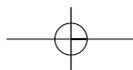
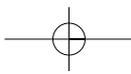
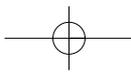
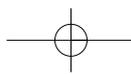


# Tanzania







# Tanzania

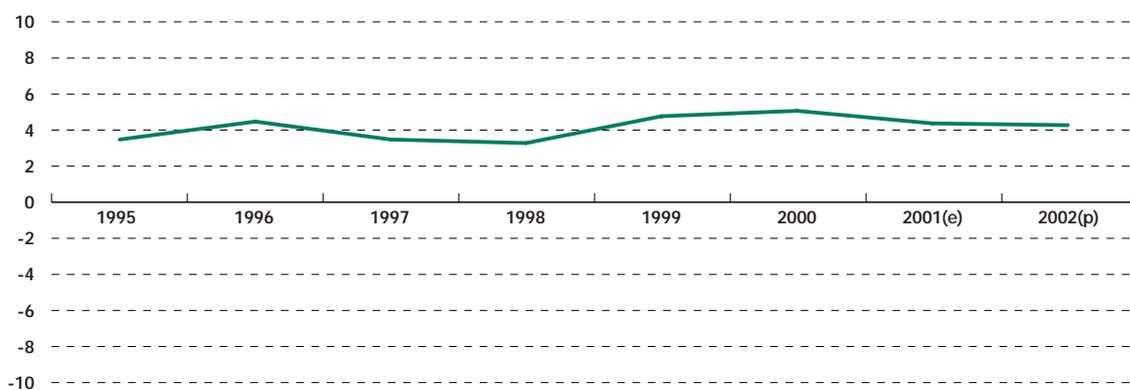
TANZANIA'S PROGRESS IN ECONOMIC reforms has resulted in the restoration of macroeconomic stability. Improvements in the fiscal situation and prudent monetary policies have contributed to declining inflation, declining cost of borrowing and relatively stable foreign exchanges. However, the external position of the country remains weak owing to poor export performance. Economic growth has responded positively to the improving macroeconomic situation. In 2000 real GDP growth rose to 5.1 per cent. The outlook on growth is for moderation with real GDP growth estimated at 4.4 per cent in 2001, and projected at 4.3 per cent in 2002, as Tanzania seeks to consolidate its macroeconomic stability. Tanzania is one of the poorest countries in the world. The poverty situation

is reflected in declining social indicators with Tanzanians having low life expectancy, compounded by HIV/AIDS, low primary school enrolment ratio and one of the lowest secondary school enrolment ratios in Africa. Tanzania's young democracy is functioning well. However, there are concerns with governance issues and corruption.

Tanzania continues to make progress in financial sector reforms, privatisation and in other areas. Though the privatisation process has been slow, Tanzania enjoys some comparative advantages in the mining and tourism sectors that could attract international investors to boost the structural transformation process.

Tanzania enjoys some comparative advantages in the mining and tourism sectors that could attract international investors

Figure 1 - Real GDP Growth



Source: Authors' estimates and predictions based on IMF data.

## Recent Economic Developments

The growth performance of Tanzania has strengthened, although growth rates have fluctuated from year to year reflecting the vulnerability of the economy to external shocks. Real GDP growth recorded 5.1 per cent in 2000 compared with 4.8 per cent in 1999 and 3.3 per cent in 1998. The major factor behind

the better growth performance is the improvement of weather conditions following the El Niño floods of 1998, which destroyed crops and damaged roads thereby disrupting internal movements of agricultural commodities as well as export shipments. Growth is estimated lower at 4.4 per cent in 2001 and is projected at 4.3 per cent in 2002, as Tanzania consolidates its macroeconomic stability.



