Tanzania

Tanzania

key figures

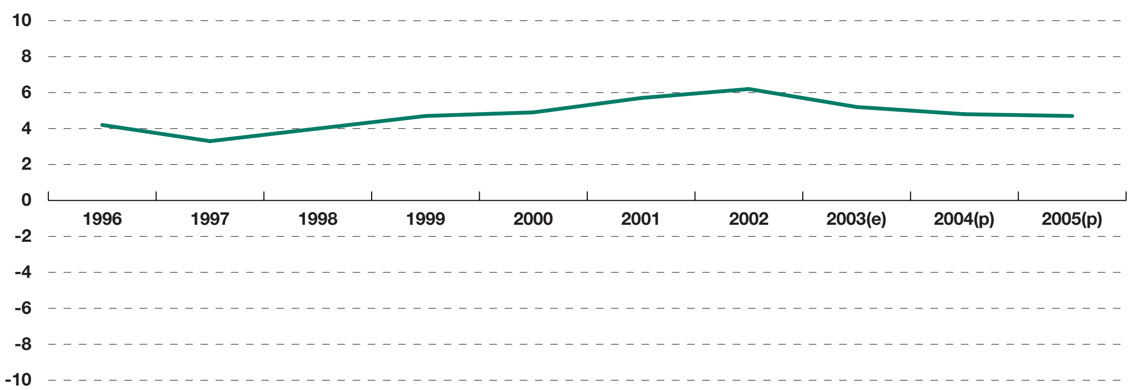
• Land area, thousands of km²	945
• Population, thousands (2002)	36 276
• GDP per capita, \$ (2002)	267
• Life expectancy (2000-2005)	43.3
• Illiteracy rate (2002)	23.0

Tanzania

IN RECENT YEARS, the thrust of economic policy in Tanzania has been to sustain macroeconomic stability through: maintaining relatively strong economic growth; pursuing fiscal stability by increasing domestic revenue mobilisation; controlling the expansion of broad money supply consistent with economic growth and inflation targets; and maintaining adequate levels of foreign exchange reserves. Real GDP growth, which averaged 4.6 per cent during 1996-2001, rose to 6.2 per cent in 2002, and is estimated at 5.2 per cent in 2003. The projection for 2004 is for 4.8 per cent and 4.7 per cent in 2005. The stability in growth during 2004 and 2005 is expected to be backed by strong export performance of both agricultural exports and gold, and by stability in economic management. Tanzania has maintained prudent economic policies that have yielded stability in budgetary outcomes, low and stable inflation, and the stabilisation of interest rates. The external payments situation has also remained largely stable, with changes in the structure of export composition leading to increased export revenues. The continuation of prudent economic policies in 2004 and 2005 will improve the fiscal outcome, while the external payments situation will remain largely stable. However, dependence on donor funds will remain a challenge within economic management. Reforms to diversify the economy and increase private participation are moving apace and include moves to provide the population with increased access to modern forms of energy, and to establish a sound financial system. The privatisation process is continuing, though at a slow pace. Through the Tanzania Investment Centre, local investment is gaining momentum. The economic achievements and progress in reforms have been aided by a political environment that has made Tanzania one of the most politically stable nations in Africa. However, these achievements have yet to translate into large-scale poverty alleviation and poverty remains pervasive, with growing unemployment a major challenge for political stability.

Poverty remains pervasive, with growing unemployment a major challenge for political stability.

Figure 1 - **Real GDP Growth**

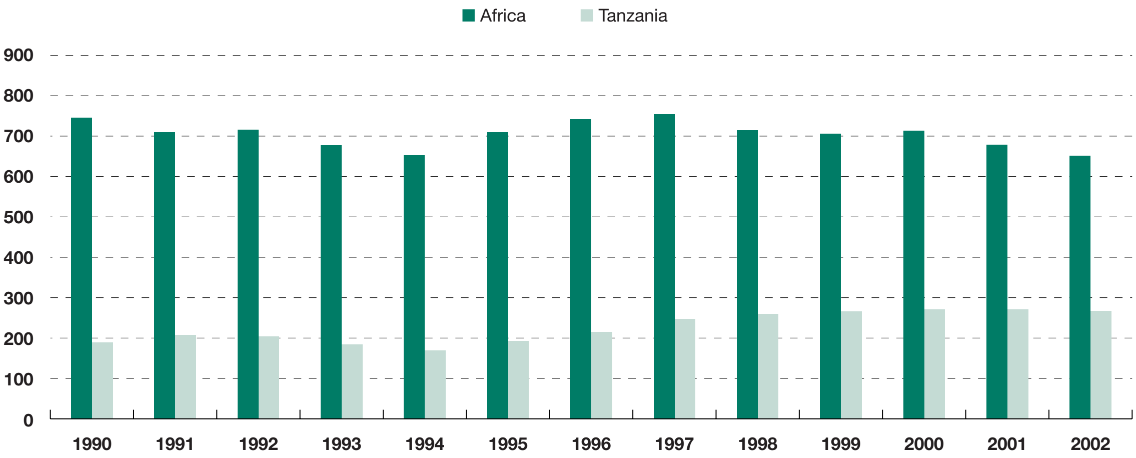


Source: IMF and domestic authorities' data; projections based on authors' calculations.

