconomic stability because trade-offs have to be made in rationalising the criss-crossing arrangements. This is a time consuming task that tends to exert undue burden on the already weak institutional capacity. Related to this is the increased complexity of negotiations of new arrangements and the exploitation of existing ones because of the added task of sorting out win-win situations. However, since most memberships aim at improving the business environment, Tanzania's membership in SADC does not reflect negatively of the country's macroeconomic stability.

### 6.4.3 Tanzania's Progress in Implementing SADC Trade Protocol

SADC's Trade Protocol was signed in 1996 and came into effect in October 2000. The protocol aims at removing intraregional trade barriers and turn the community into a free trade area for 85% of goods by 2008, and for all goods by 2012. Tanzania is making commendable progress in implementing SADC trade protocol. Barriers to intra-SADC trade are progressively being dismantled - particularly those related to removal of tariffs and non-tariff barriers and import duties. The liberalisation of Tanzania's trade regime has resulted in a reduction of its tariffs by more than 7 percentage points since the mid 1990s. While other countries in Eastern and Southern Africa have liberalised as well, Tanzania's import duties have fallen clearly below the regional average (Figure 13). It is also worth noting that all tariffs are ad valorem, and there are no seasonal duties, tariff quotas, or variable levies.




*Source: Based on the International Monetary Fund data*

Also Tanzania's Trade Policy aims at promoting open cross-border trade and fostering cross-border investment in order to enhance economic development, diversification and industrialisation. Tanzania has reached agreement with other SADC members on Rules of Origin for most products.

There are several issues that need to be addressed at both the country level and at the SADC level in order to meet goals of RISDP, namely:

- The challenge to establish a Common Market within the RISDP timeframe. The main issue that requires in-depth deliberation relates to overlapping membership of SADC countries in other regional bodies - demanding large trade-offs and keen implementation of agreements. Within this issue, the question of Rules of Origin must be made clearer and more transparent to all members.
- Another challenge relates to the issue of most SADC members belonging to the European Union (EU) and Economic Partnership Agreement (EPA).[30] All countries that are members of both COMESA and SADC have already chosen to negotiate as Eastern and Southern Africa bloc (ESA). SADC members have to review what is happening

[30] There are 16 countries forming ESA group, namely: Burundi, Comoros, DRC Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia, and Zimbabwe.

with the EU-EPA in order to avoid being marginalised and to be able to take full advantage of the new developments.

- There is a need to review implementation of the Regional Integration Facilitation Forum (RIFF) to ensure the pace is commensurate with attaining RISDP goals. Although there has been progress in implementation of RIFF (Fajgenbaum et al., 1999), particularly with respect to trade liberalisation, there has been little progress in the areas related to agreement on double taxation, labour mobility and tariff exemptions.
- Another issue relates to the challenge on how SADC can use the various ratified protocols to create a win-win situation for all its members. In particular, shared outcomes that reduce poverty and support higher growth for all Member States. Within this issue is the need to continue unlocking investment potential in SADC geographic clusters through the development of Spatial Development Initiatives (SDIs). This may require concerted efforts at improving each country's infrastructure, rehabilitating transport and other infrastructure along the development corridor and attracting greater foreign direct investments (FDIs).
- At the national level, although Tanzania qualifies for numerous trade preferences under the current Multilateral Trade System (MTS) under WTO, EAC, EU, AGOA and SADC, the country has failed to take advantage of these opportunities. Apart from low productive capacity of the economy and inefficiency of market and support institutions, including weak infrastructure, policy response has also been weak. Thus, Tanzania needs to revisit and review its policy response to all initiatives open to it, harmonise policies and criss-cross arrangements so as to be in a better position to implement SADC RISDP.

There are several areas that need improvement in co-ordination with SADC Member States. These are:

- Conflict resolution. Civil strife cost the region a lot of resources. The success of SADC should in part be related to its capacity to establish appropriate mechanisms for assisting Member States in conflict resolution.

- Another area that requires keen co-ordination is the challenge posed by globalisation. Ways and means are needed to co-ordinate regional efforts that will strengthen SADC's response to globalisation and save the regional economy from marginalisation. This entails further deepening of integration and developing a regional economy, especially industrial strategy that is capable of competing with other developing and developed economies.
- Strengthening co-ordination of specific SADC ratified activities between Member States. Open and active dialogue is important during implementation of RISDP in order to ensure that all Member States are on board and progress is being made by all members to achieve objectives. Additionally, it is important for Member States to pursue deeper integration through a co-ordinated effort at harmonisation of trade standards and behind-the-border regulations. This also entails the need for Tanzania to co-ordinate its efforts better when pushing for lower external trade barriers in order to counter the risk of trade diversion.

### 6.4.4 Tanzania Trade Flow Analysis

Tanzania's trade pattern has remained the same in the past decade, except for slight changes towards greater trade with regional partners. Overall, trade with Europe is highest, accounting for over 50% of all trade in goods and services, followed by Asia (24%), Africa (10.7% - largely South Africa) and America (7%). With regard to regional trade, Tanzania has two regional trade agreements (RTAs) - the EAC and SADC. Tanzania is also considering re-entering COMESA from which it withdrew in 2000.

Studies conducted by Kweka and Mboya (2004) shows that Tanzania's trade relationships with other African countries have intensified in recent years, both in terms of the volume of trade and the scope of traded goods. However, total trade with African countries remains low and over 90% of the trade is with members of EAC or SADC, under the terms of preferential market access. Table 12 and 13 shows the structure of Tanzania's merchandise trade.

Table 14: Tanzania's Trade Balance with the World and with SADC, 1999-2003 (USD)

| | 1999 | 2000 | 2001 | 2002 | 2003 | Growth |
|---|---|---|---|---|---|---|
| Exports | 2,067.97 | 1,629.62 | 1,683.40 | 1,646.14 | 1,989.97 | -0.67% |
| Imports | 592.15 | 670.81 | 783.06 | 905.77 | 1,148.44 | 17.65% |
| Trade Balance | 1,475.82 | 958.82 | 900.34 | 740.37 | 841.53 | |
| Exports to SADC | 6.83 | 11.75 | 9.04 | 16.71 | 37.81 | 45.88% |
| Import from SADC | 191.83 | 162.62 | 181.67 | 181.38 | 247.82 | 6.41% |
| Trade Balance with SADC | -185.00 | -150.87 | -172.63 | -164.67 | -210.01 | |

*Source: Country Study (2005)*

Table 15: Structure of Tanzania's Merchandise Trade (% of GDP)

| | Total trade | | | Exports | | | Imports | | | Net-Exports | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 2000 | 2003 | 1997 | 2000 | 2003 | 1997 | 2000 | 2003 | 1997 | 2000 | 2003 |
| All goods Africa | 22.2 | 21.3 | 33.1 | 7.5 | 7.2 | 11.8 | 14.7 | 14.3 | 21.3 | -7.2 | - | - |
| -Members of EAC | 4.0 | 3.7 | 7.3 | 1.1 | 0.9 | 2.7 | 2.9 | 2.8 | 4.6 | -1.8 | - | - |
| - Members SADC | 1.7 | 1.1 | 2.5 | 0.4 | 0.4 | 1.3 | 1.3 | 0.7 | 1.2 | -0.9 | - | - |
| -Members of COMESA | 1.5 | 1.8 | 3.4 | 0.1 | 0.1 | 0.4 | 1.4 | 1.7 | 3.0 | -1.3 | 1.9 | 1.8 |
| -Other Africa | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.0 | 0.1 | 0.1 | 0.1 | - | 0.1 |
| | | | | | | | | | | | 0.3 | - |
| -Other Africa | 0.0 | 0.1 | 0.2 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | -0.0 | - | 2.6 |
| Rest of the World | 18.2 | 17.8 | 25.8 | 6.4 | 6.3 | 9.1 | 11.8 | 11.5 | 16.7 | -3.6 | 1.6 | 0.1 |
| | | | | | | | | | | | 0.0 | |
| | | | | | | | | | | | | 0.0 |
| | | | | | | | | | | | 0.0 | - |
| | | | | | | | | | | | - | 5.8 |
| | | | | | | | | | | | 3.2 | |

*Source: World Bank (2005)*

As Table 14 and 15 clearly shows, Tanzania has an overall trade deficit. Trade with EAC and SADC members, although showing a small rise, is still very low compared with trade channelled through the rest of the world. In 2003, EAC and SADC accounted for about 10% of Tanzania's exports, with much of the trade to EAC members focussed on agri-food products and for SADC, largely minerals and industrial products. On imports, during 2003, SADC was almost three times as important as EAC as a source of goods. Thus, Tanzania has a sizeable trade deficit

(2.6% of GDP in 2003) with SADC, while for the first time in many years it has a small surplus (0.1% of GDP) with EAC members.

It is well known that economic integration at the regional level has many benefits, including the possibilities of specialisation to reap benefits of comparative advantages. However, in the short term, regional integration entails adjustment needs, as prices on the domestic market change in response to tariff reforms. Studies conducted by Rajhi and Webster (2004) shows that the adoption of common external tariff by Tanzania will have a small effect on profit margins, productivity, wages and employment. As Table 16 shows, the effects are not uniform across sectors, with paper and publishing and metal sectors being subject to more marked impacts.

Table 16: Short term Impact of Adoption of the Common External Tariff in Tanzania

| Sector | Price-cost margin | Productivity | Employment | Wages |
|---|---|---|---|---|
| Agro-industry | 0.31 | 0.65 | -2.78 | 0.90 |
| Chemicals and paints | 1,27 | 7.59 | 1.46 | -0.72 |
| Construction materials | 0.74 | 1.59 | -0.88 | 2.87 |
| Metals | 0.33 | -3.94 | -5.69 | 4.33 |
| Paper and publishing | 0.71 | -10.49 | -9.01 | 6.40 |
| Textiles and leather | -0.21 | -1.54 | -1.91 | 0.47 |

*Source: Rajhi and Webster (2004)*

According to the study, the medium and long term impacts might be greater. Part of the reason relates to the reduction of intra-regional trade barriers which fosters partner countries to expand output and exports of products for which they are internationally competitive. This leads to a fall in the price of final goods or production inputs on the importing country that leads to benefits to consumers and input-purchasing producers. Other benefits include harmonisation of customs procedures and domestic regulations, which can help facilitate trade and foreign direct investment. Studies by Lewis, Robinson and Thierfelder (2003), using computable general equilibrium model, predicts that the formation of SADC Free Trade Area will be net welfare-improving, with Tanzania, however, reaping smaller benefits in relation to its GDP than other SADC members.

On the negative side, the IMF (2004) has estimated that the adoption of a common external tariff will have about 1.0% revenue loss for Tanzania in the short term as tariffs on intra-regional trade are phased out. Additionally, regional trade agreements could promote costly trade diversion rather than welfare-enhancing trade creation (if trade is shifted from efficient producers outside the RTA to preferential trading partners that produce at higher costs). In this case, the Government loses tariff revenue on imports from third countries, without domestic producers benefiting, to a corresponding extent, from the lower import prices.

### 6.4.5 Summary of Tanzania Trade Facilitation Initiatives

Tanzania is undertaking several initiatives to facilitate trade. Foremost is the Business Environment Strengthening for Tanzania (BEST), and the Integrated Framework Programme (IF). The BEST programme aims at assisting Tanzania's business community in fostering trade, development and competitiveness. It is a sector-wide programme focussing on better regulations through legal and regulatory reforms and enhanced commercial justice delivery. The programme includes components for the development of private sector advocacy targeting at the grass-roots level, changing the culture of Government and capacity for the Tanzania Investment Centre (TIC) to implement its five-year corporate plan. The IF programme is a framework for the co-ordination of trade-related technical assistance targeting trade development in Less Developed Countries (LDCs) as a strategy to mitigate against their marginalisation in Multilateral Trade System (MTS). Another initiative is the Joint Integrated Technical Assistance Programme (JITAP). The prime focus of JITAP is to build public-private sector and civil society understanding of the main issues involved in the World Trade Organisation (WTO) and aligning national legislation with WTO rules.

There are also trade facilitation programmes that are under various stages of completion. Most important is the Tanzania Trade and Poverty Programme (TTPP) and Trade, Development and Poverty (TDP) Programme. The main objective of these programmes is to identify the links between trade and poverty and the institutional capacities available for policy implementation. The programme also will build capacity to foster participation in international trade through enhancing awareness of stakeholders in Government, private sector and civil society on WTO agreements and other trade-related issues.

### 6.4.6 Main Barriers to Tanzania's Trade with Other Countries in the Region

There are several constraints related to production, policy and trade barriers that influence Tanzania's effective participation in regional trade. In particular, Tanzania cannot derive substantive benefits from regional trade participation because of inadequate supply and delivery capacity, characterised by low technology, inadequate physical and human capital and underdeveloped infrastructure. On the policy level, although Tanzania unveiled a good National Trade Policy in 2003, there have not been pro-active measures by Government to support traders or design targeted policies to take advantage of opportunities available. In addition, traders/business persons have also not been aggressive enough to engage in regional trade, partly because of lack of market information. With regard to production, some business enterprises lack confidence on the quality of their products.

Equally important is lack of commercial farming and food processing which limits adherence to quality and standards required in participating in external trade. Most small holders produce for own consumption and the little surplus left is sold on the domestic market. Further, the lack of processing facilities means exporting unprocessed agricultural products which has serious limitations, including: low value added, bulkiness, poor quality control, perishability and vulnerability because of poor storage facilities.

According to an ESRF study (2003), business respondents were asked to rank the difficulties most encountered in conducting internal and external trade. Table 17 provides a summary of the findings. Uncompetitive prices were ranked highest (nearly 22%), partly due to domestic high production costs. Lack of market information and cumbersome export procedures were cited next, followed by high transport costs, lack of markets and inadequate information on trading contacts.

Table 17: Main Difficulties/Barriers to Trade

| Difficulties | Frequency | Percent |
|---|---|---|
| Uncompetitive prices | 26 | 21.8 |
| Lack of market information | 18 | 15.1 |
| Export procedures tiresome | 14 | 11.8 |
| High transport costs | 11 | 9.2 |
| Lack of market demand | 10 | 8.4 |
| Restrictive import regulations | 8 | 6.7 |
| Lack of trading contacts | 5 | 4.2 |

Source: ESRF (2003)

Tanzania is addressing the barriers cited above through the BEST programme. BEST aims at assisting Tanzania's business community through facilitation of trade and enhancing competitiveness.

### 6.4.7 Tanzania's Memberships in Various Regional Integration Initiatives: Implications of Overlaps for the Integration Processes in SADC

Tanzania bears some costs (largely transaction costs) by being a member of overlapping agreements. Costs of negotiating in a number of forums are high. Many trade-offs have to be made before reaching agreement to implement a wide range of agreed policies, many of which are either in conflict with one another or irrelevant. For example, SADC Rules of Origin on a number of products are more restrictive than those of COMESA or EAC. This means Kenya and Uganda (members of COMESA) might opt for COMESA, and since Tanzania is not a member of COMESA but of both EAC and SADC, complications may arise in terms of trading patterns. For example, compliance with different Rules of Origin might require producers and exporters to adjust production or trade operations depending on which country they export to. Customs officials have to be trained in all regional groupings in order to make efficient business decisions.

The overlaps have also some worrisome prospects. Tanzania's infant industries could be forced to close as more powerful members (especially South Africa) intensify regional competition. This is particularly of concern because SADC specifically encourages cross-border flow of investments and intends to establish a fully-fledged Free Trade Area (FTA) by 2012. How will the vulnerable members of SADC (such as Tanzania) be compensated? Another example relates to Tanzania's implementation of EAC customs union agreement. Currently there is no concomitant common customs procedure within SADC. This means several problems are likely to surface for Tanzania, including possible losses of customs revenue.

Overlapping membership also may lead to conflicting liberalisation commitments and requirements in different agreements (Bohanes, 2002). For example, the SADC Trade Protocol (Article XXVIII, Paragraph 2) states that members cannot enter into a preferential trade agreement with third countries that may "impede or frustrate the objectives of this protocol and that any advantage, concession, privilege or power granted to a third country under such agreements is extended to other Member States." A similar provision is included in Article 56 of COMESA Treaty, of which Kenya and Uganda are members. Since signing the EAC customs union, Tanzania has granted market access preferences to Kenya and Uganda that exceed those given to its SADC partners. This implies that Tanzania needs to extend the EAC free intraregional trade benefits to all SADC countries. However, the SADC Trade Protocol also grants SADC member countries an exception from obligation to extend preferences if the additional concessions are undertaken in the context of an agreement that preceded the Trade Protocol. Because EAC Treaty came into force three months before the SADC Trade Protocol, the waiver could apply to Tanzania. As integration deepens, these issues must be resolved otherwise it might lead to unwarranted trade deflection.

### 6.4.8 Impact of WTO Rules on Tanzania's Integration within the Region

WTO rules require the setting-up in the long run, of a new trade agreement characterised by progressive abolition of obstacles to trade between parties. Further, according to WTO rules, the new trade arrangements aim at assisting countries with their gradual, harmonious insertion into the world economy, to increase production, supply and competition, and to attract inward investment. As such, these WTO arrangements are consistent with Tanzania's efforts to liberalise its economy and make it more open to the outside world, including SADC countries.

An issue worth noting is the unfavourable global trade system championed by WTO. In particular, the issue of agricultural subsidies in favour of developing countries need to be underlined. Industrial countries have high rates of subsidy to protect their farmers, and any attempt by developing countries to add value to its agriculture products is subjected to high tariffs. By implication, members of SADC countries can play an important role of encouraging value addition to its products traded within the region, while progressively raising their concerns in WTO treaties and technical negotiations on trade issues.

Another issue relates to the WTO Rules of Origin. Tanzania would benefit as well as SADC countries from more flexible rules of origin in preferential trade arrangements. For example, product or process-specific rules tend to be disguised protectionism. Value-added rules discourage the use of preferences since it requires extensive accounting documentation, which is disproportionately costly for Tanzania and other SADC countries. Value-added rules also discourage the use of preferences available for labour-intensive manufactures when the cost of imported inputs is high relative to local wage rates.

An equally important issue for Tanzania and other SADC countries relates to erosion of trade preferences in the context of the current Doha Round of WTO trade negotiations. More specifically, the liberalisation of Most Favoured Nation (MFN) tariffs by both developed and developing countries, for both agriculture and non-agricultural goods, proposed under Doha Round of trade negotiations, would expand exports from competing countries (because these face lower tariff barriers in developed country markets) to the detriment of poorer developing countries such as Tanzania, which currently benefit from trade preferences. Estimates of preference erosion loss for Tanzania associated with tariff reductions in the Doha Round are predicted to be between USD 4.9 and 8.3 million (IF, 2005), which although small, is significant for sugar exports (reduced by 27%) and fish sectors, affecting both large processing firms and small-scale farmers/fishermen. Thus, Tanzania and other SADC countries have to participate effectively in the Doha Round to ensure trade outcome policy is beneficial, and facilitates deepening integration.

## 6.5 Major Elements of Tanzania's Labour Market Policy Framework

### 6.5.1 Analysis of Labour Market Trends

Tanzania's total population is about 34 million people. Among these, about 14 million constitute the labour force of ages 15-64 years. Over 30% of the labour force is either unemployed or underemployed. The Poverty and Human Development Report (2003) determined that there are about 700,000 new job seekers annually in Tanzania, but the economy can only generate about 40,000 new jobs.

In 2004, Tanzania had about 500,322 employees in Government and public enterprises (parastatals). The Government employs about 319,455 and the rest of the jobs are provided by parastatals. Each year, there are over 700,000 new people seeking employment, most of them school leavers. However, wage employment vacancies averaged only 30,000 per year between 1986 and 1990, and below 20,000 thereafter.

The private sector employs an average of 400,000 people, and the trend is to employ more as both domestic and foreign investment increases. Self-employment is estimated at nearly 2 million people, most of who are engaged in agriculture. Estimates by the 1997 National Employment Policy shows that the informal sector has the capacity to employ 62.5% of the yearly increase in labour force. However, the capacity of the formal sector is only 8.5%.

There are several causes of low growth of employment in Tanzania. Foremost is inadequate domestic and foreign investment. Investments in all sectors have been low, contributing to low growth in employment. An examination of Gross Fixed Capital Formation (GFCF) shows high fluctuation over time, with some years showing growth and others a decline. GFCF is divided into private and public components. Nevertheless, from the way Tanzania official statistics are constructed, the private component is not disaggregated further to make possible a distinction of relative contribution of foreign and local funds to capital formation. Capital formation in Tanzania as a percentage of GDP declined from a peak of 30% in 1992 to only 13% in 2004. Thus, GFCF is too low relative to its desired role of fostering economic growth at levels that are adequate for sustainable high per capita income growth, employment generation and hence, poverty reduction.

Mkenda (2005) has identified several other reasons as follows:

- Trade liberalisation affected the textile industry through competition from sub-standard imports (due to low import tariffs) that led to labour redundancies. Out of 35 textile mills in the 1980s, only 2 were operating by 1996 - leading to massive loss of employment.
- Privatisation of state enterprises (from about 400 in 1986 to less than 88 in 2004) has also resulted in lay-offs, and ushered in persistent fear among workers afraid of being the next ones to lose a job. The study by Mkenda (2005) shows that the influx of foreign investors who buy off state-owned enterprises bring fear of job losses in part because of introduction of new technology that renders some workers jobless, or a mere slash-off of the workforce to minimise costs.
- On a positive note, the study by Mkenda finds that sampled workers from foreign owned firms and exporting firms pay higher mean monthly wages than locally owned firms.
- An important finding of the study is that the degree of unionisation in Tanzania declined between 1992 and 1998. This implies a diminishing voice and representation of the workforce, and hence an increase in insecurity - issues that the 2004 ILO Commission's Report would like to be addressed. As workforce insecurity increased, the use of casual employees has increased over time, partly to avoid adequate compensation of employees in case of lay-offs.
- The Mkenda study concludes by recommending stepping up reforms in the education sector so as to prepare the workforce for impending competition ushered in by regional integration and globalisation.

