Tanzania

Dodoma

**key figures**
- Land area, thousands of km²: 945
- Population, thousands (2007): 40 454
- GDP per capita, USD at constant 2000 prices (2007): 403
- Life expectancy (2007): 52.5
- Illiteracy rate (2007): 18.2
Tanzania has managed to not only overcome the aftermath of adverse weather shocks in 2005 and 2006 and an outbreak of Rift Valley Fever during 2007, but also shows signs of a recovering economy. Favorable weather conditions enabled a good harvest in 2007 and provided adequate water levels for the operations of hydropower dams that are the main source of electric power generation. The economy is projected to grow by 6.6 per cent in 2007 compared to 6.7 per cent in 2006. The outlook is encouraging for subsequent years as well, with GDP growth expected to maintain the same momentum, at 6.5 per cent in 2008 and 6.7 per cent in 2009. However, the recent increase in fuel prices, the newly announced wage regulations for the private sector and the political turmoil in Kenya may dampen this outlook.

A new commitment to improving governance and accountability in public office.

Recent Economic Developments

Agriculture grew at 5 per cent in 2007, an improvement over the 4 per cent growth in 2006, and is projected to grow slightly more than 5 per cent in 2008. As a result of the good harvest in 2006/07, distribution of food aid was scaled down. The country was able to rebuild its Strategic Grain Reserve (SGR) stocks to about 130 000 tons by June 2007, with a further increase to 150 000 tons anticipated by the end of the 2007/08 financial year. The country will remain food secure in 2007/08, although localised
food shortages may continue in some districts due to poor road connectivity with surplus areas. Emergency food release from the SGR is available to address any shortages.

Agriculture remains a crucial source of income, employment, and food security, especially for the rural population. The revised National Accounts statistics published in September 2007, reveal that the output shares of services and industry have grown relative to the agriculture sector, which has historically dominated. The most rapidly expanding service sub-sectors were tourism, real estate and business services. In 2006/07 services rose to an estimated 43.8 per cent of GDP. The share of industrial production has also increased considerably while the contribution of agriculture fell to 11.4 percent.\(^1\) Agricultural sector performance, especially the livestock sub-sector, experienced an additional set back from the outbreak of Rift Valley Fever in late 2006 and early 2007, causing cattle as well as human deaths. Consumption of meat fell drastically and restrictions on cattle slaughter and transportation reduced incomes in major cattle rearing zones.

The government adopted a number of measures to promote agricultural recovery following the drought-related downturns in the last two years. The measures include: improvements of rural infrastructure (roads, market places and warehouses); expanding the fertilizer and agro-inputs subsidy programme initiated in 2005 to cover the whole country; expanding the areas benefiting from irrigation and extension services, which assist farmers in adopting yield increasing technologies (e.g. promotion of production and marketing of non-traditional export crops); promotion of downstream value addition activities (e.g. agro-processing); enhancing access to domestic and foreign markets; and assistance in compliance with international quality standards.

Industrial production, comprising manufacturing, mining and quarrying and construction, grew by an estimated 9.2 per cent in 2007 compared to 8.5 per cent in 2006, and is expected to grow by 10 per cent in 2008. Maintaining high growth rates in the industrial sector will depend on successfully overcoming weaknesses in infrastructure, especially in energy and transportation. The growth of the service sector was expected to slow by 1 per cent from 7.7 per cent in 2006 to 6.7 per cent in 2007. However, a rebound is expected in 2008. As in 2006, trade, hotels and restaurants, real estate and business services, and government services were the most dynamic sub-sectors in 2007. The positive outlook in GDP growth reflects efforts to safeguard macroeconomic stability, a prerequisite for private business to thrive. Under the Labour Institutions Act of 2004 the Government has set new sectoral minimum wages, which went into effect in January 2008. The newly announced sector-specific minimum wages range from TZS 85 000 (Tanzanian shillings) to TZS 350 000, as compared to former minimum wages of TZS 48 000 for urban and TZS 35 000 for rural areas. The new minimum wages are considered high by private businesses and might lead to shedding of labour as a measure to cope

---

**Figure 2 - GDP by Sector in 2006/07 (percentage)**

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

StatLink: [http://dx.doi.org/10.1787/318177637870](http://dx.doi.org/10.1787/318177637870)

1. Sector shares of GDP are based on revised National Accounts published in July 2007.
with increasing costs of production. The anticipated growth in sectoral output during 2008 will depend on how enterprises cope with these new wages.