Recent Economic Developments

The success of the economic programme has produced strong growth. Real GDP growth, which averaged 4.5 per cent during the period 1996-2001 rose to 6.2 per cent in 2002, and is estimated to level at 5.2 per cent in 2003, though the government's own target is 6 per cent. The recent growth performance owes much

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



Source: IMF.

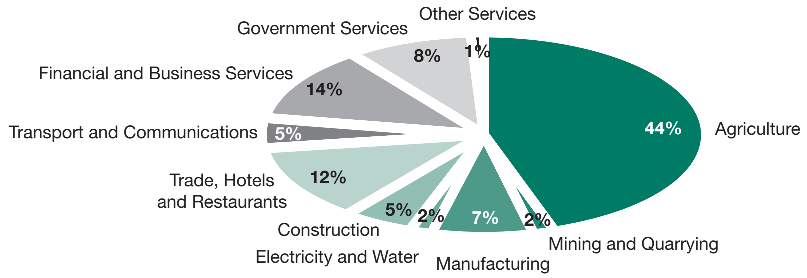
to improvements in the agricultural sector and stability in macroeconomic management. The outlook on growth is moderate, with real GDP growth projected at 4.8 per cent in 2004 and at about 4.7 per cent in 2005. The stability in growth is expected to be backed by strong export performance, as agricultural exports and gold output remain strong.

In 2002 the agricultural sector, which comprised 44.5 per cent of GDP and employed about 80 per cent of Tanzanians, showed strong growth at 5 per cent, albeit below the 5.5 per cent recorded the preceding year. Crop production, which is the main contributor to agriculture, showed a growth rate of 6.2 per cent in 2002. Food-crop production in 2002, including cereals (maize, paddy, millet, finger millet and wheat), amounted to 5 608 000 tons compared to 5 296 000 tons in 2001. Production of non-cereal crops, such as beans, cassava, bananas, pepper, tomatoes, potatoes and others, also increased by 6 per cent from 8 279 000 tons in 2001 to 8 750 000 tons in 2002. Similarly, production of most cash crops (coffee, cotton, sisal and tea) increased in 2002, with the exception of cashew nuts and pyrethrum. Agricultural activity gained from the completion of a major irrigation project in October 2002. In 2003, the government continued to offer direct support while adopting far-reaching measures to enhance agricultural production, including the earmarking and advertising of land for commercial farming, in order to attract investors.

The government sought to increase farm incomes to facilitate purchases of inputs under government guarantees. In addition, the tax system has been reviewed with the government's re-instating the procedure for refunding VAT paid by farmers on transportation, processing and packaging for export crops. Further, a new fund has been established to guarantee micro credit to small-scale farmers and small-scale agriculturalists. These measures notwithstanding, agricultural production in 2003 was affected by drought in several parts of the country. A food security assessment carried out in 2003 by the government and other stakeholders in drought-affected areas established that 52 districts (out of 129) faced food shortages due to poor crop production.

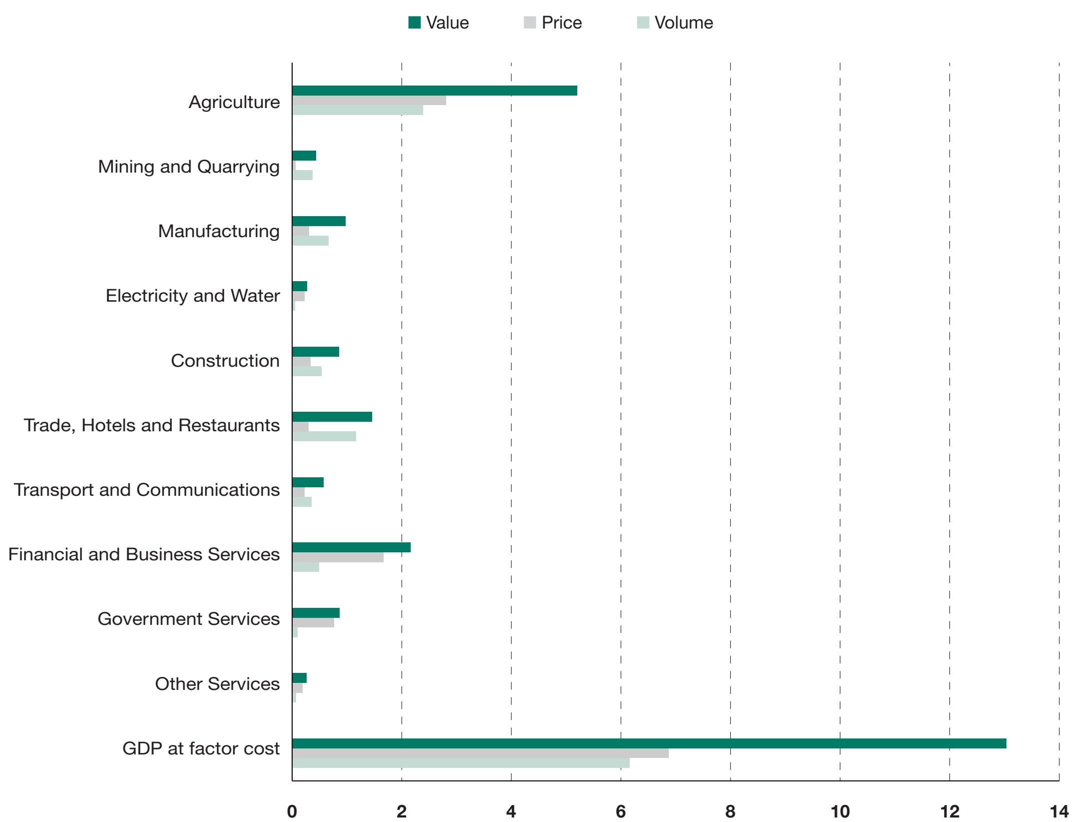
The industrial sector accounted for 16 per cent of GDP in 2002 and recorded 8.6 per cent growth, compared with 7 per cent during the preceding year. During 2002 the manufacturing sector advanced significantly, recording growth of 8 per cent, compared with 5 per cent in the previous year, thanks to the rehabilitation of some industries. The government's strategy of protecting domestic industries through revised custom duties in 2002/2003 also boosted industrial production. This measure was said to be a response to unfair competition from abroad. In 2002, the manufacturing sector was the top attraction for foreign and local investment, as 103 manufacturing projects were approved by the Tanzania Investment

