Tanzania

key figures

- Land area, thousands of km²: 945
- Population, thousands (2005): 38,329
- GDP per capita, $ PPP valuation (2005): 597
- Illiteracy rate (2005): 19.9

Tanzania has made remarkable improvements in economic management over the last decade which have been rewarded with impressive GDP growth, which reached 6.7 per cent in 2004. Tanzania’s impressive growth in 2004 was supported by rising agricultural production associated with good weather conditions. The inflation rate remained below 4.5 per cent at end-June 2005 as lower food prices compensated for higher fuel costs. However, due to insufficient rains in autumn 2005, food prices are expected to increase. The country’s export performance continues to improve and, combined with ongoing debt relief initiatives, Tanzania’s external debt is sustainable, at least over the medium term. The country also recorded a considerable increase in its gross official reserves, which amounted to the equivalent of about 8 months of imports in 2004, up from an average of 6.7 months of imports between 1999 and 2003. The 2005 elections were conducted mostly peacefully despite some difficulties in Zanzibar and, more particularly, the island of Pemba, and the incumbent party presidential candidate Jakaya Kikwete was elected. Despite this political stability and macroeconomic progress, the business environment remains quite poor and higher growth has yet to translate into significantly improved living standards and a reduction in poverty.

Following the second review of implementation of Tanzania’s Poverty Reduction Strategy (PRS) in 2004, the government established a five-year National Strategy for Growth and Reduction of Poverty (NSGRP) in 2005. The NSGRP improves upon the PRS through adoption of an outcome-based approach focusing on three clusters: a) growth and reduction of poverty; b) improvement of quality of life and social well-being; and c) good governance and accountability in the public sector. Policy design and government initiatives are expected to be organised with respect to their contribution to the achievement of these and other related objectives. In addition to the NSGRP, the government of Tanzania also drew up the “Tanzania Mini-Tiger Plan 2020” as a vehicle to achieve the objectives of the Tanzania Development Vision 2025. The mini-tiger plan is inspired by the growth of

![Figure 1 - Real GDP Growth and Per Capita GDP ($ PPP at current prices)](chart)

Source: IMF and domestic authorities’ data; estimates (e) and projections (p) based on authors’ calculations.
experiences of South East Asian countries. It is expected to facilitate the creation of a favourable climate for both domestic and foreign investment through the establishment and promotion of Special Economic Zones (SEZ), a revised regulatory framework and a supportive legal framework.

**Recent Economic Developments**

Real growth of gross domestic product (GDP) reached 6.7 per cent in 2004, a remarkable improvement on the average 5.5 per cent of 1999-2003 and 3.3 per cent of 1994-98. The authorities anticipate a GDP growth rate of 6.9 per cent in 2005, and have set a target of 8-10 per cent in the medium term. Given the strong agricultural growth in 2004, the share of agriculture in GDP increased from 45 per cent in 2003 to 46.2 per cent in 2004. The share of industry in GDP also increased slightly from 16.6 per cent in 2003 to 16.7 per cent in 2004, largely due to very strong growth in mining. The relatively weaker growth in the service sector implied that the share of services in GDP decreased from 38.4 per cent in 2003 to 37.1 per cent in 2004 (see Figure 2 for further details).

Agricultural output grew more than 10 per cent in real terms in 2004, compared to an average 4.4 per cent between 1999 and 2003, largely due to good weather and recent investment. Given the large share of agriculture in GDP, agriculture contributed 2.7 per cent of total 6.7 per cent growth in 2004 (see Figure 3). Agricultural growth is projected to improve further in the medium term as the government continues to implement various agricultural support services. Nonetheless, food security remains a critical issue. Part of the problem emanates from poor distribution channels, particularly in rural areas, which impede transport of food to areas in need. Furthermore, the agricultural sector remains constrained by dependence on rainfall (even though considerable investments have been made in drought resistant crops), the small size of farms and inadequate use of technology. The government continues to support sustainable growth in the agricultural sector through investment promotion, fertiliser transportation subsidies in the main cereals producing regions, increased funding for agricultural research and extension services, and the strengthening and rationalisation of the export credit guarantee scheme. In 2004, Tanzania also began implementing the Comprehensive Africa Agriculture Development Programme (CAADP). An increase in government investment in rural transport infrastructure is also envisaged as part of the strategy to improve distribution channels and agricultural marketing systems.

The industrial sector’s rapid growth is mainly due to strong performances in manufacturing, construction and especially mining and quarrying. Mining and quarrying output grew at about 20 per cent in real terms in 2004. Hence, even though its share in GDP remains small, it contributed 0.5 per cent to Tanzania’s growth in 2004. As in previous years, real growth in construction remained at around 10 per cent, while manufacturing grew at about 5 per cent. The growth of the electricity and water sub-sectors also held steady at around 5 per cent. Manufacturing and construction each contributed 0.6 per cent to Tanzania’s growth in 2004.

