

5 Tanzania

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5.1 Introduction

Tanzania is one among the poorest countries of the world. Per capita income is estimated at about US\$ 250 per year. Covering an area of 945,000 square kilometers, it has a population of about 33 million growing at about 3 percent a year. The economy is heavily dependent on agriculture (primarily, coffee, cotton, tea, cashew nuts, sisal, maize, rice, wheat, cassava, and tobacco), which accounts for about 50 percent of GDP, provides 85 percent of exports, and is by far the largest employer. Topography and climatic conditions, however, limit cultivated crops to only a small fraction of the land area. Industry accounts for some 15 percent of GDP and is mainly limited to processing agricultural products and light consumer goods. The mining sector has good potential, but has yet to be fully developed. Tourism is one of Tanzania's dynamic sectors and has shown significant growth in recent years. The service sector and the informal sector are an increasingly important source of employment.

Form of state is republic, formed by the 1964 union of Tanganyika and Zanzibar. Legal system based on English common law, the 1977 union and 1985 Zanzibar constitutions, as amended. It lies on the east coast of Africa. Tanzania has a common border with eight countries and the capital city is Dodoma but Dar-as-salaam is the main port, the dominant industrial center, and the focus of government and commercial effort. Near its northern border the snow-capped summit of Kilimanjaro, the highest mountain in Africa. Although rainfall is variable from one year to the next within each type of area, more than one fifth of the country can usually expect to receive over 750 mm. There are approximately 120 different ethnic groups, each with its own language or dialect. Kiswahili and English are official languages. The religions are Christian, Muslim, and indigenous beliefs. The unit of currency is the Tanzanian shilling (Tsh), which divided into 100 cents.

Since independence in 1961, the government of Tanzania has been preoccupied with three development problems that is: ignorance, disease and poverty. The national efforts to tackle these problems were initially channeled through centrally directed, medium-term and long-term development plans, and resulted in a significant improvement in per capita income and access to education, health and other social services until the 1970s. Thereafter, these gains could not be sustained because of various domestic and external shocks, and policy weaknesses. Indeed, despite sustained efforts since the mid-1980s, to address the country's economic and social problems, one half of all Tanzanians today are considered to be basically poor, and approximately one-third live in abject poverty.

Table 5.1 Tanzania Social Development Indicators 1999

GDP per capita	250 US dollars (\$)
Population number	35,306,126
Adult literacy rate	68%
Life expectancy	46 years
Infant mortality (per 1,000 births)	85
Gross primary enrollment (in percent of School age population)	66
Male	67
Female	66

Source: Government of Tanzania

5.2 Overview of Fiscal Position

The performance of the Tanzania economy has a long history, as per brief review of economic activity. Recently, Tanzania has made consistent economic progress in spite of unfavorable climatic conditions. Although annual economic growth remained below the target of 6 percent, the 4.2 percent attained on average permitted some rise in per capital incomes. Inflation has been brought down from 27 percent in 1995 to 5.9 percent in June 2000, the lowest rate in more than 20 years. Gross international reserves rose to US\$ 776 million at the end of 1999, in line with the medium-term target of four months of imports of goods and non-factor services. The progress in macroeconomic stabilization was based on strong fiscal policies, resulting in an overall budget balance, after grants and the grant element of concessional loans, that remained positive throughout the period. Macroeconomic and fiscal developments during 2000/2001 are on track and in line with government's objectives and targets. GDP grew by 4.9 percent in real terms in calendar year 2000 compared with 4.7 percent in 1999. Inflation rate fell to 5.3 percent during the period ended March 2001, and is expected to decline further to 4.9 percent by end June 2001. Foreign exchange reserves reached US\$ 1. Billion at end – March 2001 that is equivalent to five months imports of goods and non-factor services. This is a record level of reserves in Tanzania history.

Looking at performance in terms of GDP growth particular in recent years, Tanzania's economy appears to be stabilizing and hence poised for higher levels of growth in the long term. Notwithstanding adverse weather to agricultural output, the country has managed to maintain positive GDP growth rates. The main driving force behind the improved economic performance has been the various economic reforms the country has pursued and the commitment to that reform. Nevertheless, with the economy still vulnerable to external shocks; low domestic saving; a heavy external debt burden; and high poverty incidence, Tanzania continues to face a number of major challenges. Continued prudent macroeconomic policies and the effective implementation of structural reforms are, therefore, needed to improve the climate for private sector activity, to strengthen the growth potential of the economy, and to reduce poverty on a sustainable basis.