The 1997 National Employment Policy also observes that some businesses have shifted from labour intensive to capital-intensive techniques of production that tend to reduce the rate of employment in the country.

In order to address the unemployment problem, the Government is taking several steps, including: expansion of education at all levels, initiation of vocational education and training programmes, providing incentives for people to invest in industry, and introduction of funds to assist development activities of women, youth and petty traders.

With regard to labour standards, Tanzania has ratified all ILO core conventions, namely:

- Convention No. 29: Forced Labour Convention, 1930;
- Convention No. 87, 1948: Freedom of Association and Protection of Rights to Organise;
- Convention No. 98: 1949: Right to Organise and Collective Bargaining;
- Convention No. 100, 1951: Equal Remuneration of Men and Women: Workers for Work of Equal Value;
- Convention No. 105, 1957: Abolition of Forced Labour;
- Convention No. 111, 1958: Discrimination in Respect of Employment and Occupation Convention;
- Convention No. 138, 1973: Minimum Age for Admission to Employment; and
- Convention No. 182, 1999: The Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour.

The Government of Tanzania, in recognition of the importance of improving labour standards according to the ILO conventions, reviewed and repealed all laws and regulations that were not consistent with ILO convention stipulations. As a consequence, a new labour law: Employment and Labour Relations Act, 2004, was unveiled which consolidated past labour laws and updated the laws to conform to international acceptable standards. The new law provides for fundamental rights and protections (prohibition of child labour, forced labour, discrimination of any kind, etc). In addition, the new law outlines explicitly employment standards (including hours of work, remuneration, leave, unfair termination of employees and other incidents of termination). Further, the new law stipulates freedom related to trade unions, employee associations and federations, rights to organise, collective bargaining etc. In addition, Tanzania has begun reviewing the 1997 Employment Policy to update it along the lines of the new labour law. All these Government of Tanzania efforts are directed at enhancing women and men in Tanzania to obtain decent and productive work, in conditions of freedom, equity, security and human dignity - tenets highly cherished by the late Father of the Nation, Mwalimu Julius K. Nyerere.

### 6.5.2 Impact of Reforms on Employment and Growth in Income

One of the key issues on the impact of reforms on the economy is to determine what extent different economic policy reforms have led to job creation or losses. Even more challenging for Tanzania, is a serious lack of reliable data on employment and labour market, other than the two (1990 and 2000) labour force surveys which are also outdated for our purpose. However, the two surveys can be used to demonstrate the change in the structure of employment between the two years of the surveys as shown in Table 18. Two points are clear from Table 18. First, the impact of reforms on employment is mixed: public sector reducing and private sector employing. Although it is difficult to argue that most of retrenched workers joined the formal private sector, one can be certain that majority of them joined the informal private sector. This leads to the second observation that, informal sector (about 60% of total) employment is remarkable. Formalising this market would therefore unleash much more benefits to the economy.

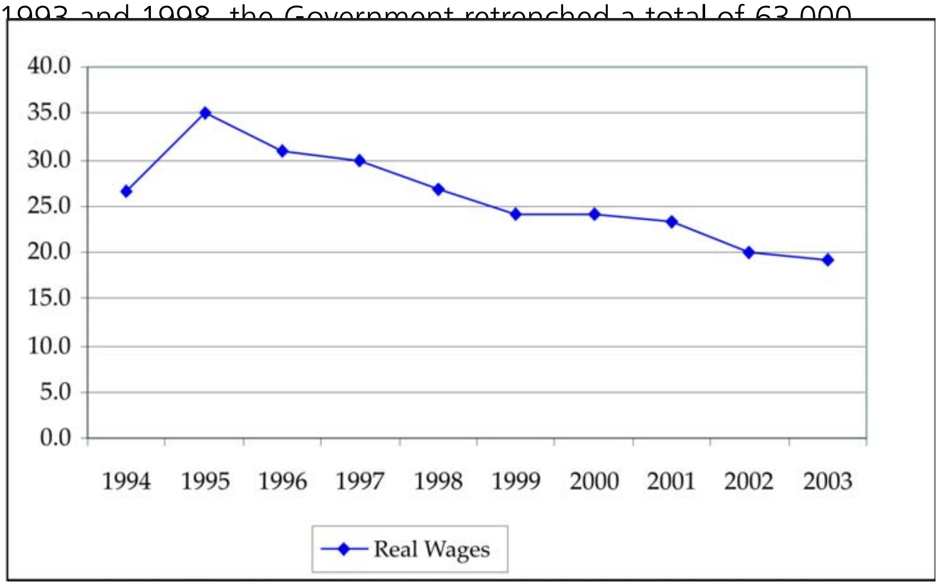
**Table 18: Employment Characteristics 1990/91-2000/01**

| | 1990/91 | 2000/01 |
|---|---|---|
| Percentage of people employed in: Government | 18 | 13 |
| Parastatal | 10 | 3 |
| Private Informal | 53 | 55 |
| Private Other | 18 | 29 |
| Total | 100 | 100 |
| Unemployment Rate | 3.6 | 5.1 |
| Urban Unemployment Rate | 10.6 | 14.8 |
| % Urban Households in Informal Activities | 42 | 61 |
| % Rural Households in Informal Sector Activities | 21 | 27 |

*Source: Integrated labour force surveys for 1990/1991 and 2000/2001*

Note: The figures used above are proportion of the total of the four categories, and deliberately omitted traditional agriculture, considered as "special formal" employment.

A steady decline in real government wages and salaries as a proportion of real total Government expenditure has been observed over the period 1995 -2003 (see Figure 14). This can be attributed to the governments Civil Service Reform Programme that has also resulted in massive retrenchment that eventually lower the share of Government expenditure devoted to pay public sector wages. For instance, between 1993 and 1998, the Government retrenched a total of 63 000




*Source: Based on figures from the Ministry of Finance.*

Inadequate income growth is also associated with the widespread poverty in the country. Wage employees have to share their low wages and salaries with relatives in need as part of good traditional norms and behaviour.

### 6.5.3 Key Labour Market Policy Issues for Deepening SADC Integration

All SADC countries should have firm and realistic policies for creating jobs, strengthening laws, and regulations that help to cope with the social strains of globalisation and ensure decent work for all its citizens. In addition, all SADC countries should be encouraged to follow Tanzania's example by ratifying all ILO core conventions related to sound labour markets.

Equally important for deepening integration is harmonisation of policies and programmes for employment creation, income generation and productivity improvement. Such policies should be the key to increasing labour absorptive capacity, reducing brain drain within the region, and creating a more productive labour force.

Another area relates to labour market policies that facilitate cross-border trade with respect to employment creation and income generation. In this regard, issues related to co-ordination and standardisation of databases and information systems, as well as developing special labour market integration policies, are important for furthering SADC integration.

### 6.5.4 Interrelationships between Tanzania's Labour Market Policies and Other Macroeconomic Policies

The analysis in section 6.2 shows marked improvements in Tanzania's macroeconomic performance between 1998 and 2004. Real growth improved, averaging 5.2% for the period. All macroeconomic indicators showed higher average growth rates as follows: agriculture (4.4%), industry (7.8%), services (4.0%), inflation down from 27.4% (1995) to 4.2% (2004). FDI has also increased and Government Revenue has performed well. However, as section 6.5 shows, unemployment has risen from about 10.6% in 1990/91 to about 14.8% in 2000/01. Real wages as a percentage of total expenditure has also fallen from about 35% in 1995 to 20% in 2004. These data show that the good macroeconomic performance has not translated into increased jobs and better remunerations for workers. The new country's development strategy (MKUKUTA) aims at addressing this imbalance by targeting poverty eradication through creation of opportunities for enhancing employment and income growth.

### 6.5.5 Major Risks to Convergence Programme

**Risks Related to Changes in the Main Economic Assumptions**

The main economic assumptions related to acceleration of growth, poverty reduction and improving conditions of the labour force, including creating more jobs and achieving decent work for all, are enshrined in the country's Vision 2025 and the National Strategy for Growth and Poverty Reduction (MKUKUTA). More specifically, the main assumptions are:

- Sustained high rate of real economic growth - about 8-9% per annum by 2010;
- Inflation maintained at below 4%;
- Increased growth of manufacturing sector from 8.6% to 15% by 2010;
- Increased agriculture growth from 5% in 2002/03 to 10% by 2010;
- Reduced proportion of rural population below the basic needs poverty line from 38.6% in 2000/01 to 24% in 2010;
- Reduced unemployment from 12.9% in 2000/01 to 6.9% by 2010.

The first risk relates to possible failure to attain targets, partly as a result of inadequate implementation, shortage of human and financial resources, and inadequate capacity for achieving effective management of intersectoral linkages and synergies. If growth is not sustained, it is difficult to reduce poverty, increase employment and remunerate the labour force better. The second risk relates to lack of political will, inadequate governance structures and change of political regime, and coming on board of leadership that cannot implement appropriate policies for macroeconomic stability and issues related to acceleration of convergence. Tanzania is a country that has a democratic electoral system that elects a new government every five years. If a new political party wins elections and forms the government, there could be some risks that a non-supportive regime coming on board might shelf regional integration agreements, derailing efforts to achieve faster and deeper convergence. However, the greatest problem is the sheer magnitude of the problem of sustaining macroeconomic stability, and reducing poverty amidst high and rising unemployment. Considerable amounts of resources are needed to implement policies and strategies under MKUKUTA and Vision 2025, much beyond what can be mobilised domestically. As such international help is required to reduce resource gap risks if poor countries like Tanzania are to achieve rapid growth consistent with equitable development and supportive of deeper integration.

## Sensitivity Regarding Key Macroeconomic Variables

### *Growth Rate:*

Target indicator is an annual growth rate of 7% throughout the period to 2018. Tanzania's 2004 real growth was 6.7%, close to convergence target. Projections made by the Tanzania Bureau of Statistics (May 2005) shows that by 2008, growth would reach 7.9% - a little higher than convergence requirements. If we assume political will to continue implementation of the country's growth strategy (MKUKUTA), expedited implementation of Millennium Development Goals (MDGs) and the Country's Vision 2025, then growth is likely to be within stability convergence programme. However, if the October 2005 national elections result in a political regime that is not supportive of the current growth strategies, and begins to experiment with alternative growth paths, the outcomes are not easily predictable. Overall, lessons learned from the past support the view that whatever regime comes into power, the high dependence on donor support in assisting the country's development goals is likely to continue.

### *External Debt:*

Target of external debt as a percentage of GDP is 60% throughout the period to 2018. Tanzania's debt level in 2004 was about 20 percentage points higher than target value. Sensitivity analysis conducted by IMF (2004), under Article IV Country Consultations, shows that Tanzania's debt is sustainable and should go down considerably following implementation of HIPC debt relief. However, the sensitivity analysis also shows that the debt sustainability is contingent upon continued donor support. Recently G8 members have supported further debt cancellation to countries such as Tanzania, and the World Bank and IMF have shown interest to implement the G8 recommendations. Therefore, Tanzania's debt is expected to decline to below target stability level by 2008.

### *Current Account and Budget Deficit:*

Target is to progressively reduce current account deficit as a percentage of GDP from 9% in 2008 to 3% by 2018. Budget deficit as a percentage of GDP is to progressively decline from 5% in 2008 to 1% by 2018. Tanzania's 2004 current account and budget deficits were within target stability programme. If we assume that the Ministry of Finance, Tanzania Revenue Authority (TRA) and the central bank - Bank of Tanzania (BOT), will continue to implement prudent fiscal and monetary policies, Tanzania's level of deficits will continue to be within target levels. However, if TRA fails in its duty to collect taxes, deficits could rise above target levels. But failure is costly to TRA employees because it entails losing contract to collect revenue for the Government - and more importantly their lucrative jobs. Besides, donors have supported TRA to build its capacity to collect more taxes by plugging loopholes, fostering voluntary compliance and improving tax administration. As a consequence, we do not expect TRA to fail in its duties as revenue collectors. Similarly, we expect Ministry of Finance and BOT to continue performing a good job, in part because of the built-in incentives (higher pay than other civil servants) and high quality manpower that is employed in these institutions. Therefore, Tanzania is likely to be within stability convergence programme on both targets.

### *Core inflation:*

Target is for SADC countries to reduce inflation from 9% per annum in 2008 to 3% by 2018. In 2004, Tanzania was within target stability programme. If we assume the central bank - BOT will continue to implement prudent monetary policies consistent with containment of inflation, and continued good weather conditions that keeps food inflation down, then Tanzania should continue to achieve low inflation consistent with SADC convergence targets. However, there could be seasonal variations triggered by unpredictable weather conditions. Food accounts for over half (55.9%) on the weight of Tanzania's inflation. This means that in drought situations, shortages of food could exert upward pressure on food inflation. Tanzania's growth strategy (MKUKUTA) aims at ameliorating the weather problem through investments in small and large-scale irrigation systems to stabilise the country's food supply. This strategy, along with continued prudent monetary management, should assist Tanzania to be within target programme levels.

## Summary

Overall, Tanzania is committed not only to meet SADC convergence targets, but also more ambitious targets as enshrined in the country's Vision 2025. As stated above, Tanzania has already achieved several targets under the convergence programme and is poised to continue maintaining price stability, reducing further the deficits, and improving the other macroeconomic indicators. All indications show that Tanzania is putting in place development strategies that will foster attainment of all SADC convergence programme targets.

# 7 Social Impact Analysis

## 7.1 Introduction

Sound macroeconomic management in the respective SADC member countries is a fundamental step, which must be taken by governments in order to facilitate deepening integration process in the region. The same thought and concern has been emphasised in the Memorandum of Understanding (MOU) on Macroeconomic Convergence adopted in 2001.

The adoption of Structural Adjustment Programmes (SAPs) in the mid 1980s in almost all the SADC Member States has led to the adoption of liberalisation and/or open economy policies. The identical nature of policy instruments prescribed by SADC across Member States implies a macro-policy harmonisation. The fact that these policies are pro-open trade suggests a possible relationship between the macro-policy pursued and integration efforts. Thus, understanding the macroeconomic context for regional integration is inevitable.

There is therefore, a need not only to harmonise but also assess the social impacts of macroeconomic policies so that they concur with national, (regional and global) objectives and other policies aimed at strengthening regional integration. Among the most often cited constraints to greater intra-African trade is the un-hospitable macroeconomic environment associated with overvalued exchange rates and non-convertible currencies.

Although regional economic groupings are important for survival in the increasingly integrated world economy, addressing major obstacles such as macroeconomic policy co-ordination, is a daunting task. Harmonisation and co-ordination of macroeconomic policies, covering fiscal, monetary and operations of all financial institutions, is a necessary condition for a smooth implementation of economic integration. It is important that both SADC governments and their development partners appreciate this challenge.

## 7.2 Macroeconomic Policies in Tanzania

Tanzania has gone through three phases of strategic development management. The first phase was from independence up to 1967 when the Arusha Declaration was proclaimed. During this phase, Tanzania focused on building national identity, unity and self-esteem. The country experienced a reasonably stable macroeconomic environment during this phase despite dependence on subsistence agriculture, a small industrial base, and a limited number of educated and trained personnel. Overall, growth in real Gross Domestic Product (GDP) from the mid 1960s to the early 1970s was about 4% per annum (Ndulu 1994).

This was followed by the period of socialism and self-reliance, where massive nationalisation of the major means of production was implemented. These included commercial banks, major agricultural estates, transport, export and import trade, wholesale trade etc. The basic assumption was that nationalisation would bring about a redistribution of income and assets. It would enable the Government take control and utilise the surplus generated by nationalised firms to provide free social services to the general public and thus, improve living conditions. The public sector played a leading role in the economy. Tanzania was successful in improving social conditions and forging a unified nation.

While GDP continued to grow at 5% in the early 1970s, structural weaknesses singled out imminent economic crises in the future within the economy. The weaknesses included poor pricing policies, reduced farmers' incentives to produce, larger investments in unproductive parastatals, inhibited private sector competition, and drained public finance. The nationalised firms did not generate significant amounts of surpluses as was expected. Achievements of the initial period were under serious threat by the end of the 1970s. Thus, the country experienced macroeconomic instability characterised by unsustainable resource gap and low growth.

This situation was aggravated by various macroeconomic imbalances in the economy, manifested by budgetary deficits, balance of payment deficits, growing debt burden, increasing inflationary pressure and weakening productive sectors. Industrial output fell by 15% a year, and capacity utilisation fell to less then 25%. Imports were compressed to the point that they were no longer sufficient for the normal functioning of the economy, and there were wide spread shortages of goods. By the end of the1970s, the level of national earnings had gone out of balance with the levels of consumption, an indication that the Tanzanian society was living beyond its means. The escalating economic crises in the early 1980s began to erode the social progress that was achieved earlier to the extent that there was a wide and open public cry of the fall of education, health services, and many other social services rendered by the Government.

Subsequently, since 1981, the Government introduced a series of economic reforms aimed at restoring macroeconomic balance and stimulating growth. This marked the beginning of the third phase. There was a shift from a public sector led, administratively controlled economy, towards economic liberalisation and encouragement of private sector development. Thus, economic reforms brought about fundamental changes in the approach to management of the economy. Macroeconomic policy reforms were aimed at creating a more stable macroeconomic environment. These reforms were pursued with the understanding that stability was necessary to achieve sustained growth, which is required to reduce pervasive poverty in the country.

In parallel with macroeconomic reforms, the Government also carried out structural reforms focusing on realigning the incentive structure towards increased exports, using scarce foreign exchange more efficiently, liberalising markets for goods and services, and reducing the involvement of the public sector in commercial activities.

## 7.3 Progress Made to Re-establish Macroeconomic Stability

Since mid 1990s, Tanzania has successfully pursued and progressed significantly in re-establishing macroeconomic stability where monetary and fiscal policies have been formulated and implemented for price stabilisation (World Bank 2005). The Government has withdrawn from productive and commercial activities of the economy giving way to the private sector to participate in service delivery. Privatisation process is well advanced and trade has been reformed in the context of both East African Community (where the custom union became effective in 2005) and the SADC where Member States are implementing the trade protocol through their tariff reduction schedules and the so-called special agreements.

As pointed out in chapter 6, reforms have resulted in significant improvements of the major economic, environmental and social fundamentals and/or indicators. These improvements are reflected in the steady GDP growth, falling inflation, falling interest rates, a stable exchange rate and falling Government deficits. According to the Word Bank (2005), there is almost zero (or negative) domestic borrowing by the Central Government in recent years. This has partly permitted a lower inflation rate in the country, which stood at 4.1% in 2004. In addition, this has created a space for credit expansion to the private sector. Note that, between 1998 and 2003, credit to the public declined from 5% to 2% of GDP, while credit to the private sector increased from 4% to 6%. On the other hand, domestic saving increased from 1.5% to 9.7%, and the real interest rate on savings became positive. The findings further reveal that, real effective exchange rate has depreciated by about 30% since 2001, which eliminated the overvaluation of the exchange rate. The current account deficit has narrowed from 10% to less than 5% between 1998 and 2004, and international reserves have increased to about 8 months of imports of goods and services in 2004, partly on account of large aid inflows.

In addition to these achievements, macroeconomic stability and reforms have facilitated the attainment of higher economic growth in Tanzania, which was 5.8% during the past five years compared to 4.0% and 2.5% in the preceding two five-year periods. The increase in the growth rates occurred across all sectors, with mining, manufacturing, and construction being the fastest growing sub-sectors.

## 7.4 Social Impact Assessment

Adequate social impact assessment requires a diversified set of information from different spheres. There are a number of economic, environmental and social indicators that need to be considered in a balanced way to ensure an adequate social impact assessment. These indicators include income related indicators, life expectancy, employment, equity and poverty, social safety nets, capital formation related indicators, gender inequality, and health and education. Other indicators are environmental: quality of air, water and land, biological diversity, and other natural resource stocks.

The social impact assessment mainly employs the set of indicators mentioned earlier to undertake a comparative and consistency analyses. A brief summary of Tanzania's experience is attempted below.

**(a) Income:** Tanzania is classified as one of the poorest countries in the world. In 2002, its Gross National Income (GNI) per capita was only USD 286, only slightly higher than Mozambique, Malawi and the Democratic Republic of Congo (DRC). The Tanzania poverty line applied in 2001 was Tanzanian Shillings (Tshs) 7,253 per adult equivalent per 28 days (December 2000 prices), which is equivalent to USD 0.79 per capita per day, applying the international purchasing power parity conversion. This is considerably less than the USD 1 a day poverty line often used in international poverty comparisons. If one were to calculate poverty in Tanzania using the international "dollar a day" poverty line, the poverty line expressed in local currency would be Tshs 9,900, and poverty incidence would be about 57.5%, considerably more than the 35.6% used in Tanzania official statistics. Most other SADC members have lower levels of income poverty.

