key figures

- Land area, thousands of km²: 945
- Life expectancy (2006): 46.5
- Illiteracy rate (2006): 30.6
Tanzania
Tanzania’s economic improvement is consolidating and although the recent harsh drought caused food shortages and impaired electricity generation, economic activity has remained resilient. Real GDP growth was 5.7 per cent in 2006 and is expected to pick up to 6.8 per cent in 2007 and to 7 per cent in 2008 as increased investment begins to drive growth. This reflects confidence in the economy and shows a positive outlook for sustained growth. Improvement in economic management is delivering relatively low inflation despite the adverse impact of the drought. The external sector has benefited from improvements in exports and considerable debt relief under the Multilateral Debt Relief Initiative. However, government finances still suffer from under-performance in domestic revenue mobilisation as a result of weakness in tax administration.

Challenges also remain in tackling structural impediments to growth, in particular the persistent power crisis. Much remains to be done, too, in tackling the poor business environment and enhancing private-sector participation in the economy. On the political scene, the government would do well to tackle the perceived high level of corruption to complement the improving economic environment. Furthermore, improving water management and sanitary services is a major challenge. Although Tanzania is generally well endowed with

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**Economic growth is sustained and improvements in tax administration will enhance progress towards fiscal stability**

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Figure 1 - Real GDP Growth and Per Capita GDP

($PPP at current prices)

Real GDP Growth (percentage)  
Per Capita GDP ($PPP)

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

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water resources, there is a great variation in water availability throughout the country. There is the possibility of continued water shortages as population growth reduces water availability. Sanitation services remain inadequate in the country with only a very small proportion of the population in both the urban and rural areas enjoying access to proper sanitary services. The problem of the poor state of sewerage services is exacerbated by inadequately developed pollution control and solid waste management.

Recent Economic Developments

Tanzania’s economy has continued to perform well in spite of the prolonged drought that has caused food shortages and a scarcity of water for electricity generation over the past three years. In 2006, real GDP growth remained resilient at 5.7 per cent, just below the annual average of about 6 per cent over the 2000-05 period. Growth is expected to pick up strongly to 6.8 per cent in 2007 and further to 7 per cent in 2008, driven mainly by higher investment from both the private and public sectors.

Economic activity in 2006 was constrained by the drought, which had a negative impact on agricultural production, with agricultural output expanding by an estimated 4.5 per cent compared with 5.2 per cent in 2005. The negative effect of the drought was felt especially in domestic production of cereal crops, which declined by an estimated 4 per cent in 2006, resulting in a sharp deterioration in the security of food supplies. The government was consequently forced to distribute a considerable amount of grain from its strategic grain reserves, thus reducing the country’s stock of grain reserves to 16,000 tonnes at the end of June 2006 from 113,000 tonnes at the end of June 2005.

The government has put in place measures since 2006 to avert the unending food crisis and to enhance agricultural productivity. These include streamlining and simplifying the regulatory environment, improving the functioning of the legal system and addressing human resource constraints. Other ongoing support services to the agricultural sector include provision of subsidies for the transportation of fertiliser to the main cereal producing regions, increased funding for agricultural research and extension services, and the strengthening and rationalisation of the export credit guarantee scheme.

Estimates for 2006 suggest that the industrial sector continued to achieve rapid growth of 7.4 per cent, albeit below the 10.6 per cent recorded in 2005. The industrial sector’s share in GDP rose to 16.9 per cent in 2005. The industrial sector’s rapid growth was due to strong performances in manufacturing, construction, and especially mining and quarrying. Mining and quarrying output grew in real terms by 15.7 per cent in 2006, the fifth consecutive year with increases of more than 14 per cent. Growth in the construction sector rose to 11.9 per cent after remaining at around 11 per cent for three years in a row, while growth in manufacturing output rose to 9 per cent from 8.6 per cent in 2005. However, the

Figure 2 - GDP by Sector in 2005 (percentage)

Source: Authors’ estimates based on Ministry of Planning, Economy and Empowerment data.

http://dx.doi.org/10.1787/172536545421
drought-induced power crisis in the country continues to hamper industrial activity.