Figure 3 - **GDP by Sector in 2002**



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

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**



Source: Authors' estimates based on IMF data.

Centre (TIC), compared with 82 in 2001. Of the approved projects, 35 were by local investors, 42 were by foreign investors and 26 were joint ventures. The resurgence in manufacturing activity appeared to continue in 2003. The implementation of a Small and Medium Scale Policy that seeks to attract investors into the production of value-added products and export-oriented industries, especially in textiles and the processing of leather, fruit and vegetables, is encouraging investment.

Within the industrial sector, mining activity has continued to grow well, increasing by 15 per cent in 2002, from 13.5 per cent a year earlier. Gold production expanded by 13.4 per cent in 2002 due to the increased participation of foreign and local investors with substantial capital and modern technology. In particular, the start of mining operations by Afrika Mashariki Gold Mines Company in 2002 contributed to output expansion. The government set a target to create at least 50 000 employment opportunities in the mining sector in 2003, a target made difficult by the failure to open new mines.

The services sector improved its growth performance in 2002 to 6.6 per cent from 4.8 per cent a year earlier. Trade activity, including hotels, retail and wholesale trade, expanded by 7 per cent in 2002. Tourism also showed improved performance in 2002. The number of visitors to Tanzania increased to 575 000 in 2002 from 525 122 in 2001, an increase of 9.3 per cent. However, income from tourism activities increased only by 0.7 per cent. The rather slow growth in tourist receipts, due to the continuing adverse global security situation since 11 September 2001, has led to a reduction of US and European visitors, who usually spend the most money in Tanzania. Construction activity remained very strong in 2002 with a growth rate of 11 per cent, up from 8.7 per cent in 2001. This growth was spurred by building and maintenance in the public sector as well as the construction of residential and commercial housing. The bridge over the Rufiji river was a major public construction project that year. The construction sub-sector is expected to remain buoyant as the larger share of the East African Community Roads Project, which was submitted to a donor's conference in April, 2003, is in Tanzania. Besides, under the Poverty Reduction Strategy, the government has committed to give due weight to the construction, maintenance and rehabilitation of bridges, and rural and trunk roads.

The expenditure components of GDP show that the recent upward trend of gross capital formation has been maintained. In 2002, gross capital formation

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

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Gross capital formation	**19.8**	**17.6**	**17.0**	**19.3**	**20.1**	**20.8**	**21.6**
Public	3.4	6.0	5.6	7.6	8.0	8.3	8.8
Private	16.4	11.6	11.4	11.6	12.1	12.5	12.9
Consumption	**97.6**	**90.8**	**91.2**	**86.5**	**86.7**	**86.3**	**86.1**
Public	15.3	6.6	6.2	6.4	6.5	6.6	6.6
Private	82.3	84.1	85.0	80.1	80.1	79.8	79.5
External sector	**-17.4**	**-8.4**	**-8.2**	**-5.8**	**-6.7**	**-7.2**	**-7.8**
Exports	24.1	14.7	15.5	16.7	17.7	18.7	19.6
Imports	-41.5	-23.1	-23.7	-22.4	-24.4	-25.9	-27.4

Source: IMF and domestic authorities' data; projections based on authors' calculations

achieved its highest share of GDP for several years, although still below the 20 per cent of 2003, and is expected to increase to 21.6 per cent in 2005. Moreover, while in recent years the increase in capital formation was mainly due to public investment, with private investment stagnating at rather low levels, the outlook is for both public and private capital formation to increase in 2004 and 2005.

Macroeconomic Policy

Fiscal and Monetary Policy

Fiscal policy has three main objectives: *a)* to control the growth of the budget deficit ; *b)* to direct more fiscal resources to priority sectors in accordance with the country's Poverty Reduction Growth Facility (PRGF) agreement; and *c)* to reduce the incidence of waste and abuse in the public sector. Although progress continues to be made on all three fronts, Tanzania still has some way to go in achieving fiscal stability.