On the demand side, investment as a share of GDP is rising relative to consumption. Investment was strong in 2006, rising to 8 per cent of GDP up from 3.4 per cent in 1999. It is expected to increase even further in 2009 given the government focus on infrastructure development. Private investment is also rising thanks to more widespread access to bank credit and foreign capital inflows. In terms of consumption, imports — led by capital goods and fuel — are likely to maintain the high growth rate seen in recent years.

### Macroeconomic Policies

Since February 2007 Tanzania has implemented a reform programme under a three-year IMF Policy Support Instrument (PSI), following the end of the Poverty Reduction and Growth Facility (PRGF) programme in December 2007. Overall, Tanzanian macroeconomic management over the last decade has been positive, enabling graduation to PSI status. PSI status involves surveillance by the IMF, but no lending. The objective of the government under PSI is to increase social spending and infrastructure investment while maintaining macroeconomic stability.

### Table 1 - Demand Composition

<table>
<thead>
<tr>
<th></th>
<th>Percentage of GDP (current prices)</th>
<th>Percentage changes, volume</th>
<th>Contribution to real GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2006</td>
<td>2007(e)</td>
</tr>
<tr>
<td>Gross capital formation</td>
<td>17.5</td>
<td>27.9</td>
<td>14.5</td>
</tr>
<tr>
<td>Public</td>
<td>3.4</td>
<td>8.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Private</td>
<td>14.1</td>
<td>19.9</td>
<td>10.3</td>
</tr>
<tr>
<td>Consumption</td>
<td>92.8</td>
<td>86.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Public</td>
<td>11.6</td>
<td>17.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Private</td>
<td>81.2</td>
<td>68.3</td>
<td>6.0</td>
</tr>
<tr>
<td>External demand</td>
<td>-10.3</td>
<td>-13.9</td>
<td>-1.6</td>
</tr>
<tr>
<td>Exports</td>
<td>12.5</td>
<td>22.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Imports</td>
<td>-22.9</td>
<td>-36.1</td>
<td>11.0</td>
</tr>
<tr>
<td>Real GDP growth</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** National Bureau of Statistics data; estimates (e) and projections (p) based on authors’ calculations.

**Fiscal Policy**

Due to the massive investment in the expansion of social services, government expenditure has risen sharply in recent years, with a further hike of 34 per cent slated for 2007/08. According to initial projections completed in July 2007 and based on previous GDP series, government expenditure would have been 28 per cent of GDP in 2007/08. However, the revised national accounts lowered the forecast to 25.5 per cent of GDP in 2007/08.

The government anticipates that growth in spending will be accommodated by a large increase in revenues, thanks to a combination of strong domestic revenue collection measures and robust GDP growth. As a result, the government budget deficit is forecast to increase only slightly in 2007/08. The revenue-raising measures include indexation of specific excise duty rates, upward adjustment of forestry and hunting fees, fuel levies and user charges. Together, these measures are expected to yield close to 1 per cent of GDP in revenue. The bulk of the increase in revenues is anticipated to come from continued improvements in tax administration, specifically through: further strengthening of large-taxpayers department audits in key areas such as mining; tightening procedures for medium-taxpayers by establishing specialised units in district offices; additional improvements in customs...
procedures, notably for fuel products; and tighter monitoring of tax exemptions. There are also plans to strengthen collection of non-tax revenue after results from a 2007/08 study are obtained. Donor assistance is also estimated to have grown both in absolute terms and as share of GDP to 5.9 per cent in 2006/07, and further growth is projected in the next two fiscal years.