Tanzania’s services sector continues to achieve healthy growth rising by an estimated 7 per cent in 2006 with the tourism and hotel/restaurant sub-sectors leading the growth. These sub-sectors remain healthy as Tanzania continues to enjoy the status of destination of choice for tourists in East Africa. In 2006 the number of tourists to the country rose by an estimated 7.1 per cent with tourists’ receipts also increasing by an estimated 6.7 per cent. This followed heavy advertising of Tanzania’s tourist attractions by the Tanzania Tourist Board and the country’s embassies. A major attraction of the tourist trade is Antiquities Tourism, which continues to see increases in numbers and has very good prospects in the years ahead. This follows the agreement entered into in 2005 by Sweden and Tanzania to finance projects that centre on Tanzania’s history, such as the slave trade route.

The expenditure composition of Tanzania’s GDP (see Table 1) reveals a changed outlook, with investment from both the public and private sectors beginning to grow significantly – a factor that is expected to underpin faster growth in 2007 and 2008. The share of gross capital formation in GDP has grown in recent years, mainly because of rising public investment. Both public and private investment are expected to expand rapidly in the next few years as government capital expenditure increases and anticipated increases in foreign inflows materialise. Nonetheless, it is incumbent on the government to increase momentum in enhancing the business environment in order to maintain the confidence of private investors in the economy.

### Table 1 - Demand Composition (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>2005</th>
<th>2006(e)</th>
<th>2007(p)</th>
<th>2008(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross capital formation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>3.3</td>
<td>9.1</td>
<td>7.0</td>
<td>8.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Private</td>
<td>12.9</td>
<td>13.1</td>
<td>10.0</td>
<td>12.0</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>Consumption</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>7.8</td>
<td>7.9</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Private</td>
<td>90.7</td>
<td>78.0</td>
<td>4.0</td>
<td>6.4</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>External sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>13.4</td>
<td>22.9</td>
<td>5.7</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Imports</td>
<td>-28.1</td>
<td>-30.4</td>
<td>4.0</td>
<td>8.9</td>
<td>8.3</td>
</tr>
</tbody>
</table>

**Source:** Ministry of Planning, Economy and Empowerment data, estimates (e) and (p) projections based on authors’ calculations.

### Macroeconomic Policies

Tanzania has been implementing an IMF Poverty Reduction and Growth Facility (PRGF-III) that came to an end in December 2006 after being extended from August 2006. In what is considered a graduation from PRGF programmes, the government intends to adopt a Policy Support Instrument (PSI) programme with the Fund, under which Tanzania will continue with efforts to maintain macroeconomic stability and implement structural reforms aimed at improving the financial sector and the business environment to promote investment.

PSI programmes were designed by the IMF for countries that have been pursuing reforms with the Fund’s support but which may no longer need its financial assistance, given their good record in economic reform, yet would still benefit considerably from its advice. When Tanzania adopts the PSI, it will be the third country in Africa after Nigeria and Uganda to do so.
Fiscal Policy

The key challenge to Tanzania’s fiscal policies has remained under-performance in domestic resource mobilisation, resulting from weak tax administration, which leaves many loopholes for tax evasion, as well as the non-integration of the informal sector into the tax base. In addition, domestic revenue mobilisation suffers from numerous tax exemptions; for example, it is estimated that 20 per cent of potential customs duties are exempted. The government’s medium-term fiscal strategy addresses these problems and is making some progress. In addition to ongoing reforms in tax and customs administration, the government is implementing measures to improve expenditure planning and management capacity. The government’s goals focus on fiscal prudence, compliance with public procurement regulations and intensification of the fight against corruption.

Further improvements in expenditure controls are envisioned at the local government level to reduce expenditure arrears and ensure that funds provided to Local Government Authorities (LGAs) are used for the intended purposes. The government is also working to improve expenditure management, by addressing the problem of large idle government balances in commercial bank accounts that should be spent, and to strengthen its expenditure tracking and monitoring. The government has also strengthened the link between budgetary resource allocation and the National Strategy for Growth and Reduction of Poverty (NSGRP) priorities through the rolling out of the Strategic Budget Allocation System (SBAS) to local government authorities in addition to government ministries, departments and agencies that were already using the system.