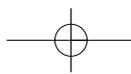
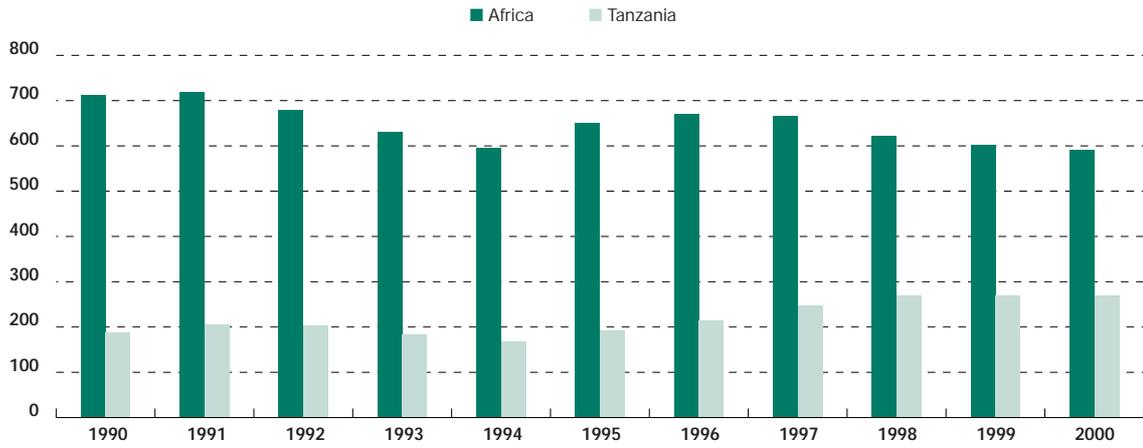


Figure 2 - GDP Per Capita in Tanzania and in Africa (current \$)

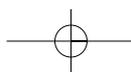


Source: Authors' estimates based on IMF data.

The structure of the Tanzanian economy has remained much the same in the recent past with agriculture as the mainstay of the economy, providing livelihood for over 80 per cent of the population and accounting for at least 50 per cent of export earnings. In 2000, the agricultural sector contributed about 48.1 per cent of GDP, with the services sector and the industrial sector accounting for 36 per cent and 15.9 per cent respectively. In 2000, growth in the agricultural sector bucked the overall GDP growth trend by recording lower growth of 3 per cent compared with 4.6 per cent in 1999. All the major sub-sectors recorded lower growth rates in 2000. The output of crops grew by 3 per cent compared with 4.6 per cent in 1999. The decline in the rate of growth in the output of crops was due to a decline in cash crop production. Food crops output improved with increased production of the main staples — maize, rice, wheat and pulses: maize output increased from 2.1 million tons in 1999 to 2.24 million tons in 2000; rice output increased from 865 000 tons to 990 000 tons; while the output of wheat rose from 69 000 tons to 120 000 tons over the same period. However, the improvement in food production was not nation-wide. In the central and north-eastern parts of the country there was drought, leading to severe food shortages. The World Food Programme estimated that over one million Tanzanians were affected. The smuggling of grain to Kenya in search of higher prices worsened the situation. However, the biggest

problem was the inability of the authorities to transport maize within Tanzania from areas of surfeit to areas of deficit. In cash crop production, cotton, tea, cashew nuts and tobacco recorded increased outputs, while sisal and coffee recorded output declines: the production of coffee decreased from 58 000 tons in 1999 to 48 000 tons in 2000. The outlook for coffee production remains bleak with the main problem being the old age of most of the coffee trees in Tanzania due to long-standing neglect and lack of major replanting. The livestock sub-sector did not fare well in 2000. Tanzania remains one of Africa's largest cattle producers, but epidemics of lung disease and rinderpest threatened stock levels in the mid-1990s. The national herd has not fully recovered, being estimated at 13.8 million in 2000, down from 14.0 million in 1999.

Growth in the industrial sector was stronger in 2000 at 6.7 per cent compared with 5.5 per cent in 1999. All the industrial sub-sectors shared in the higher growth, especially mining which saw strong recoveries in diamonds from 235 carats in 1999 to 354.4 carats in 2000, as well as in gold from 4 767 kg in 1999 to 15 060 kg in 2000 as the Ashanti Goldfields (T) Ltd commenced gold-mining operations in the country. Manufacturing output increased by 4.8 per cent in 2000 compared with 3.6 per cent in 1999, with the growth coming from food and beverage industries while output from other industries such as chemicals fell.