In 2007/08, 65 per cent of expenditures will be directed to financing Tanzania’s second-generation Poverty Reduction Strategy — the National Strategy for Growth and Reduction of Poverty (NSGRP) priorities — up from 46 per cent in 2006/07. There is a strong focus on sustaining social achievements in the education, health and water sectors and on investment in infrastructure.

The government has consistently refrained from domestic deficit financing so as to ease the pressure on monetary policy and interest rates. The authorities are aware that expenditure restraint will be necessary should there be an unexpected shortfall in revenues. In particular, a sharp rise in the public wage bill is imminent due to a recruitment drive in the education and health sectors and the salary increases for other poorly paid civil servants, as recommended by the Presidential Wage Review Commission. The impact of an increased wage bill on public expenditure and inflation remains to be seen.

Expenditure restraint is also necessary as a step towards regaining budgetary independence, given that donor assistance accounts for about 42 per cent of the total budget and about 80 per cent of the development budget. Furthermore, financial vulnerability might result from credit guarantees to the private sector and parastatal bodies under the National Empowerment Policy of 2004. The policy aims to facilitate creation of capacity for local entrepreneurship, among other things, through facilitating easier access to loans for micro, small and medium enterprises. During 2006/07, the government set aside TZS 21 billion for soft loans to micro and small enterprises, in additional to other guarantees already overseen by the central bank. The syndicated loan to TANESCO (equivalent to 1 per cent of GDP) is the largest loan ever issued to a single parastatal firm. If not well managed, these guarantees could result in new debt service obligations for the government. Although there is no national policy on Public Private Partnerships (PPP), collaborative

---

2. Older schemes such as External Payment Account (EPA), which was created to handle a debt buy-back scheme in the 1990s, has shown the vulnerability to corrupt practices if not well managed. The mismanagement of the scheme led to the dismissing of the Governor of the Central Bank, setting a precedent in the country.
programmes in infrastructure sectors are also gaining prominence. The legal framework for PPPs, however, must be developed.

The Public Financial Management Reform Programme (PFMRP) review undertaken in 2007 underscored the need to further strengthen the budgetary system in Tanzania, even though it is amongst the most advanced in sub-Saharan Africa. Considerable scope exists for: aligning strategic planning, the Medium Term Expenditure Frameworks (MTEF) and the annual budgeting exercises; improving budget execution by enhancing cash management; strengthening fiscal monitoring by implementing a functional classification of expenditures and extending reporting to the central government (this includes monitoring and reporting on national development strategy (MKUKUTA) spending, contingent liabilities, quasi fiscal activities, and government assets); and, further strengthening of internal and external auditing. Successful reform will require additional measures to address limited staff capacity at the mid and lower levels in central and local government agencies, which will be initiated in 2007/08.

Domestic debt remains relatively modest at USD 1.5 billion (roughly 10 per cent of GDP) as of June 2007, and could decline further if the government honours its commitment to limit domestic deficit financing in the medium term. Efforts are being made to reduce domestic debt service costs through adjustments to the maturity profile of the debt and by increasing the depth of local financial markets.

**Monetary Policy**

Inflationary pressures emanating from increased world oil prices and domestic food prices challenged the price stability objective of the Tanzania Central Bank in 2007. The Central Bank also had to contend with liquidity creation associated with inflows of external aid. In addition, the shallowness of the financial market complicates the task of the monetary authorities since it entails volatility of money market interest rates in response to open market operations. Tighter monetary policies pushed up the overall yield on treasury bills to 17.1 per cent in June 2007, from 8.2 per cent in June 2006.