In the services sector, the trade, hotels and restaurants sub-sector continued to exhibit fastest growth in 2004 at about 8 per cent, followed by transportation and communications at about 6 per cent despite the rise in fuel prices. Financial, business, and government services were the weakest growing services sub-sectors, with growth of about 4 per cent each in 2004. Given the 11.7 per cent share of trade, hotels and restaurants in GDP, this sub-sector contributed 0.9 to Tanzania’s growth. Preliminary estimates for 2005 indicate continued healthy growth in the services sector, with the strongest growth again in the trade, hotels and restaurants sub-sector.

These sectoral developments led to increased growth in private consumption and also stimulated higher growth in private investment in 2004. GDP growth was also supported by an increase in public spending. The forecast of GDP growth for 2007 is based on the assumption that the high growth rate of private investment will continue.
The expenditure components of GDP reveal an increase in the shares of both private and public consumption and a decrease in the shares of investment and savings. The share of private consumption in GDP increased from 80.8 per cent in 2003 to 81.7 per cent in 2004 (partly due to increased expenditure on health and education), while the share of public consumption increased from 6.7 per cent in 2003 to 6.9 per cent in 2004. The share of investment in GDP declined slightly from 21.1 per cent in 2003 to 21 per cent in 2004 (see Table 1), while the share of gross domestic savings declined from 9.7 per cent to 7.9 per cent.

Source: Author’s estimates based on domestic authorities’ data.
Macroeconomic Policy

Fiscal Policy

Fiscal policies for 2004/05 focused on adequate revenue mobilisation and sound expenditure management with the aim of promoting economic growth and poverty reduction. Although the fiscal deficit rose in 2004/05, the increase was smaller than anticipated. The overall fiscal deficit before grants is estimated at 11.2 per cent of GDP, below the 12.5 per cent of GDP projected, thanks to improved domestic revenue collection and expenditure restraint. In 2005/06, the deficit before grants is projected to reach 11.8 per cent of GDP. After grants, the overall deficit as a ratio of GDP increased from about 3.5 per cent in 2003/04 to 4.8 per cent in 2004/05 and is projected to grow further to around 5 per cent in 2005/06. The widening deficit in 2005/06 reflects increasing expenditure, especially for poverty reduction measures and the national elections of November and December 2005.

As a result of ongoing reforms to improve tax administration, the government exceeded its goal for domestic revenue collection. Domestic revenue in 2004/05 increased by about 22 per cent over 2003/04 to nearly 14 per cent of GDP, slightly more than programmed. Most of the increase in revenue is attributed to improvements in value added tax (VAT) and income tax receipts. VAT collection increased following the decision to raise the threshold for VAT registered companies from annual turnover totalling TZS20 million (about $20 000) to TZS40 million (about $40 000). This reduced the number of VAT payers but made revenue collection more efficient.

Table 1 - Demand Composition (percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross capital formation</td>
<td>14.9</td>
<td>19.2</td>
<td>21.1</td>
<td>21.0</td>
<td>22.4</td>
<td>23.4</td>
<td>24.4</td>
</tr>
<tr>
<td>Public</td>
<td>2.9</td>
<td>7.6</td>
<td>8.4</td>
<td>7.7</td>
<td>8.2</td>
<td>8.5</td>
<td>9.1</td>
</tr>
<tr>
<td>Private</td>
<td>12.0</td>
<td>11.6</td>
<td>12.8</td>
<td>13.3</td>
<td>14.2</td>
<td>14.8</td>
<td>15.3</td>
</tr>
<tr>
<td>Consumption</td>
<td>94.6</td>
<td>87.1</td>
<td>87.5</td>
<td>88.6</td>
<td>89.7</td>
<td>90.3</td>
<td>89.7</td>
</tr>
<tr>
<td>Public</td>
<td>8.8</td>
<td>6.4</td>
<td>6.7</td>
<td>6.9</td>
<td>7.4</td>
<td>7.6</td>
<td>7.8</td>
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<tr>
<td>Private</td>
<td>85.8</td>
<td>80.7</td>
<td>80.8</td>
<td>81.7</td>
<td>82.2</td>
<td>82.6</td>
<td>81.9</td>
</tr>
<tr>
<td>External sector</td>
<td>-9.5</td>
<td>-6.2</td>
<td>-8.6</td>
<td>-9.7</td>
<td>-12.1</td>
<td>-13.6</td>
<td>-14.1</td>
</tr>
<tr>
<td>Exports</td>
<td>16.2</td>
<td>16.1</td>
<td>17.7</td>
<td>19.2</td>
<td>19.7</td>
<td>19.1</td>
<td>18.9</td>
</tr>
<tr>
<td>Imports</td>
<td>-25.7</td>
<td>-22.3</td>
<td>-26.3</td>
<td>-28.9</td>
<td>-31.8</td>
<td>-32.7</td>
<td>-32.9</td>
</tr>
</tbody>
</table>

Source: Domestic authorities’ data; estimates (e) and projections (p) based on authors’ calculations.