Further analysis shows that inequality is increasing as the economy moves away from the socialist-type social-economic system to more market-based systems. The poorest fifth of the population shared only 7.5% of the national income. The unbalanced distribution of income is particularly evident in urban centres, especially Dar-es-Salaam. Rising unemployment, partly as a result of higher output from learning institutions, inadequate employment generation in the economy, and retrenchment of staff through the civil service reform programme, are compounding the problem of inadequate income and inequality in the society.

Analysis and projections conducted by the World Bank (2005) reveals that per capita GDP as well as associated poverty rates for Tanzania are likely to improve under high growth scenario. Tanzania's Development Vision's (Vision 2025) aspiration that the country will reach middle-income status[31] by 2025. To reach the lower threshold

[31] Middle income economies are those with a GNI per capita of more than USD 765 but less than USD 9,386.

for middle-income countries per capita (GNI of USD 765), Tanzania's per capita income will have to grow at least by 4.1% annually. If per capita GNI were to grow at only 2% annually, it would increase from currently USD 330 to USD 500 by 2025. If it grew on the other hand by 8% annually, GDP would reach USD 1661. The results of these calculations are quite sobering, since they imply that even with growth rates that are significantly higher than past performance, Tanzania will still be a relatively poor country in 20 years, even compared with other SADC members, such as Namibia and South Africa.

**(b) Life Expectancy:** Life expectancy at birth is on a declining trend. Life expectancy has declined from 49 years in 1988 to an estimated 43 years in 2004 - and the alarming trend continues unabated. Policy makers attribute this decline to increased incidence of HIV/AIDS and malaria. National efforts to combat the HIV/AIDS pandemic have increased but results are yet to be felt nationwide.

**(c) Population-Related Indicators:** Table 19 below provides a summary of the social impact with regard to population-related indicators. Infant mortality rate per 1,000 live births has worsened to about 115 in 2002 to 92 in 1992. Crude death rate per 1,000 population has also remained high at 15.

**(d) Adult Literacy Rates:** Despite much efforts by the Government to provide adult education countrywide, illiteracy rates are still high - about 26.4% of adults aged 15 years and above.

Table 19: Summary of Population-related Indicators

| | Mainland Census-1998 | Zanzibar Census-1988 | Tanzania Census-1988 | Mainland Censu-2002 | Zanzibar Census-2002 | Tanzania Census-2002 |
|---|---|---|---|---|---|---|
| Number of population | 22,486 | 641 | 23,127 | 33,585 | 985 | 34,569 |
| Population under 15-year old (%) | 46 | 47 | 46 | 44 | 44 | 44 |
| Sex ratio (males per 100 female) | 94 | 95 | 94 | 96 | 96 | 96 |
| Male (in thousands) | 10,907 | 311 | 11,218 | 16,428 | 483 | 16,910 |
| Female (in thousands) | 11,580 | 329 | 11,909 | 17,157 | 502 | 17,659 |
| Infant mortality rate (per 1000 live births) | 115 | 120 | 115 | 115 | 120 | 115 |
| Crude death rate (per 1000 population) | 15 | 15 | 15 | 15 | 15 | 15 |
| Life expectancy at birth | 49 | 49 | 49 | 49 | 49 | 49 |
| Crude birth rate (per 1000 (per 1000 population) | 46 | 49 | 46 | 46 | 49 | 46 |
| Total fertility rate | 6.2 | 7.1 | 6.5 | 6.2 | 7.1 | 6.5 |

*Note: The 1988 and 2002 Census result show a smaller population size than those of the UN estimates.*
*Source: (1) National Bureau of Statistics, President's Office Planning & Privatisation and Housing Censuses, 1998 & 2002*
*(2) World Bank, World Development Indicators: 2005.*

**(e) Population with Access to Safe Water:** Despite effort by the Government to provide safe water for its citizens, by 2004 only 68% of the population had access to safe water. Plans to use Lake Victoria water to provide access to Mwanza and Shinyanga regions could reduce the number of people without adequate water supply. Plans are currently being implemented and the project is progressing well, according to reports by the Ministry of Water and Livestock Development.

**(f) Net Primary Enrolment Ratio:** Tanzania has made commendable progress during the past ten years after the initiation of basic education reform. By June 2005, net primary enrolment had reached 86.4%, up from only 54% in 1990. The quality of education, however, has not improved markedly and the Government is resolute about increasing the supply of textbooks and recruiting new teachers to ensure increased numbers is matched by provision of quality education.

**(g) Higher Education Attainment Rate:** Higher education enrolment and completion rates are very low - typically less than 2%, of which men are a little over 75% of the students complete higher learning institutions. Efforts are underway to increase enrolment through provision of student loans and special lower entry requirements for women - to improve gender balance.

**(h) HIV/AIDS:** The Tanzania HIV Indicator Survey (2003/04) indicates that 7% of Tanzanians aged between 15-49 were already infected with the deadly virus. Women were more infected, about 8%, compared with 6% for men. The pandemic is on the increase despite many efforts by the Government and Non-Governmental Organisations to conduct awareness campaigns.

The social impact assessment priority areas included in the RISDP are discussed further in chapter 8 on the main challenges facing Tanzania.

### 7.5 Macroeconomic Policy Measures Most Likely to Impact on SADC Integration Process

There are two main policy thrusts in Tanzania likely to impact on SADC integration. These are: the National Strategy for Growth and Reduction of Poverty (NSGRP), and Trade Policy. These are discussed briefly below.

#### 7.5.1 The National Strategy for Growth and Reduction of Poverty (MKUKUTA )

This national policy unveiled in April 2005 aims at accelerating Tanzania's development. The policy focuses on scaling up economic growth, attaining high quality of human livelihood, fostering peace, stability and unity, as well as improving the country's external competitiveness. The policy is also committed to achieving the Millennium Development Goals (MDGs) by 2015, including the internationally agreed targets of reducing poverty, hunger and disease, illiteracy and reducing environmental degradation. The policy also aspires to achieve Tanzania's Development Vision 2025 that is the cornerstone of Tanzania's shared development goals. Thus, expeditious implementation of the policy should simultaneously achieve all SADC macroeconomic integration targets.

The ambitious development policy requires massive amounts of resources for implementation that are currently beyond the country's domestic resource mobilisation. The UN Millennium Project (2005) estimates the cost of achieving MDG targets for Tanzania as increasing from USD 82 per capita in 2006 to USD 161 by 2015 (in constant 2003 USD). These expenditures are high and require Government to scale up significantly public expenditures compared with present levels. Per capita government expenditure in 2004/05 is about USD 90, out of which the Millennium Project has estimated about USD 39 to be directly related to the achievement of the MDG targets - from both domestic and foreign sources. Thus, uncertainty in financing the policy looms large, although concerted efforts are underway to improve domestic revenue collection through the Tanzania Revenue Authority as well as soliciting greater donor financing of the programme.

### 7.5.2 Trade Policy

Tanzania changed its trade policy regime in January 2005, when together with Kenya and Uganda, it joined the customs union of the East African Community (EAC). The EAC country members adopted a Common External Tariff (CET). The previous 4-band escalatory tariff structure of 0, 10, 15 and 25% (no capital goods and unprocessed materials; semi-processed inputs; fully processed inputs; and final consumer goods, respectively) was replaced by a 3-band escalatory tariff structure of 0, 10, 25% (on raw materials, capital goods and meritorious goods, such as medical, pharmaceutical and education supplies; intermediate goods, and finished goods, respectively).

As illustrated in Figure 12, Tanzania's tariff structure shows the extent of liberalisation of the Tanzanian trade regime with respect to SADC region. Overall, although all countries in Eastern and Southern Africa have liberalised their trade regime, Tanzania's import duties have fallen clearly below the regional average.

In addition to the tariff reform, the EAC customs union provides for phasing out of intra-regional trade barriers - a policy which is consistent with SADC Trade Protocol.

With regard to export policies, by 1998, trade liberalisation undertaken by Tanzania had resulted in the removal of requirements for export registration, licensing, and surrender proceeds, as well as the elimination of most commodity export taxes. Low levies (1-3%) continue to be imposed by non-government crop boards (cotton and cashew nuts). However, the main policy impediment, although unintentional, relates to local government taxes. Despite directive from the Prime Minister's office that District taxes should not exceed 5% of the goods value, local authorities continue to levy charges at points of transit as well as original sale. In the case of producers who are distant from export locations, the cumulative burden of the local taxes can be high, particularly if one takes into account the high transport costs - a situation which tends to discourage export operations. This problem, together with unwarranted restriction on cross-border trade, constrain exports and reduce Tanzania's gains from deeper SADC integration - issues Tanzania has to resolve expeditiously.

## 7.6 Consideration of Social Impact Issues in Decision-Making Process in Tanzania

At the heart of Tanzania's development since independence in 1961 has been designing and instituting policies that have favourable social-economic impact - especially those directed at eliminating the three main ills: poverty, disease and ignorance. The first comprehensive policy statement of the country's economic policy after independence is found in the First Five-Year Plan for Economic and Social Development published in 1965.[32] Central planning was introduced in Tanzania in the 1970s following the promulgation of the Arusha Declaration in 1967. As in other socialist countries, the Planning Commission with the President as its chairman was at the centre of planning, policy formulation and coordination. Until the mid-1980s, the Planning Commission enjoyed significant power in social and economic decision-making process, particularly as it played a pivotal role in the allocation of resources and the setting of prices.

In the early 1980s social and economic indicators deteriorated. Real growth was declining and poverty was increasing. Tanzania formulated a National Economic Survival Programme in 1981 followed by a home-grown Structural Adjustment Programme in 1982, and an economic saboteurs campaign in 1983. These programmes tried to address Tanzania's economic crisis by intensifying the control regime and Government intervention. Alongside these government-led efforts was an intensification of public debate on measures to overcome the economic crisis, which in the end resulted in a recognition of the failure of the centrally planned economy. The decision-making process changed into supporting a process of reforms that would change Tanzania from a command to a market driven economy. The failure of the efforts to address the crisis through more state intervention also led to a loss of confidence in planning and the role of the Planning Commission.

The introduction of far reaching Economic Recovery Programs (ERPs) in 1986 replaced medium term planning with shortterm economic management, focused on fiscal and monetary stabilisation as well as

[32] This section draws on Godwin D. Mjema, "Strategic Long Term Planning and Policy Management: Some Reflections from Tanzania" DPMF Bulletin, Vol VI/1, November 1999, and Anna Muganda "Tanzania's Economic Reforms (And Lessons Learned), The World Bank. Processed. Draft. April 2004.

liberalisation of the economy. This implied a shift in institutional responsibility and power from the Planning Commission to the Ministry of Finance and the Bank of Tanzania, that held the key responsibility for the implementation of the ERP. The initial efforts and relative successes in economic stabilisation during the second half of the 1980s, were not sustained during the second term of President Mwinyi, when Government's inability to control credit expansion to public enterprises, massive tax exemptions, poor revenue collections, and tax evasion resulted in severe macroeconomic disequilibria such as large fiscal and balance of payments deficits, high inflation, and a decline in growth.

Around 1996, the new third phase Government under President Mkapa made it its top priority to restore macroeconomic stability and to control corruption. In addressing these issues, Government made bold reassignments for economic management and decision-making that tried to ensure that capacity and credibility of institutions are matched with the task at hand. Specifically, an extraordinary amount of power and influence in the economic management of the country was transferred to the Bank of Tanzania (BOT). Not only was the BOT responsible for monetary management, but with the introduction of a cash budget in 1996, it was also given the responsibility to determine monthly aggregate expenditure ceilings for Government, in line with available resources from domestic revenue and foreign aid. In addition, the BOT also took the lead in managing Tanzania's public debt. The reforms also saw a further weakening of the Planning Commission, as the responsibility for the preparation of the Development Budget was shifted from the Planning Commission to the Ministry of Finance in an effort to unify the budget and strengthen budgetary control. The Rolling Plan and Forward Budget, which until 1996 had been prepared by the Planning Commission, but which had become virtually irrelevant for social-economic management, was replaced by the Medium Term Expenditure Framework (MTEF), which is being prepared by the Ministry of Finance.

With the shift to a market-based economy, Government rightly embarked on efforts to replace Government planning of the economy by a process that is based on greater dialogue between Government and the private sector. This required a strengthening of private sector institutions, which could effectively engage in this dialogue. The

Tanzania Private Sector Foundation was established as a private sector apex organisation to represent the private sector in Tanzania.

In recognition of the vital importance of empowering the grassroots to undertake own social-economic management, Tanzania initiated decentralisation in decision-making at local level. Under this policy stance, responsibilities for the formulation, coordination, and implementation of Government programmes are being shifted from the National Level to the District Level. An example of this is the re-definition of the role of Government in the agriculture sector. Under the Agriculture Sector Development Programme, responsibility for the design of agriculture sector programmes has shifted from the national level to the district level, which is now responsible for the preparation of district agriculture development plans. Similarly, responsibility and related resources for the development and maintenance of district roads has also been shifted from the Ministry of Works to Local Government Authorities.

As discussed in section 7.4 above, despite much consideration of the social impact of decision-making in Tanzania, the social targets are still worrisome. The focus of economic policy and decision-making during the past decade has been primarily on macroeconomic stabilisation, and more recently on poverty reduction, with relatively little emphasis on the quality of economic growth and structural transformation. In addition, economic management has been fragmented in a variety of institutions that create a certain lack of coordination of policy formulation and implementation. It is therefore important for Tanzania to review its social-economic management decision-making and supportive institutions, to ensure that economic policy making is able to support and sustain high economic growth, reduce widespread poverty and react appropriately to the evolution of the domestic and international economy, including agreements engendered by deepening SADC integration.

## 7.7 Mitigation and Enhancement Measures towards Overall Impact of SADC Integration on Tanzania's Development

There are clear benefits of Tanzania being a member of SADC. Membership makes it possible to reap the benefits from international specialisation, while tailoring the provisions of any agreement to the particular needs and adjustment capabilities of the country. In the short-term, membership to SADC will entail adjustment needs, as prices on the domestic market change in response to tariff and other agreed reforms. Tanzania is taking appropriate measures to ensure that these regional issues are included in the country's development policy strategies. For example, an econometric analysis conducted by Rajhi et al. (2004), suggests that the adoption of SADC Trade Protocol tariffs or those of EAC's common external tariff will not significantly affect profit margins, productivity, wages and employment. The variables used were not statistically significant. This implies little adjustment requirements on the part of Tanzania. However, as the study also points out, mitigation measures are required where significant effects are likely, particularly in the paper and publishing and metal sectors, which are subjected to more marked impacts.

In the medium and longer term, there might be more pronounced impacts requiring mitigation and adjustment measures. Opening domestic markets to partner countries can increase competition in sectors with previously highly concentrated industrial structures. This would tend to reduce the monopolistic pricing power on incumbents - increasing welfare for the economy as a whole. Such pro-competitive impacts are particularly important for Tanzania that has only nascent domestic competition policy, while showing significant concentration in some industrial sectors, especially in cigarette manufacturing and beer brewing. However, in the case of labour, Tanzania's labour force is not yet well prepared for competition. This entails scaling up economy-wide skills and business training that can effectively compete in a global labour market.

Another issue that requires mitigation measures relates to possible losses of Government revenue as tariffs on intra-regional trade are phased out. The other issue relates to a possible costly trade diversion rather than welfare-enhancing trade creation, if trade is shifted from efficient producers outside SADC to preferential trading partners that produce at higher costs. In both cases, Government loses tariff revenue on imports from third countries, without domestic producers benefiting to a corresponding extent from lower import prices. A recent study by Schiff and Winters (2003) provides possible mitigation measures. The study, which concluded that the elimination of intraregional trade barriers between small countries is likely to generate more trade diversion and little trade creation, recommends that there be significant reductions in Most Favoured Nation Tariffs accompanying the regional integration effort. The risk for trade diversion to occur is particularly high because trade with SADC countries accounts for only a small share of overall trade.

As the study by Lewis et al. (2003) shows, the formation of the SADC free trade area will be net-improving, with Tanzania reaping smaller benefits in relation to its GDP than other SADC members. Mitigation measures that Tanzania needs to take are to pursue deeper integration through harmonisation of trade standards and behind-the border regulations. In addition, Tanzania would need to continue pushing for lower external trade barriers in order to counter the risk of trade diversion.

## 7.8 Adequacy of Existing Regulatory Framework for Monitoring and Evaluation of Impacts

Tanzania's current regulatory framework for monitoring and evaluation of impact is weak. The Ministry of Industry and Trade (MIT) that has the responsibility for monitoring and evaluation was recently restructured. The new organisational structure has two core operational divisions, one for industry and one for trade. Within the trade division, three of the four sections deal with trade policy issues. The Multilateral Trade Programmes Section deals with WTO, EU/EPA and UNCTAD, with seven technical staff. The Regional Integration Programme Sections deals with all regional trade agreement matters (including those of SADC) with only four technical staff. Such a thin staff and lack of any Tanzanian staff stationed in the SADC Secretariat at Gabarone, results in inadequate monitoring and evaluation of agreed programmes and targets.

Tanzania's thin RTA is stretched, with officers largely attending meetings and doing little monitoring of progress. The team needs strengthening, both in terms of employing more staff, training, especially on issues related to RTA monitoring and evaluation and equipment, to facilitate communication and dissemination to the SADC Secretariat. In addition, increased public relation efforts are needed to inform the SADC population about member countries in general, and the business people in particular - on business and trade opportunities. This would help in shifting the focus from existing traditional business links to new opportunities. The SADC National Committee could play a vital role in disseminating information (in cooperation with the Tanzania Business Council, Tanzania Chamber of Commerce, Industry and Agriculture, and the Confederation of Tanzanian Industries), as well as undertaking more regular coordination and monitoring at the national level, and providing prompt feedback to the SADC Secretariat.

# 8 Macroeconomic Challenges Facing Tanzania

## 8.1 HIV/AIDS

HIV/AIDS is an alarming problem in Tanzania. HIV infection already ranks at the top of the country's health problem. Estimates show that by 2004, the country had over 1.5 million productive adults infected by the deadly virus. In urban centres the rate of infection exceeds 24%, and up to 8% in rural areas. At this rate, the impact of HIV/AIDS epidemic is devastating. It strikes adults in their prime years, including the elite and professionals, which implies that it kills workers of much greater than average productivity.

The increasing loss of experienced workers due to the HIV/AIDS epidemic implies replacing them with younger less experienced workers. This has resulted in decline in labour productivity and at times reduced output. According to Cuddington (1993), unless decisive action is taken to combat the spread of the pandemic, Tanzania's GDP in 2010 could be reduced by 15-25% compared with a no-HIV/AIDS scenario - a situation which derails Tanzania's chances of being within SADC Convergence Target Programme.

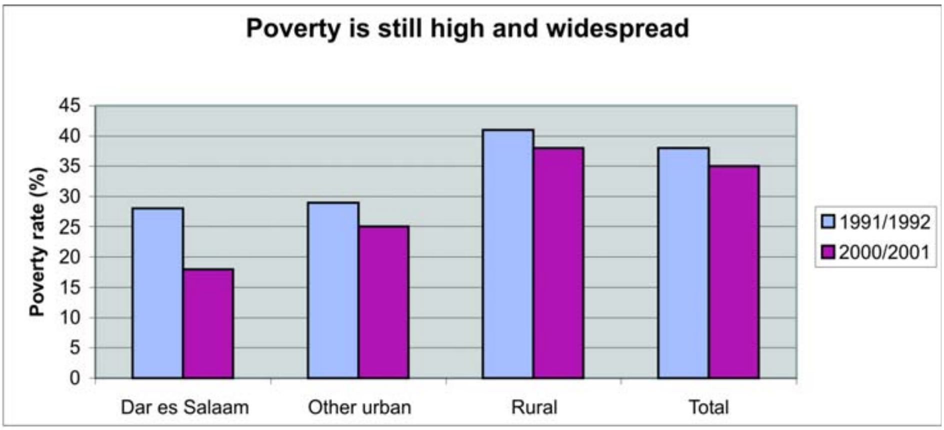
Tanzania needs to take more decisive action to combat the spread of HIV/AIDS. The National AIDS Control Programme has to be intensified and activities spread in both urban and rural areas. HIV/AIDS guidelines have to be developed and sensitisation seminars conducted not only in schools but also in all gatherings in an effort to reduce the spread of the pandemic.

## 8.2 Poverty

Poverty in Tanzania is widespread and deep (Figure 15). According to the data from two household surveys (1991/92 and 2000/01), the national poverty headcount declined from 38% to 35%. However, the 1991/92 survey had a small sample size, and the 2000/01 survey had some sampling issues as well, so this difference is within the margin of error for the two surveys and therefore we cannot conclude that poverty declined. According to the World Bank (2005), the reduction in the severity of poverty at the national level is significant however, and it shows a 10% decline in the poverty gap (average distance of the poor to the poverty line) and a 20% decline in the poverty gap squared (severity).

The Tanzania poverty line applied in 2001 was TShs. 7,253 per adult equivalent per 28 days (December 2000 prices), which is equivalent to USD 0.79 per capita per day, applying the international purchasing power parity conversion. This is considerably less than the USD 1 a day poverty line often used in international poverty comparisons. If one were to calculate poverty in Tanzania using the international "dollar a day" poverty line, the poverty line expressed in local currency would be TShs 9,900, and poverty incidence would be about 57.5%, considerably more than the 35.6% used in Tanzania.