Despite a good harvest, food prices eased only slightly with average food inflation falling to 7.0 per cent in 2007 from 7.9 per cent in 2006, due to higher transport costs related to fuel price increases. Underlying inflation increased particularly rapidly, averaging 7.0 per cent in 2007, compared to 4.5 per cent in 2006.

The slowdown in growth of the monetary aggregates indicates that the Central Bank tightened policy. Extended broad money grew by 20.7 per cent in the 2006/07 fiscal year, below both the 31.6 per cent growth in 2005/06, and the target of 24 per cent for 2006/07. Broad money supply grew by 20.1 per cent in 2006/07, also below both the level of the previous year’s growth of 24.5 per cent and the target of 23 per cent. Supported by significant foreign lending and government credit guarantees, credit to the private sector nevertheless grew rapidly to 36.4 per cent; it was 35.9 per cent in 2005/06.

Greater co-ordination and transparency of monetary, fiscal, and exchange rate policies and deepening of the money market could help lower interest rate volatility and improve policy making. The Bank of Tanzania is planning to make greater use of foreign exchange rather than Treasury bills in open-market operations. It also plans to improve transparency through issuing policy statements after monthly monetary policy committee meetings and through periodic analyses of the economy.

Increasing reliance on foreign exchange sales for liquidity management in 2007/08 has led to easing of Treasury bill yields and to appreciation of the shilling against major currencies, reversing the sharp depreciating trend during 2006/07. Nevertheless, the Bank of Tanzania is committed to maintaining a flexible exchange rate. To further boost the stability of the money market, improving the liquidity forecasts of the joint Bank of Tanzania-Ministry of Finance Cash Management Committee is crucial. Careful planning of spending and cash flows to Ministries, Departments and Executing Agencies (MDAs) including Local
Government Authorities (LGAs) is also necessary to manage the liquidity implications of large fluctuations in government cash balances in commercial banks.

**External Position**

Tanzania’s chronic trade and current account deficits have widened recently, with the latter going from 3 per cent of GDP in 2004 to about 10 per cent in 2006 and 11 per cent in 2007. Imports surged in the last few years due to adverse weather and the sharp rise in world oil prices. Even the favourable harvest in 2006/07 did not significantly dampen the fast rising import bill, while export promotion measures appeared to have had little impact outside of tourism. Merchandise export growth has remained quite modest, with the partial exception of minerals, led by gold. Until 2000 Tanzania’s major exports were traditional crops, mainly coffee, cotton, tobacco and cashew nuts. Export diversification efforts are showing some success. Mining, mainly gold, accounted for 47.8 per cent of export earnings in 2006, and is expected to reach 50 per cent in 2007, a sharp increase from 27 per cent in 2000. Traditional crops accounted for only 16 per cent of merchandise export earnings in 2006.

Services exports, mainly of tourism, contributed significantly to foreign-exchange earnings, rising by 13.4 per cent in 2006 and an estimated further 14 per cent in 2007. Tourism, mainly hotels, was also the largest recipient of FDI during 2006 and 2007, receiving nearly 50 per cent of the projects approved by the Tanzania Investment Centre (TIC). Ongoing efforts to promote Tanzanian tourist attractions, including development of wildlife, cultural tourism, and archives and antiques, are showing positive results. The government also plans to expand marketing efforts, including television advertisements. The live volcano Oldonyo Lengai Mountain was reopened during 2007 and is seen as a possible additional attraction for both local and international tourists.