Table 2 - Public Finances (percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>1996/97</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05(e)</th>
<th>2005/06(p)</th>
<th>2006/07(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue and grants</td>
<td>16.2</td>
<td>16.1</td>
<td>18.3</td>
<td>18.8</td>
<td>19.7</td>
<td>20.4</td>
<td>21.0</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>11.9</td>
<td>10.6</td>
<td>11.0</td>
<td>11.7</td>
<td>12.2</td>
<td>12.5</td>
<td>12.6</td>
</tr>
<tr>
<td>Grants</td>
<td>2.7</td>
<td>4.4</td>
<td>6.2</td>
<td>6.1</td>
<td>6.4</td>
<td>6.8</td>
<td>7.3</td>
</tr>
<tr>
<td>Total expenditure and net lending</td>
<td>17.3</td>
<td>17.2</td>
<td>19.9</td>
<td>22.2</td>
<td>24.5</td>
<td>25.5</td>
<td>26.1</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>14.2</td>
<td>13.2</td>
<td>14.9</td>
<td>16.6</td>
<td>18.1</td>
<td>18.8</td>
<td>19.0</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>9.4</td>
<td>11.9</td>
<td>13.9</td>
<td>15.7</td>
<td>16.9</td>
<td>17.7</td>
<td>18.0</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>5.6</td>
<td>3.9</td>
<td>4.0</td>
<td>4.0</td>
<td>4.1</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Interest</td>
<td>4.9</td>
<td>1.4</td>
<td>1.0</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>2.9</td>
<td>3.3</td>
<td>5.0</td>
<td>5.6</td>
<td>6.4</td>
<td>6.7</td>
<td>7.1</td>
</tr>
<tr>
<td>Primary balance</td>
<td>3.9</td>
<td>0.3</td>
<td>-0.6</td>
<td>-2.5</td>
<td>-3.6</td>
<td>-3.9</td>
<td>-4.1</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-1.0</td>
<td>-1.1</td>
<td>-1.6</td>
<td>-3.5</td>
<td>-4.8</td>
<td>-5.0</td>
<td>-5.1</td>
</tr>
</tbody>
</table>

Source: Domestic authorities’ data; estimates (e) and projections (p) based on authors’ calculations.

a: Fiscal year begins 1 July.
b: Only major items are reported.
were also recorded following the elimination of tax evasion loopholes through implementation of the Income Tax Act of 2004.

Expenditure management in fiscal year 2004/05 was strengthened by the government’s observance of cash budgeting, the new Public Procurement Act of 2004 (which provides for decentralised procurement under a new regulatory authority but has yet to be fully brought into effect) and the effective introduction of the Integrated Financial Management System (IFMS) which aims to improve control and accountability of public expenditures in ministries, districts and agencies. Recurrent expenditures were in line with estimates while development expenditures exceeded the programmed amount by about 5.5 per cent. The government continued to ensure that the full allocation for priority expenditures was made at the beginning of each quarter.

Consequent to the adoption of the National Strategy for Growth and Reduction of Poverty (NSGRP), the government envisages further increases in expenditure, taking it up to 25.5 per cent of GDP in 2005/06 from 24.5 per cent in 2004/05. The increased spending is mainly for priority sectors and infrastructure and the government expects to finance it through increases in domestic revenue collection and foreign loans and grants. Recurrent expenditure is projected to rise by 0.5 per cent of GDP, mainly on account of wage increases designed to boost capacity in the civil service under the Public Service Management Reform Programme (PSMRP). Development expenditure is expected to increase by 1.2 per cent of GDP, mainly reflecting higher outlays for infrastructure. The government plans to increase domestic revenues to the equivalent of 13.5 per cent of GDP in 2005/06, which would imply an increase of 16 per cent compared to 2004/05. This increase is expected to come from the implementation of the new income tax provisions, improved tax administration, the graduation of tax-exempted companies into the tax net and higher revenue from new natural gas-related projects.

For the foreseeable future, foreign aid will be necessary to fund poverty reduction programmes and to achieve Millennium Development Goals (MDGs). Grants and concessionary lending are expected to finance 46 per cent of government expenditure in 2005/06, down only slightly from 45 per cent in 2004/05, and 46 per cent in 2003/04. In 2005/06, $561 million in aid is expected for budget support and about $855 million for development projects. Although it represents a slightly smaller proportion of expenditure, this level of grants and loans represents an increase in absolute terms of close to $167 million (13 per cent) over fiscal year 2004/05.

The government’s short- and medium-term fiscal policy continues to aim at increased domestic revenue collection, reduced aid dependency, higher expenditure for poverty reduction and long-term debt sustainability. To this end, the government will continue to strengthen tax administration, streamline customs procedures and improve public expenditure management. Under current projections, the government will have a financing gap of about 12.5 per cent of GDP, which is expected to be covered largely by grants and loans from Tanzania’s donors. Any remaining expenditure gap is to be financed by drawing on government reserves at the Bank of Tanzania (BOT) and the sale of government securities. In order to avoid crowding out private sector investment, the government’s net domestic borrowing is to be limited to 1.1 per cent of GDP.