In 2002/2003, the government pursued several measures to enhance efficiency in revenue collection. These included strengthening the administration of VAT; controlling tax exemptions; curbing tax evasion on imports, especially on petroleum products; improving the tax structure by introducing fiscal incentives for the priority sectors and eliminating nuisance taxes; and reviewing suspended duties on imports to enhance the business environment through the protection of domestic industries. Suspended duties on various goods are being phased out yearly until they are completely removed by 2007/2008. With regard to non-tax revenue, the government undertook specific measures to strengthen revenue collection. These measures included implementing a strategy to harmonise and rationalise local government levies. On the expenditure side, the government continued to adhere to the cash budget system in its effort to control expenditures.

In 2002/2003, the budgetary outcome remained relatively stable. Total government revenue rose moderately to 16.8 per cent of GDP from 16.2 per cent of GDP the preceding year, due to both the positive outcome of the government's revenue measures and stable inflows of external grants. Major improvements in domestic revenues were reflected in a strong performance of VAT and income tax, which increased respectively by 16 per cent and 15 per cent in nominal terms. On the other hand, government expenditure rose to an estimated 18.7 per cent of GDP from 16.6 per cent of GDP in the preceding year, which means that in spite of a stronger revenue position, the overall deficit increased significantly, from 0.4 percent in 2001/2002 to 1.9 per cent in 2002/2003.

The performance of the budget in 2002/2003 underscored a number of challenges for fiscal stability. In particular, it continued to rely heavily on donor funds. In 2002/2003, this dependence was as much as 45 per cent of total government expenditure. The government appears to have responded to this challenge by intensifying measures to increase domestic funding of the budget. In 2003/2004, such measures include the amendment of the tax system and administration, changes in the taxation system of local governments, amendment of various tax laws, including the enactment of a new income tax law, and the introduction of reforms to increase productivity in revenue collection. On the expenditure side, the government has continued to strengthen management and discipline to ensure sufficient accountability. The government indicated in 2003 that it would amend the Public Procurement Act to enhance accountability further. The outlook on the public finances is a contraction in the fiscal deficit in 2004 and 2005 as the government's domestic revenue mobilisation efforts are complemented by increased grants. The overall fiscal deficit is estimated to fall to 0.2 per cent of GDP in 2003/2004 before rising to 1.8 per cent of GDP in 2004/2005.

The objective of monetary policy in Tanzania is to contain inflation and improve the country's official reserve levels. The Bank of Tanzania (BOT) has had a successful track record in controlling the growth of monetary aggregates over the past five years. The rate of growth of broad money supply (M2) averaged 10.2 per cent per annum during 1996-2000 and was reduced to 8.0 per cent in 2001. However, this success appeared to soften in 2002, when M2 expanded by 18.5 per cent, exceeding the government's target band of 10-12 per cent for the year. The sharp rise in money supply during 2002 was due to higher growth in deposits, largely attributed to the opening of new bank branches by commercial banks in areas previously without banking services. Other reasons for the rapid expansion in deposits included the realisation of privatisation proceeds of about TZS 20 billion, the introduction of automatic teller machines (ATMs) by commercial banks, plus the issuance of new bank notes by the BOT. Additionally, the depreciation of the shilling caused foreign currency deposits to appreciate in terms of Tanzanian shillings on banks' balance sheets. The sharp increase in the money supply during 2002 exposed the inadequacy of ordinary instruments used by the BOT in monetary management. The ordinary instruments (principally open-market operations) were not adequate in mopping up the excess liquidity. As

Table 2 - **Public Finances**[a] (percentage of GDP)

	1995/96	1999/2000	2000/01	2001/02	2002/03(e)	2003/04(p)	2004/05(p)
Total revenue and grants[b]	**14.6**	**15.4**	**15.7**	**16.2**	**16.8**	**18.8**	**19.1**
Tax revenue	11.3	10	10.6	10.6	11.1	12.3	12.8
Grants	1.4	4.1	3.8	4.3	4.8	5.3	5.3
Total expenditure and net lending[b]	**14.7**	**17.1**	**16.8**	**16.6**	**18.7**	**19.0**	**20.9**
Current expenditure	13.8	11.6	12.9	12.5	14.0	14.1	15.3
Excluding Interest	*10.4*	*9.7*	*11.3*	*10.2*	*11.8*	*11.8*	*13.1*
Wages and salaries	5.5	4.0	4.1	4.2	4.6	4.4	4.8
Interest	3.4	1.9	1.6	2.3	2.2	2.3	2.2
Capital expenditure	0.9	5.3	3.7	3.9	4.5	4.7	5.4
Primary balance	**3.2**	**0.3**	**0.6**	**1.9**	**0.3**	**2.1**	**0.4**
Overall balance	**-0.1**	**-1.6**	**-1.1**	**-0.4**	**-1.9**	**-0.2**	**-1.8**

a: Fiscal year commences 1 July.
b: Only major items are reported.
Source: IMF and domestic authorities' data; projections based on authors' calculations.

liquidity build-up continued throughout the year, the BOT resorted to alternative means of reducing the rate of monetary expansion. The government agreed with the BOT to secure TZS 40 billion of a hitherto dormant government stock held by the BOT; this was converted into long-term bonds with a further TZS 80 billion securitised into Treasury bills. In 2003, monetary policy was tightened in the wake of developments in 2002. The policy was successful in reducing the rate of growth of money supply. The growth of M2 fell to an annualised rate of 13.1 per cent in August 2003.