The 2005/06 budget suffered from unplanned additional costs associated with transfers to the Tanzania Electric Supply Company (TANESCO) to deal with the power crisis, procurement and distribution of food aid, and higher than anticipated pension outlays, following the start of payments of pensions to former employees of the defunct East African Community (EAC).

The budget deficit in 2005/06 was mitigated by improved revenue collections resulting from the ongoing tax and customs administration reforms being implemented by the Tanzania Revenue Authority. In 2005/06, tax revenue increased to 12.7 per cent of GDP from 12.4 per cent the year before, in spite of the temporary waivers of import duty on cereals and VAT on petroleum imports to, respectively, avert the food supply crisis and curb the rapid increases in the domestic price of fuel. Tax reforms are expected to yield further improvements in 2006/07.

The expenditure performance in 2005/06 reflected substantial restraint in the face of the unexpected events.

Table 2 - Public Finances (percentage of GDP)

<table>
<thead>
<tr>
<th>1997/98</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07(e)</th>
<th>2007/08(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue and grants&lt;sup&gt;a&lt;/sup&gt;</td>
<td>14.5</td>
<td>18.3</td>
<td>18.7</td>
<td>21.3</td>
<td>20.4</td>
<td>22.0</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>11.4</td>
<td>11.0</td>
<td>11.7</td>
<td>12.4</td>
<td>12.7</td>
<td>13.0</td>
</tr>
<tr>
<td>Grants</td>
<td>2.3</td>
<td>6.2</td>
<td>6.1</td>
<td>7.6</td>
<td>6.5</td>
<td>7.8</td>
</tr>
<tr>
<td>Total expenditure and net lending&lt;sup&gt;b&lt;/sup&gt;</td>
<td>16.7</td>
<td>19.9</td>
<td>22.2</td>
<td>25.9</td>
<td>26.5</td>
<td>26.4</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>12.2</td>
<td>14.9</td>
<td>15.8</td>
<td>17.0</td>
<td>18.5</td>
<td>17.6</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>7.5</td>
<td>13.9</td>
<td>14.9</td>
<td>15.9</td>
<td>17.1</td>
<td>16.3</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>5.5</td>
<td>4.0</td>
<td>4.0</td>
<td>4.2</td>
<td>4.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Interest</td>
<td>4.7</td>
<td>1.0</td>
<td>0.9</td>
<td>1.1</td>
<td>1.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>3.6</td>
<td>5.0</td>
<td>6.4</td>
<td>8.8</td>
<td>7.9</td>
<td>8.9</td>
</tr>
<tr>
<td>Primary balance</td>
<td>2.6</td>
<td>-0.6</td>
<td>-2.5</td>
<td>-3.5</td>
<td>-4.6</td>
<td>-3.2</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-2.1</td>
<td>-1.8</td>
<td>-3.5</td>
<td>-4.6</td>
<td>-6.0</td>
<td>-4.5</td>
</tr>
</tbody>
</table>

<sup>a</sup> Only major items are reported.

<sup>b</sup> Source: Ministry of Planning, Economy and Empowerment data, estimates (e) and (p) projections based on authors calculations.

http://dx.doi.org/10.1787/076138050382
described above. Government expenditure rose to 26.5 per cent of GDP but capital expenditure fell, as a result in part of delays in disbursements of pledged foreign assistance to the government. The government plans to reverse the declining development expenditure with sharp increases in infrastructure spending in 2007 and 2008 in the energy sector, to diversify power generation sources, and in the transport and communications and water sectors. However, reliance on donor funds for these investments continues to pose the main challenge for their attainment.

The overall fiscal deficit increased to an estimated 6 per cent in 2005/06, but is projected to decline to around 4 per cent of GDP in 2006/07 and 2007/08 (see Table 2) thanks to expected increases in foreign aid and relief arising from the Multilateral Debt Relief Initiative (MDRI).