Figure 15: Tanzania: Share of people below the poverty line [33] in Urban and Rural Areas




*Source: Based on Tanzania Household Budget Survey 1991/92 and 2000/01*

Poverty in Tanzania is not evenly distributed (Figure 14). Rural areas have more severe poverty levels than urban areas. Poor households have more children, and large households are a disproportionate share of the poor. The 4% of the households that have 4 or more children have a 50% poverty rate, much higher than the national rate of 35%. The number of widowed household heads has more than tripled, from 2.5% to 7.8% and these households are also more likely to be poor. According to the 2000/01 survey, female hardship has gone up, but this does not seem to be linked to poverty. Heads of households remain

33 Defined as people living below 1 USD per day.

primarily uneducated, as 37% have no education and another 5% have adult education only. Less than 3% of the poor have any post-primary education, but the share with some or complete primary education has risen over the decade.

As Table 20 below indicates, except for access to safe water, Tanzania's poverty indicators are higher than the average of low-income countries and in most cases worse than in Ghana, Kenya and Uganda. Other data not shown on the table indicate even worse situations. Life expectancy at birth, for example, has declined from about 54 years in the 1990's to 48 years in 2004 - in part due to the HIV/AIDS pandemic. Therefore, to reverse this worsening trend is a monumental task.

**Table 20: Comparative Poverty Indicators for Tanzania and some Sub-Saharan African Countries**

| Poverty and Social Indicators | Tanzania | Ghana | Kenya | Uganda | Sub-Saharan Africa | Low Income countries |
|---|---|---|---|---|---|---|
| GNP per capita (USD, 2002) | 280 | 270 | 360 | 250 | 450 | 430 |
| Infant mortality (per 1,000 live births, 2001) | 165 | 100 | 122 | 124 | 171 | 121 |
| Child malnutrition (% of children under 5, 2001) | 29 | 25 | 22 | 23 | | |
| Access to safe water (% of population, 2000) | 52 | 73 | 57 | 98 | 58 | 82 |
| Primary completion rate (2001, %) | 60 | 64 | 63 | 65 | 57 | 68 |

*Source: World Bank (2004), "World Development Report 2004".*

The bleak picture depicted above notwithstanding, it is worth observing that the poverty estimates discussed above do not yet capture the effect of high economic growth recorded since 2001. World Bank (2005) poverty simulations suggest that the high economic growth during this period may have had a significant impact on poverty. However, this can only be confirmed with the new household budget survey that is planned for 2006. Nonetheless, even during the 1990s, poverty reduction occurred in some regions of Tanzania. The experience of the regions that gained, especially Dar-es-Salaam, suggests that significant poverty reduction is possible, but the challenge ahead to reduce poverty to levels commensurate with high standards of living is monumental.

## 8.3 Lack of Human Capital/Capacity

Lack of human capital and capacity is a major challenge to Tanzania's aspiration for rapid economic development. Experience shows that well educated and skilled people are keys for creating, sharing, disseminating, and using knowledge effectively to spur growth and innovation. The main challenges Tanzania faces include expanding coverage to achieve universal access to basic and secondary education; providing quality tertiary education, which is generally weak; improving the linkages between formal and informal education systems, improving the productivity of labour; and raising the overall quality of learning.

Tanzania does not have a sound base of adequately qualified and trained work force that is essential for rapid economic growth and effective diversification of its production and export bases. World Bank (2004) data shows that in 2001, Tanzania's adult literacy rate at 77% was higher than that of Uganda (69%), but lower than that of Kenya, whose adult literacy rate at 84% is higher than that of Botswana (79%) and is close to the levels of South Africa (86 %). In addition, according to Cohen and Soto (OECD 2001), in 2000, Tanzania's average years of schooling (3.4) was higher than that of Uganda (3.22), lower than in Kenya (5.08), and far from that of South Africa (7.22). Thus, to raise the average level of schooling towards that of South Africa is a monumental challenge.

Tanzania has begun to face the education challenge. Recent focus on investment in primary and secondary education, if sustained, promises accelerated increases in literacy and average years of schooling in the medium to long term. In recent years, the Tanzanian Government has also recognised the need to raise educational levels in the population as a necessary condition for enhancing economic growth. The general education system in Tanzania is comprised of seven years of primary education, four years of lower secondary and two years of upper secondary. Appropriate programmes for primary and secondary education have been put in place to enhance access and increase the quality of education. Key measures so far have included the abolition of primary school fees in 2001, significant increases in budgetary funding for primary education, and the implementation of the Primary Education Development Program (PEDP). Under this programme, Tanzania's gross enrolment ratios (GERs) for primary education increased from 78% in 2000 to 106% in 2004. The Net Enrolment Ratio (NER) increased from 59% in 2000 to 91% in 2004. Regarding enrolment of girls and boys, girls represent 49% of the total.

So far, Tanzania has concentrated more on increasing enrolments. The challenge now is to focus more on improving quality of primary education. In terms of inputs, availability of textbooks has also improved. On average, before launching the PEDP, 8 students shared one book on each subject. In 2003, the book/pupil ratio improved to 1:4, and the Government's target is to reach a ratio of 1:1 by 2006. Teachers' knowledge and mastery of the curriculum has also improved through the pre-service and in-service teacher training interventions. The proportion of Grade A teachers increased from 46% in 1999 to 58% in 2004. However, more qualified teachers are still needed.[34] The PEDP programme has strengthened education institutional capacity and management, as measured by enhanced capacity in the Ministry of Education and Culture to provide policy and guidelines and monitor education delivery. It has led to decentralising and delivering primary education through regional administration offices, district wards, and schools, and strengthening community participation and school level management and accountability. There has also been improved resource availability and utilisation, measured by increased non-salary expenditures in the primary school budget.

A more severe challenge is in secondary education. Tanzania has one of the lowest secondary net enrolment ratios in Sub-Saharan Africa. Only about 9% of the relevant age group attends secondary education as a whole, compared with an average of 27% for Sub-Saharan Africa in year 2000, including about 11% at lower secondary, and less than 2% at upper secondary. Only 22% of primary school leavers in Tanzania

[34] ICR on Primary Education Development Program in Tanzania, World Bank, May 17, 2005.

have a chance to continue their education at the secondary level, compared with 50% in Uganda in 2001. Secondary enrolment ratios are low for all population groups, but especially for low-income youth and students in rural areas. Few government schools have been established and inadequate incentives exist to provide non-government schools in rural communities because households are unable to pay the fees required.[35]

Thus, there are three main challenges facing Tanzania in secondary education: increasing access, raising quality, and reducing costs. In order to support reforms in secondary education, the Government has launched the Secondary Education Development Programme (SEDP) which has among its aims, increasing the proportion of the relevant age group completing lower and upper secondary education, expanding enrolments with equity, improving learning outcomes of students, especially among girls, and enabling the public administration to manage secondary education more effectively. In order to expand enrolments with equity, the SEDP includes measures to make more efficient use of resources, provide development grants to schools and communities mainly in underserved areas, expand teacher supply, lower household costs for secondary education and expand the scholarship programme for students from poor families, and enhance partnership with the non-government sectors. The programme for quality improvement includes curricula and examinations reforms, provision of textbooks and teaching materials through capitation grants to schools, and quality improvements in pre-service teacher training, together with establishment of a system for professional in-service teacher development. SEDP also includes institutional reforms and capacity building at central, region, district, and school levels for more efficient operation of the secondary education system.

Another challenge relates to tertiary, technical and vocational education. Tanzania's performance is very weak. For example, tertiary Gross Enrolment Rates (GERs) stood at 0.94% in 2002, as compared to 3.24% for Uganda and 3.52% for Kenya in 2001, while Botswana and South Africa had tertiary GERs of 4.69 and 15.05%, respectively

[35] "Tanzania: Secondary Education Development Program (SEDP)," Report number 27631, The World Bank, May 14, 2004.

in 2002.[36] In the 2000-01 academic year, there were 6,117 students at the University of Dar-es-Salaam, and 13,442 in total in the country's three universities (University of Dar-es-Salaam, Sokoine University of Agriculture, and the Tanzania Open University). In April 2001, an Education Fund was established to sponsor children from very poor families to complete higher education. But in the last 10 years, a number of private universities have also emerged and today the country has nine private universities, mostly of denominational nature and small in size, which award diplomas in areas such as financial and business management, wildlife management, community development, social welfare and cooperatives, and transport and media operations.[37]

Overall, capacity building is required in all Ministries, Departments and Agencies (MDAs) - a challenge that the Civil Service Reform Programme is addressing. In addition, improvements are needed in workforce remunerations to reduce increasing brain drain and entice higher labour productivity.

## 8.4 Lack of Economic Diversification

Tanzania's economy is not diversified (Table 21). The share of agriculture as a percentage of GDP has remained almost at the same levels (about 47% of GDP) in the past decade. Industry's contribution to GDP has increased by about 2 percentage points to 18.5% in 2003. Although the contribution of industry to growth is small, the pattern exhibited is encouraging because as an economy develops, there is a tendency for the share of agriculture to decline and the shares of industry and services to grow over time - implying a little progress in diversification.

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36 These statistics should be viewed in perspective as the countries differ with respect to systems of post-secondary education. Tanzania has many students enrolled in post secondary non-university courses; perhaps these are not counted in the official statistics.

37 Background note on Tanzania for the Policy Workshop on Knowledge for Development, ESRF, 2002.

**Table 21: Tanzania: Structural Changes in the Economy, 1988-2003**

| Sector | 1988-93 | 1993-98 | 1998-03 | 1988 | 1993 | 1998 | 2003 |
|---|---|---|---|---|---|---|---|
| | Average annual growth rate | | | Share in GDP | | | |
| Agriculture | 3.4% | 3.2% | 4.4% | 47.6% | 49.3% | 49.1% | 46.8% |
| Industry | 1.6% | 4.6% | 7.8% | 16.4% | 15.5% | 16.5% | 18.5% |
| Services | 2.3% | 2.8% | 5.7% | 35.9% | 35.2% | 34.3% | 34.8% |
| Total GDP (factor cost) | 2.7% | 3.3% | 5.4% | 100% | 100% | 100% | 100% |

*Source: Robert Utz (2005), "Tanzania: Recent Growth Performance and Prospects," World Bank, Dar es Salaam.*

Perhaps, the most evident changes in diversification in the past decade have been acceleration in monetisation of the economy. According to Utz (2005), Tanzania's growth was concentrated on the monetary sector, whose share of GDP increased from 72.6% in 1993 to 75% in 2003 (Table 22). Non-monetary GDP (which captures non-monetary agriculture including construction and owner-occupied dwellings) has declined slightly from 27% in 1993 to about 25% of GDP in 2003.

**Table 22: Tanzania: Monetary and Non-monetary GDP, 1988-2003**

| Sector | 1988-93 | 1993-98 | 1998-03 | 1993 | 1998 | 2003 |
|---|---|---|---|---|---|---|
| | Average annual growth rate | | | Share in GDP | | |
| Monetary GDP | 2.6% | 3.4% | 6.0% | 72.6% | 73% | 75.0% |
| Non-monetary GDP | 1.6% | 4.6% | 3.8% | 27.4% | 27.0% | 25% |
| Total GDP (factor cost) | 3.2% | 3.0% | 5.4% | 100% | 100% | 100% |

*Source: Robert Utz (2005), "Tanzania: Recent Growth Performance and Prospects," World Bank, Dar es Salaam.*

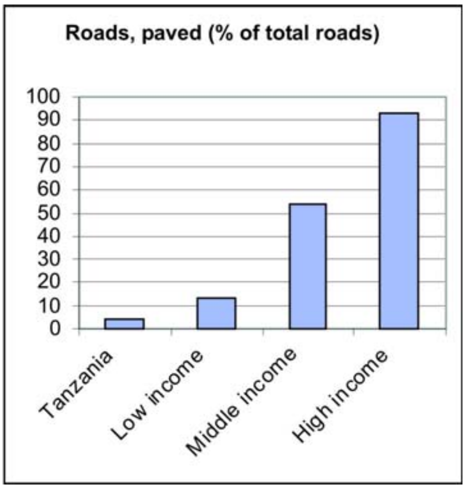
Structural transformation of the main economic sectors - especially industry and agriculture has not taken place in Tanzania. Agriculture is not adequately transformed to release labour to other sectors. Therefore, for the foreseeable future the main challenge Tanzania faces is to progressively diversify its economy in accordance with its Development Vision 2025 that envisages creation of a middle-income industrialised country.

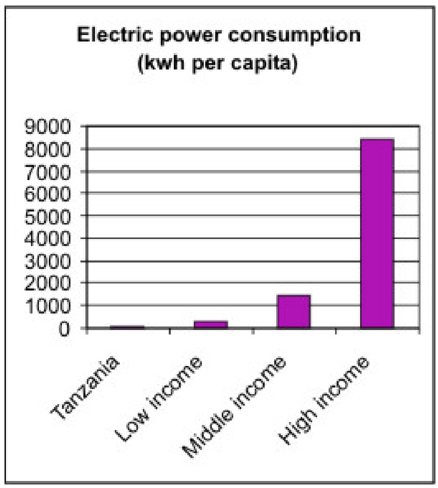
## 8.5 Lack of Economic Infrastructure

Tanzania's stock of infrastructure is inadequate to fuel rapid development. Experience of fast growing developing countries, such as China, shows that infrastructure can contribute significantly to growth. Infrastructure affects growth through its impact on enterprise productivity, cost of doing business, market access and profitability. The analysis of firm level data identifies access to infrastructure services as a key determinant of enterprise growth and investments. Given that the majority of Tanzanians are smallholder farmers, reliable and affordable infrastructure (particularly rural roads) is a critical factor in improving market access and enhancing the capacity of farmers to commercialise and diversify into higher value economic activities to improve incomes.

Despite recent efforts to improve the country's infrastructure, Tanzania's indicators are still among the lowest in the world (Figure 16).

Figure 16: Levels of Infrastructure: Tanzania and other Countries




Lack of economic infrastructure continues to pose a major policy challenge to Tanzania. According to the 2004 Investment Climate Assessment, infrastructure ranks among the three top constraints to business enterprise growth. Power supply, in particular, is perceived as the most serious infrastructure constraint faced by firms. These constraints have driven business enterprises in Tanzania to invest in their own infrastructure. The ICA has reported that about 55% of enterprises are more likely to own generators to provide back-up power supply. This represents a significant additional cost of doing business, given that generators are expensive to buy and run. The indirect costs of poor infrastructure and private provision of infrastructure have been estimated at 25% of sales, compared to 7-10% in Asia and 18% in Uganda.[38] As pointed out in an independent operations evaluation report by the IFC, unreliable and high cost electricity, high transportation costs and poor communication are major factors underlying Tanzania's lack of external competitiveness.

Improvement in the transport network poses a major challenge. Given Tanzania's geography and dispersal of areas of economic activities, roads are particularly critical for Tanzania's growth. The total road network length in Tanzania is estimated at 85,000 km.[39] Although road maintenance has improved, following the creation of the Road Fund Board and TanROADS, the overall condition of the road network remains poor, due to under-funding and capacity constraints. Table 23 depicts the condition of the road network. Of the total road network of 85,000 km, only 27% is judged to be good and fair condition. The situation of rural roads is even worse, with only 15% of the road network in good and fair condition.

**Table 23: Tanzania: Road Network (February 2004)**

| | Good and Fair Condition (km) | Poor Condition (km) | Total (km) |
|---|---|---|---|
| Trunk Roads | 5,563 | 4,371 | 9,934 |
| Regional Roads | 9,276 | 9,682 | 18,958 |
| Subtotal managed by TANROADS | 14,839 | 14,053 | 28,892 |
| Urban Roads | 1,715 | 735 | 2,450 |
| District Roads | 5,000 | 13,658 | 18,658 |
| Feeder Roads | 1,000 | 34,000 | 35,000 |
| Subtotal managed by Local Governments | 7,715 | 48,393 | 51,108 |
| **Total Network** | **22,554** | **62,446** | **85,000** |

*Source: Tanzania: Transport Sector Investment Programme, May 2005*

38 These estimates are drawn from the CEM Background Study: Tanzania: Growth, Exports and Employment in the Manufacturing Sector, 2005.

39 The core network required for poverty alleviation (i.e. the network that provides reliable access to roughly 90% of the population) is of a length of 45,000 km.

Rail services are also inadequate. Although its share of freight traffic is far less than for road transport, the rail system provides an important link between inland regions and ports, and is a cheaper alternative to the transportation of agricultural produce over long distances. For over a decade now, the railway has been facing major infrastructure and operational problems. Large sections of the tracks are obsolete, while the available wagons and locomotives are not adequate to sustain a reliable and efficient rail service. Improving rail services would help reduce pressure on the road infrastructure, leading to lower road rehabilitation and maintenance costs.

Inadequate and unreliable power supply is another challenge facing Tanzania. Per capita power consumption in Tanzania is estimated at 62 kilowatts, much lower than in countries such as Kenya (120 kilowatts per capita), India (380 kilowatts per capita) and China (987 kilowatts per capita). This suggests there is scope for a significant increase in power consumption in Tanzania. Currently, hydro is the major source of power and accounts for 70% of the country's grid generation capacity of 773 MW. The remaining 30% comes from thermal plants. The thermal plants that use imported fuel (diesel and HFO) for power generation, mainly the Tegeta plant, are very expensive to run compared with those that are now using indigenous natural gas. For many years, Tanzania has been experiencing problems in the power sector, which include the effects of droughts, high outages and high technical and commercial losses in the grid system. These problems pose challenges that Tanzania has to grapple with in order to lure investment and facilitate faster economic growth.

Uneven access to power supply is another major challenge. Currently, less than 5% of the rural population has access to electricity, and the overwhelming majority continues to rely on fuel wood for their energy requirements. The low electricity access rate for the rural population is a constraint to the development of non-farm activities and to improved quality of life in rural areas. However, extending the main grid to rural areas is expensive and the rural poor are unlikely to afford electricity without subsidies, at least to cover the capital portion. To improve access, Tanzania should consider investing in independent grids using small hydros (pico-micro, or mini), as well as natural gas, as is the case in Somanga. But for more intensive uses than lighting for households, a better substitution for bio-gas could be LPG. The other option would be to promote the use of solar photovoltaic systems in small communities to meet lighting needs in rural areas for the provision of basic social services such as health and education and for running small water pumps.

Another challenge is inadequate water supply. Although Tanzania is endowed with abundant fresh water resources; the provision of water for domestic and industrial use is inadequate. Over 15 million out of the current 35 million population is without safe water supply. Despite the recent improvement, only 50% of the rural population and 70% of the urban population has access to clean sources of water. Inadequate water supply in Tanzania stems from under-investment, past neglect and poor maintenance of facilities, weak water resource management and institutional capacity. Currently, 30% of rural water supply facilities are unreliable or non-functional. In the case of urban water, 20-40% of the water produced is uncounted for, due to technical and commercial losses. The low domestic water supply coverage, especially in rural areas affects the quality of life, as evidenced by the high incidence of water borne diseases, especially for women and children. Apart from its direct impact on social outcomes, poor water supply also affects rural productivity, as the time spent by women in fetching water, could utilised in more productive activities. As in other infrastructure sectors, meeting the long-term targets for water service provision would be a challenge that Tanzania has to address expeditiously.

## 8.6 Lack of Finance

Inadequate access to capital and finance is a critical problem in Tanzania. Experience shows that countries with well-developed financial systems (banks, stock markets and bond markets) tend to grow faster than countries with less well-developed systems. The Tanzania Investment Climate Assessment (2004) identified the cost of financing and access to finance as two of the key main obstacles to operations and growth of enterprises. Only 20% of the firms in the survey reported having loans from a financial institution. Investment is primarily financed through retained earnings (68% of new investment).

Close to two-thirds of enterprises that invested did not use the financial sector. Financing enterprise growth through retained investment results in lower levels of investment and therefore, reduced business growth and competitiveness.

Since 1986, Tanzania has undertaken financial sector reforms that have resulted in a diverse financial system and significant changes in financial and monetary indicators. The financial system comprises 21 banks, 9 non-bank financial institutions, pension funds, 2 of which invest in financial assets, 14 insurance companies, 63 foreign exchange bureaus, about 650 savings and credit cooperatives (SACCOs), several other microfinance institutions (MFIs), and a stock exchange. Foreign equity participation accounts for about two-thirds of banking system capitalisation and 57% of total banking assets are in banks majority owned by foreign banks.

However, despite commendable progress in reforming the financial sector, access to financial services for households has declined over the past decade. In the early 1990s, for example, 19% of all households had a member with a saving or current account. But the reforms and restructuring of the banking system led to closure of a number of domestic bank branches leading to a decline in access in 2001 to only 6.4% of all households and 3.8% of households in rural areas. One of the challenges is to reverse this trend and improve financial intermediation in rural areas of the country.

## 8.7 Environmental Degradation

Data on environmental degradation in Tanzania is limited. UNCTAD (2002) study on Tanzania observed that there is a growing awareness on the environmental impact of unplanned and unregulated economic and commercial developments, especially in sensitive coastal and rural areas of the country that are important to the country's growing tourism economy. However, there are also several problem areas as follows:

- Increased demand for energy and water supply for domestic and industrial purposes is contributing to environmental degradation. Currently, 95% of energy supply comes from biomass energy. Due to incorrect pricing, charcoal does not represent the full value of the wood being harvested. In terms of providing value-added to growth through energy and water supply, Tanzania's forests provide 'critical capital'. However, catchment forests are being depleted and their conservation is clearly a challenge to be addressed.