Inflation in Tanzania has been on a downward trend since 1995, helped by the relatively stable movements in monetary aggregates and by improvement in food availability and distribution. The annual average rate of inflation was stable at 4.5 per cent in 2002. In 2003 following the low supply of food items as a result of adverse weather conditions, the prices of food items rose significantly, but annual inflation remained at 4.3 per cent. Inflation is expected to remain stable at a projected 5.3 per cent in 2004 and 5.4 in 2005.

Interest rates have remained stable in line with the stability of inflation. However, a prevailing large spread between deposit and lending rates remains the underlying feature, and real interest rates on deposits have remained negative. These are inhibiting factors to savings and resource flows to the private sector. The average rate on the benchmark 91-day Treasury bill was 3.3 per cent in 2002, rising gradually in 2003 to 6.3 per cent in August. On the other hand, average deposit rates fell from 3 per cent at the end of 2002 to 2.4 per cent in August 2003, while average lending rates also came down from 16.9 per cent to 14.5 per cent over the same period.

On the foreign exchange market, the exchange rate of the Tanzanian shilling is largely determined by market forces. BOT interventions only served to smooth large transitory fluctuations in the exchange rate. The shilling has continued a gradual depreciation against the major international currencies. Its value in US dollar terms depreciated by 7.6 per cent between end-June 2001 and end-June 2002 and had depreciated by a further 7.2 per cent by end-June 2003. The depreciation in the shilling since 2002 has been triggered by low export sales, which has been due in part to the fall in the prices of traditional exports on the world market.

External Position

Tanzania's external policy objective is geared towards increased liberalisation. The government's efforts to strengthen the external position have focused on reversing the decline in the country's traditional exports, increasing agro-industry and manufactured exports, and in attracting foreign direct investment and other non-debt-creating financial flows. The country's recent external trade policy has been pursued within the framework of the SADC trade protocols and the East African Community Treaty. In June 2003, member states of the EAC agreed to adopt a common external tariff. The EAC Customs Union Protocol was signed on 2 March 2004 and ratification is expected in July 2004 to pave the way for the new tariffs to apply. The trade agreement, however, revealed differences between the member states. For example, on the common external tariff (CET), Tanzania and Kenya adhered to the 25 per cent stipulated in the original protocol, which proposed a 0- 10- 25 CET tax regime for the regional bloc, with zero per cent being the tax for raw materials, intermediate goods attracting 10 per cent and finished goods being taxed at 25 per cent. Uganda, on the other hand, unilaterally decided to go with a 20 per cent rate for finished goods. The trade agreement also stipulates that while trade between Tanzania and Uganda will be free with the ratification of the customs union, both countries have been allowed to place a surcharge on specified lists of products from Kenya, due to the latter's generally more advanced industrial base.

In 2002, a major improvement in the current account was realised, as the deficit fell to 3.4 per cent of GDP from 5.1 per cent of GDP in 2001. The improvement was derived from a significant reduction in the trade deficit from 8.3 per cent of GDP in 2001 to 6.3 per cent of GDP in 2002, as a rise in the export share of total GDP was met with a fall in the import share. The trade deficit, however, rose to 7.1 per cent of GDP in 2003 and is projected to continue this trend to reach 8 per cent in 2005. The current account balance is likely to deteriorate over 2004/2005 due to an increasing trend in the trade deficit in both years.

In 2002, the value of exported goods increased by 16.2 per cent. The improvement was due to increased export receipts for non-traditional goods, especially minerals, fish and fish products, as well as manufactured goods. Export receipts from minerals increased significantly by over 23 per cent in 2002, with the main contribution (90 per cent) coming from gold exports. The value of exports continued to increase in 2003, rising by nearly 25 per cent by August 2003. Mineral exports have remained the largest contributor to non-traditional exports, and gold and diamond exports, which rose by 27.7 per cent and 52.7 per cent respectively between January and August 2003, recorded good performances. A significant change appears to be taking root in the composition of Tanzania's exports. The share of traditional goods exports (coffee, cotton, sisal, cashew nuts and cloves) in total exports has declined continuously from about 40 per cent in 1997 to 22 per cent in 2002. The decline reflects both the sharp fall in agricultural commodity prices in world markets, as well as stagnant volumes of exports.

Alternatively, the value of imported goods declined by 3 per cent in 2002. The decrease was attributed to low imports of capital goods, especially for the mining sector, and low food imports. The decline in imports was reversed in 2003 with the value of total imports rising by about 13 per cent during the year to August 2003. The increase was attributed to a surge in imports of capital goods, which were in turn due to a rise in transport equipment imports, as well as building and construction equipment associated with the construction of the gas pipeline between Songo Songo and Dar es Salaam.