**Monetary Policy**

Price stability remains the central objective of the Bank of Tanzania (BoT). This objective was challenged in 2006 after a considerable build up of liquidity arising mainly from an expansionary fiscal stance related to election expenditure and from relief initiatives that were supported by large inflows of official development assistance following the protracted drought. In 2006 a tighter monetary stance from the BoT, coupled with high demand for credit in the economy, drove up interest rates on the government’s treasury bills. The rate on the 91-day Treasury bill rose from 12.5 per cent in September 2005 to 13.4 per cent in June 2006. However, commercial bank rates remained reasonably stable, with the average commercial bank lending rate rising only marginally from 15.1 per cent in September 2005 to 15.4 per cent in June 2006.

Drought-induced food price increases in 2006 helped push up the annual average inflation rate to 7 per cent from about 4 per cent in 2005. In the expectation of better harvests and continued monetary restraint, the annual rate of inflation is projected to fall to about 6 per cent in 2007 and 2008.

**External Position**

Following the adoption of East Africa Community (EAC) Customs Union (CU) in January 2005, a timetable was approved in April 2006 for launching a common market by 2010. Tanzania and the other EAC partner states thus remain committed to liberalisation to enhance competitiveness, by, among other things, strengthening mutual trade integration. Implementation of various reforms in the context of EAC-CU regulations is scheduled for review in 2010. At the moment the government of Tanzania is working on lowering existing non-tariff barriers within the EAC-CU relating to standardisation, quality assurance, and metrology.

Exports of goods and services have continued to exhibit robust performance since 2002 as a result mainly of the increase in export volumes of coffee, tobacco and cotton. Similarly, there has been an increase in the price of almost all traditional exports in the world market except for tea and cashew nuts. The share of traditional exports (coffee, cotton, tea, cashew nuts, cloves, sisal, and tobacco) in total merchandise exports rose to 21.2 per cent in 2006 from 20 per cent in 2005. In 2006 traditional and non-traditional exports grew

<table>
<thead>
<tr>
<th>Table 3 - Current Account (percentage of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Trade balance</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Factor income</td>
</tr>
<tr>
<td>Current transfers</td>
</tr>
<tr>
<td>Current account balance</td>
</tr>
</tbody>
</table>

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

http://dx.doi.org/10.1787/530410221802
by about 19 per cent and 12 per cent respectively. In respect of non-traditional exports, manufacturing exports showed a significant increase, although gold continued to contribute the largest share in total non-traditional exports. Traditional exports continued to benefit from an easing of structural constraints, including improvements in roads, access to inputs and extension services, as well as favourable commodity prices. Traditional exports have also gained from both price and volume increases, with increase in volumes consequent on availability and timely usage of agricultural inputs.

Imports of goods and services in all categories have also continued to grow. Oil and food imports have risen rapidly since 2005 because of higher world prices and growing demand for food imports to meet domestic demand. Because imports have grown faster than exports and current transfers have been lower than projected, the current account balance remains precarious, with its pressure contributing to a continued depreciation of the shilling.

In 2006 the exchange rate of the shilling against the US dollar depreciated by about 11.3 per cent. While the Central Bank continued to allow the exchange rate to be market-determined, it nevertheless had to intervene to smooth excessive fluctuations in the exchange rate caused by fluctuations of foreign exchange inflows and outflows. Gross international reserves fell to the equivalent to 4.4 months of imports by the end of June 2006 from 7 months in June 2005 even though in nominal terms the value of gross international reserves remained broadly unchanged at about $2 billion.

As a result of the considerable debt relief extended to Tanzania during 2005/06, the external debt sustainability indicators continued to improve. As at the end of December 2005, Tanzania’s total external debt amounted to $7.93 billion, which represented a decrease of 1.1 per cent over the level at the preceding year. The decrease was largely the result of debt relief accrued under the Heavily Indebted Poor Countries (HIPC) arrangement. At the end of 2005, Tanzania had

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**Figure 3 - Stock of Total External Debt (percentage of GDP) and Debt Service (percentage of exports of goods and services)**

**Source:** IMF.

http://dx.doi.org/10.1787/87373943286
received debt relief amounting to $406.8 million. Tanzania will continue to benefit from the MDRI under which it is expected to get debt relief amounting to $4.83 billion, of which $336 million owed to the IMF was cancelled in December 2005. The International Development Association (IDA) and the African Development Fund (AFD) have also approved significant MDRI debt relief to Tanzania. The Government continues negotiations with remaining bilateral creditors under the Paris Club, namely Brazil and Japanese Agencies, as well as Non-Paris Club Creditors.