**Monetary Policy**

The primary objective of the BOT is price stability as a means to improve overall economic performance. For this purpose, the BOT sets an annual inflation target at the beginning of every fiscal year. Monetary policy implementation during 2004/05 has shown considerable progress despite the challenge confronting the BOT in managing the liquidity associated with increased inflows of official development assistance. The bank’s efforts to hold liquidity down to a desirable level was complicated by the fact that private demand for Treasury securities was less than expected in 2004/2005, while private bank intermediation increased; thus, liquidity grew faster than the target set by the BOT over most of the period. The BOT managed, however, to reach the end-June 2005 reserve
money target by redeeming government securities, purchasing foreign exchange and other measures. Consequently, inflation remained largely under control.

The government adopted new consumer price indices in 2004 after the 2001 Household Budget Survey revealed that consumption patterns had changed considerably since the 1991 survey. On the basis of the new consumption basket, the inflation rate has remained below 4.5 per cent, as was the case in 2003/04, even though it increased slightly from 4.1 per cent in July 2004 to 4.2 per cent in June 2005. Despite the hike in fuel prices, non-food inflation declined from 3.1 per cent in 2004 to about 2.5 per cent in June 2005, mainly on account of a decline in the prices of other non-food items. Inflation is targeted to be 4 per cent by end-June 2006.

Reflecting the impact of monetary policy tightening, the interest rates on Treasury bills rose during most of 2004/05, reaching an average of 9.3 per cent in June 2005 from 8.4 per cent in July 2004. The increase in Treasury bill yield and higher demand for credit in the private sector also led to an increase in lending rates to 15 per cent from 14 per cent in 2003/04, while the deposit rate increased to 4.5 per cent from 3.8 per cent. As a result, the interest rate spread between lending and deposit rates edged up from 10.2 percentage points in 2003/04 to 10.5 percentage points in 2004/05.

The financial system is liquid, well-capitalised, and profitable. It has solid asset quality and is also more resilient to shocks following additional restructuring efforts over the last two years. Credit to the private sector also continued to show robust expansion, increasing by about 33 per cent during 2004/05, and has been concentrated in the high growth sectors of the economy. To a large extent, this development is the result of government efforts to remove impediments to bank lending, an improved business environment and increased competition among banks.

The financial sector remains small, even when compared to other sub-Saharan African countries. A large portion of the economy continues to have little access to formal credit. Consequently, the authorities intend to accelerate financial sector reforms during 2005/06 and in the medium term through implementation of a comprehensive second generation Financial Sector Reform Programme (FSRP). This programme builds on the recommendations of the 2004 Financial Sector Assessment Programme (FSAP) which aims to enhance the contribution of the financial sector to investment and economic growth.

**External Position**

Imports and exports both increased substantially in 2004, rising 26.5 per cent and 25.5 per cent respectively in nominal local currency terms. Imports increased in all major categories, with oil import values increasing due to higher world prices. Preliminary estimates for 2005 suggest that food imports are likely to be lower in 2005, mainly on account of improvements in Tanzania’s crop harvests. The current account deficit is projected to widen somewhat in 2005 due to: a) continued increases in oil prices; b) large imports of intermediate and capital goods (mostly for infrastructure projects); and c) increased fertiliser imports, reflecting government subsidies for transportation of the latter.

Thanks to ongoing export promotion, the share of Tanzanian exports of goods and services in GDP recorded further improvement in 2004, reaching 19.2 per cent, compared to 17.7 per cent in 2003. Exports of goods increased from 11 per cent of GDP in 2003 to 11.8 per cent in 2004. The share of traditional exports in total merchandise exports increased to 21.7 per cent in 2004 from 19.5 per cent in 2003. Tanzania’s main traditional exports are coffee, cotton, tea, cashew nuts, cloves, sisal and tobacco. The share of gold exports (the main non-traditional export) in total exports increased from 44.6 per cent in 2003 to 47.3 per cent in 2004. Export growth is expected to rise further in 2005 with minerals and manufacturing exports remaining strong, while traditional exports are expected to benefit from improved roads, greater access to inputs and extension services, and favourable commodity prices. Receipts from tourism also rose during 2004.