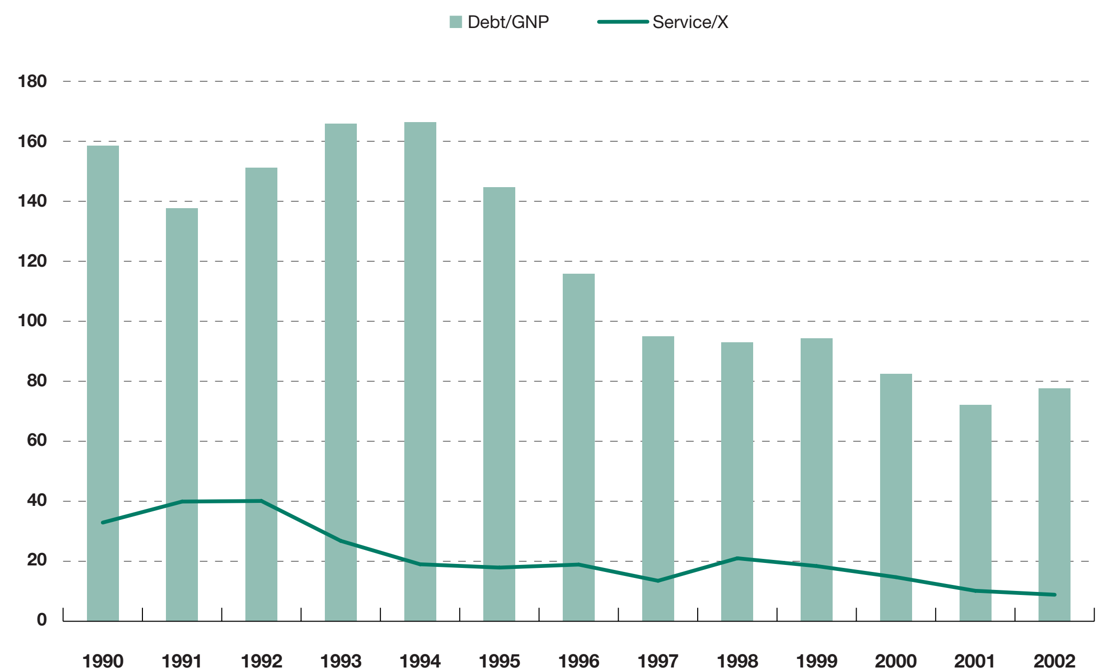
Table 3 - **Current Account** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Trade balance	-12.5	-7.8	-8.3	-6.3	-7.1	-7.5	-8.0
Exports of goods (f.o.b.)	13.0	7.3	8.2	9.3	9.9	10.5	11.1
Imports of goods (f.o.b.)	-25.5	-15.1	-16.5	-15.6	-17.0	-18.0	-19.0
Services	-4.1	-0.6	-0.1	-0.5			
Factor income	-2.1	-1.1	-0.9	-0.9			
Current transfers	6.4	4.3	4.2	4.3			
Current account balance	**-12.3**	**-5.2**	**-5.1**	**-3.4**			

Source: IMF and domestic authorities' data; projections based on authors' calculations.

The total external debt of Tanzania stood at $6.8 billion at end-2002, representing a decline of about 6 per cent from the level at end-2001. The debt burden as indicated by the debt-service ratio has also fallen steadily from about 28 per cent in 2000 to 13 per cent in 2002. The fall in both the total debt and the debt burden has been due to the replacement of loan disbursement by grant aid and debt write-offs under the enhanced HIPC initiative. The total debt at end-2002 was owed to multilateral creditors (58 per cent); bilateral creditors (30.9 per cent) while commercial debts and other creditors accounted for 6.3 and 4.8 per cent respectively. In its efforts to maintain stability in the external debt, the government adheres to a policy of not contracting or guaranteeing external debt on non-concessional terms, nor accumulating external payment arrears. Tanzania reached the HIPC completion point in November 2001 and debt relief from all creditors will amount to $2.02 billion in net present value (NPV) terms, about $3.0 billion in nominal terms. In 2002, Tanzania's Paris Club creditors followed up on their completion point agreement to cancel debt worth $737 million in NPV terms. The amounts cancelled represented 90 per cent of pre-cut off date commercial debt. This arrangement made Tanzania the fourth country after Uganda, Bolivia and Mozambique to complete the Paris Club process of debt reduction under the Enhanced HIPC initiative. Also, the government has made significant progress in concluding bilateral agreements with its Paris Club creditors under the enhanced HIPC programme. In 2003, agreements were signed with Austria, the United States, Canada, Belgium, France, Netherlands, Norway, Germany and Italy.

Figure 5 - **Stock of Total External Debt** (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank.

The UK government had notified the government of Tanzania that it was providing total debt cancellation, therefore negating the need for a bilateral agreement. With regard to non-Paris Club creditors, Tanzania continues to appeal for debt relief on terms comparable to those under the enhanced HIPC framework.

Structural Issues

The government is committed to transforming the economy by promoting and strengthening the participation of the private sector, both domestic and foreign. A Corporate Plan (2001-2006) is intended to revamp investment incentives in the economy and capitalise on the increasing inflow of FDI to the economy.

Tanzania also continues to take steps to improve the business climate and to promote private investment. During 2002, the government's Tanzania Investment Centre, in collaboration with UNIDO, devised the Domestic Investors Capacity Building initiative. This initiative aims to assist local investors by preparing Bankable Business Plans, which are promoted to local and foreign investors. By August 2003, more than 60 local projects had been promoted globally through this initiative. In 2003, the government implemented more measures to enhance private participation in the economy. These included the establishment of an Export Credit Guarantee Scheme and Micro Credit Schemes, and the liberalisation of regulations for the issue of business licenses. Further, a new Labour Policy and a revised Labour Act were submitted to parliament in October 2003.