**Structural Issues**

**Recent Developments**

While Tanzania has been able to maintain progress towards macroeconomic stability, the country is still faced with the daunting challenge of raising the incomes of its people and reducing poverty. Considerable challenges remain in overcoming structural constraints to development, including improvement of infrastructure services in the energy, water, transport and communication sectors as well as in fostering local entrepreneurial capacity through improvement of the regulatory environment. Tanzania fares poorly on measures of the business climate, such as the World Bank's Doing Business survey in which it ranks 142nd out of 175 countries.

The government has signalled its determination to tackle some of these structural constraints. In 2006, the government focused its efforts mainly on the energy crisis caused by the drought-induced decline in power generation capacity. The major undertaking in this regard involves the Power Sector Reform Strategy with its financial recovery programme for the national energy utility company TANESCO. In the transport sector, the government finalised in December 2006 the Medium-Term Transportation Infrastructure Investment Plan. The government is also implementing various support initiatives for economic empowerment of local entrepreneurs and for improving the business environment for private-sector activity.

A large part of activities in the private sector in Tanzania operates informally. A 2005 diagnostic report of the Property and Business Formalisation Program in Tanzania (PBFT), estimated that as much as 98 per cent of businesses are still classified as informal enterprises. Factors that hinder formalisation of businesses include cumbersome regulatory and administrative procedures that contribute to the high cost of doing business. A new forum for policy dialogue between the private sector and the government has been established, which is expected to facilitate action by government in addressing impediments to private sector development.

In 2005 the government established a Regulations Unit, charged with the responsibility of managing and supervising implementation of the Business Environment Strengthening for Tanzania (BEST) programme. The BEST programme aims to reduce the cost of doing business in the country. It seeks to: eradicate administrative and procedural barriers; improve the quality of public services, including resolution of commercial disputes; and enhance the capacity of the private sector in advocating a better business environment. The programme has facilitated the preparation of the Business Activity Registration Bill and land mortgage regulations to facilitate the use of land as security for accessing finance. In 2005 the government also completed preparation of the Private Sector Competitiveness Project, the objective of which is to enhance the capacity of the private sector to respond to viable opportunities in local and foreign markets, improve access to finance, and strengthen the business environment.

Privatisation of public enterprises continues, with completion scheduled for December 2007. The Public Sector Reform Commission (PSRC), which is responsible for managing the privatisation exercise, is to complete the privatisation of the remaining 36 public enterprises over the next year. Some of the major public enterprises still to be privatised include the National Insurance Corporation, the Tanzania Zambia Railways Authority (TAZARA), commercial units of Tanzania Ports Authority (excluding the container terminal that has already been leased), and the power utility...
TANESCO. In 2006, 11 more enterprises were privatised and 126 non-core assets sold, for a total of 322 enterprises and 647 non-core assets divested as at end December 2006. The government is using the privatisation programme to facilitate development of local capital markets by selling to the public, through the stock exchange, government shares in previously divested enterprises.

Although Tanzania's financial sector is healthy, it remains small in relation to the requirements of the growing economy. The financial sector is dominated by the banking sector with most branches concentrated in the capital city, Dar es Salaam. Consequently the authorities are implementing a second generation Financial Sector Reform Programme (FSRP) to strengthen the contribution of the financial sector to investment and economic growth. In 2006, the Bank of Tanzania Act and the Banking and Financial Institutions Act (BFIA) were passed. These acts reinforce central bank autonomy and accountability and strengthen the legal framework of the financial sector.

Access to Drinking Water and Sanitation

Tanzania is endowed with adequate water resources for industrial and domestic use, including power generation. It is estimated that about 5.5 million of the country's 94 million hectares are covered with fresh water resources, including three Great Lakes that border the country and inland lakes. The three lakes that border the country and whose waters are shared with neighbouring countries are Lake Victoria (the second largest freshwater lake in the world), Lake Tanganyika (the second deepest lake in the world), and Lake Nyasa. Inland lakes include Rukwa, Eyasi and Manyara. There are also major rivers flowing into the lakes and the Indian Ocean and underground water is another important source of water in both rural and urban settlements.