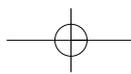
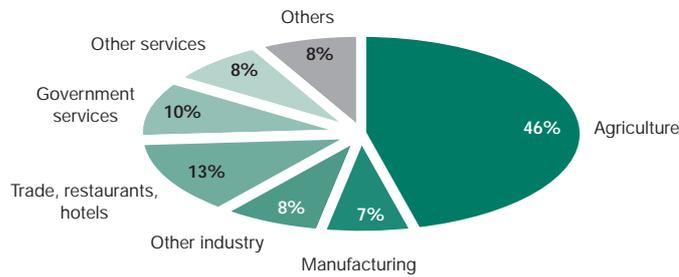
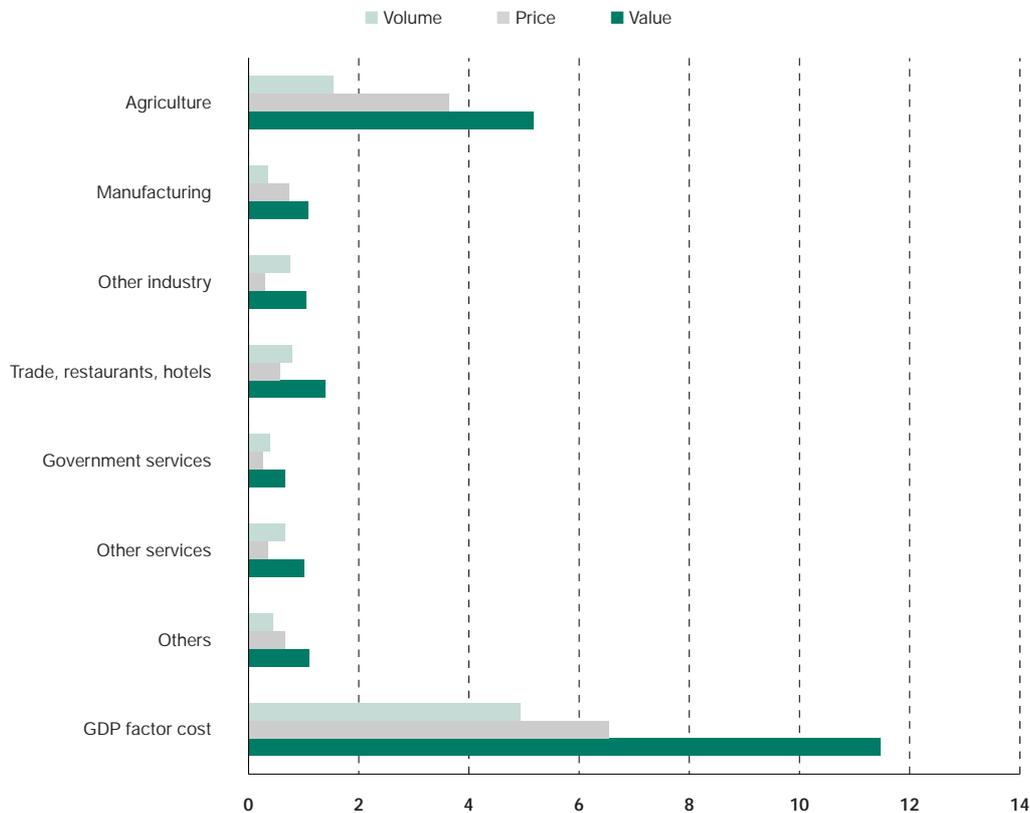


Figure 3 - GDP by Sector in 1999/2000



Source: Authors' estimates based on domestic authorities' data.

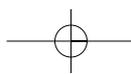
Figure 4 - Sectoral Contribution to GDP Growth, 1999/2000



Source: Authors' estimates based on domestic authorities' data.

The services sector grew by 6.4 per cent in 2000 compared with 1.8 per cent in 1999. The gains were in financial and business services while other sub-sectors including hotels and restaurants, transport and communications were flat on their 1999 levels.