The energy sector remains crucial in Tanzania's transformation process with energy resources based on biomass, natural gas, hydropower, coal, geothermal sites, solar and wind power. The objective is to develop energy sources, provide substitutes for imported petroleum products, and ensure that the existing and expanded energy supplies are environmentally sustainable. The national energy policy framework is overseen by the Ministry of Energy and Minerals.

Per capita energy consumption in 2003 was estimated at about 0.7 TOE, up from 0.5 TOE in 1997. Fuel-wood and other forms of biomass supply 89 per cent of Tanzania's energy needs. Commercially supplied petroleum and electricity account for 8.2 per cent and 1.7 per cent respectively.

Electricity supply in Tanzania consists of both interconnected and isolated systems. The electricity sub-sector is largely dominated by the state-owned enterprise, Tanzania Electric Supply Company Limited (TANESCO), which is responsible for about 98 per cent of the electricity supply. TANESCO has a vertically integrated monopoly in the generation and supply of electricity. The existing TANESCO system consists of an interconnected transmission system and several isolated systems. It operates a network of 12 934 km with an installed capacity of 763 MW, of which 561 MW is hydro (only 12 per cent of the potential hydroelectric energy, estimated at 4.7 GW) and 202 MW is thermal. The company has a power purchase agreement with Independent Power Tanzania Limited (IPTL), which owns and operates a 100 MW diesel generating plant. Currently, there are no major interconnections with neighbouring countries, however, studies are being carried out for interconnections with Zambia, and Kenya. Small cross-border interconnections for supplies to isolated townships exist in the northern part of the country from Uganda, and to the southern part from Zambia. Tanzania's electricity market is small, with only about 6 per cent of the population connected to the national grid. Per capita electricity consumption is 46KWh per annum, which is growing at 11-13 per cent per year. Forty per cent of consumption is for households, 50 per cent for industry and businesses, and the remaining 10 per cent consists of public lighting and exports to Zanzibar.

The current policy objective in the electricity sub-sector is to increase the population's access to electricity and generally to improve the availability, diversity, reliability and affordability of the power supply. To achieve this goal, the government intends to expand the national grid system, isolated systems and service connections. For the interconnected power system, plans include harnessing more locally-available resources of natural gas, hydroelectricity and coal, and improving their generation, transmission and distribution. A number of generation, transmission and distribution projects are being discussed to interconnect new mining areas and emerging load centres in many parts of the country. Currently, the government has agreements with a number of foreign partners to evaluate the 358 MW Ruhudji hydro power plant and the Mchuchuma 400 MW coal-fired power plant. The

Zambia-Tanzania transmission project is another major project under consideration, involving the construction of a 330kV transmission line from Pensulo, through Kasama in Zambia, to Mbeya in Tanzania, a distance of about 670km. Another project under consideration is the Mchuchuma colliery and thermal power station project.

Petroleum provides about 7.2 per cent of the total energy needs of Tanzania. All petroleum is imported. However, Tanzania, with its oil seeps, seismic and other data, shows strong hydrocarbon potential. So far, only 20 wildcat explorations and eight development wells have been drilled in a 222 000 sq km area, thus classifying Tanzania as under-explored. Though a number of companies are exploring for oil, no positive results have yet been found.

Extensive natural gas reserves have, however, been identified. The gas reserves located offshore of the Songo Songo Island in the Indian Ocean are estimated at 726 billion cubic feet.There is also a significant gas field at Mnazi Bay near Mtwara. Ocelot Trans Canada Pipelines (OTC), a consortium of Canadian companies, is already involved in a project to build the gas pipeline. Completion of the Songo Songo gas project is expected to attract more companies to acquire acreage for exploration. Several prospects have been mapped out and the Tanzanian Petroleum Development Corporation (TPDC) has been active in promoting this potential. Tanzania is endowed with other indigenous alternative sources of energy, including coal, wind and solar energy. With estimated coal reserves of 1 200 million metric tons, deposits could provide fuel for 400MW generation capacity for up to 35-40 years. However, except for a very small existing coal mine at Songwe-Kiwira, these coal deposits remain largely untapped.

The government is in the process of establishing a Rural Energy Agency responsible for facilitating increased availability of energy services in rural areas, supporting research and development in rural areas, creating an institutional and legal framework to promote the application of renewable energy, and promoting entrepreneurship and private involvement in the marketing of renewable energy in the rural sector.

Tanzania's parastatal sector reform programme continues to make significant progress. Up to March 2003, a total of 266 parastatals had been privatised. Among the privatised enterprises, 134 were acquired entirely by Tanzanians, 16 were acquired entirely by foreigners, and 116 were privatised through joint ownership between local and foreign investors. Among the privatised enterprises sold to Tanzanians, 16 were sold to the employees of the respective companies through management buyout. In 2003, the major privatisation was Air Tanzania Corporation (ATC) by joint venture, and the Dar es Salaam Water and Sewerage Authority (DAWASA) via the Lease Agreement System. In addition, the regulatory agency for the water and electricity sectors (EWURA) began operations in July 2003 to ensure that, following privatisation, an adequate regulatory framework would exist to protect consumer welfare.