While water resources are deemed abundant, there is a great variation in water availability throughout the country, which can be explained by differences in topography, rainfall pattern and climate. About one third of Tanzania receives less than 800 millimetres of rainfall per annum and is considered to be arid or semi-arid.

Further, Tanzania experiences a long dry season normally extending from June to October, which tends to affect river flows and since 2001 its severity has led to a drop in levels in water reserves. Environmental degradation and pollution of water in catchments areas and limited investment in the collection and distribution of water to areas far from water sources also explain the variability in coverage of supply of water. Current estimates show that the amount of water resources available for human use in the country is 89 cubic kilometres equivalent to 2,700 m³ per annum, well above the 1,700 m³ requirement per person deemed to be adequate.

Nonetheless, there is the possibility of future water shortages in Tanzania. The population is projected to reach 59.8 million by 2025, which implies that the amount of water available per person will decline by about 45 per cent to 1,500 m³ a head, below the 1,700 m³ threshold. Climate change has meant that Tanzania has been receiving inadequate rainfall since 2001, which in turn has led to reductions of water levels in various catchments. Inadequacy of rainfall also meant that not enough water could be harnessed in the major water reservoirs for electricity generation thus creating the twin problems of water and energy shortages in the country.

About 43 per cent of water resources in Tanzania are shared with other countries. In the case of the Great Lakes, Lake Victoria is shared with Kenya and Uganda; Lake Tanganyika is shared with Burundi, Zambia and the Democratic Republic of Congo; and Lake Nyasa is shared with Malawi and Mozambique. Water uses are diverse, including domestic, industry, agriculture and livestock, wildlife and hydropower supply. In Tanzania it is estimated that 80 per cent of installed electricity generation capacity relies on hydropower, something that tends to fuel competition and conflicts of interests among water users. A strong mechanism for water resources management is thus indispensable if conflicts among users within and between countries sharing the waters are to be avoided and it is to be ensured that the resources are used sustainably for human development. Conflicts are also likely where individual countries' water use plans are not co-ordinated for trans-boundary waters.
In August 2003 the Tanzanian parliament ratified a protocol providing guidelines for the establishment of institutions to manage common water resources in South African Development Community countries. Tanzania’s water ministry is collaborating with countries sharing river Zambezi waters in establishing a River Zambezi Commission that will manage sustainable use of the basin’s waters. Tanzania is also establishing a commission in collaboration with Mozambique’s water ministry for overseeing sustainable use of the Ruvuma Basin waters. During 2005/06 Tanzania and other countries sharing water from the Nile continued to manage use of water through the Nile Basin Initiative (NBI) which is an interim institution established for this purpose. The process of establishing the permanent Nile Basin Commission is in its final stages, including the required assessment of water use needs in the country. In collaboration with Kenya and Uganda, Tanzania continued implementation of the first phase of the Lake Victoria Environmental Conservation Project. The project is one of the collaborative initiatives of the East African Community intended to assess the extent of pollution in lake waters and their sources so that collective measures can be implemented to address the problem.

Development of the water sector is governed by the Water Sector Policy (WSP), the most recent of which was issued in 2002. Although the sector is liberalised, the Ministry of Water retains responsibility for development, review and further improvement of water and sanitation policy; and for facilitating, co-ordinating and monitoring development of water and sanitation services to the public.

It is estimated that access to water in rural areas in 2005/06 improved to 53.7 per cent, up from 49 per cent in 2000 and 53.5 per cent in 2004, while urban water supply coverage is estimated to have gone up to 74 per cent in 2005/06 from 68 per cent in December 2000 and 73 per cent in June 2004. In respect of the coverage of sewerage services, the current estimated rate is 17 per cent in urban areas, unchanged since 2003, after rising from 10 per cent in 2000. At the same time, pollution control and solid waste management systems are not yet adequately developed to protect public health, well-being and the environment. As a result, Tanzanians suffer from water-borne diseases such as cholera and from other diseases such as bilharzia, malaria, scabies and trachoma, which are prevalent in areas with poor sanitation facilities.