The current account deficit increased marginally from 3.7 per cent of GDP in 2003 to 3.8 per cent of GDP in 2004. Though the capital account balance was
Table 3 - Current Account (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade balance</td>
<td>-5.1</td>
<td>-6.2</td>
<td>-7.8</td>
<td>-8.4</td>
<td>-10.4</td>
<td>-11.6</td>
<td>-11.8</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
<td>9.8</td>
<td>9.2</td>
<td>11.0</td>
<td>11.8</td>
<td>12.3</td>
<td>11.8</td>
<td>11.5</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
<td>-14.9</td>
<td>-15.5</td>
<td>-18.8</td>
<td>-20.2</td>
<td>-22.7</td>
<td>-23.4</td>
<td>-23.4</td>
</tr>
<tr>
<td>Services</td>
<td>-4.1</td>
<td>-0.5</td>
<td>-0.8</td>
<td>-0.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factor income</td>
<td>-1.6</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current transfers</td>
<td>5.6</td>
<td>4.3</td>
<td>5.3</td>
<td>5.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current account balance</strong></td>
<td><strong>-5.3</strong></td>
<td><strong>-2.6</strong></td>
<td><strong>-3.7</strong></td>
<td><strong>-3.8</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Domestic authorities’ data; estimates (e) and projections (p) based on authors’ calculations.

positive, as usual, it was not large enough to offset the deficit in the current account, resulting in an overall balance of payments deficit of $98.1 million (equivalent to slightly less than 1 per cent of GDP), compared to a surplus of $70 million in 2003. The Tanzanian shilling continued to depreciate against the dollar during 2005, although exchange rate volatility was relatively low. As a result of an increase in official development assistance and debt relief, the foreign exchange reserve position is expected to improve. At end-June 2005, gross official reserves were $2 137 million, equivalent to seven months of imports of goods and services and up from $1 878 million at end-June 2004. The government objective for 2005/06 is to maintain reserves at a level equivalent to at least seven months of imports.

Tanzania enjoys relatively high inflows of foreign direct investment (FDI), although FDI decreased slightly from 27.7 per cent of gross fixed capital formation (GFCF) in 2003 to 21.9 per cent in 2004. Tanzania continues to have one of the highest stocks of FDI to GDP ratios among oil-importing African countries. FDI flows to Tanzania are expected to remain high, especially as simpler and more transparent FDI regulations have been adopted recently.

Figure 4 - Stock of Total External Debt (percentage of GNI) and Debt Service (percentage of exports of goods and services)

Source: IMF and World Bank.
The government continued negotiations with both Paris and non-Paris Club bilateral creditors during 2004/05 for debt relief on terms comparable to those offered under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. As of end-June 2005, total debt relief to the government from Paris Club creditors stood at $2.5 billion. Non-Paris Club creditors hold a small share of Tanzania's debt; as of June 2005 among non-Paris Club creditors only Bulgaria, India and Kuwait had offered debt relief to Tanzania in line with the HIPC framework. In any case, due to the G8 debt relief initiative of July 2005, which authorised 100 per cent cancellation of Tanzania's debt to the African Development Fund (AfDF), the International Development Association (IDA), and the International Monetary Fund (IMF), Tanzania's debt sustainability is expected to improve significantly. The G8 debt relief initiative is expected to entail a cancellation of Tanzanian debt worth $4.8 billion, which together with the debt relief provided under the enhanced HIPC initiative would cut Tanzania's total external debt by about 90 per cent.

**Structural Issues**

**Recent Developments**

The government continues to implement measures aimed at further reducing public debt under the Public Financial Management Reform Programme (PFMRP). The National Debt Management Committee (NDMC) adopted the national capacity building plan, which includes enhancing debt management capacity, and the government has distributed to all ministries and independent departments the amended Government Loans, Guarantees and Grants Act together with a circular clarifying the key amendments contained in the act and their mode of application. Similarly the new Procurement Law of 2004, which decentralises the government tendering process, has been widely distributed.

Tanzania continues to make progress in the privatisation and restructuring of public enterprises. The government is considering options for restructuring the Tanzanian electricity company (TANESCO) with the objective of increasing its operational efficiency and reducing its debts to sustainable levels. Privatisation of the national water utility, which has been underway since the second half of 1990s, however, has been slow. For two years, a foreign-controlled company Biwater managed the operations of the national water utility through a leasing arrangement with the government. The government terminated the contract in May 2005, however, due to Biwater's failure to improve water services. Meanwhile, privatisation of the National Microfinance Bank (NMB) is progressing well. In August 2005, the government approved the sale of 49 per cent of its shares in the NMB to a consortium led by the Cooperative Centrale Raiffeisen-Boerenleenbank B. A. (Rabobank) of the Netherlands. The consortium also includes three local institutions, which were allocated 24 per cent of the 49 per cent of shares being sold. During 2005/06 the government intends to carry out more privatisations, including those of the remaining commercial units of the Tanzania Harbours Authority, the restructured TANESCO, Tanzania Zambia Railways (TAZARA), the National Insurance Corporation (NIC), the publicly owned cashew nut factories and two publicly owned farms.

Despite these efforts, the overall business climate remains poor in Tanzania. The World Bank's *Doing Business 2006* report ranks Tanzania 140th of a total
of 155 countries. While Tanzania's ranking is comparable to many other countries with a similar income level, it is much worse than that of Kenya (68th) and Uganda (72nd). Among the 10 topics covered in the World Bank report, Tanzania fares most poorly with regard to "Dealing with Licenses". According to the report, in addition to being very costly, it takes an average of 26 steps and 313 days to complete the process of obtaining a business licence in Tanzania.