The composition of demand is characterised by two striking features: first, the growth performance is characterised by high consumption, which inevitably implies low domestic savings and a high dependence on foreign savings; second, the public sector seemed



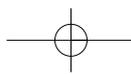


Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
<b>Gross capital formation</b>	<b>19.8</b>	<b>16.5</b>	<b>14.8</b>	<b>15.5</b>	<b>15.0</b>	<b>14.4</b>
Public	2.8	3.4	2.7	2.6	2.6	2.6
Private	16.9	13.1	12.0	13.0	12.5	11.8
<b>Consumption</b>	<b>96.7</b>	<b>98.1</b>	<b>96.7</b>	<b>95.0</b>	<b>97.2</b>	<b>98.3</b>
Public	15.3	11.6	8.7	9.5	9.4	9.1
Private	81.4	86.5	88.0	85.5	87.8	89.1
<b>External sector</b>	<b>-16.5</b>	<b>-14.6</b>	<b>-11.5</b>	<b>-10.5</b>	<b>-12.2</b>	<b>-12.7</b>
Exports	20.6	14.9	13.8	14.1	14.2	13.5
Imports	-37.1	-29.4	-25.3	-24.6	-26.4	-26.2

Source: Authors' estimates and predictions based on domestic authorities' data.

to have taken a back seat with respect to domestic investment. The situation appeared to reflect Tanzania's break with its socialist past where the public sector played the lead role in economic production. The outlook on the structure of the demand composition of GDP is stability with similar levels of consumption and investment expected in 2001 and 2002.

4.5 per cent of GDP compared with 4.0 per cent of GDP in 1998/99. This increase in grants largely explained the increase in total revenues from 14 per cent of GDP in 1998/99 to 15.3 per cent of GDP in 1999/2000 as tax revenue fell in 1999/2000.

Total expenditure also rose from 15.2 per cent of GDP in 1998/99 to 17 per cent of GDP in 1999/2000. However, wages and salaries fell in 1999/2000 as the government continued with its civil service reforms, which have seen the size of the civil service reduced from 355 000 in 1992/93 to 260 000 at the end of 1999/2000. Also, the wage bill gained from the strengthening of its control through the establishment of a centralised personnel database and a computerised pay roll system. At the same time, capital expenditure rose significantly in 1999/2000, as the government took advantage of the increase in grants to increase capital spending in the key social services of education and health. These expenditures led to the primary balance falling to 0.3 per cent of GDP in 1999/2000.

## Macroeconomic Policy

### *Fiscal and Monetary Policies*

Tanzania's fiscal performance has improved significantly since the country adopted the cash budget system, matching expenditures with available resources, in 1995/96. Rigorous implementation of the cash budget system, while at the same time implementing revenue-enhancing measures, helped to restore fiscal discipline within two years, which was subsequently sustained.

On the revenue side, introduction of new policies broadened the tax base, streamlined the tax system and strengthened tax administration. At June 2000, a number of tax reforms had been implemented including the operationalisation of the Tax Appeals Court, the introduction of VAT, and the introduction of Tax Identification Numbers (TIN). The fiscal consolidation efforts have been successful in maintaining fiscal stability. Tanzania has enjoyed a significant level of foreign grants. In 1999/2000, the level of grants increased to

In 1999/2000 the Tanzanian government continued its policy of not borrowing from the banking system to finance the budget deficit, relying instead on foreign savings. The outlook on the government fiscal operations is for stability in 2000/01 and 2001/02. The primary deficit is expected to remain modest at around 0.3 per cent of GDP in 2000/01 and 0.5 per cent in 2001/02 as Tanzania is expected to keep faith with its cash budget system and continue to enjoy the support of international donors.