The government continues with reforms to establish a sound financial system. Tanzanian banks, which dominate the country's financial system, are generally liquid, well capitalised, and resilient to most shocks, according to a Financial System Stability Assessment completed by the IMF in July 2003. The framework of banking supervision is also considered generally adequate when assessed against the Basel Core Principles. The banking system boasts of capital adequacy ratio in excess of 20 per cent. Relatively low lending activity limits the extent of credit risk. However, the financial system plays a limited role in support of economic growth, given its limited depth. In order to strengthen the capital base of the banking system, BOT has adopted a phased increase in the minimum paid-up capital of commercial banks. In addition, Tanzania is implementing the recommendations of the financial task force under the East and Southern Africa Anti-Money Laundering Group to strengthen measures against money laundering. The BOT set December 2003 as a target to review relevant prudential regulations and legislation with a view to relaxing some of the regulations inhibiting investment. To this end, an amendment to the Loans, Guarantee and Grants Act was passed by Parliament in April 2003. In the process of creating a robust regulatory framework for the national payment system, the Bank of Tanzania Act

(1995) was amended in February 2003 for the purposes of providing the BOT with explicit powers over the national payments system. In its effort to preserve the soundness of the financial system, the BOT took over the Delphis Bank in March 2003 following its poor financial performance and the inability of its shareholders to inject additional capital to cover losses incurred in its operations. Furthermore, the government is implementing a restructuring plan to address the problems of the People's Bank of Zanzibar. Further, the government is removing impediments to financial sector development, with an amendment to the Land Act, which continues to hamper the use of land as collateral; the amendment was presented to Parliament in October 2003.

Political and Social Context

Tanzania is one of the most politically stable countries in Africa. The democratic commitment of the country is deepening as the government, in collaboration with other stakeholders, continues to review the structures and strategies for good governance in order to improve government performance. In 2002, the government restructured various government institutions to improve efficiency and enhance accountability. These included the implementation of local government reform programmes in 70 district councils; strengthening the Ethics Commission; and increased awareness in various ministries and departments of the government's anti-corruption strategy. The government also launched the client service charter for 15 Ministries, Departments and Agencies. In addition, the Human Rights and Good Governance Commission began working in 2002.

Although the Tanzanian economy has been growing at a strong pace in recent years, poverty remains pervasive throughout the country. The Tanzanian Household Budget Survey (HBS 200/01), which was carried out as part of the Poverty Monitoring System, and the Integrated Labour Force Survey (ILFS, 2000/01), have both revealed that there has been only rather small improvement in poverty reduction over the past decade. These surveys indicated that 19 per cent of the population lived below the food poverty line in 2000/2001 compared with 22 per cent in 1991/1992. Also, 36 per cent of the population was below the basic needs poverty line in 2000/2001 compared to 39 per cent in 1991/1992 Poverty is revealed to be more severe in the rural areas.

One aspect of the problem is unemployment. Recorded unemployment for the whole country stood at 2.3 million in 2001, which was equivalent to nearly 13 per cent of the total labour force. Nearly half of the unemployed were living in urban areas; unemployment for Dar es Salaam alone was 46.5 per cent, while in other urban areas it was 25.5 per cent and in rural areas 8.4 per cent. Also disturbing was the fact that unemployment is now a major problem for youths aged between 10 and 24.

The focus of Tanzania's poverty reduction strategies, as enshrined in the country's PRSP, is threefold: the reduction of income poverty; improving human capabilities, survival and social well-being; and containing extreme vulnerability among the poor. The implementation of the government's Poverty Reduction Strategy has started registering notable achievements, especially in the education and health sectors. In 2002, the government reviewed its Health Sector Policy, which seeks to improve the health and well being of Tanzanians, with a focus on the poorest and most vulnerable citizens. To these ends, in 2002 the number of districts covered by the Integrated Management of Childhood Illnesses was increased from 31 to 92; the under-five immunisation coverage increased from 74 per cent in 2001 to 79 per cent in 2002. Alternatively, in 2002 the number of people infected with HIV rose to a total of 2.2 million, equivalent to 6.5 per cent of the total population. In the same year, the adult HIV prevalence rate was 7.8 per cent. Out of the infected population, more than a third already had developed AIDS. That the rate of infection has not declined, as it has in neighbouring countries, is most disturbing. In response, the government intensified its war on HIV/AIDS in 2003 by making it a permanent agenda item in all work places. The health sector also began implementing the Second Health Sector Strategic Plan (2003-2006), which aims to improve the delivery of services and the quality of care. This includes emphasising the modernisation of health facilities, and ensuring that treatment and primary health care are more accessible to the people.

The government's recent education policy places emphasis on public/private partnerships in developing the education sector. In 2002, the government deepened its collaboration with the private sector and other stakeholders to strengthen the education environment. Through effective community participation in the implementation of the Primary Education Development Programme (PEDP), 15 991 classrooms were constructed in 2002. This achievement helped to raise the primary school gross enrolment rate (GER) to 98.6 per cent in 2003, while the net enrolment rate (NER) was recorded at 80.7 per cent, slightly below the government's own target of 85 per cent by 2003. Furthermore, the total number of pupils in schools (private and government) increased by 23 per cent in 2002. In addition to increased enrolment, the transition rate from primary to secondary school increased from 19.5 per cent in 2001 to 21.7 per cent in 2002. In 2003, the government continued to emphasise the importance of improving education and training at all levels. This included constructing and renovating classrooms and teachers houses to increase enrolment and recruitment of new teachers.