5.2.1 A Brief review of Economic Activity

Tanzania's 14-year track record of largely satisfactory adjustment, interrupted only by the deterioration of macroeconomic management during 1993-1995, that's Tanzania progress was jeopardized by a significant deterioration in macroeconomic management in part due to weakened commitment to reform. The worsening macroeconomic led to deferment of World Bank and IMF programs and an interruption of balance of payment assistance from several donors. The socialist and "self-reliance" policies, implemented in Tanzania after independence in 1961, initially resulted in improving social indicators but proved to be unsustainable in the long run, as per capita economic growth rates turned negative in the late 1970s and early 1980s. Supported by the IMF, World Bank, and bilateral donors, Tanzania embarked on its first comprehensive structural adjustment program in 1986, which aimed at dismantling the system of state controls and promoting the private sector. The economy responded to these reforms and the general improvement in macroeconomic management: annual growth recovered to an average 4 percent during 1986-93 and the level of international reserves increased to about three months of imports of goods and nonfactor services by June 1993; inflation, however remained close to 30 percent per year during 1986-93, reflecting continued central bank financing of the economy.

Macroeconomic management deteriorated significantly during 1993-1995 resulting in large fiscal deficits, a sharp decline in international reserves, and continuing high inflation rates. But the reform and stabilization effort regained momentum following the election of a new

government in late 1995. Fiscal consideration, supported by tight monetary policies, has resulted in major progress toward achieving Tanzania's stabilization objectives in recent years.

There has also been substantial further progress toward a market-based economy and movement away from reliance on control mechanisms and government ownership of the means of production. The achievements in structural reform have included a streamlining of the civil service, comprehensive reform of the tax system, privatization of about half the parastatal enterprises (and initiation of the process for most of the remainder), and a far-reaching restructuring of the financial system. At end-1999, Tanzania's economy was largely market oriented. Many elements required for private sector-led growth were in place, and the main thrust of the reform effort was directed toward the structure and size of the government itself and the privatization of utilities and other large parastatal monopolies. Moreover, specific policies are being developed to reduce poverty, reverse the deterioration of social indications, and improve the delivery of social services.

Despite the considerable progress in macroeconomic stabilization and structural reform, average per capita growth rates have, at less than 1.5 percent per year during the last few years, remained below expectations. The effects of unfavorable weather conditions on the still largely agricultural economy have been an important factor in this slow growth. However, as in other "transitional" economies, it takes considerable time to reach the critical mass of reforms necessary for higher growth, and many important reforms have only just been completed or are still in the process of being carried out.

During 2000/01, the focus of macroeconomic policies and reforms was on (a) continuation of prudent monetary and fiscal policies, in order to lower the rate of inflation and maintain a strong external position in a context of a market-determined exchange rate and adequate level of international reserves (Table 5.2). (b) Improvement of public expenditure planning, execution and control, including through quarterly cash releases for the priority sectors, execution and control, including through quarterly cash releases for the priority sectors, assessment of expenditure requirement guided by Medium Term Expenditure Framework (MTEF) and Public Expenditure Review (PER) exercise, the implication of a plan to eliminate domestic arrears, and the roll-out of the Integrated Financial Management System (IFMS) to all central government expenditure and the Dar es salaam-based revenue efficacies of the Tanzania Revenue Authority (TRA). (c) Rationalization of the tax system to, among other things, strengthens the profitability of agricultural production. (d) Strengthening prudent regulation of the banking sector, as well as elaboration and adoption of a micro-finance policy.