Transport Infrastructure

Although Tanzania has recently received funds from the ADF and IDA to finance the implementation of the Short-Term Action Plan (STAP) for infrastructure development, Tanzania's underdeveloped transport network remains a key structural weakness. Nearly 80 per cent of the population still live in rural areas and are engaged in agricultural activities but rural areas are not adequately served by the transport system. The country's transport system is not only essential for integrating domestic markets, it also serves to handle transit traffic for Tanzania's landlocked neighbours including Burundi, Malawi, Rwanda, Uganda and Zambia.

The country's road network is estimated to be 85,000 km long and includes trunk, regional, district, feeder and urban roads. Urban, district and feeder roads, which are estimated to extend over 56,108 km, are managed by the Urban and Rural Local Government Authorities (LGA), while regional and trunk roads, which comprise an estimated 28,892 km are managed by TANROADS. Other road networks are managed by the Tanzania Association of National Parks (TANAPA) and private companies which own large agricultural estates. Road safety remains a major problem due to the poor maintenance of vehicles, overloading, poor driving and variable enforcement of axle-load limits.

Tanzania's railways system network has a length of 3,676 km of which Tanzania Railways Corporation (TRC) operates 2,706 km and Tanzania Zambia Railway Authority (TAZARA) 970 km. However, TAZARA does not interconnect with TRC due to the difference in grid width. TRC is one of the country's largest infrastructure enterprises, providing transportation for passengers and goods within the country and for transit traffic to the land-locked countries of Burundi, Democratic Republic of Congo, Malawi, Rwanda, Uganda and Zambia. Given Tanzania's location, marine transport is of particular importance. Tanzania has three major ports along the Indian Ocean: Dar es Salaam, Tanga and Mtwara, as well as five smaller sea ports. There are also lake ports, the most important of which are Mwanza, Kemonbo Bay, Bukoba and Musoma on Lake Victoria; Kigoma and Kasanga on Lake Tanganyika; and Itungi and Mbamba Bay ports on Lake Nyasa.

The importance of air transport has grown considerably in recent years. At the moment, Tanzania has a total of 368 aerodromes, which are owned, managed and operated by several entities. The Tanzania Airports Authority (TAA) owns and manages 62 airports in the country, though it has leased one of its three international airports (the Kilimanjaro International Airport) to the Kilimanjaro Airports Development Company. There are also a number of privately-operated airports. Tanzania adopted a policy of gradual liberalisation of the air transport system in 1992. Any air transport entity which meets the technical requirements for obtaining an air operator certificate is eligible for a license and registration. The liberalisation of Tanzania's air transport has created an enabling environment for its growth, though Air Tanzania continues to face financial problems. The number of registered air operators has increased and the aviation industry has been steadily growing at an average rate of 9 per cent per year. International scheduled air services in the country have also increased. As of December 2004, there were 16 foreign airlines providing international scheduled services.

The transport sector in Tanzania is subject to regulation by numerous government agencies, including four lead ministries, with other ministries also involved. The lead ministries are the Ministry of Communication and Transport (MoCT), the Ministry of Works, the President's Office for Regional Administration and Local Government, and the Ministry of Home Affairs.
The MoCT is responsible for transport development policy and its implementation, as well as for setting strategic goals for the sector’s development. The ministry is also responsible for putting in place laws and regulations for the transport sector, the provision of inter-sectoral co-ordination, the design of strategies for private sector involvement and the provision of mechanisms for the representation of stakeholder views. The Ministry of Works is responsible for the construction and maintenance of trunk and regional road infrastructure. The President’s Office Regional Administration and Local Governments is responsible for planning the development and maintenance of rural and urban roads. The Ministry of Home Affairs is responsible for law enforcement, which includes the implementation of road traffic regulations and the enforcement of safety regulations in the sector.

Operational agencies in the transport sector are diverse and include both public and private operators. The publicly owned Tanzania Ports Authority (TPA) is responsible for both coastal and inland ports. The Tanzania Airport Authority (TAA) is a semi-autonomous agency of the Ministry of Communication and Transport with a mandate to manage Tanzania’s mainland airports, oversee competition, undertake airport development, maintenance and expansion, and manage concession agreements. The Tanzania Government Flights Agency (TGFA) is responsible for the provision of air transport services for government officials locally and internationally. The Tanzania National Roads Agency (TANROADS) manages, develops and maintains trunk and regional roads on the mainland and is also responsible for implementing the Road Sector Development Plan of the Ministry of Works. In 2000, the government decided to create independent multi-sectoral regulatory agencies to regulate rail, land and maritime transportation. Subsequently, in 2001, the Surface and Marine Transport Regulatory Authority (SUMATRA) was established by act of parliament. SUMATRA is responsible for the licensing of operators, the establishment of standards and operational rules, the regulation of rates and charges and the monitoring of performance in the sub-sector. The Tanzania Civil Aviation Authority (TCAA), established in 2003, regulates air transport and is responsible for safety and economic regulations, as well as the provision of air navigation services.