Increasing productivity and competitiveness must start with improvements in the business environment. Regional co-operation can be an important building block towards global integration. Tanzania’s overlapping membership in various regional groupings may be counterproductive, however, and needs to be addressed. The East African Community (EAC) Customs Union is the most important of Tanzania’s regional memberships, but the EAC integration process is far from complete. Further steps remaining to be concluded include: harmonisation of investment codes and rules of origin; institution of joint customs border posts and uniform cargo clearance procedures; standardisation of regulations on product quality standards and metrology; double taxation issues; and restrictions on labour mobility. The accession of Rwanda and Burundi into the EAC in July 2007 will further broaden trade ties among member countries. In August 2007 the EAC Heads of State endorsed the need to move towards establishing a Common Market and a Monetary Union by 2012, while proceeding gradually towards a political federation. In December 2007 the EAC signed an interim Partnership Agreement with the European Union covering trade in goods, a development clause and fisheries as they await conclusion of the comprehensive pact. The agreement is accompanied by

<table>
<thead>
<tr>
<th>Table 3 - Current Account (percentage of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="http://dx.doi.org/10.1787/323320422505" alt="Table" /></td>
</tr>
</tbody>
</table>

**Source:** Domestic authorities’ data, estimates (e) and (p) projections based on authors calculations.
Tanzania continued to receive considerable debt relief during 2006/07 through the Multilateral Debt Relief Initiative (MDRI) and Highly Indebted Poor Countries (HIPC) Initiative. As a result, the stock of external debt in June 2007 was reduced to USD 4.9 billion (approximately 31 per cent of GDP), nearly 44 per cent below the stock in June 2006. The government has committed to refrain from non-concessional external borrowing. A joint IMF-World Bank analysis in July 2007 shows that external debt will most likely remain sustainable, as long as Tanzania’s current account deficit is financed at highly concessional terms.

Foreign aid and capital inflows more than offset the trade deficit, such that Tanzanian foreign reserves rose to an estimated at USD 2.3 billion in June 2007, equivalent to 4.2 months of imports. Projections for 2007/08 are that reserves will remain around this level. However, this seemingly satisfactory situation depends on an uncomfortable reliance on foreign aid.

**Structural Issues**

**Recent Developments**

The government has emphasised the participation of the private sector as a key partner in Tanzania’s development strategy. There is a high level of political support through the Tanzania Private Sector Foundation (TPSF), chaired by the President of the United Republic
The increased number of FDI projects approved by the TIC indicates that the strategy is having some success. Major efforts to address structural hurdles to private sector development have yielded positive results in areas such as the streamlining of business licensing and registration requirements, legal and judicial reforms, and access to finance. In the World Bank’s Doing Business indicators, Tanzania has improved from the 142nd position out of 175 countries in 2006 to the 130th position out of 178 countries in 2007. Scope for further structural reforms is indicated by the fact that Tanzania still ranks below its EAC partner states and many other fast growing economies in Africa and elsewhere.

Poor infrastructure in transport, communications and energy is a major bottleneck that requires increased and sustained investment. The country is implementing a Medium Term Transport Sector Infrastructure Investment Plan (TSIP) but many areas remain untouched. A new Roads Act was enacted in April 2007, increasing budget allocations for road projects to 4.1 per cent of GDP in 2007/08 from 2.6 per cent in 2006/07. Public-private partnerships in infrastructure are also being explored by the government. In the energy sector, hydropower supply has also benefited from the restoration of water levels in major reservoir dams in 2006/07. The Financial Recovery Plan (FRP) for the Tanzanian Electric Supply Company, TANESCO provides for tariff increases to finance new investments. The FRP will involve substantial investments in the power infrastructure that deteriorated badly during a long period of neglect. To this end, in 2007 TANESCO signed a USD 220 million medium term loan with a syndicate of local financial institutions. Additional financial support is being negotiated with Tanzania’s development partners to augment the local resources for the FRP as well as the broader Power Sector Reform agenda, which aims to improve the system as a whole and increase access to electricity.

The government announced in 2007 its intention to complete, by December 2007, the divestiture of 36 public enterprises that had not been completed in 2006. Although some good progress has been achieved, it has been difficult to keep this deadline. The major privatisation deal concluded in September 2007 was the concession of Tanzania Railways Corporation (TRC) to RITES Limited of India. RITES Limited will operate passenger and freight services over a period of 25 years, with the government retaining a 49 per cent share of the renamed Tanzania Railway Ltd. Privatisation of the giant insurance company, the National Insurance Corporation (NIC), has been postponed pending a reassessment of its assets. On the other hand, restructuring of the Tanzania Investment Bank (TIB) is progressing well and it has been recapitalised to further boost lending to medium and small sized enterprises.