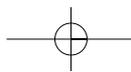


Table 2 - Public Finances<sup>a</sup> (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
<b>Total revenue and grants<sup>b</sup></b>	<b>14.7</b>	<b>14.2</b>	<b>14.0</b>	<b>15.3</b>	<b>15.3</b>	<b>15.2</b>
Tax revenue	11.3	10.9	10.1	9.9	10.1	10.3
<b>Total expenditure and net lending<sup>b</sup></b>	<b>16.5</b>	<b>16.4</b>	<b>15.2</b>	<b>17.0</b>		
Current expenditure	15.3	12.9	12.9	11.7		
<i>Excluding interest</i>	<i>11.9</i>	<i>8.5</i>	<i>9.6</i>	<i>9.9</i>	9.7	9.5
Wages and salaries	4.3	5.0	4.3	3.9	3.8	3.7
Interest on public debt	3.4	4.4	3.3	1.9		
Capital expenditure	1.2	3.6	2.2	5.2	5.2	5.2
<b>Primary balance</b>	<b>1.6</b>	<b>2.1</b>	<b>2.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.5</b>
<b>Overall balance</b>	<b>-1.8</b>	<b>-2.3</b>	<b>-1.1</b>	<b>-1.6</b>		

a. Fiscal year begins 1 July.

b. Only major items are reported.

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Tanzania's monetary policy has been geared towards reducing inflation to single-digit figures. This objective required the maintenance of tight monetary stance by the Bank of Tanzania (BOT). In 2000, broad money (M3) supply decelerated from 18.6 per cent in 1999 to 14.8 per cent. The fall in the growth of money supply reflected mainly the decline in the government's borrowing from the banking system. The tight monetary policies of the Bank of Tanzania contributed to declines in inflation and in the cost of borrowing.

The rate of inflation remained stable in 2000 at 6.2 per cent from a level of 6.3 per cent in 1999. A major contributory factor behind the stability in inflation was the improvement in food supply arising from the good harvests in the country. The rate of inflation is expected to follow a downward trend as economic activity slows in 2001 and 2002. The average rate of inflation is estimated at 4.8 per cent in 2001 and is projected to fall to 4.6 per cent in 2002. The cost of credit also continued on a downward trend. The benchmark rate on the 91-day Treasury bill fell from 15 per cent at end-1999 to 4.5 per cent at end-2000 and had fallen to 4.2 per cent by June 2001. Commercial banks' interest rates also came down accordingly. However, the spread between the deposit and lending rates remained considerably large pointing to the limited competition and structural rigidities that existed in the banking system.

The foreign exchange market in Tanzania is market-determined with the BOT intervening in the market

only to smooth large seasonal fluctuations. In 2000, in the absence of signs of a worsening of underlying inflationary pressure, monetary policy focused on avoiding a real appreciation of the Tanzanian shilling. The shilling remained stable depreciating in nominal terms by 7.5 per cent in 2000 to follow the same rate of depreciation in 1999.

### External Position

Tanzania's trade policy is geared towards liberalisation and the country continues to implement trade reforms to enhance domestic production and the external sector. Recent reforms have been pursued within the framework of the Southern African Development Community (SADC) trade protocols and the East African Community Treaty. In 1999/2000, the government reduced the maximum tariff rate from 30 per cent to 25 per cent to yield a trade weighted average import tariff of 15 per cent. The import tax structure was also rationalised, with the rates based on the degree of processing of imports, with the lowest rate applicable to raw materials and investment goods. Tanzania continues to revise its trade regimes. The 2000/01 budget abolished excise duty on 46 items (that is, all items except cigarettes, alcoholic beverages, soft drinks, refined petroleum products, and motor vehicles with engine capacity above 2000cc) and harmonised the levels of withholding tax at 10 per cent on dividends and at 15 per cent on interest income.

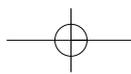


Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-12.6	-9.8	-10.5	-10.5	-11.1	-11.2
Exports of goods (f.o.b.)	11.9	8.1	6.0	6.6	6.2	6.0
Imports of goods (f.o.b.)	-24.5	-18.0	-16.5	-17.1	-17.3	-17.1
Services	-3.9	-4.4	-0.9	-0.4		
Factor income	-2.5	-1.6	-0.9	-0.4		
Current transfers	n.d.	n.d.	8.8	8.9		
<b>Current account balance</b>	<b>n.d.</b>	<b>n.d.</b>	<b>-3.5</b>	<b>-2.5</b>		