Financing constraints, however, continue to limit development of transport infrastructure. After ensuring that administrative costs of ministries and related regulatory agencies are met, the budget allocated for development/capital spending has always fallen short of needs, including that for the rehabilitation and maintenance of existing infrastructure. Estimates by the Ministry of Communication and Transport show that about 70 per cent of financing for infrastructure is provided by international donors. Given the objectives of enhancing domestic revenue mobilisation and reducing donor dependency, there are initiatives to improve the resource envelope available for transport infrastructure development. The government envisages instigating user fees, earmarked as much as possible for the financing of public investment in the sector. In order to improve co-ordination and accelerate development of the transport sector, the Ministry of Communication and Transport has formulated a ten-year Transport Sector Investment Programme (TSIP). The TSIP aims to achieve financial sustainability for the sector and envisages investment growth of about 12 per cent per year.

The government’s overall policy in the transport sector over the last decade has been one of steady deregulation. Trade liberalisation and increased public spending on road construction leading to improved road conditions have increased the level of competition by transport service providers. Even though the Transport Sector Recovery Programme (TSRP) was adopted in 1987, very little money was allocated to infrastructure.

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1. Following the election of Jakaya Kikwete as President of Tanzania, some changes have occurred in the organisational structure of Tanzania’s ministries. For example, the Ministry of Works and the Ministry of Communication and Transport have been merged to form one Ministry of Infrastructure. The President’s Office Regional Administration and Local Governments is now under the Prime Minister’s Office. The description here follows the structure and names of ministries before their re-organisation.
development and maintenance, which led to a backlog of maintenance, particularly for road and railway networks. Government investment in the transport sector started to increase in the 1990s. Various projects continued to be implemented in the transport sector, including the TSRP, which led to formulation and implementation of the Integrated Road Project (IRP), the Railways Restructuring Project (RRP), the Port Modernization Project (PMP), and TAZARA's ten-year development programme. The railways and port projects were implemented within the first half of 1990s, while the IRP was implemented in two phases with effective closure in June 2004. The increase in investments has facilitated stronger growth of transportation services. Growth of transport and communication activities increased from 1.1 per cent in 1996 to about 10 per cent in 2004.

Privatisation and concessioning is ongoing in surface, maritime and air transport. Private operators are most strongly represented in the road sub-sector, mostly through transport associations. With regard to Tanzania Railways Corporation (TRC), increased competition from road transport, following recent rehabilitations and construction of roads network, as well as growth in the number of private road carriers, has eroded TRC's market share considerably. Furthermore, the TRC was forced to stop passenger services between Dar es Salaam and Moshi owing to the inadequacy of its fleet. The TRC's transit traffic has also been affected by alternative routings, notably through the ports of Mombasa, Nacala, Beira and Maputo. The publicly owned TRC has been undergoing restructuring since the late 1990s, when part of its services were leased or contracted out. In 1997, the TRC's marine transport services were split off as the Marine Services Company and given a performance contract with the government. In May 2001, the government made a decision to restructure the TRC to allow a vertically integrated concession to a private rail operator. In 2005, the government awarded an Indian consortium a concession to manage the TRC. The concession will include operation of the rolling stock and a provision of $33 million for infrastructure rehabilitation but the government will retain ownership of the infrastructure assets of the corporation. The final takeover of the corporation’s operations by the consortium was due to be approved by the cabinet in early 2006. While TAZARA's railway network is in better condition than the TRC's, TAZARA also suffers from infrastructure problems and the obsolescence of its wagons and trains. It, too, is being considered for privatisation by concession.

**Political and Social Context**

Although there was some political unrest associated with the October 30 elections in Zanzibar and the December 14 elections on the mainland, Tanzania remains one of the most politically stable countries in Africa. While Zanzibar and Pemba remain a potential source of political unrest, the new president expressed his desire for reconciliation. In line with thePRS and the National Anti-Corruption Strategy and Action Plan (NACSAP) for 2003-05, the government pursued its efforts to promote good governance in the public service, strengthen the judicial system and curb corruption. The government is currently reviewing the anti-corruption law, which is expected to be approved by parliament in April 2006. The revised law should give greater operational autonomy to the Prevention of Corruption Bureau (PCB) in investigating cases related to corruption, as mandated by the country's obligations under the UN Convention Against Corruption, the African Union Convention on Preventing and Combating Corruption, and the SADC Protocol Against Corruption. Measures to improve accountability in the use of public funds and to strengthen internal auditing and service delivery were validated by perceptions of a reduction in corruption. A corruption survey conducted by the World Bank in 2004 ranked Tanzania the best performer among sub-Saharan African countries in the period 1966-2004. Tanzania registered remarkable progress in the three measured indicators of good governance namely: voice and accountability, which measures political civil and human rights; governance effectiveness, which measures bureaucracy and social service delivery; and corruption control, which measures the capacity of governments to reduce corruption at all levels. Previously established specialised government agencies, such as the Ethics
Secretariat, the Commission of Human Rights and Good Governance, and the Prevention of Corruption Bureau (PCB), continue to report quarterly on matters brought to their attention. The government also provided the Prevention of Corruption Bureau with more power for searching, arresting, investigating and prosecuting corruption allegations. As part of efforts to decentralise PCB activities, the government prepared guidelines for the plan of action for implementation of the National Anti-Corruption Strategy for 2005/06. In July 2004, Tanzania also signed a memorandum of understanding to join the African Peer Review Mechanism. However, the implementation of local government reform programmes continues to be slow.