- Increased agricultural production and intensification is also creating environmental problems. Large commercial rice farming in the Usangu Plains, for example, has reduced the dry season flow of the Great Ruaha River through intensified year round irrigation, which is negatively affecting water use by small scale farmers downstream.
- Increased commercial fish production for export markets at Lake Victoria erodes a base of livelihood and food supply for local fishing communities. Similarly, the penetration of foreign vessels into territorial seas impacts negatively on the catch of artisanal fisheries.
- Increased mining activities are posing a number of environmental threats and possibilities to the local communities as well as to the miners themselves. The nature and extent of these threats and opportunities cannot be assessed in detail due to lack of reliable data. However, large unfilled potholes, unfilled abandoned mines and use of mercury in gold mining are an environmental hazard.
- The evidence provided about the environmental effects of large-scale mining suggests that mining communities may suffer a number of severe effects, spanning from direct and observable noise and erosion, to longer term pollution of air, water and soil, which in turn may have serious health consequences. Still, the available evidence does not allow for extrapolation and more comprehensive analysis is required to have a better idea of the environmental implications of large-scale mining in Tanzania.

The current policy framework in Tanzania does not provide for sound management of natural resources and the mitigation of environmental degradation. However, all foreign investors are required to undertake Environmental Impact Assessment (EIA) studies in advance of their construction, and these are a precondition for construction and planning permits. FDI projects guaranteed by the Multilateral Investment Guarantee Agency (MIGA) must also undertake EIAs to demonstrate that they do not damage the environment and are sustainable, especially for mining, oil and natural gas, and tourism projects in the wildlife parks and coastal areas.

Various initiatives for ensuring environmental sustainability are being implemented by the Government in collaboration with various stakeholders in the country. There are also currently initiatives to extend impact assessments to domestic Small and Medium Enterprises (SMEs) once the necessary resources and skills are available. For a start, in 2003, the Government conducted sensitisation training to local governments on implementation of the national environmental policy. The National Environmental Management Council also continues to implement various environmental conservation and management programmes including the preparation of strategies for environmental conservation, education and sensitisation in the country. In addition, Tanzania enacted the National Environmental Management Act, 2004, to safeguard the country against environmental degradation.

## 8.8 Gender Discrimination

Gender refers to the social relationship between men and women that provides women and men with different roles and access, and control of resources in society. This in turn results in different needs and opportunities for the two groups. In general, gender relations in Tanzania are characterised by a patriarchal system that gives men power and ownership over things of value and over decision-making. To the extent that this is the observed phenomenon, gender issues need mainstreaming. Gender mainstreaming relates to the process of integrating gender and equality concerns in all policies, plans and programmes (project), including workplaces. The objective is to ensure all economic and social activities undertaken in Tanzania take on board concerns and needs of men and women.

Overall, however, Tanzania has made significant progress in fostering gender equality. In particular, Tanzania is signatory to a number of declarations concerning gender equality, including the following:

- Ratified the Convention on Elimination of all Forms of Discrimination Against Women (CEDAW);
- Signatory to the Beijing Platform for Action;
- Signatory to the SADC Declaration of Gender and Equality; and

- Unveiling the "Women and Gender Development Policy" that stresses enhancing women's legal rights, economic and political empowerment of women, and improving women access to education, training and employment.

To "walk the talk", Tanzania amended its National Constitution to provide an increase in women representation in Parliament on the basis of proportional representation. As a result, the number of women parliamentarians increased from 17.5% in 1995 to 22.5% in 2004. Electoral laws are being reviewed to provide for an increase to 30 percent. Likewise, women representation at Local Government level increased from 25% in 1995 to 33% in 2004.

In education, primary and lower secondary education enrolment for boys and girls is almost equal. Disparity is at upper secondary and higher-level training. However, the situation is improving. At upper secondary level girls enrolment has increased from 27.3% in 1990 to 35.4% in 2004. Female students attending university has also increased to about 33% of all students in 2004.

In administrative and management jobs, female Regional Administrative Secretaries increased from 1 in 1997 to 5 in 2004, and District Commissioners from 19 in 2003 to 23 in 2004. The number of female District Executive Directors has also increased from 14 in 2003 to 23 in 2004. The number of female judges also increased to 7 in 2004. However, when the numbers are compared with males, females comprise only 19% of the middle and senior level management and executive positions. Thus, according to the country's Development Vision 2025, the challenge is to recognise these disparities and take appropriate action to achieve gender balance and equality in sharing the fruits of development.

In conclusion, it is important that gender be mainstreamed in all components of both local and foreign investment. Gender mainstreaming is a strategy and a method for achieving equality objectives. Essentially it entails:

- Identifying the different conditions and requirements for men and women;
- Examining every question which concerns individuals from a gender perspective; and

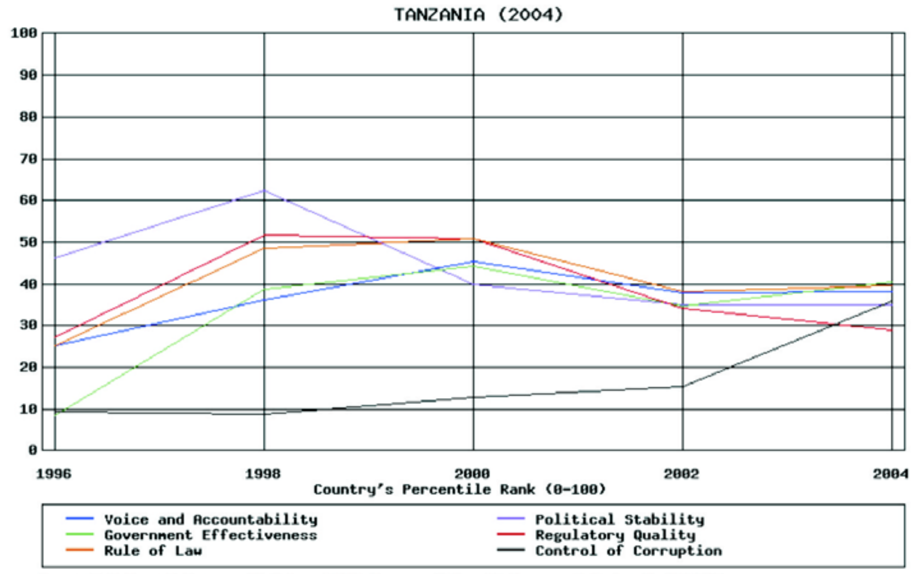
- Analysing the expected consequences of changes for women and men respectively.

To achieve above ends, Tanzania Investment Centre may have to establish a gender unit at its headquarters to provide gender guidance to local and foreign investors.

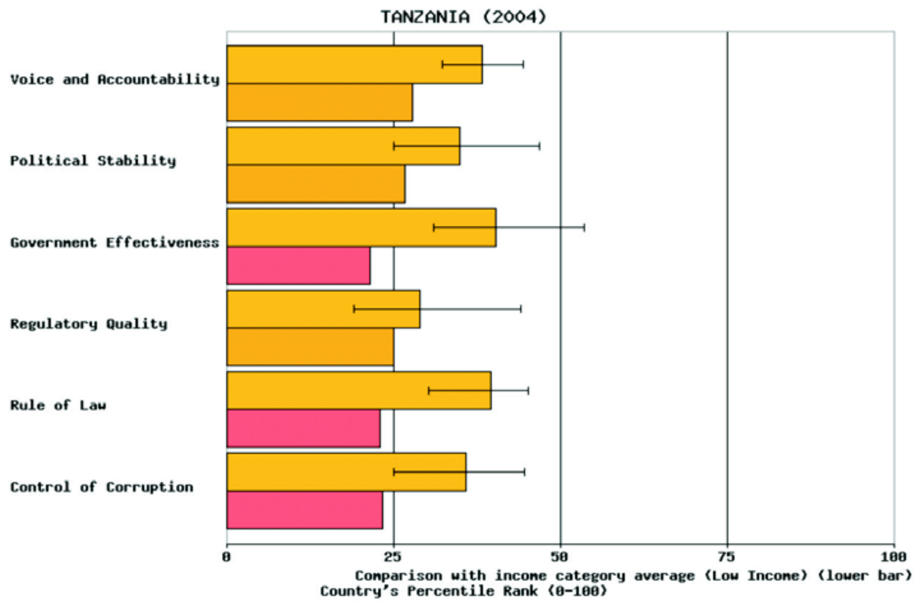
## 8.9 Governance Problems

Tanzania performs well in the area of governance as measured by: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Studies done by Kaufman et al, for the World Bank (2005) show that Tanzania performs better than other countries in the low-income category (Figure 17). On most of these indicators, Tanzania saw improvements between 1996 and 2000 and a slight deterioration since then. Only with respect to the control of corruption has there been a steady improvement that moved Tanzania from being perceived as being among the most corrupt countries to a position where about 25% of the 200 countries assessed are perceived as doing worse than Tanzania with respect to the control of corruption.

Figure 17: Governance Indicators for Tanzania, 1996-2004




*Source: D. Kaufman, A. Kraay, and M. Mastruzzi 2006: Governance Matters IV: Governance Indicators for 1996-2004 (http://www.worldbank.org/wbi/governance/pubs/govmatter4.html)*




*Source: D. Kaufman, A. Kraay, and M. Mastruzzi 2006: Governance Matters IV: Governance Indicators for 1996-2004 (http://www.worldbank.org/wbi/governance/pubs/govmatter4.html)*

The challenge for Tanzania now is to improve the system of governance, particularly by making more effort to control corruption, improve government effectiveness and foster political stability and accountability.

# 9.0 Special Issues and Future Research

## 9.1 Special Issues

### 9.1.1 Overlapping Membership Arrangements

Tanzania is a member of EAC and SADC, having withdrawn from COMESA in 2000. Other members of SADC belong to SACU and COMESA. These overlapping memberships, whose objectives are not always the same, pose significant challenges in terms of compliance, effective implementation of agreements, and genuine transparent regional integration. For example, 9 out of 14 SADC countries are also members of COMESA (and Tanzania is rethinking of rejoining) where integration is moving more rapidly than in SADC. But 9 countries within COMESA launched a Free Trade Area (FTA) in 2000 with the aim to create a customs union with common external tariffs before end 2005. EAC countries also plan to create a customs union. Because one country cannot belong to two customs unions simultaneously, it is imperative that countries with overlapping memberships will have to choose between organisations. Besides, multiple memberships have begun to put considerable strain on Tanzania's limited administrative and diplomatic capacity - impairing efficiency and more rapid implementation of agreements.

### 9.1.2 Disproportional Sharing of the Fruits of Integration

Using all yardsticks, South Africa is the regional powerhouse. It commands almost 75% of the regional GDP and has unsurpassed integration strategy that could benefit that country disproportionably vis-à-vis other SADC members. South African firms have the capacity and resources to focus on larger markets offered by membership to SADC, and reap disproportionate benefits despite having passed a Competition Act in 1998. Since benefit sharing is not clearly stated and agreed among SADC Member States, this issue needs to be resolved in order to speed up integration.

### 9.1.3 The Regional Indicative Strategic Development Plan (RISDP) is not Supported by Indicative Costs for Implementation

Unless the RISDP financing plan has escaped our notices, we raise the issue of financing deepening SADC integration. In particular, in the past, SADC had tended to be overly dependent on foreign assistance, which supplied over 80% of SADC's Programme of Action (SPA), compromising stability and derailing independent thinking on strategies for deepening integration. It is therefore important to make available resources required for RISDP implementation, and develop strategies for raising the resources within the regional block - filling any gaps with foreign donor assistance.

## 9.2 Future Research

### 9.2.1 A Study on Rationalisation of SADC Member States Criss-Crossing Arrangements

In order to deepen SADC integration, there is need to sort out the pros and cons of each Member State and associated groupings in an attempt to map-out a strategy for further deepening integration. Knowing the cost and efficiency of these multiple and overlapping membership arrangements could be of particular importance as a feeder to the proposed SADC Free Trade Area (FTA) envisaged between 2008-2012.

### 9.2.2 Globalisation and How it Affects the Process of Deepening Integration

If we take globalisation to mean the rapidly increasing complex interactions between societies, cultures, institutions and individuals worldwide. Then, it is a phenomenon that is associated with growth and transformation of trade, investment, finance, technology, social values, culture, political and other social changes that have far reaching consequences for regional integration. Studying how SADC Member States can begin to prepare better to mitigate the disadvantages of globalisation and take advantage of the opportunities it offers could be of vital importance. Particular areas of emphasis could be how to improve SADC competitiveness in a global economy.

### 9.2.3 Strategies for Deepening Integration with Equitable Distribution of Co-operation

On paper, the benefits of deeper integration are unquestionable. In reality, the process of deepening integration can result into winners and losers - rather than achieve "Pareto" optimal gains. No Member State should be made worse off through the process of deepening integration. An analytical study that informs SADC members on possible winners and losers, particularly taking into account the large more developed economy of South Africa (which can easily marginalise other small members such as Tanzania), could be important in facilitating the deepening of integration. The study could raise possible alarms/unwarranted courses of action that could derail higher level of integration of the SADC regional block - thus, initiating prompt mitigation measures before the situation becomes worse.

# 10 Recommendations

## 10.1 Changes Needed in Macroeconomic Policy Framework

As noted earlier, Tanzania is performing well in implementing credible macroeconomic policies. Pointers include: reduced inflation rates, reduced fiscal and trade deficits, increased rate of economic growth, reduced public debt and better fiscal and monetary management. This performance is consistent with macroeconomic convergence requirements in the SADC region. However, good performance in the macroeconomic framework has not resulted in reduced poverty levels for the majority of Tanzanians. Thus, some changes are needed in the macroeconomic policy framework to achieve faster growth, equity, poverty alleviation and external competitiveness. Some of these changes are presented below:

- The Tanzania Strategy for Enhancing Growth and Reducing Poverty (MKUKUTA) provides a coherent and comprehensive policy framework that also supports tenets of MDGs and the country's Development Vision 2025. However, its financing plan is yet to be determined and already Government officials and politicians have begun making decisions on the basis of the policy framework. It is therefore, important for the authorities to estimate the costs and benefits of alternative paths, including identification of winners and losers during implementation.
- Relatively high economic growth has not reduced poverty, particularly for the majority of Tanzanians who live in rural communities. Rural communities that comprise over 80% of the Tanzanians have been in a way the "losers" in the current policy framework. Most of the development resources, including assistance from donors, have benefited few individuals, regions or urban centres. This needs to change. In costing MKUKUTA and allocating development resources, a large share is needed to fund programmes and projects under the Local Government - where the majority of rural people live. Equitable regional allocation of resources is essential to redress the current regional imbalance as well as reduce widespread poverty in rural settings.

- There is also a need to mainstream trade, investment and industrial policies through the growth and poverty reduction strategies. Appropriate trade policies can exert a powerful influence on growth, development and poverty reduction. Similarly, removing constraints to domestic and foreign investment can unleash resources, particularly through FDIs, that can fuel sustained socio-economic growth. Further, Tanzania's current industrial policy does not provide needed incentives to invest in manufacturing and services. This needs to change. The introduction of a more credible industrial policy should encourage value-adding activities, foster backward and forward linkages within the domestic economy and regionally, and remove the bias that exists in the location of industrial enterprises. The manufacture of industrial products using local resources will also provide avenue for Tanzania to increase its participation in regional groupings through enhanced export of non-traditional commodities.

## 10.2 Changes Needed in Institutional Structures

There are a number of key institutional changes that are required for Tanzania to implement more fully macroeconomic convergence requirements consistent with SADC's Regional Indicative Strategic Development Plan. Most important are:

- The need to align institutional arrangements for implementing the National Strategy for Growth and Reduction of Poverty (MKUKUTA). The increased focus on economic growth and poverty reduction raises a number of important institutional issues that need to be addressed. Firstly, with the stronger focus on economic growth the question arises as to whether the current institutional arrangements for MKUKUTA formulation and implementation are adequate. In particular, the Vice President's Office has a clear responsibility in the area of poverty reduction, but it has no formal role in the broader issues related to economic management for economic growth that includes trade, industrial, and agricultural policies as well as infrastructure development. The institutional set-up and participation of groupings such as the poverty monitoring system and within it the working groups such as research and analysis-working group will also need to be rethought. In addition, the roles played by the central bank (Bank of Tanzania), Ministry of Finance, President's Office Planning and Privatisation in implementing macroeconomic policies need to be clarified and made more transparent.

- There is need to strengthen coordination of economic policy formulation and implementation. Although the Ministry of Finance and the Bank of Tanzania are doing a commendable job in managing the Tanzanian economy for stability, coordinating and formulating the broader growth agenda, these tasks exceed their institutional mandates and capacities and may threaten or dilute the focus on their core responsibilities. Currently, there is virtually no institutional set-up which can meet the coordination function required, not only to ensure synergies and more efficient implementation of policies, but also that would support the SADC Convergence Programme.
- There is also a need to strengthen private sector institutions. An important aspect of economic policy formulation and implementation are the inputs by the private sector, which requires that the private sector itself develop appropriate institutions to make its views heard. A variety of such institutions exist, including the Tanzania Private Sector Foundation (TPSF), Confederation of Tanzania Industries (CTI), Tanzania Bankers Association (TBA), Tanzania Chamber of Mines (TCM), Tourism Council of Tanzania (TCT), Tanzania Oil Marketing Companies (TOMC), Tanzania Chambers of Commerce, Industry and Agriculture (TCCIA), Tanzania Association of Consultants (TACO), and Tanzania Chamber of Agriculture and Livestock (TCAL). An important issue would be to survey these institutions with respect to their role in the Government Private sector Dialogue, their satisfaction with the dialogue, and their capacity to effectively represent their interests, including supporting regional arrangements and facilitating the country's global competitiveness. Capacity building for these institutions, especially related to business development and contract negotiations, will be of particular value to improve Tanzania's competitiveness.
- There is need to strengthen the capacity of institutions at the regional and district level to implement more fully MKUKUTA plans and strategies. The regional diversity of Tanzania's economy with respect

to potential sources of growth, access to infrastructure, and natural resource endowment requires strengthening the capacity at local level as a way of ensuring equitable growth and poverty reduction for the majority of Tanzanians. In addition, lack of diversification of regional economies also makes them vulnerable to external shocks such as changes in commodity prices. Further, it is worth noting the importance of agricultural and rural development for poverty reduction. Thus, a shared-growth strategy requires not only strong institutions at the national level, but also at the local level.

- There is also a need to develop social safety nets and income re-distribution mechanisms that will foster more equitable sharing of the fruits of growth. This is essential because the current relatively high growth has not translated into reduced poverty for the majority of Tanzanians.
- Tanzania also needs to establish a strong regional co-operation unit that will be capable of reviewing and harmonising the multiple grouping arrangement requirements in an effort to facilitate movement towards convergence within agreed timeframes.

## 10.3 Monitoring and Evaluation of Macroeconomic Convergence in SADC

Tanzania currently does not have a strong monitoring and evaluation system for SADC macroeconomic convergence. It is urged that the Tanzania SADC co-ordinating unit develops a monitoring and evaluation system that will provide feedback on whether agreed milestones are being achieved as planned. Such a monitoring and evaluation system will also be useful for providing feedback to SADC Secretariat that agreed convergence plans and targets are being achieved, especially the overall objective of poverty alleviation and its ultimate eradication.

## 10.4 SADC Trade Protocol - The Need to Review Rules of Origin

The Rules of Origin adopted by SADC Member States are not flexible and adequately supportive of enhanced trade among Member States. The Rules of Origin are also a hindrance to efforts being made by Member States to improve their international competitiveness. Due to the restrictive nature of the rules, member countries such as Tanzania are finding it costly to ensure conformity, particularly with regard to certification requirements. Administrative costs also increase because customs authorities have to adopt complex systems to scrutinise and be satisfied about the proof of origin of goods. It is therefore, recommended that SADC review the Rules of Origin that are currently based on value addition, to more flexible alternatives. This is particularly important in terms of facilitating the process of harmonising Tanzania's policies with those of other members of the East African Community.

## 10.5 Deepening Integration Through Better Trade-Industry, Infrastructure Linkages

SADC needs to develop more satisfactory linkages between trade, infrastructure and industrial development within the region. The region as a whole has vast natural resources that can be strategically used to create a competitive industrial base. Greater encouragement for Member States to source materials and inputs from within the region could prove extremely important in this regard. Further, South Africa with her higher technological base compared with other members, could play a facilitating role in the process of industrialising the entire regional block. However, in order for South Africa to play such a role, it has to reform its restrictive trade and industrial policies and become more open to Member States - rather than its current lop-sided development strategy.