The Second Generation Financial Sector Reforms (SGFSR) consolidate achievements made during the first generation reforms, and are attempting to address remaining structural constraints to the sector’s development. Emphasis includes: establishment of a framework for lease and mortgage financing; a credit information data bank; and a legal and regulatory basis for a credit information bureau. A draft Lease Finance Law was presented to the parliament in November 2007. The use of land in commercial transactions is still limited. The government has been rather slow to revise controversial clauses in the Land Act that would allow lenders to foreclose on mortgaged land, thereby facilitating its use as collateral. Another objective of the SGFSR is a unified legal and regulatory framework and investment guidelines for pension funds. Guidelines for pension fund investments are to be submitted to the government during 2008, after they have been harmonised with amendments to the country’s Social Security Act.

Balancing the objectives of raising growth and environmental protection is becoming increasingly important for Tanzania. Investment projects require Environment Impact Assessment (EIA) for approval by the National Environmental Management Council (NEMC). Between 1996 and 2004, before the creation of the NEMC in 2004, 39 out of 40 EIAs were approved. Since 2004, when the Environmental Management Act (EMA) was passed, the number of EIAs has increased while the rate of approval has declined to just 23 out of 32 proposals, indicating increasingly stringent environmental protection.
Given Tanzania’s heavy reliance on wood-based fuels and tourism, additional measures for protection and conservation are in order. A recent study of the timber industry in Southern Tanzania reveals that a large proportion of the population in that area is dependent on logging, and some districts derive as much as 50 per cent of revenue from timber. The study also cited significant corruption in awarding contracts and payments for timber.

The government has proposed some fiscal measures for environmental protection in the 2007/08 budget framework. These include: an increase in fees and charges imposed by the Ministry of Natural Resources and Tourism; an increase in the duty levied on plastic shopping bags; an increase in import duties on used cars that are 10 years or older; and a VAT exemption on liquefied petroleum gas (including its cylinders) to promote the use of gas for cooking and heating in households. Also, the government is reviewing mining contracts with foreign investors to enhance gains to the country.

The decentralisation by devolution programme is progressing, and in 2007/08 the government planned to transfer more resources to local governments to support service delivery at the local level. Complementary measures are required, however, to address acute human resource gaps in local governments. In the 2007/08 budget, the government also allocated more resources to be administered by the Local Government Authorities to promote agriculture. The interventions include irrigation projects, research, technology development and the provision of seeds and input subsidies. For example, the fertiliser subsidy programme, started in 2005, will be expanded.

**Technical and Vocational Skills Development**

Education is one of the priorities of the Tanzanian second-generation Poverty Reduction Strategy (PRS), through the medium term plan for achieving the Tanzania Development Vision 2025. It seeks to provide equitable access to quality primary and secondary education for boys and girls, universal literacy among men and women, and the expansion of higher, technical and vocational education. Several strategies are in place and its implementation is closely monitored at different levels.

Two ministries, the Ministry of Education and Vocational Training (MOVET) and the Ministry of Science, Technology and Higher Education (MOSTHE), are responsible for management and co-ordination of the education system in Tanzania. While the Ministry of Education and Vocation Training (MOVET) co-ordinates primary and secondary institutions, MOSTHE deals with technical and higher education, as well as with science and technology development policy issues. The National Council for Technical Education (NACTE), a semi-autonomous corporate body of the government, is responsible for the accreditation and co-ordination of all technical education and training institutions except in higher education.