In 2005, the United Nations Development Programme (UNDP) ranked Tanzania 127th out of 177 countries in its Gender Development Index (GDI) and 42nd out of 80 countries for gender empowerment on the basis of women's participation in the economy and political decision-making and their control of economic resources. Tanzania fares relatively well compared to its neighbours on the GDI, although further improvements are still needed. Evaluation of implementation of recommendations of the Beijing Platform for Action shows that Tanzania has made significant achievements in mainstreaming gender issues in various national policies. Efforts to mainstream gender in development led to amendment of the national constitution to increase women's representation in the parliament. The number of women in parliament increased from 17.5 per cent in 1995 and 21.4 per cent in 2003 to 22.5 per cent in 2004. The government also continued with a review of electoral laws aimed at achieving a 30 per cent representation of women in parliament. Women's representation in leadership positions at local government level also increased from 25 per cent in 1995 to about 33 per cent in 2004. The female adult literacy rate as a percentage of the male rate is estimated at 80 per cent while the female/male ratio participation in economic activities is estimated at 93 per cent.

Despite progress in macroeconomic stability and in some social indicators, Tanzania remains one of the poorest countries in the world with per capita GDP in 2003 of about $287. Tanzania's ranking in the United Nations Development Programme (UNDP) Human Development Index (HDI) has deteriorated since 2001, falling from 140th position out of 162 in 2001 to 164th out of 177 in 2003. Progress in poverty reduction in areas outside Dar es Salaam has been particularly slow.

Due to HIV/AIDS and malaria (the two most deadly diseases in Tanzania), life expectancy at birth dropped from 50 years in 1990 to 43 years in 2002 but increased again to 47 years in 2004. The recent increase in life expectancy may be partly attributable to a decline in HIV/AIDS prevalence following implementation of various control initiatives. A survey conducted by the National Bureau of Statistics in collaboration with the Tanzania Commission for AIDS in 2003/04 indicates a slight decline in the HIV/AIDS adult prevalence rate from 8.8 per cent in 2003 to 7 per cent in 2004, although the rate among women remained higher than among men. The government continues to fight the spread of HIV/AIDS through implementation of the National Multi-Sectoral Strategic Framework (NMSF), which intends to address the HIV/AIDS threat in a comprehensive manner. To facilitate the exercise, all ministries were allocated funds under the Medium Term Expenditure Framework in 2004/05 for HIV/AIDS prevention activities.

In 2005-06, Tanzania started implementation of the new five-year National Strategy for Growth and Reduction of Poverty (NSGRP), which adopts an outcome-based approach focusing on growth, reduction of income poverty, improved quality of life and social well-being, and good governance and accountability. As the NSGRP aims to raise the incomes of the poor and to cut infant, child and maternal mortality, particularly through the prevention and treatment of malaria, equitable access to health care is viewed as essential. Inadequate financing, infrastructure and health service accessibility, as well as human and logistical shortcomings, continue, however, to limit improvement in health outcomes. It is estimated that the proportion of births attended by skilled medical personnel continued to decline over the last decade and that about 90 per cent of all child deaths in the country are caused by preventable diseases, including malaria,
pneumonia, diarrhoea, malnutrition and complications arising from low birth weight and HIV/AIDS.

Tanzania is in the third year of its Primary Education Development Plan (PEDP) 2002 - 2006. According to the Ministry of Education and Culture’s (MoEC’s) basic education statistics, the gross enrolment ratio for primary education increased from 99 per cent in 2002 to 105.3 per cent in 2003 and 106.3 per cent in 2004. Similarly, the net enrolment rate increased from 81 per cent in 2002 to 89 per cent in 2003 and 90.5 per cent in 2004. The gap in primary school enrolment between boys and girls also declined during the year: primary school enrolment by sex in 2004 was almost identical (49.9 per cent girls and 50.1 per cent boys). It is anticipated that the gender enrolment gap will disappear in the next few years. Despite the improvement in enrolment ratios, the transition rate from primary to secondary schools, estimated at one third of all pupils on the mainland, is still very low. The government is continuing with its efforts to reinforce the recruitment and training of teachers to keep pace with an increase in student enrolments. In 2004, however, the increase in teachers was insufficient to keep pace with enrolments so that the average teacher-pupil ratio deteriorated slightly from 1:57 in 2003 to 1:58 in 2004. During 2004, the government also started implementation of a five-year Secondary Education Development Plan (SEDP), which aims to improve access to and the quality of secondary education.