The government’s objectives under the NSGRP for water are to raise the level of provision to 80 per cent of the population in rural areas and to 90 per cent in urban areas by 2010. In respect of the provision of sanitation services, the objective is to increase the proportion of the urban population with improved sewerage services to 30 per cent from the current 17 per cent and to increase coverage of people with access to basic sanitation countrywide to 95 per cent by 2010. The growth rate of provision of water and sewerage services is, however, still very low at about 1 per cent in urban areas and 0.2 per cent in rural areas during 2005/06. Considerable challenges therefore remain for the government in expanding water and sanitation services in rural and urban areas.

To address the challenges involved in increasing access to water and sanitation services, the government has been implementing a number of initiatives. The major focus of these has been to increase access to clean and safe domestic water, especially for the rural population, and to protect water catchment areas from pollution and degradation. The initiatives include capacity building to manage use of water in the water basins; involving communities in managing and developing water sources; collaboration with local government authorities in managing water use and development through formulation and enforcement of by-laws; establishment of water projects and undertaking assessment of existing water sources to establish the extent of pollution and/or degradation taking place in water catchment areas.

Political Context and Human Resources Development

With three peaceful multiparty elections since 1995, Tanzania remains a good example of a deepening democratic political entity providing peace and political
stability. To ensure that this peace and tranquillity is preserved, the government undertook additional measures to strengthen public security and safety during 2006 through the establishment of a new Ministry for Public Security. Furthermore, measures to enhance accountability and fight corruption in the public sector continued to be implemented by the Prevention of Corruption Bureau (PCB) and other government institutions.

In 2006 the government launched the second National Anti-Corruption Strategy Action Plan (NACSAP II) that incorporates interventions at both the central and local government levels. A new anti-corruption bill that integrates all anti-corruption international agreements ratified by Tanzania was expected to be submitted to the parliament in February 2007; this bill also strengthens the capacity and effectiveness of government in this area, particularly with respect to the prosecution powers of the PCB. With the support of the World Bank and other donors, the government is also intensifying its efforts to implement its comprehensive Legal Sector Reform Programme. In addition the government plans to build the capacity of oversight institutions as well as of the media and civil society as part of its efforts to increase their effectiveness in ensuring accountability and thereby discouraging corruption. This initiative will be implemented through a programme supported by the Millennium Challenge Corporation of the US Government. In July 2006, an anti-money laundering bill was submitted to Parliament for a first reading. Among the key issues in this Bill is a proposal for the establishment of a Financial Intelligence Unit (FIU) to monitor and report questionable financial transactions to the relevant authorities. Other actions against corruption pursued by the government include strengthening the procurement function in public institutions.

As part of its initiative to improve the quality of life and well-being through empowerment, the government continued to implement policies and programmes for the enhancement of women’s participation in economic and political life during 2006. Following amendment of the National Constitution and electoral laws to increase women’s representation in leadership positions, the number of women in Parliament increased further to 29.5 per cent in 2006, up from 21.7 per cent in 2005. Amended electoral law requires a 30 per cent representation of women in parliament. Currently, 97 of the 319 parliamentarians are women, 22.7 per cent (22 parliamentarians) of whom were elected and the other 78 per cent (75 parliamentarians) were appointed for special seats. The number of women ministers and deputy ministers has also increased by 8.6 per cent compared with the previous cabinet. Currently, 15 of the 59 cabinet members are women.

The female adult literacy rate as a percentage of the male rate continued to improve, rising to 80.2 per cent in 2006, up from 80 per cent since 2003. With further improvement in women’s participation in economic and political activities, the 2006 United Nations Development Programme (UNDP) Gender Empowerment Index (GEM) for Tanzania in the Human Development Report (HDR) is estimated at 0.597, which puts Tanzania at 36th out of 75 countries, compared to its 42nd position out of 80 countries in HDR 2005. Further improvement in mainstreaming gender into development is also visible through the Gender Development Index (GDI) ranking where Tanzania occupies the 80th position in 2006 compared to its 127th position out of 177 countries in HDR 2005.