Between 1962 and the 1980s, the Tanzania government vigorously pursued a universal primary education programme, as a component of the goals of socialism and self-reliance, with some remarkable results. The gross enrolment rate in primary education rose from 35 per cent in the late 1960s to around 98 per cent in 1980. The economic crisis in the late 1970s and 1980s triggered a deterioration of literacy rates, reduced enrolment at basic and secondary education levels, and generally increased gender disparity at all education levels. By the mid 1990s nearly two-fifths of the population was estimated to be functionally illiterate, learning facilities had deteriorated, and the education system was generally unable to provide human resources to meet the evolving labour market conditions in a liberalised economic system.

In order to address this weakness, major education sector reforms began in the mid 1990s, backed by the Technical Education and Training Policy formulated in Tanzania in 1996 and the Higher Education Training Policy of 1998. Implementation of these policies has facilitated considerable improvements in human capital, but not at a pace sufficient to meet the demands of the strongly growing economy. Enrolment in higher education has been growing and is currently estimated
at slightly more than 68 000 students (45 per cent female) compared to 30 000 students in 2002/03. Enrolment rose thanks to efforts being made to increase access to higher education including through ensuring funding for capable students from poor families. The ratio of females to males at the ordinary level (secondary school) is about 45 per cent, while for high school (pre-university) it is about 40 per cent. However, the country is still faced with a shortage of skilled labour at all levels.

The formation of the Vocational Education and Training Authority (VETA) in 1994 and the establishment of both VETA and private colleges at regional and district levels, has given a considerable boost to vocational education. The colleges have increased their capacity to absorb students leaving primary and secondary schools for vocational training at certification and diploma levels. The graduates are then eligible for admission to higher-level technical colleges. There are more than 1 000 public and private Technical and Vocational Education and Training (TVET) colleges and institutions. Between 2004 and 2006 VETA produced about 52 000 students (28 per cent of whom were female) from basic and short courses of various trades.

The cost of vocational training is however quite high, especially in private colleges. Although VETA-owned college fees are partially subsidised by the government through the payroll levies collected from employers, further expansion of facilities is necessary to facilitate the access of the rural poor. In recent years, government budget allocation to the education sector has increased from 2.1 per cent of GDP in 1995/96 to around 5.7 per cent of GDP in 2007/08, thanks to increased development assistance. More focus is still needed to enhance entrepreneurial skills development through increasing funding and forging linkages between training colleges and employers in different sectors to provide practical training. The implementation of the National Employment Creation Programme (2007), which focuses on the facilitation of projects to build entrepreneurial capacity through lifelong learning, is a commendable step in this direction.

**Political Context**

Although President Jakaya Kikwete remains popular, concerns are growing over the effectiveness of the government and its political will to combat corruption. However, the president, as chairman of the ruling party Chama Cha Mapinduzi (CCM), sent a clear message of zero tolerance on corruption in party election campaigns in 2007. Civil society has gradually gained ground in pushing for accountability. The media has played a critical role in keeping the public informed. These efforts have been backed by Parliament where, in several high profile cases, opposition MPs have challenged government officials suspected of corruption.

A major unresolved challenge in the political scene is the long-standing political impasse between CCM, and the major opposition party in Zanzibar islands, the Civic United Front (CUF). New discussions were opened between the Secretary Generals of the two parties in January 2007, aimed at finding a lasting solution to the islands’ political problems. However, the lack of a clear agenda appears to have undermined the possibility of a quick breakthrough. While the dispute may not immediately affect the political scene on the mainland, failure to effectively address it could lead to further deterioration of the political situation on the islands, with negative consequences to the Union. The violence following the December 2007 elections in Kenya offers a lesson on the need to maintain security and peace and to work out the unresolved issues in Zanzibar well ahead of the next presidential election in 2010.

The crime rate and episodes of mob justice increased during 2007. This includes young criminals who burgle houses at night, mostly in Dar es Salaam. The government however, is taking measures to address the situation through community policing programmes and by enhancing its capacity to conduct criminal investigations.