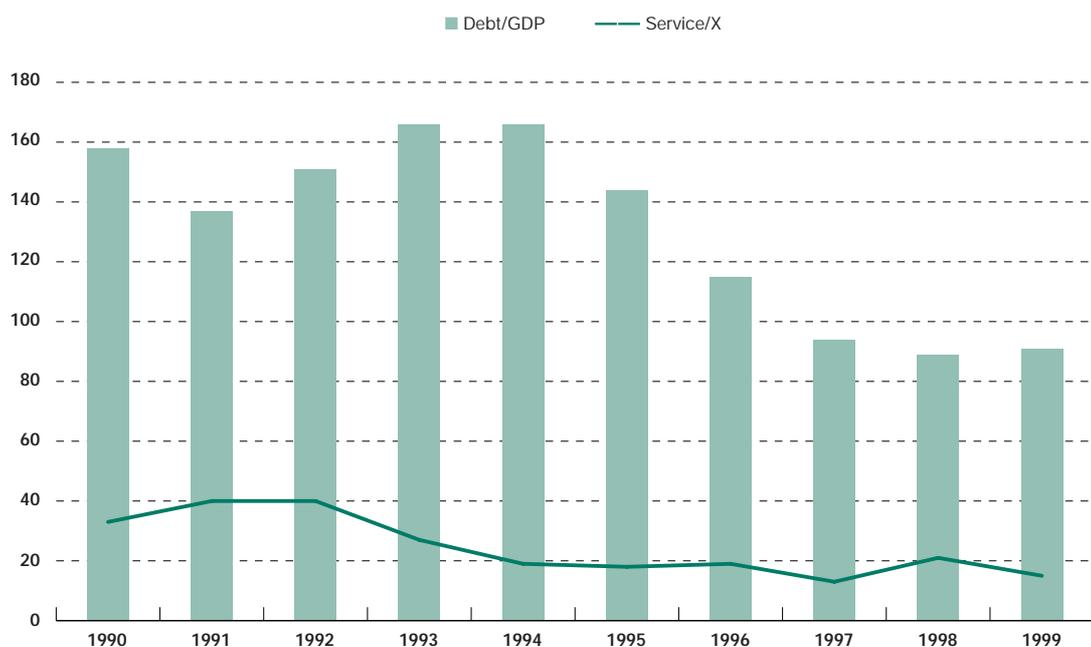
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

The trade performance of Tanzania has remained weak owing to poor export performance. In 2000, the trade deficit remained at 10.5 per cent of GDP, as exports recovered marginally but imports increased in the same proportion. Although there was a 2.8 per cent reduction in the value of traditional exports owing to decreases in the volume of exports of sisal tobacco, cashew nuts and cloves, these effects were offset by increased mining revenue especially gold. With regard to imports, there was a 5 per cent drop in imports of capital and intermediate goods in 2000, due to a sharp decline in importation of machinery for the mining sector. The current account deficit fell from 3.5 per cent

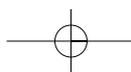
of GDP in 1999 to 2.5 per cent of GDP in 2000 as a result of improvement in services and factor income. The outlook on the external payments position is stability as no major changes are foreseen. The trade deficit is estimated at 11.1 per cent of GDP in 2001 and is projected to increase marginally to 11.2 per cent of GDP in 2002 on account of a weakening in export performance.

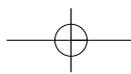
The total external debt of Tanzania stood at \$7.97 billion at end-1999. The structure of the debt by creditor showed that 49 per cent was owed to multilateral institutions, 47 per cent to bilateral creditors,

Figure 5 - Stock of Total External Debt (percentage of GDP)



Source: World Bank (2001), *Global Development Finance*.





while debt to private creditors accounted for 4 per cent. Tanzania has remained current on its external debt obligations. Tanzania sought debt relief under the Paris Club Arrangement in 1997. As at mid-2001, Tanzania had signed bilateral agreements with nine of the Paris Club creditors under the 1997 Agreement, resulting in the cancellation of \$197.3 million and the re-scheduling of \$584.5 million debt. In addition, Tanzania had obtained debt relief from the Paris Club creditors in April 2000 under the Enhanced Highly Indebted Poor Countries (HIPC) initiative. Available information indicates that Tanzania had signed three bilateral agreements, another four are ready to be signed, and negotiations with the remaining five creditors have started on the April 2000 Agreement.