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# Deepening Integration in SADC

## Tanzania – Torn between EAC and SADC

## Part: 2

Perception of Business and Non-State Actors in Tanzania

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# List of Abbreviations

| | | |
|---|---|---|
| BET | - | Board of External Trade |
| BOT | - | Bank of Tanzania |
| CET | - | Common External Trade |
| COMESA | - | Common Market for Eastern and Southern Africa |
| CTI | - | Confederation of Tanzania Industries |
| EAC | - | East Africa Community |
| ESRF | - | Economic and Social Research Foundation |
| EU | - | European Union |
| FANRPAN | - | Food Agriculture and Natural Resources Policy Analysis Network |
| GATS | - | General Agreement on Trade in Services |
| GDP | - | Gross Domestic Product |
| HIPC | - | Highly Indebted Poor Countries |
| IPC | - | Investment Promotion Centre |
| LDCs | - | Least Developed Countries |
| MIT | - | Ministry of Industry and Trade |
| MNRT | - | Ministry of Natural Resources and Tourism |
| MAFS | - | Ministry of Agriculture and Food Security |
| MOF | - | Ministry of Finance |
| MTN | - | Multilateral Trade Negotiations |
| NGO | - | Non-Governmental Organisation |
| NTBs | - | Non-Tariff Barriers |
| PRSP | - | Poverty Reduction Strategy Paper |
| ROW | - | Rest of the World |
| SACU | - | Southern African Custom Union |
| SADC | - | Southern Africa Development Community |
| SSA | - | Sub-Sahara Africa |
| TBS | - | Tanzania Bureau of Standards |
| TCCIA | - | Tanzania Chamber of Commerce, Industry and Agriculture |
| TIC | - | Tanzania Investments Centre |
| TRA | - | Tanzania Revenue Authority |
| TRIPS | - | Trade-Related Aspects of Intellectual Property Rights |
| USD | - | United States Dollar |
| USA | - | United States of America |
| VAT | - | Value Added Tax |
| WTO | - | World Trade Organisation |

# Executive Summary

This report presents findings on the Tanzania country case, which forms part of the broader project on "Deepening Integration in SADC". It captures the perceptions of business people and Non-State Actors on regional integration within SADC, both from the country and regional level perspectives. A review of the Tanzania's trade policy and performance was undertaken to set the background to the analysis of the constraints limiting intra-SADC trade and deepening of regional integration. Secondly, in order to identify barriers and perceived challenges and opportunities associated with deeper regional integration, a survey was conducted for both enterprises that handle day-to-day trade activities, and also Non-State Actors. 40 enterprises were randomly selected across all sectors from 3 regions of the country. 25 of them were from the capital Dar-es-Salaam, 8 from Mwanza City, and 7 from Arusha City. In addition, 10 Non-State Actors were also selected representing private sector associations, professional associations, and civil society organisations. A structured questionnaire was administered to the entities.

From the desk review, it was found that Tanzania has made substantial changes in its trade policies since the mid-80s in line with market liberalisation policies. In general, a more liberal trading environment has replaced interventionist and protectionist policies of the 1967-85 period. The current trade policy envisages transforming the economy to a competitive export-led growth. Regional and multilateral trade agreements have brought new trade partners. In the case of SADC, South Africa has become a significant player and a notable partner for Tanzania's prospective trade.

The study also found that trade between Tanzania and its SADC member countries have been low compared to other regions such as Asia and the EU, but it is on the increase. South Africa clearly shows an increasing role in the Tanzanian economy and it enjoys a dominant economic position as a result of the SADC Trade Protocol. Some of the critical constraints to trade in the SADC region include both tariff and non-tariff barrier such as customs tariffs currently employed, substantial paper work and bureaucracy, and exchange rate uncertainty.

Trade potential in Tanzania is also severely limited by low levels of production capacity. That is to say, even if all tariff and non-tariff barriers were to be addressed, and markets made available, several factors will continue to limit international trade. These include high production costs reflected in energy costs, poor infrastructure, and high costs of borrowing where loans are accessible. There is also the problem of poor quality products caused by low standards of technology and lack of effective quality control mechanism. The low levels of marketability (especially for agro-products) also arise from lack of advanced preservation and storage equipments/technology, and low level of processing and packaging skills. It is also important to observe that most of these factors are interwoven with the critical problem of lack of finance/capital.

It is evident that the country places high priority on regional integration, and it is a topic of public debate. However, participation of stakeholders has been limited mostly within Government and its agencies, with business entities and Non-State Actors being left behind. There is need therefore, to promote broader participation of all stakeholders.

In order to deepen regional integration within SADC, particularly through trade, there is need for further policy reforms at individual country level, targeted at the microlevel which may include, among others, measures to enhance (a) production of high quality products for the markets, (b) traders to participate in regional trade and exploit the available trade potential, and (c) institutions to build their capacity to support trade activities. To fasten implementation of the SADC protocol on trade, harmonisation of various trade policies in the region is inevitable, and in order for SADC countries to attract trade amongst themselves, all technical barriers, including standards and quality requirements should also be harmonised.

Strategic regional infrastructure interventions are the key to attracting investment into the region, improving competitiveness, and promoting trade. Promotion of value adding investment particularly in the agricultural sector is another critical intervention, which could reduce market risk associated with price instability. Since business firms and other stakeholders have limited information on many aspects of regional integration initiatives, countries should build capacities and establish fully operational information centres especially for trade.

Other general views and opinions expressed during the study included the need to ensure effective implementation of agreed policies and programmes within SADC so as to deliver tangible services and benefits. It was also suggested that SADC should be realistic in terms of mapping priority objectives/interventions, and appropriate sequencing of activities, and setting the timeframe for various activities and avoid being too optimistic. SADC should also provide for greater involvement of all stakeholders (including the private sector and civil society), and provide for an effective institutional mechanism for overseeing implementation of agreed initiatives.

# 1 Introduction

## Background

This report presents findings on the Tanzania country case, which forms part of the broader project on "Deepening Integration in SADC". It intended to capture the perceptions of business people and Non-State Actors on regional integration within SADC. The study, which was supported by the Friedrich Ebert Foundation, focused on existing trade barriers and perceived challenges and opportunities associated with deeper regional integration.

SADC was formed in 1992 at a meeting in Windhoek, where the Heads of State and Government signed a Treaty transforming the then "SADCC" from a coordination conference into SADC, the Community — and redefined the basis of cooperation among Member States, from a loose association into a legally binding arrangement. The purpose of transforming SADCC into SADC was to promote deeper economic cooperation and integration to help address many of the factors that make it difficult to sustain economic growth and socio-economic development, such as continued dependence on the exports of a few primary commodities. It had become an urgent necessity for SADC governments to urgently transform and restructure their economies. The small size of their individual markets, the inadequate socio-economic infrastructure and the high per capita cost of providing this infrastructure as well as their low-income base, made it difficult for them to individually attract or maintain the necessary investments for their sustained development.

The SADC ambitious goals and objectives, as captured in its Regional Indicative Development Plan (RISDP), are to complete a Free Trade Area (FTA) by 2008, become a Custom Union by 2010, create a regional common market by 2015 and a monetary union by 2016. The RISDP emphasises that good political, economic and corporate governance are prerequisites for sustainable socio-economic development, and that SADC's quest for poverty eradication and deeper levels of integration will not be realised if these are not in place. The RISDP is focussing on trade (goods and service market integration), economic liberalisation (tariff phase down schedules) and development, liberalisation in the movement of factors of production, the creation of an enabling institutional environment and improvement of competitiveness and productivity. All these are crucial for moving towards sustainable development and require careful sequencing and timing if they are to be effective as catalysts for deeper integration and poverty eradication.

SADC has been trying hard to put in place policies viable to facilitate trade, because trade has been one of the most important pillars of integration and an engine of growth of many countries. It is against this background that the SADC Trade Protocol was adopted in 1996 and implemented in 2000.[1] It aimed at increased intra-SADC Trade. SADC has initiated various policy measures so as to increase regional trade. Some of these measures include: tariff reduction in the region, elimination of Non-Tariff (NTBs) and Technical (TBT) Barriers to trade, harmonisation of payment system in the region, and liberalisation of trade in agriculture. However, there is evidence that many countries within the SADC still impose some type of tariff, non-tariff and other technical barriers on trade. This study focused on existing trade barriers and perceived challenges and opportunities associated with deeper regional integration.

## Study Objectives

The objectives of the study was to identify existing trade barriers and perceived challenges and opportunities associated with deeper regional integration from the point of view of both business entities and Non-State Actors.

## Approach and Methodology

To achieve these objectives, a review of the Tanzania's trade policy and performance was undertaken to set the background to the analysis of the constraints limiting intra-SADC trade and deepening of regional integration. Secondly, in order to identify barriers and perceived challenges and opportunities associated with deeper regional integration, we conducted a survey of both enterprises that handle

[1] The aim of "Protocol on Trade" is to increase trade without any impediment, by eliminating import duties (Article 4), eliminating export duties (Article 5) and eliminating non-tariff barriers (Article 6) to mention a few.

day-to-day trade activities, and also non-state actors. 40 enterprises were randomly selected across all sectors from 3 regions of the country. 25 of them were from the capital Dar-es-Salaam, 8 from Mwanza City, and 7 from Arusha City. In addition, 10 Non-State Actors were also selected representing private sector associations, professional associations, and civil society organisations. For both cases, a structured questionnaire was administered to the entities.

## Organisation of the Report

The report is organised in five chapters including this introduction. Chapter 2 provides a brief review of trade policy and performance for Tanzania. While Chapter 3 presents findings from the survey of enterprises that handle day-to-day trade activities, Chapter 4 presents findings from the survey of Non-State Actors. These chapters basically present views and perceptions on the existing policies, barriers and prospects for intra-SADC trade and deepening of regional integration. Finally, Chapter 5 concludes the report and offers recommendations.

# 2 Tanzania's Trade Policy and Trade Patterns in the SADC Region

## 2.1 Evolution of Tanzania's Trade and Economic Policy Regimes

Like in many other developing countries, the trade performance in Tanzania is a subject of an adopted economic policy. The failure of state-led and protectionist trade regime in Tanzania impaired her trade performance and may explain the current dismal participation in international trade. Nevertheless, the current trade policy is keen on alleviating this by vouching to build a competitive and an export-led economy.

Trade policy instruments used varied depending on the motive being pursued. They included among others, measures to protect the domestic economy from foreign competition, liberalisation of trade and supporting macroeconomic policies, export promotion, foreign exchange supply, and regional integration. We describe trade policy regimes for five main economic episodes in Tanzania: the post-independence (1961-1966), pre-crisis (1967-1978), crisis (1979-1985), reform (1986-1992) and post-reform (1993-to date) periods.

### 2.1.1 Post Independence Trade Policies: From 1961 to 1966

This was the post-independence period when the Government was concerned with the africanisation of the public sector. The economic policy favoured the role of the private sector. Throughout this period, the economy remained fairly open and so was the trade policy. The period had recorded a very favourable trade balance. Export value was higher than imports, and on average accounted for 19.3% while imports were 11% of GDP. Nearly 60% of export earnings came from the export of primary agricultural crops. Other exports were mineral, petroleum and manufactured products. Contribution of trade taxes to total government revenue (i.e. from import duties and export taxes) was relatively high (up to 43% total tax revenue), mostly attributable to the import duties.

### 2.1.2 Pre-Crisis Trade Policy Regime: From 1967 to 1979

This is the period in which the socialist economic policy was set through adoption of the Arusha Declaration and expansion of public sector ownership of the major means of production. Different policy pronouncements were made reflecting the inward looking trade policy environment. The state rather than market controlled trade and intervened market operations. The inward-looking trade policies were a disincentive to the economy, and resulted to anti-export bias (Mkenda, 2002). Taxes were imposed on exports as a source of revenue (export and import taxes accounted for up to 31.7% of total revenue). Trade and foreign exchange was restricted through registration and licensing. An Import Substitution Policy was adopted and implemented through a series of ambitious investment programmes and public enterprises which had legal monopolies in the pricing, marketing and processing of agricultural crops. Producers of exports cash crops had to sell their products to marketing parastatals, which offered prices below world prices. Exporters had to surrender most of their foreign exchange earnings. Hence, private entrepreneurship in international trade activities was severely inhibited.

### 2.1.3 Trade Policies during the Crisis Period: From 1980-1985

By the end of 1970s, the economy started to experience serious economic crisis that resulted in huge foreign exchange scarcity and economic downturn. The Government instituted its own survival policies and strategies including the National Economic Survival Programmes (NESP) of 1981 and 1982, and Structural Adjustment Policy (SAP) of 1983. The goals were to increase export revenue and eliminate food shortages through tighter control of public expenditure and increased production. In 1983, a modest devaluation was attempted with some positive effects on agro-exports, but the gap between the official and parallel rates widened. Real GDP fell, and in some years it was negative (averaged 1.1% per year). Per capita income fell by 1.5% p.a. There was serious macroeconomic instability with inflation rate being up to 36.1% and negative balance of trade (–5%

of GDP). However, gross investment remained stable (20% of GDP). Export performance deteriorated due to various disincentives (e.g. high inflation, foreign exchange controls, and the high black market premium on foreign exchange).[2]

### 2.1.4 Trade Policies under Reforms Period: 1986 -1992

Meaningful trade policy reforms started in 1986 under the first Economic Recovery Program (ERP) (1986-1989), when the Government agreed to the IMF and World Bank terms. The targets were to increase the output of food and export crops through appropriate pricing strategies; increase capacity utilisation in the industry; restore internal and external macroeconomic balance; reduce inflation; increase foreign exchange earnings from exports and rehabilitation and maintenance of basic social services.

The second ERP (1989-92) consisted of an IMF Enhanced Structural Adjustment Facility (ESAF) plus different World Bank projects. The ESAF covered liberalisation of the foreign exchange market, the Tanzania Agricultural Adjustment Credit (liberalisation of the marketing of agricultural inputs and outputs), and the Financial Sector Adjustment Program of 1991 (that focused on the privatisation of the banking sector and allowing foreign exchange bureaus and foreign bank operations).

The reforms had paid off some dividends. Real GDP grew on average at 5%, and per capita incomes by 0.6% per annum. Agricultural growth increased significantly, and the manufacturing sector recovered from a decline of 4% per year to a positive growth, in spite of the fact that many industries eventually collapsed due to increased import competition. Investment increased slightly with development of the private sector. However, agricultural investments have remained low, inflation heightened (30%) and trade balance still negative. Despite massive devaluation (official exchange rate increased from 51.7 in 1986 to 335 in 1992), parallel foreign exchange market premium increased. Given the export incentives put in place and increased diversification to non-traditional exports, commodity exports rose steadily in real

2 Parallel premium rose from 45% at the end of 1978 to more than 800% at the end of 1985. For example up to 90% of maize was exported through parallel market to neighbouring countries.

terms. Given trade liberalisation, import grew by 55.7% and accounted for 28% of GDP compared to 9% for exports. In 1993/94, the system of export licensing, registration of exporting companies and the foreign exchange surrender requirement were abolished.

### 2.1.5 Post Reforms Trade Policies: 1993 to Date

Despite the good economic performance attained in the period 1986 to 1992, further economic reforms were demanded (increased market reforms, liberalisation, privatisation and stabilisation) by donors as condition for increased aid. Other forms of non-tariff barriers such as standards, labeling and certification, Government procurement, customs procedures, services and investment barriers still existed. Trade liberalisation and economic reforms implemented by Tanzania may not eliminate all the barriers to trade, as some are non-tariff. Potential sources of non-tariff barriers to trade in the context of Tanzania include: import and export licenses, Government procurement, lack of intellectual property protection, and investment incentives. These are discussed briefly below.

- **Import/Export Licenses:** Trade liberalisation measures introduced in the late 1980s and early 1990s abolished import and export licenses, except on goods deemed sensitive for health and security reasons. There are no export controls other than those for the protection of wild life. The export ban on staple food (mainly maize) was lifted in 1997 by giving local authorities power to issue permits to export maize depending on food security in a particular region. Importation of contraband drugs and pornographic materials are prohibited.
- **Government Procurement:** Government procurement regulations require that all purchases over USD 5,000 be made through open tender. However, tenders are frequently awarded to uncompetitive firms in which Government officials have a significant interest.
- **Lack of Intellectual Property Protection:** Patent and trademark protection is generally considered ineffective in Tanzania. For instance, pirated recordings are usual in Tanzania's market place from third countries. Copyright proprietors have been unable to uphold their rights due to lack of properly defined property right

laws and inadequate law enforcement. However, the Government has prepared an intellectual property rights bill for Tanzania.

- **Standards, Testing, Labeling and Certification:** The Tanzania Bureau of standards (TBS) is charged with overseeing standards, labeling, testing and certification. There are not unusual requirements pertaining to standards, but a certificate of compliance must accompany every import consignment. There are 572 published Tanzanian standards, of which 105 are adopted from ISO standards and 400 are voluntary. However, the labeling and packaging requirements are not harmonised. Regulating entities are also various (e.g. TBS, the Tanzania Pesticide Research Institute, the Pharmacy Board, and the National Food Control Commission).
- **Investment Barriers:** The Government provides investment incentives to foreign investors. The Tanzania Investment Centre (TIC) was established to promote investment by advertising opportunities, facilitating approvals and providing various incentives for (especially foreign) investors. In the past, TRA and TIC had differing objectives; and also the existence of long chain of institutions involved in approving investments undermined investment flows. These problems have been addressed and TIC is now more efficient as a one-stop centre.

### 2.1.6 Current Trade Policy for Tanzania

The unfolding process of globalisation has further called for acceleration of the process of liberalisation and opening up. To address these tremendous changes and new challenges in the business environment, Tanzania has come up with new trade policy, branded "Trade Policy for a Competitive Economy and Export-led growth". The vision of the Trade Policy is stated as: to transform the economy in five years (2002 to 2007) from an inefficient supply constrained economy into a competitive export-led economy supportive to its integration and meaningful participation in the global economy through strategic trade liberalisation. The mission of the trade sector is therefore to stimulate the development and growth of trade through enhancing competitiveness leading to rapid socio-economic development. Specific objectives of the trade policy include, among others:

- Building a diversified competitive economy to increase foreign exchange;
- Encouragement of higher value adding on primary exports;
- Stimulation of investment in export-oriented areas with comparative advantages;
- Promote domestic production and technological change;
- Encourage improvement of efficiency of imports utilisation;
- Maximize utilisation of complementarities in regional and international trade; and
- Achieve and maintain long term balance in the current account.

Clearly, Tanzania has managed to come up with an impressively comprehensive trade policy document. In addition to the policy statements, the policy documents outlines not only the background to the adopted policy stance, but also the main process and actors involved in its making, the sectoral issues to be addressed, and a detailed implementation plan.

### 2.1.7 Export Development and Promotion

Tanzania has adopted measures to promote export as part of structural reforms that included removal of export taxes to provide incentives for exporters. The Board of External Trade (BET) was charged with the export promotion function. Its role focuses on the export development and promotion through such measures as simplification of trade procedures, provision of export credit, insurance and access to better storage, research and development. Some of the specific export promotion measures taken are discussed below.

#### Export Oriented Investor

Investment code is used as a trade policy instrument for export promotion. As part of the investment promotion incentive, an export oriented investor is given favourable investment allowances plus deductions (100%) on machinery and agricultural expenditure, deferment of VAT payment on projects capital assets, import duty drawback on raw materials, zero-rated VAT on manufactured exports and the right to transfer outside 100% of foreign exchange or income earned. Investment code also allows compensation for distortions, which impedes the flow of foreign investments due to market imperfections. In addition to the establishment of TIC as a result of investment act of 1997, other institutional inputs such as the mining act of 1998 and the establishment of Dar-es-Salaam Stock exchange in 1996 that became operation in 1998 also significantly enhances export promotion in Tanzania.

### Export Promotion Schemes

These are schemes that were established by the then Ministry of Industries and Trade (MIT) to promote the country's exports. Between 1987 and 1998, a number of them had been established including: Duty Drawback Scheme (DDS), Export Rebate Scheme (ERS), and Export Credit Guarantee Scheme. The Duty Draw-Back Scheme (DDS) is designed for export promotion through refund of import taxes on imported inputs that go towards production of exports. Its major constraint is delay in effecting duty refunds. The objective of ERS was to promote export trade from small-scale manufacturers. The Export Credit Guarantee Scheme was established by the MIT and implemented by the Central Bank by channeling credit to the potential exporters. It collapsed due to the failure in repayment of outstanding loans and interest. Both schemes lacked regulatory frameworks for operational procedures.

### Provision of Trade Information on Tanzania Exports

BET is supposed to publish export trade potential but its ability to do so is significantly limited by lack of funds and proper data. Consequently, BET relies on hosting and participating in Trade Fairs to promote Tanzanian exports. BET also advises exporters and conducts market surveys but there is little evidence on the pay-off of these measures.

### Export Processing Zone

The Government has already approved EPZ as export promotion strategy to be implemented under the agency of National Development Corporation (NDC). The legislation for the establishment of EPZs is due to be enacted. There are promotional efforts to attract investments into the EPZs especially those that focus on the use of local raw materials to facilitate the diffusion of technology.

### Export Finance Scheme

BET, in collaboration with UNDP, is administering an Export Revolving Fund (EXPOFUND) for export development (especially non-traditional products). Such activities include: procurement of inputs such as raw materials, machinery and packaging materials, etc. Also, the fund assists traders to meet export market requirements and buyers' satisfaction. The BET has also recently revived the Presidential Export Award Scheme.

Performance of these export promotion measures has not shown significant results largely because of lack of complementary measures and resources. Persistent structural problems will continue to limit the results of the policies in place.

## 2.2 Trend and Pattern of Tanzania's Trade in the SADC Region

Trade between Tanzania and its SADC member countries have been rising. Imports from SADC countries accounted for 13% of the total market share in the year 2004, while exports accounted for 4% only. South Africa (dominant source of imports) and Malawi are the only countries in the region, which increased exports to, and imports from Tanzania. Other countries which import more from Tanzania are not necessarily the same as those which export. In such a situation, the prospects for beneficial bilateral trade agreements are fewer. Between 2000 and 2004 for instance, South Africa took the largest share (88%) of imports, followed by Swaziland, Zimbabwe and Mauritius. About 35% of exports went to South Africa in year 2004.

Other major destinations in the SADC region are Zambia and DRC. Non-agricultural commodities dominate the SADC trade.