Despite these gains, Tanzania remains one of the poorest countries in sub-Saharan Africa. The government’s first review of poverty in 2006 notes that progress in reducing income and non-income poverty is very slow, especially in areas outside Dar es Salaam. This is explained in part by the slow recovery from the adverse effects of weather shocks. Tanzania ranked 64th in the UNDP’s Human Poverty Index (HPI-1) of 102 developing countries in 2004. The HPI-1 focuses on the proportion of people below a threshold level of human development—life expectancy, education, and income.

With respect to health indicators, the most recent Demographic and Health Survey (DHS, 2004), shows that Tanzania achieved a decline in mortality rates for both infants and children under five since the last survey in 1999, in comparison to the stagnation in the
same indicators experienced during the 1990s. The DHS (2004) estimates that average infant mortality rate over 2000-04 was about 68 per 1000 live births, a considerable improvement from the rate of 99 deaths per 1000 live births between 1994 and 1999. The DHS also reveals a considerable decline in the under five mortality from 156 per 1000 live births in the period 1995-99 to 112 per 1000 live births in the period 2000-04.

During 2006 the government continued to strengthen programmes to control and prevent malaria, tuberculosis and leprosy, HIV and AIDS, and to improve reproductive and child health services. Nonetheless, a significant proportion of child deaths in the country continued to be the consequence of preventable diseases, including malaria, pneumonia, diarrhoea, malnutrition, complications arising from low birth weight and HIV/AIDS. Furthermore, improvement in health outcomes continued to be limited by inadequate financing, infrastructure and accessibility of health facilities, and by human capacity and logistical weaknesses. HIV/AIDS continues to pose a grave threat to public health. Available epidemiological surveillance data suggest that there were 188 400 new cases of HIV infection in 2005 amongst which 97 000 were women and 91 000 were men, up from 188 100 new cases in 2004. HIV infection rates are estimated at 12 per cent in urban areas and 5.8 per cent in rural areas in 2005, but with considerable variations among individual regions. Infection rates among men and women are estimated to have remained more or less unchanged at around 7.7 per cent and 6.3 per cent respectively, with an overall average of 7 per cent for the country. Partly as a result, life expectancy at birth is only 47 years.

The Tanzanian government continues with implementation of the National Multi-Sectoral Strategic Framework (NMSF), which plans to address HIV/AIDS in a comprehensive manner so as to reduce the prevalence rate and increase in new infections. In 2005 the government prepared guidelines on HIV/AIDS control in the public sector, providing clear guidelines on procedures for care and support to people living with HIV/AIDS and also improving on education on HIV/AIDS. Plans are underway to increase the number of centres providing anti-retroviral drugs to HIV/AIDS patients from the existing 96 centres as of December 2005, as well as to increase the registration of people with HIV/AIDS into the National Care and Treatment Plan to increase their access to free drugs.

In the education sector, the government has continued with implementation of various programmes to boost education at all levels. Based on the Ministry of Education and Culture’s (MoEC’s) Basic Education Statistics, the gross enrolment ratio (GER) for primary education increased further to 109.9 per cent in 2005 from 106.3 per cent in 2004 and 105.3 per cent during 2003. Similarly, the net enrolment ratio (NER) in primary schools increased to 94.8 per cent in 2005 from to 90.5 per cent in 2004 and 89 per cent in 2003. In 2006 GER and NER rose again, to 112.7 per cent and 96.1 per cent respectively. The gap in primary school enrolment between boys and girls, however, increased slightly during 2005, with girls accounting for a 48.9 per cent share of total enrolment during the year, down from 49.9 per cent in 2004. It is expected that the gender enrolment gap will be reduced and eventually disappear with the implementation of initiatives to increase female access to education. Efforts to recruit and train more teachers made possible an improvement in the teacher pupil ratio to 1:56 in 2005 from 1:58 in 2004. Following the start of the Secondary Education Development Programme (SEDIP), the number of government secondary schools in the country increased by about 45 per cent in 2005 to 1 202 secondary schools. The number of private secondary schools also went up by 18.6 per cent to 543. In effect these initiatives facilitated an improvement in the transition rate from primary to secondary schools to around 49 per cent, up from an average of about one third in 2003 and 2004.