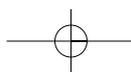
Tanzania reached the decision point in April 2000 with regard to the enhanced HIPC initiatives, thus coinciding with debt relief from its Paris Club creditors. Total debt relief from all of Tanzania's creditors is worth more than \$2 billion in NPV terms, which is equivalent to more than half of the NPV of the total debt outstanding after the full use of traditional debt relief mechanisms. The debt reduction operations translate into debt service relief over time of \$3 billion, or about one-half of Tanzania's debt service obligations during fiscal years 2001-2003 and about one-third of Tanzania's debt service obligations thereafter. As part of its debt management strategy Tanzania uses the Debt Buyback Scheme (DBS). The first closing of the DBS took place on 6 June 2001 and creditors were paid with effect from 14 June 2001. In the first closing, debts worth \$155.7 million (principal and interest) were retired utilising grant funds from the German government. The second closing was expected to take place at end-October 2001.

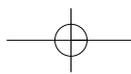
## Structural Issues

Tanzania has broadened its structural reforms to accelerate growth and lay the foundations for reducing the deep and pervasive poverty of the country. New reforms seek to enhance the role of the private sector in the economy; strengthen competition in the financial sector; remove remaining market distortions; improve

efficiency in the allocation and use of public resources; and strengthen public service delivery. The reform process has, however, been slow partly because of weak implementation capacity.

The restructuring and privatisation of state enterprises have progressed, though at a slower pace. At end-2000, about half of the 400 enterprises earmarked for divestiture from 1995 were removed from government control through liquidation, share sale or asset sale. However, the rather tough agenda of privatising large infrastructure public enterprises had just begun in 2001. The major pending privatisation in infrastructure are railways, power and remaining port services. Based on past experience, the other areas of privatisation with good prospective interest are the national microfinance bank, the National Insurance Company, cashew nut factories, and some ranches and state farms. The government has committed itself to selling all public enterprises by 2004. However, the obstacle to privatisation remains that most of the enterprises on offer are technically insolvent, which has made it difficult to attract buyers. Also, since mid-1999 concerns have been expressed that the East African Community (EAC) and the impending creation of the EAC free trade area would result in a legalised influx of manufactured goods from Kenya, thereby weakening the less developed Tanzanian manufacturing sector. This concern, it was feared, would deter buyers. At the same time, access to a regional market wider than where there is access to only one national market could bring in investors if Tanzania got around the technical insolvency problem. Tanzania's tourism sector has aroused international interest since the privatisation programme began. Tanzania has set aside about one-quarter of its land area for 12 national parks, 17 game reserves, 50 controlled game areas and a conservation area. New investments have been channelled into the so-called "northern circuit", which centres on the Serengeti National Park, the Ngorongoro Crater and Mount Kilimanjaro. The government is encouraging development in the "southern circuit", which includes the Selous National Park, which had an estimated 87 000 visitors in the year to June 2000. The Selous National Park is expanding and upgrading its tourist facilities, in particular through an agreement with the Aga Khan Fund for Economic Development





to build two new hotels (one of which was opened in March 1997), develop a tourism centre and repair historic buildings. Other areas of comparative advantage in which Tanzania hopes to attract foreign investment under the privatisation programme include the mining sector in general and, in particular, the extensive reserves of precious and semi-precious stones with new discoveries being continually made. The Longida ruby mine is the largest in the world, although growth in production has been slow. Also, the Umba River Valley yields rubies and sapphires, with particular interest in the gem market.

In the financial sector, efforts have focused on promoting greater competition and further strengthening bank supervision. With regard to banking supervision, the BOT issued in January 2001 its remaining banking regulations with regard to capital adequacy, concentration of credit and risk management. The banking regulations were considered an important element of the capital account liberalisation policy and the government requested technical assistance from the World Bank to develop further the policy by September 2001. The BOT is encouraging commercial banks to establish credit information bureaux as a way to reduce risks in extending credit.