In 2006 the president commuted all death penalties to life imprisonment, indicating support for human rights. There was therefore no capital punishment
carried out in 2007 and a bill to abolish capital punishment will be tabled in 2008.

Ongoing public financial management, legal, and public service reforms are aimed at improving accountability and efficiency in the public sector. Implementation of the Second National Anti-Corruption Strategy and Action Plan (NASCAP II) was launched in December 2006, and a new anti-corruption law to strengthen the prosecution powers of the Prevention and Combating of Corruption Bureau (PCCB) was passed in April 2007. There have been calls for the government to demonstrate its commitment by promptly and effectively addressing the issues. This is because concrete results are yet to be seen in terms of the number of high-level corruption convictions and the imposition of penalties for misuse of public funds.

Some bold steps, though coming late, were undertaken to address allegations of misuse of public funds at the Bank of Tanzania. Allegations first surfaced in late 2006 that considerable sums had been paid out of the account in dubious deals. Local and donor groups put pressure on the government to closely follow up and ascertain the truth. As a result, a special audit of the External Payment Arrears (EPA) account at the Bank of Tanzania was completed in November 2007 during which the governor absented himself. In October 2007, a Presidential Committee was appointed to scrutinise mining contracts with the aim of raising government revenue and increasing benefits to the local population. A Parliamentary Committee was also formed to review the process through which a US-based private company won a tender to supply emergency power generators to TANESCO in 2006. Members of Parliament were concerned that the bidding and selection process violated the country’s public procurement regulations. The company failed to honour its obligations and yet TANESCO had to pay huge sums of money because the contract was faulty. The final outcome from the recommendations of these committees will be closely monitored in 2008. The government is losing considerable funds each year due to dubious procurement deals that fail to abide by public procurement regulations. Corrective measures are to be further enhanced through the strengthening of audit functions of the Public Procurement Regulatory Authority (PPRA) and the National Audit Office (NAO).

In February 2008 a parliamentary committee recommended that the prime minister and two ministers be held accountable for violating established procurement rules. The three resigned, compelling the president to dissolve the cabinet.

Social Context and Human Resources Development

Tanzania boasts considerable improvement in social sectors over the last several years, which has brought the country closer to reaching national targets as well as the MDGs, especially in education. In the health sector, mortality rates among infants and children under-five are estimated to have improved substantially. The latest estimates, based on the Demographic and Health Survey of 2004, show infant mortality falling to 68 from 99 per 1,000 live births in 1999, and a reduction in under-five mortality to 112 per 1,000 live births from 147 per 1,000 live births in 1999.

Nonetheless, Tanzania remains a very poor country, with indications of rising inequality. Slightly more than a third of the population is still living below the national poverty line. The 2007 Human Development Report ranks Tanzania 159th in the Human Development Index out of 177 countries based on 2005 indices. The HDI value in 2005 was 0.467, an improvement from the 0.433 index value in 2000, but Tanzania still compares unfavourably with the average index for developing countries. The Human Poverty Index (HPI) ranking, focusing on the proportion of people below a basic human development threshold for education, health and incomes, put Tanzania at 67th out of 108 countries in 2005, which is little changed from its position of 64th out of 102 countries in 2004. About 30.6 per cent of the population is still functionally illiterate, despite progress in education. In the health sector, the probability at birth of a child not surviving to age 40 is quite high, estimated at 36 per cent. It is also estimated that about 38 per cent of the population
Tanzania has no access to/does not use an improved water source, which together with the poor sanitation that is especially rampant in unplanned urban dwellings, continues to cause outbreaks of water borne diseases such as cholera. HIV/AIDS is also posing an increasing challenge for the government. The government is currently scaling up support for the use of life-prolonging drugs for people living with HIV/AIDS. The expansion of health facilities, especially in rural areas, addressing the human resource shortages in hospitals, and low pay are among the government’s priorities on the health agenda.