Overall, the trade policy regime for Tanzania has changed recently as part of the trade liberalisation measures and the regional trade arrangements (SADC and EAC). A more liberal trading environment has replaced interventionist and protectionist policies. The failure of the latter hindered capacity to trade as shown by relatively little response of trade to the policy changes and export promotion packages. Even within the SADC region, and despite current regional and multi-lateral trade initiatives, Tanzania exports less than it is endowed.

The current trade policy envisages transforming the economy to a competitive export-led growth, but supply-side limitations will be binding, unless supported by other production-based policies. In the case of SADC, South Africa is shown to be a significant player, and a notable partner for Tanzania's prospective trade. It is observed that the prospects for increased intra-SADC trade lies in the trade on agriculture and food sectors for which Tanzania has (unexploited) comparative advantage on a wide range of products. Thus, having "trade policies righ" is a necessary, but not sufficient condition.

# 3 Perceptions of Business Enterprises on Regional Integration

## 3.1 Operations of Business Enterprises

### 3.1.1 Enterprise Profile, Type of Business and Period of Operation

The majority of enterprises sampled were private companies (92.5%). The proportion of state-owned companies, and public-private partnerships was quite low (7.5%), reflecting privatisation of parastatals and emergence of private enterprises since adoption of liberalised market policies. Manufacturers constituted nearly 83% of the sample. Over half of the enterprises (65%) were in business for more than 10 years. Enterprises, which had 6–10 years of operations, accounted for 25% while, those in business for 2–3 years accounted for only 10% of the sampled enterprises.

### 3.1.2 Size of Enterprises

The size of enterprises is estimated by the number of employees and annual turnover. Number of employees per firm was highly variable ranging from less than 10 to more than 100. About two thirds of enterprises (60%) had 100 or more employees, while 35% had between 25-99 employees, and 5% had less than 24 employees (Table 3.1). Annual turnover was such that 90% of enterprises have a turnover of over USD 100,000.

Table 3.1: Number of Employees

| Number of Employees | Frequency | Percent | Valid Percent |
|---|---|---|---|
| 6 - 10 | 1 | 2.5 | 2.5 |
| 11 – 24 | 1 | 2.5 | 2.5 |
| 25 – 49 | 7 | 17.5 | 17.5 |
| 50 – 99 | 7 | 17.5 | 17.5 |
| 100+ | 24 | 60.0 | 60.0 |
| Total | 40 | 100.0 | 100.0 |

*Source: Own Computation Based on Survey (2005)*

### 3.1.3 Imports and Exports

Out of the surveyed enterprises, while 45% did not import from SADC, 27.5% had annual SADC imports worth less than USD 25,000. On the other hand, only 15% had annual SADC imports worth over USD 100,000. The remaining 12.5% had imports whose worth was between USD 25,000 and USD 100,000 (Table 3.2).

**Table 3.2: Annual SADC Imports**

| Turnover (USD) | Frequency | Percent | Valid Percent |
|---|---|---|---|
| Do not import from SADC | 18 | 45.0 | 45.0 |
| < 25,000 | 11 | 27.5 | 27.5 |
| 25,000 – 50,000 | 4 | 10.0 | 10.0 |
| 50,001 – 100,000 | 1 | 2.5 | 2.5 |
| > 100,000 | 6 | 15.0 | 15.0 |
| Total | 40 | 100.0 | 100.0 |

*Source: Own Computations Based on Survey (2005)*

As for the non-SADC imports, while 27.5% of the sampled enterprises did not import anything, 45% made importations worth more than USD 100,000, and 17.5% made importations worth USD 50,000 – 100,000. The other 10% had imports worth less than USD 50,000. This confirms the fact that non-SADC countries, particularly from Europe contribute most of Tanzania's imports though the share has been declining recently as those from Asia and Africa rise (Table 3.3).

**Table 3.3: Annual Non-SADC Imports**

| Turnover (USD) | Frequency | Percent | Valid Percent |
|---|---|---|---|
| Do not import from non-SADC countries | 11 | 27.5 | 27.5 |
| < 25,000 | 2 | 5.0 | 5.0 |
| 25,000 – 50,000 | 2 | 5.0 | 5.0 |
| 50,001 – 100,000 | 7 | 17.5 | 17.5 |
| > 100,000 | 18 | 45.0 | 45.0 |
| Total | 40 | 100.0 | 100.0 |

*Source: Own Computations Based on Survey (2005)*

In terms of exports, 30% of the sampled enterprises did not export to any of the SADC countries. While 22.5% had exports worth more than USD 100,000 20% had exports worth less than USD 25,000.

Another 20% had exports between USD 25,000 and 50,000, and 7.5% between USD 50,000 and 100,000 (Table 3.4).

**Table 3.4: Annual SADC Exports**

| Turnover (USD) | Frequency | Percent | Valid Percent |
|---|---|---|---|
| Do not export to SADC | 12 | 30.0 | 30.0 |
| < 25,000 | 8 | 20.0 | 20.0 |
| 25,000 – 50,000 | 8 | 20.0 | 20.0 |
| 50,001 – 100,000 | 3 | 7.5 | 7.5 |
| > 100,000 | 9 | 22.5 | 22.5 |
| **Total** | **40** | **100.0** | **100.0** |

*Source: Own Computations Based on Survey (2005)*

Again, while 35% of the sampled enterprises did not export to non-SADC countries, 27.5% had exports worth more than USD 100,000, and 17.5% had exports with a value of less than USD 25,000. Another 20% were between USD 25,000 and 100,000 (Table 3.5).

**Table 3.5: Annual Non-SADC Exports**

| Turnover (USD) | Frequency | Percent | Valid Percent |
|---|---|---|---|
| Do not export to non-SADC countries | 14 | 35.0 | 35.0 |
| < 25,000 | 7 | 17.5 | 17.5 |
| 25,000 – 50,000 | 6 | 15.0 | 15.0 |
| 50,001 – 100,000 | 2 | 5.0 | 5.0 |
| > 100,000 | 11 | 27.5 | 27.5 |
| **Total** | **40** | **100.0** | **100.0** |

*Source: Own Computations Based on Survey (2005)*

### 3.1.4 Competition on the Domestic Market

The sampled enterprises seemed to face the greatest competition on the domestic market from Asian companies, as 45% of them acknowledged strong competition. The Rest of Africa and the Republic of South Africa followed by 15% and 12.5%, respectively. For the Rest of Africa, Kenya probably accounted for most of the competition because of the long historical trade links with Tanzania, and its membership to the EAC. It was also observed that 67.5% of the sampled enterprises faced no competition from Botswana, Lesotho, Namibia and Swaziland; and 50% faced no competition from other

SADC countries. It is important to note that of recent, trade between Tanzania and its SADC member countries have been on the increase. South Africa clearly shows increasing role in the Tanzanian economy and it enjoys a dominant economic position as a result of the SADC Trade Protocol.

## 3.2 Perceptions on Regional Integration within SADC

### 3.2.1 Ratings for Regional Integration Effects

Respondents were asked how they rated the different effect of regional integration within SADC. Table 3.6 presents the summary statistics of the responses. The most positive effect highly rated as being a result of regional integration, was the increase in efficiency of companies, in order to stay competitive (55.0%). This was followed by the reduction in prices of consumer goods due to increased competition in the domestic market (27.5%), positive impact on company's turnover, and the general benefits of the economy as a whole (each 25%). On the negative side, regional integration was perceived to account for the influx of immigrants into the country (22.5%). However, 45% of the sampled enterprises thought they would have responded differently had the same question been asked on regional integration within COMESA or EAC.

Table 3.6: Percentage Ratings for General Regional Integration Effects

| Integration Element | Agree Strongly | Agree | Disagree | Disagree Strongly | Don't know | Valid Cases* |
|---|---|---|---|---|---|---|
| Increase competition on the domestic market | 37.5 | 35 | 17.5 | 2.5 | 7.5 | 100 |
| Reduces prices of inputs | 15.0 | 42.5 | 30.0 | 5.0 | 7.5 | 100 |
| Reduces prices of consumer goods | 27.5 | 42.5 | 22.5 | 0 | 2.5 | 95 |
| Increases efficiency of own company | 55.0 | 35.0 | 2.5 | 0 | 5.0 | 97.5 |
| Positive impact on the company's turn over | 25.0 | 37.5 | 20.0 | 5.0 | 10.0 | 97.5 |
| Positive impact on other domestic producers | 22.5 | 35.0 | 25.0 | 2.5 | 12.5 | 97.5 |
| Benefits the economy in general | 25.0 | 37.5 | 7.5 | 2.5 | 12.5 | 85 |
| Provides new export opportunities | 15 | 55.0 | 5.0 | 5.0 | 15 | 95 |
| Provides new investment opportunities | 10.0 | 60.0 | 2.5 | 2.5 | 22.5 | 97.5 |
| Reduces unemployment rates | 5.0 | 25.0 | 42.5 | 7.5 | 20.0 | 100 |
| Lowers costs of labour | 2.5 | 27.5 | 50.0 | 2.5 | 15.0 | 97.5 |
| Results in influx of immigrants | 22.5 | 52.5 | 10.0 | 0 | 15.0 | 100 |
| Enhances human rights situation in the country | 2.5 | 37.5 | 17.5 | 5.0 | 37.5 | 100 |
| Reduces political sovereignty of the country | 5.0 | 30.0 | 27.5 | 7.5 | 30.0 | 100 |

***** *Percentage of total respondents that responded*

*Source: Based on Survey Results (2005)*

### 3.2.2 Trade Barriers Experienced within SADC

About 43% of the sampled enterprises experienced trade barriers in the exportation and importation of goods to and from SADC countries. However, most of the trade barriers identified by the respondents reflected the common structural problems limiting productive capacity of the economy. Results on the ranking of different trade barriers are shown on Table 3.7. Note however, that only about 50% of the sampled enterprises responded to this question since some did not trade within the region.

High transportation costs were perceived by 32.5% of the respondents as the most critical barrier in exporting and importing goods to and from SADC countries. This was followed by import duties and taxes having to be paid in cash, and substantial paper work and bureaucracy, both of which accounted for 22.5% of the respondents who found them as being very relevant. Exchange rate uncertainty was also identified by 20% of the sampled enterprises as a constraint. Barriers, perceived as least critical, included the requirement of export/ import licenses and permit, visa requirements for traveling abroad, and risk of non-payment of customers abroad.

Table 3.7: Percentage Ranking of Barriers to Trade in SADC

| Barrier | Very Relevant | Relevant | Hardly Relevant | Not at all Relevant | Does not Apply | Valid Cases* |
|---|---|---|---|---|---|---|
| Customs tariffs currently employed | 15.0 | 10.0 | 15.0 | 5.0 | 2.5 | 47.5 |
| Import duties and taxes have to be paid in cash | 22.5 | 7.5 | 10.0 | 5.0 | 2.5 | 47.5 |
| Sanitary and phyto-sanitary regulations | 5.0 | 5.0 | 12.5 | 10.0 | 15.0 | 47.5 |
| Rules of origin | 10.0 | 7.5 | 12.5 | 12.5 | 5.0 | 47.5 |
| Export/import licenses and permit required | 7.5 | 7.5 | 7.5 | 17.5 | 7.5 | 47.5 |
| Lack of transparency of rules and regulations abroad | 10.0 | 22.5 | 5.0 | 10.0 | 0 | 47.5 |
| Time consuming customs procedures | 17.5 | 22.5 | 5.0 | 2.5 | 0 | 47.5 |
| Substantial paper work, bureaucracy | 22.5 | 15.0 | 0 | 2.5 | 5.0 | 45 |
| Corruption of officials | 10.0 | 22.5 | 2.5 | 7.5 | 5.0 | 47.5 |
| Lack of information about foreign markets | 7.5 | 12.5 | 10.0 | 15.0 | 2.5 | 47.5 |
| Visa requirements for traveling abroad | 12.5 | 5.0 | 7.5 | 17.5 | 5.0 | 47.5 |
| Exchange rate uncertainty | 20.0 | 5.0 | 17.5 | 2.5 | 2.5 | 47.5 |
| Risk of non-payment of customers abroad | 10.0 | 10.0 | 7.5 | 15.0 | 5.0 | 47.5 |
| No export insurance available to cover payment risks of exports | 5.0 | 10.0 | 12.5 | 15.0 | 7.5 | 50 |
| Poor regional communication infrastructure | 12.5 | 15.0 | 10.0 | 7.5 | 2.5 | 47.5 |
| High regional communication costs | 15.0 | 15.0 | 10.0 | 5.0 | 2.5 | 47.5 |
| Weak regional transport infrastructure | 17.5 | 17.5 | 10.0 | 0 | 2.5 | 47.5 |
| High transport costs | 32.5 | 7.5 | 7.5 | 2.5 | 0 | 50 |
| Weak low enforcement in export destination | 15.0 | 7.5 | 7.5 | 10.0 | 7.5 | 47.5 |
| Others | 5.0 | 0 | 0 | 2.5 | 2.5 | 10 |

* *Percentage of total respondents that responded.*

*Source: Based on Survey Results (2005)*

Additional information revealed during the interviews reflected that the trade potential in Tanzania is severely limited by low levels of production capacity. That is to say, even if all tariff and non-tariff barriers were to be addressed, and markets made available, several factors will continue to limit international trade. These include high production costs reflected in energy costs, poor infrastructure, and high costs of borrowing where loans are accessible. There is also a problem of poor quality products caused by low levels of technology and lack of effective quality control standards. The low levels of marketability (especially for agro-products) also arise from lack of advanced preservation and storage equipments/technology, and low level of processing and packaging skills. It is also important to observe that most of these factors are interwoven with the critical problem of lack of finance/ capital.

### 3.2.3 Effects of Increased Regional Integration

Respondents were asked how they perceived the result/impact of increased regional integration to their firms. Table 3.8 shows a summary of the perceptions. According to most enterprises surveyed (82.5%), what was likely to happen was increased exportation to other SADC countries. Another likely occurrence (62.5%) was the increase in domestic production, probably as a result of increased exports. What was perceived by most enterprises (62.5%) as unlikely to occur was the closing down of production in the country. Another unlikely occurrence (40%) was for the enterprises to opt to invest abroad. However, it was not possible for the enterprises to indicate exactly by what percentage they would be impacted by increased regional integration. It was also not possible to realistically quantify the annual gains (or losses). Nevertheless, these perceptions indicate that most enterprises believe that they are capable of competing in the regional market with increased integration.

Table 3.8: Percentage Ratings on the Impact of Increased Regional Integration on Firms

| Result | Likely | Unlikely | Don't Know | Dose Not Apply | Valid Cases* |
|---|---|---|---|---|---|
| Retrenching employees | 10.0 | 19.0 | 4.0 | 6.0 | 97.5 |
| Employing more workers | 47.5 | 27.5 | 7.5 | 15.0 | 97.5 |
| Increasing domestic production | 62.5 | 12.5 | 17.5 | 5.0 | 97.5 |
| Investing abroad | 22.5 | 40.0 | 25.0 | 10.0 | 97.5 |
| Closing down production in the country | 15.0 | 62.5 | 5.0 | 10.0 | 92.5 |
| Seeking joint venture with companies in other SADC countries | 42.5 | 32.5 | 15.0 | 7.5 | 97.5 |
| Venturing into new business activities | 55.0 | 25.0 | 7.5 | 7.5 | 95 |
| Importing more from other SADC countries | 35.0 | 37.5 | 10.0 | 12.5 | 95 |
| Exporting more to other SADC countries | 82.5 | 10.0 | 5.0 | 2.5 | 100 |
| Having access to cheaper inputs | 52.5 | 27.5 | 10.0 | 7.5 | 97.5 |
| Having access to cheaper foreign labour | 27.5 | 40.0 | 10.0 | 17.5 | 95 |

***** *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

## 3.3 Policy Debate Concerning Regional Integration

### 3.3.1 Regional Integration as a Topic in Public Debate

Respondents were asked whether or not regional integration was a topic in public debate in the country, and Table 3.9 summarises the results of their perceptions. About 35% of the surveyed enterprises perceived the country to be placing high priority on regional integration, and that it was a topic of public debate. However, 77.5% of them perceived that the EAC integration was where much of the current debate was focused on. There was less debate on SADC (15%) and COMESA (10%), more so with the latter where Tanzania withdrew its membership.

Table 3.9: Percentage Ratings on Regional Integration as a Topic of Public Debate

| Area of Integration | Yes, Very Much | Yes, But Not So Prominent | No | Don't Know | Valid Cases* |
|---|---|---|---|---|---|
| Integration in General | 35.0 | 27.5 | 10.0 | 12.5 | 85 |
| SADC Integration | 15.0 | 37.5 | 30.0 | 12.5 | 95 |
| COMESA Integration | 10.0 | 30.0 | 37.5 | 15.0 | 92.5 |
| EAC Integration | 77.5 | 10.0 | 7.5 | 2.5 | 97.5 |

* *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

In terms of attending meetings on regional integration (Table 3.10), again the EAC integration meetings were the ones most attended by the surveyed enterprises. However, this question was perceived as not applicable to most of the enterprises, and this was possibly as a result of minimum participation of business firms in such meetings. In most cases, attendance to such meetings is the privilege of Government officials, and other Non-State Actors.

Table 3.10: Percentage Ratings on Attending Meetings on Regional Integration

| Area of Integration | Yes, Regularly | Yes, Sometimes | No, Because No Workshop Were Offered | No, But Workshops | Does Not Apply | Valid Cases* |
|---|---|---|---|---|---|---|
| Integration in General | 2.5 | 15.0 | 25.0 | 5.0 | 22.5 | 70 |
| SADC Integration | 2.5 | 17.5 | 27.5 | 12.5 | 30.0 | 90 |
| COMESA Integration | 7.5 | 5.0 | 25.0 | 7.5 | 45.0 | 90 |
| EAC Integration | 15.0 | 22.5 | 22.5 | 15.0 | 17.5 | 92.5 |

* *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

### 3.3.2 Overall Preference to Regional Integration

Respondents were asked if they were in favour of regional integration, and Table 3.11 summarises their responses. Almost half of the surveyed enterprises were strongly in favour of regional integration in whatever form, but again most of them (62.5%) were in favour of the EAC integration. This is expected, since as opposed to SADC and COMESA, the EAC has a long history of cooperation between three "similar" neighbouring countries (Kenya, Uganda and Tanzania). The EAC integration has been widely debated by various stakeholders and substantial progress has been made in the implementation of a number of agreed integration targets including the Customs Union Protocol.

**Table 3.11: Percentage Ratings on Preference to Regional Integration**

| Area of Integration | Yes, Strongly | Yes, Slightly | No | Don't Know | Valid Cases* |
|---|---|---|---|---|---|
| Integration in General | 45.0 | 25.0 | 10.0 | 5.0 | 85 |
| SADC Integration | 42.5 | 12.5 | 12.5 | 20.0 | 87.5 |
| COMESA Integration | 40.0 | 20.0 | 5.0 | 25.0 | 90 |
| EAC Integration | 62.5 | 15.0 | 10.0 | 2.5 | 90 |

* *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

When asked how far they would like regional integration to go, the respondents had divergent views as summarized in Table 3.12. The dominant view was the reduction of tariffs within SADC (80%). Other opinions were removal of all trade restrictions in the SADC region (77.5%), removing tariffs within SADC, and establishing a Common External Tariff to all other countries (72.5%), and designing competition and trade policies for SADC as a whole (72.5%). Integration levels not preferred included the creation of a single currency within SADC (27.5%), and the removal of restrictions on the free movement of labour within SADC.

**Table 3.12: Percentage Ratings on the Preferred Direction of SADC Integration**

| Degree of Regional Integration | Yes | No | Don't Know | Valid Cases* |
|---|---|---|---|---|
| Reduce tariffs within SADC | 80.0 | 5.0 | 10.0 | 95 |
| Remove tariffs within SADC, establish Common External Tariff to all other countries | 72.5 | 10.0 | 17.5 | 100 |
| Remove all trade restrictions within SADC | 77.5 | 7.5 | 12.5 | 97.5 |
| Remove restrictions on the free movement of capital within SADC | 70.0 | 10.0 | 15.0 | 95 |
| Remove restrictions on the free movement of labour within SADC | 60.0 | 25.0 | 10.0 | 95 |
| Remove restrictions on the free movement of services within SADC | 67.5 | 12.5 | 15.0 | 95 |
| Implement same levels of taxes within SADC | 67.5 | 15.0 | 15.0 | 97.5 |
| Design competition and trade policies for SADC as a whole | 72.5 | 7.5 | 17.5 | 97.5 |
| Create single currency within SADC | 42.5 | 27.5 | 27.5 | 97.5 |
| Create political union with parliament and executive | 30.0 | 32.5 | 35.0 | 97.5 |

* *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

### 3.3.3 Other General Views and Perceptions on SADC Integration

Other general views and opinions expressed during the survey of business enterprises included the need to ensure effective implementation of agreed policies and programmes within SADC so as to deliver tangible services and benefits. It was also suggested that SADC should be realistic in terms of mapping priority objectives/ interventions, and appropriate sequencing of activities, and setting the timeframe for various activities and to avoid being too optimistic. SADC should also provide for greater involvement of the key stakeholders (e.g. private sector and civil society), and provide for an effective institutional mechanism for overseeing implementation of agreed initiatives.

For the SADC region to benefit from the increased cross-border trade, the trade has to be in goods and services produced within the region. It was therefore suggested that greater focus be placed on measures that spur growth of the productive sectors (agriculture, industry, and tourism). It was also noted that bridging the infrastructural gap has the potential for deepening integration through the sharing of the production, management, and operations of infrastructural facilities, hubs, and development corridors. Strategic regional infrastructure interventions were seen as key to attracting investment into the region, improving competitiveness, and promoting trade. The overall objective of interventions should therefore be to ensure the availability of a sufficient, integrated, efficient, and cost effective infrastructure systems and the provision of sustainable services that will support and sustain economic development in the SADC region.