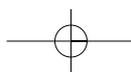
In February 2000, a new Land Act was enacted to strengthen land ownership in Tanzania. However, the absence of guidelines was hindering the implementation of the new Act. The legal framework for doing business in Tanzania was strengthened with the establishment in September 1999 of the first commercial court in the country. In 2000, the BOT and the Danish government supported the commercial court through the financing of its premises with the Danish government also financing the recruitment and training of judges. The court started operations in 2000.

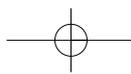
## Political and Social Context

Tanzania is a functioning democracy. Multi-party legislative and presidential elections were held for the first time in October 1995. The elections brought President Mkapa to office, and he was returned in the October 2000 elections, though the opposition charged

that the election procedures were designed to ensure that he and his party won. President Mkapa's re-election ensured that the economic and political status quo could continue. However, political stability is not yet assured. Political tensions in Zanzibar in August required the deployment of army troops. Tanzania's foreign relations with Uganda also remain touchy. In mid-2000, there was a border dispute between the two countries. However, it is widely believed that a peaceful settlement of the dispute will be reached. At home there are many areas of concern in governance policies and practices. These include weak public financial management, weak judiciary and legal framework and a highly centralised system of managing public services. These weak areas have been reflected in the high incidence of corruption in the country, which the government has appeared slow in tackling. Although the Warioba Commission of Inquiry was set up in 1996 to probe into the incidence of corruption in the country, a national anti-corruption strategy based on the Commission's recommendations was only formulated in 1999. At end-June 2001, the government had only completed its "diagnostic corruption surveys" based on the Commission's report; action plans are now to be made. However, in July 2000 the government, with the support of the World Bank, launched the Public Service Reform Programme, as an important part of efforts to reduce corruption. The government now plans to submit a new Public Service Bill to Parliament by end-2001, to boost the anti-corruption measures.

Tanzania ranks among the poorest countries in the world. The proportion of the population living below the internationally defined poverty line was estimated at 48 per cent in 2000. This proportion had fallen from 51 per cent in 1998 according to the government's interim-PRSP (2000). The majority of the poor in Tanzania live in rural areas and are engaged in agriculture, mostly subsistence farming. At the same time, the number of urban poor is growing, and includes the unemployed, low-income formal sector employees and the self-employed. Food insecurity is regarded as the major concern of the poor in Tanzania. The endorsement of Tanzania's PRSP offers new direction and commitment towards poverty alleviation in the country.





Tanzania's poverty is reflected in its low human development indicators. In health, owing to poor living conditions the majority of Tanzanians suffer from preventable diseases. The percentage of Tanzanians with access to health services (1998) was 42 compared with 64 in Africa. The average life expectancy in the country in 2000 was 49 years compared with the sub-Saharan African average of 51 years. The low level of life expectancy was partly attributed to the impact of HIV/AIDS. The percentage of adults (15-49 years) living with HIV/AIDS was estimated at 8.1 in Tanzania (UNAIDS 1999) compared with 6.5 in Africa. The government currently places emphasis on reducing morbidity, improving nutrition, and strengthening access to health services. Specific intervention by the government towards these objectives includes establishing revolving funds in all hospitals in the country as a means of improving the availability of drugs and medical supplies.

In education, primary schooling is officially compulsory and used to be provided free of charge, thanks to donor assistance to the education sector. Yet, the net primary school enrolment ratio in Tanzania was estimated in 2000 at 57 per cent. Tanzania also had Africa's lowest net secondary school enrolment ratio of 6 per cent in 2000. The adult illiteracy level in Tanzania is estimated at 27 per cent in 1999. The government's current education objectives include raising primary school enrolment, increasing the rate of transition from primary to secondary school, and expanding adult education programmes. Achievement of these objectives is linked directly to relief under HIPC, which will enable the government to implement specific policy objectives such as the abolition of primary school fees currently being charged.