# 4 Perceptions of Non-State Actors on Regional Integration

## 4.1 Institutional Profiles

Majority of institutions sampled (40%) were industry associations. Civil Society organisations accounted for 30%, professional associations 20%, and other types of institutions (namely cooperatives) 10%. Over half of the institutions (70%) had been established for more than 10 years. Those, which had 6–10 years of operations, accounted for 20% while, those in business for 2–3 years accounted for 10%. Only 10% of them were members of the SADC National Committee, although 70% were members of regional umbrella organisations.

## 4.2 Perceptions on Regional Integration within SADC

### 4.2.1 Ratings for Regional Integration Effects

Respondents were asked how they rated the different effect of regional integration within SADC. Table 4.1 presents the summary statistics of the responses. Positive effects highly rated as being a result of regional integration, were the increase in efficiency of domestic companies in order to stay competitive, and the positive impact on domestic companies' turnover, both of which accounted for 20% of the respondents who agreed strongly. Other positive effects which respondents agreed include benefiting the economy in general, reducing prices of consumer goods, providing new export opportunities, and lowering labour costs.

On the negative side, regional integration was perceived to account for the influx of immigrants into the country (40%). On whether or not the respondents would have responded differently had the same question been asked on regional integration within COMESA or EAC, there were divergent views with almost half of them saying yes, and others saying no.

Table 4.1: Percentage Ratings for General Rgional Integration Effects

| Integration Element | Agree Strongly | Agree | Disagree | Disagree Strongly | Don't know | Valid Cases* |
|---|---|---|---|---|---|---|
| Increase competition on the domestic market | 50.0 | 50.0 | 0 | 0 | 0 | 100 |
| Reduces prices of inputs | 10.0 | 50.0 | 20.0 | 0 | 20.0 | 100 |
| Reduces prices of consumer goods | 10.0 | 70.0 | 10.0 | 0 | 10.0 | 100 |
| Increases efficiency of domestic production | 20.0 | 40.0 | 30.0 | 0 | 10.0 | 100 |
| Positive impact on domestic companies' turn over | 20.0 | 20.0 | 40.0 | 0 | 20.0 | 100 |
| Benefits the economy in general | 10.0 | 80.0 | 0 | 0 | 10.0 | 100 |
| Provides new export opportunities | 10.0 | 60.0 | 20.0 | 0 | 10.0 | 100 |
| Provides new investment opportunities | 10.0 | 50.0 | 30.0 | 0 | 10.0 | 100 |
| Reduces unemployment rates | 0 | 0 | 50.0 | 20.0 | 30.0 | 100 |
| Lowers costs of labour | 0 | 60.0 | 10.0 | 0 | 30.0 | 100 |
| Results into influx of immigrants | 40.0 | 30.0 | 20.0 | 0 | 10.0 | 100 |
| Enhances human rights situation in the country | 0 | 10.0 | 50.0 | 0 | 40.0 | 100 |
| Reduces political sovereignty of the country | 0 | 40.0 | 50.0 | 0 | 10.0 | 100 |

* Percentage of total respondents that responded

Source: Based on Survey Results (2005)

### 4.2.2 Barriers to Businesses in the Country

The results on ranking of the different trade barriers are shown on Table 4.2. Respondents seemed to consider infrastructure as key to attracting investment into the region, improving competitiveness, and promoting trade. This is because barriers, which were identified as very critical, included weak regional transport infrastructure (60%), high regional communication costs (60%), and high transport costs (50%). These were followed by customs tariffs currently employed (50%), and substantial paper work and bureaucracy (50%). Surprisingly, as opposed to business enterprises, non-state actors perceived exchange rate uncertainty as least critical.

Table 4.2: Percentage Ranking of Barriers to Businesses in the Country

| Barrier | Very Relevant | Relevant | Hardly Relevant | Not at all Relevant | Don't Know | Valid Cases* |
|---|---|---|---|---|---|---|
| Customs tariffs currently employed | 50.0 | 10.0 | 20.0 | 0 | 10.0 | 90 |
| Import duties and taxes have to be paid in cash | 30.0 | 10.0 | 20.0 | 10.0 | 10.0 | 80 |
| Sanitary and phyto-sanitary regulations | 40.0 | 10.0 | 0 | 30.0 | 10.0 | 90 |
| Rules of Origin | 30.0 | 30.0 | 0 | 10.0 | 20.0 | 90 |
| Export/import licenses and permit required | 10.0 | 40.0 | 20.0 | 10.0 | 10.0 | 90 |
| Lack of transparency of rules and regulations abroad | 30.0 | 10.0 | 30.0 | 10.0 | 10.0 | 90 |
| Time consuming customs procedures | 40.0 | 50.0 | 0 | 10.0 | 0 | 100 |
| Substantial paper work, bureaucracy | 50.0 | 30.0 | 0 | 10.0 | 0 | 90 |
| Corruption of officials | 40.0 | 30.0 | 0 | 10.0 | 10.0 | 90 |
| Lack of information about foreign markets | 40.0 | 40.0 | 0 | 10.0 | 0 | 90 |
| Visa requirements for traveling abroad | 30.0 | 40.0 | 20.0 | 0 | 10.0 | 100 |
| Exchange rate uncertainty | 30.0 | 20.0 | 0 | 40.0 | 10.0 | 100 |
| Risk of non-payment of customers abroad | 20.0 | 20.0 | 10.0 | 10.0 | 30.0 | 90 |
| No export insurance available to cover payment risks of exports | 10.0 | 40.0 | 30.0 | 10.0 | 0 | 90 |
| Poor regional communication infrastructure | 30.0 | 70.0 | 0 | 0 | 0 | 100 |
| High regional communication costs | 60.0 | 10.0 | 20.0 | 10.0 | 0 | 100 |
| Weak regional transport infrastructure | 60.0 | 30.0 | 10.0 | 0 | 0 | 100 |
| High transport costs | 50.0 | 50.0 | 0 | 0 | 0 | 100 |
| Weak low enforcement in export destination | 0 | 50.0 | 20.0 | 10.0 | 20.0 | 100 |
| Others | 10.0 | 10.0 | 0 | 0 | 0 | 20 |

* *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

### 4.2.3 Effects of Regional Integration on Businesses in the Country

Respondents were asked how they perceived the result/impact of increased regional integration on businesses in the country. Table 4.3 shows the results of the perceptions. According to most of the institutions surveyed (90%), what is likely to happen as a result of increased regional integration in the region is that many domestic firms will venture into new businesses. This could be a result of increased competition in current businesses, or new export opportunities in the SADC region. Other likely occurrences that were perceived include, retrenching employees (80%), possibly as a result of less market share for some domestic firms, importing more from other SADC countries (70%), having access to cheaper inputs (70%), some firms closing down production in the country (60%), and seeking joint venture with companies in other SADC countries (60%). What was perceived as unlikely to happen was firms resorting to employing more workers, or investing abroad. However, just as was the case with business enterprises, the Non-State Actors surveyed were not in a position to realistically quantify by what percentage businesses would be impacted by increased regional integration.

**Table 4.3: Percentage Ratings on the Impact of Regional Integration on Businesses**

| Result | Likely | Unlikely | Don't Know | Valid Cases* |
|---|---|---|---|---|
| Retrenching employees | 80.0 | 10.0 | 10.0 | 100 |
| Employing more workers | 20.0 | 70.0 | 10.0 | 100 |
| Increasing domestic production | 60.0 | 30.0 | 10.0 | 100 |
| Investing abroad | 20.0 | 50.0 | 30.0 | 100 |
| Closing down production in the country | 60.0 | 30.0 | 10.0 | 100 |
| Seeking joint venture with companies in other SADC countries | 60.0 | 10.0 | 30.0 | 100 |
| Venturing into new business activities | 90.0 | 0 | 10.0 | 100 |
| Importing more from other SADC countries | 70.0 | 10.0 | 20.0 | 100 |
| Exporting more to other SADC countries | 50.0 | 30.0 | 20.0 | 100 |
| Having access to cheaper inputs | 70.0 | 20.0 | 10.0 | 100 |
| Having access to cheaper foreign labour | 30.0 | 60.0 | 10.0 | 100 |

***** *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

### 4.2.4 Policy Involvement of Non-State Actors and Policy Debate

Respondents were asked how they thought regional integration within SADC will impact on the policy involvement of non-state actors. About 40% of them indicated that regional integration will strongly strengthen policy involvement of Non-State Actors, and 30% perceived it to strengthen slightly. While 10% were not sure of the outcome, another 10% expected no changes. However, it was interesting to note that although all the surveyed institutions (100%) had been involved in the design of domestic policies, only 30% were involved in SADC policies. When asked if they thought integration will impact on Non-State Actors' influence on domestic policy, about 60% believed that it would slightly strengthen influence.

### 4.2.5 Regional Integration as a Topic in Public Debate

Respondents were asked whether or not regional integration was a topic in public debate in the country and Table 4.4 shows the results of their perceptions. Results indicate that 60% of the surveyed institutions perceived the country to be placing high priority on regional integration in general, as it is a topic of public debate. However, just as was the case with business enterprises, 70% of them thought that the EAC integration is where much of the current debate is focused on. They perceived less debate on SADC (30%) and COMESA (50%).

Table 4.4: Percentage Ratings on Regional Integration as a Topic of Public Debate

| Area of Integration | Yes, Very Much | Yes, But Not So | No | Don't Know | Valid Cases* |
|---|---|---|---|---|---|
| Integration in General | 60.0 | 30.0 | 0 | 0 | 90 |
| SADC Integration | 30.0 | 40.0 | 0 | 10.0 | 80 |
| COMESA Integration | 50.0 | 10.0 | 10.0 | 10.0 | 80 |
| EAC Integration | 70.0 | 0 | 0 | 10 | 80 |

* *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

When asked if their organisations had discussed the impacts of regional integration, most of the Non-State Actors surveyed (80%) have discussed regional integration in general, and less than 50% on the other specific integration arrangements (Table 4.5)

**Table 4.5: Percentage Ratings on Discussing Impacts of Regional Integration**

| Area of Integration | Yes, Regularly | Yes, Sometimes | No | Don't Know | Valid Cases* |
|---|---|---|---|---|---|
| Integration in General | 80.0 | 0 | 10.0 | 0 | 90 |
| SADC Integration | 40.0 | 40.0 | 10.0 | 0 | 90 |
| COMESA Integration | 30.0 | 40.0 | 20.0 | 0 | 90 |
| EAC Integration | 30.0 | 20.0 | 30.0 | 0 | 80 |

* Percentage of total respondents that responded.
Source: Based on Survey Results (2005)

Again, when asked if they had organised public workshops and/or seminars to discuss regional integration, it became evident that most of them (more that 50%) had never organised such events. Only a few had sometimes organised workshops/seminars on regional integration in general (Table 4.6). This emphasises the fact that Non-State Actors in the country have not been in the forefront in debating issues of regional integration. In terms of taking other measures such as press releases to raise the issues of regional integration, 60% of the institutions indicated that they sometimes take such measures for integration in general. Most of them however, have never done so for specific integration arrangements.

**Table 4.6: Percentage Ratings on Organising Public Workshops/Seminars on Regional Integration**

| Area of Integration | Yes, Regularly | Yes, Sometimes | No | Don't Know | Does Not Apply | Valid Cases* |
|---|---|---|---|---|---|---|
| Integration in General | 0 | 40.0 | 50.0 | 10.0 | 0 | 100 |
| SADC Integration | 20.0 | 0 | 60.0 | 10.0 | 0 | 90 |
| COMESA Integration | 10.0 | 20.0 | 50.0 | 10.0 | 0 | 90 |
| EAC Integration | 10.0 | 20.0 | 50.0 | 10.0 | 0 | 90 |

* Percentage of total respondents that responded.
Source: Based on Survey Results (2005)

In terms of attending workshops and/or seminars where regional integration is discussed, institutions surveyed had mixed responses. While some attended such workshops, some responded that they did not because no such workshops were offered (Table 4.7). This again shows non Non-State Actors in the country have not been actively involved in regional integration issues. In terms of being invited to SADC National Committee meetings, 50% of the respondents claimed to never have been invited to such meetings. About 30% were either invited regularly or sometimes. Similar responses were given when asked if they actually attended such meetings when invited. However, all respondents (100%) were of the opinion that there is need to increase the capacity among Non-State Actors to participate in committees on regional issues. Areas which were suggested by the respondents in terms of capacity building included Multilateral Trade Agreements and issues related to WTO, GATS, and TRIPS.

**Table 4.7: Percentage Ratings on Attending Workshops and/or Seminars Discussing Regional Integration**

| Area of Integration | Yes, Regularly | Yes, Sometimes | No Because No Workshop Were Offerd | No But Workshops Were Offered | Don't Know | DoesValid Not Apply |
|---|---|---|---|---|---|---|
| Integration in General | 30.0 | 30.0 | 30.0 | 0 | 0 | 0 90 |
| SADC Integration | 40.0 | 10.0 | 30.0 | 0 | 0 | 0 80 |
| COMESA Integration | 10.0 | 30.0 | 30.0 | 0 | 10.0 | 0 80 |
| EAC Integration | 20.0 | 20.0 | 50.0 | 0 | 10.0 | 0 100 |

* *Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

## 4.2.6 Overall Preference to Regional Integration

Respondents were asked if they were in favour of regional integration, and Table 4.8 shows their responses. More than two thirds of the surveyed enterprises were strongly in favour of regional integration in general. On specific regional integration groupings, 70% strongly favoured SADC, 60% strongly favoured EAC, and another 50% COMESA.

Table 4.8: Percentage Ratings on Preference to Regional Integration

| Area of Integration | Yes, Strongly | Yes, Slightly | | No Don't Know | Valid Cases* |
|---|---|---|---|---|---|
| Integration in General | 70.0 | 10.0 | 10.0 | 0 | 90 |
| SADC Integration | 70.0 | 10.0 | 20.0 | 0 | 100 |
| COMESA Integration | 50.0 | 20.0 | 10.0 | 10.0 | 90 |
| EAC Integration | 60.0 | 20.0 | 10.0 | 10.0 | 100 |

** Percentage of total respondents that responded.*
*Source: Based on Survey Results (2005)*

When asked how far they would like regional integration to proceed, respondents expressed different views as presented in Table 4.9. The dominant views were the reduction of tariffs within SADC (90%), and designing of competition and trade policies for SADC as a whole (90%). Other integration measures that were strongly suggested include removal of all trade restrictions in the SADC region (70%), removing tariffs within SADC and establishing a Common External Tariff to all other countries (70%), removing restrictions on the free movement of capital within SADC (60%), and creating regional umbrella organisations (60%). However, integration levels that were strongly opposed included creating a political union with parliament and executive (80%), and the removal of restrictions on the free movement of labour within SADC (70%).

Table 4.9: Percentage Ratings on the Preferred Direction of SADC Integration

| Degree of Regional Integration | Yes | No | Don't Know | Valid Cases* |
|---|---|---|---|---|
| Reduce tariffs within SADC | 90.0 | 0 | 0 | 90 |
| Remove tariffs within SADC, establish Common External Tariff to all other countries | 70.0 | 20.0 | 0 | 90 |
| Remove all trade restrictions within SADC | 70.0 | 20.0 | 0 | 90 |
| Remove restrictions on the free movement of capital within SADC | 60.0 | 40.0 | 0 | 100 |
| Remove restrictions on the free movement of labour within SADC | 30.0 | 70.0 | 0 | 100 |
| Remove restrictions on the free movement of services within SADC | 60.0 | 40.0 | 0 | 100 |
| Implement same levels of taxes within SADC | 50.0 | 40.0 | 0 | 90 |
| Design competition and trade policies for SADC as a whole | 90.0 | 0 | 10.0 | 100 |
| Create single currency within SADC | 30.0 | 50.0 | 20.0 | 100 |
| Create political union with parliament and executive | 10.0 | 80.0 | 10.0 | 100 |
| Create regional umbrella organisations | 60.0 | 0 | 40.0 | 100 |

* Percentage of total respondents that responded.
Source: Based on Survey Results (2005)

### 4.2.7 Other General Views and Perceptions on SADC Integration

Other general views and perceptions, which were expressed during the survey of Non-State Actors included the need to promote broader participation of all stakeholders (including Non-State Actors) in regional integration initiatives. Respondents felt that currently, this segment of society is left out. They also stressed the need to institute safeguards, taking into account the different levels of development of countries and apply the principle of asymmetry where appropriate. They said the objectives of SADC integration initiatives should be to develop policies and programmes aimed at widening and deepening cooperation among member countries in political, economic, social and cultural fields, for the mutual benefit.

# 5 Conclusion and Recommendations

Tanzania has made substantial changes in its trade policies since the mid-80s in line with market liberalisation policies. In general, a more liberal trading environment has replaced interventionist and protectionist policies of the 1967-85 period. The current trade policy envisages transforming the economy into a competitive export-led growth, but supply-side limitations will be binding. It envisages harmonising Tanzania's trade policies with SADC trade protocol and other regional and international trade agreements. Regional and multilateral trade agreements have brought up new trade partners. In the case of SADC, South Africa is now a significant player, and a notable partner for Tanzania's prospective trade.

Trade between Tanzania and its SADC member countries has been low compared to other regions such as Asia and the EU, but is on the increase. South Africa clearly shows increasing role in the Tanzanian economy and it enjoys a dominant economic position as a result of the SADC Trade Protocol. Regional integration can result in increased competition in the domestic market. Some of the critical constraints to trade in the region include both tariff and non-tariff barriers such as customs tariffs currently employed, substantial paper work and bureaucracy, and exchange rate uncertainty.

Trade potential in Tanzania is also severely limited by low levels of production capacity. That is to say, even if all tariff and non-tariff barriers were to be addressed, and markets made available, several factors will continue to limit international trade. These include high production costs reflected in energy costs, poor infrastructure, and high costs of borrowing where loans are accessible. There is also a problem of poor quality products caused by low levels of technology and lack of effective quality control standards. The low levels of marketability (especially for agro-products) also arise from lack of advanced preservation and storage equipments/technology, and low level of processing and packaging skills. It is also important to observe that most of these factors are interwoven with the critical problem of lack of finance/ capital.

The country places high priority on regional integration, and it is a topic of public debate. However, participation of stakeholders has been limited mostly to the Government and its agencies, with business entities and Non-State Actors being left behind. There is need therefore to promote broader participation of all stakeholders.

At the regional (SADC) level, there is need to ensure effective implementation of agreed policies and programmes so as to deliver tangible services and benefits. It was also suggested that SADC should be realistic in terms of mapping priority objectives/ interventions, and appropriate sequencing of activities, and setting the timeframe for various activities and avoid being too optimistic. SADC should also provide for greater involvement of all stakeholders (including the private sector and civil society), and provide for an effective institutional mechanism for overseeing implementation of agreed initiatives.

Countries in SADC have reached different stages in the liberalisation of trade. Further policy reforms at individual country level should be targeted at the microlevel and may include, among others, measures to enhance (a) production of high quality products for the markets (b) traders to participate in the regional/international trade and exploit the available trade potential (c) institutions to build their capacity to support trade activities.

To hasten implementation of the SADC Protocol on Trade, harmonisation of various trade policies is inevitable. These include marketing policies, which favour increased production and efficient marketing channels operating under market forces. All unnecessary regulatory measures should be abolished, and the market should be allowed to determine prices. Inconsistent pricing and subsidy policies are among the major causes of informal trade. Policy formulation should not embrace such distorted measures that promote informal trade. Corruption and rent seeking practices will be reduced if countries agree on eliminating all existing trade barriers that are usually used by unfaithful civil servants to receive bribes from traders.

In order for SADC countries to attract trade amongst themselves, all technical barriers, including standards and quality requirements should be harmonised. No country should impose technical barriers on other countries in a manner that prohibits trade.

For the region to benefit from increased cross-border trade, that trade has to be in goods and services produced within the region. This calls for greater focus on measures or interventions that spur growth of the productive sectors (e.g. agriculture, industry, and tourism).

In order to achieve market integration between countries, marketing infrastructure linkage is extremely important. The existing infrastructure including storage facilities, market centres, grading equipments, road linkages and inefficient telecommunication system needs to be upgraded. Strategic regional infrastructure interventions are the keys to attracting investment into the region, improving competitiveness, and promoting trade. The overall objective of interventions should be to ensure the availability of a sufficient, integrated, efficient, and cost effective infrastructure systems and provision of sustainable services that will support and sustain regional economic development.

Firms exporting processed or manufactured products have more stable revenues than firms selling primary products. Promotion of value adding investment, particularly in the agricultural sector could reduce market risk associated with price instability. In addition, promotion of labour-intensive commodities will be important for trade to be employment generating.

Currently, availability of, and access to information on policy, prices, markets and trade developments, as well as the comprehensive analysis of such information is limited. Business firms and other stakeholders have limited information on many aspects of regional integration initiatives. Since information facilitates trade, countries should build capacities and establish fully operational information centres especially for trade. These centres should be linked and a system of information exchange established. A regional network can be established to provide networking facility for national markets and trade information centres and also coordinate information exchange and analysis. The Information centres will therefore have timely access to markets and trade information at regional level.

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"Regional Integration in Southern Africa"
is edited and published by the
Friedrich Ebert Foundation
Botswana Office
www.fes.org.bw