Table 5.2 Selected Macroeconomic Indicators

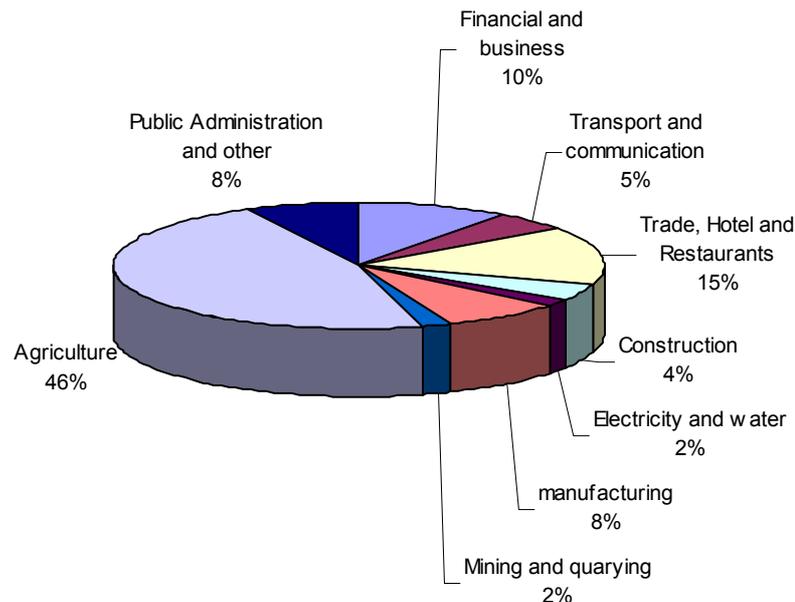
	1991-93	1994-96	1997-99	2000 Preliminary	2001 Estimates
Real GDP growth rate	1.7	3.1	4.0	4.9	5.9
Per capita GDP growth rate	-1.1	0.2	1.0	1.8	3.0
Inflation rate	24.8	27.3	12.3	6.0	5.0
Budget Deficit/GDP					
Before grants	5.6	3.9	4.0	4.8	6.0
After grants	2.2	1.3	0.3	0.2	0.7
Investment/GDP	26.3	20.5	18.5	18.9	19.0

Source: Ministry of Finance and National Bureau of Statistics

5.2.1.1 GDP Growth Rate

During 1999 Tanzania economy maintained the growth momentum gained since 1997 reflecting the impact of sound macroeconomic policies adopted by the Government. Overall GDP growth accelerated to 4.7 percent in 1999, from 4.0 percent recorded in 1998, despite low agricultural output because of adverse weather conditions in some parts of the country and low commodity prices which reduced export earnings. With an estimated population growth rate of 2.8 percent, per capital GDP improved to 1.9 percent in 1999, up from 1.2 percent in the preceding year. GDP growth emanated mainly from good performance in non-agricultural production. Agriculture, which during 1999 contributed 48.9 percent to total output, grew at 4.1 percent, while trade, restaurants and hotels including tourism, which contribute 16.0 percent, grew at 6.0 percent. The public administration and other services sector contributed about 8.0 percent to the total output, and recorded the slowest growth at 3.5 percent while mining recorded the highest growth at 9.1 percent. In 1998 contribution to overall GDP by sector was public administration and other service 7.5%, Financial and Business services 10.0%, Transport and communication 5.0%, Trade, Hotels and Restaurants 15.1%, Construction 4.1% Electricity and water 1.6%, Manufacturing 8.0%, Mining and Quarrying 1.9%, Agriculture 46.7% as shown below. Figure 5.1.

Figure 5.1 Sector Contribution to Overall GDP in 1998



Source: Bank of Tanzania, 1998

The growth rate of real gross domestic final demand, comprising of household final consumption, government final consumption, gross fixed capital formation and change in inventories, decelerated to 4.8 percent in 1999, down from 10.8 percent recorded in 1998. The high growth rate recorded in 1998 was partly due to investment demand for rehabilitation of the infrastructure damaged by El-Nino rains. The combination of Government-led reform and development assistance has resulted in a real GDP growth rate averaging about 4% during the last four years.

Table 5.3 Tanzania Growth Rates in GDP

	1996	1997	1998	1999	2000
Agriculture	3.9	2.4	1.9	4.1	3.4
Mining	9.6	17.1	27.4	9.1	13.9
Electricity and water	11.1	2.2	5.5	3.9	5.0
Construction	7.6	8.2	9.9	8.7	8.4
Trade	3.5	5.0	4.7	6.0	6.5
Transport	1.1	4.9	6.2	5.8	6.1
Finance	10.4	-15.8	-3.0	0.7	3.3
Public administration & other services	1.6	3.2	2.7	3.5	3.6
Manufacturing	4.8	5.0	8.0	3.6	4.8
GDP at factor cost	4.2	3.3	4.0	4.7	4.9

Source: Tanzania Economic Survey

This is a strong result considering the severe weather conditions and reflects strengthened macroeconomic and structural fundamentals as well as a greater flexibility of the economy in responding to shocks. A large number of the distortions that existed in the 1990s have been dealt with – markets are freer and the public sector is smaller. GDP grew by 4.9% (Table 5.3) in real terms in calendar year 2000 compared with 4.7% in 1999. The agriculture is still the most important sector performance has improved compared to previous years. Other sectors such as mining, tourism, manufacturing, electricity and water also showed improved performance. Tourism and mining in particular has benefited a lot from various tax incentives such as tax holidays and investments incentives. Recently tourism industry has become the largest foreign exchange earner and the mining sector is booming. The mineral sector promises to be an increasingly important contributor to GDP and export earnings. The government has been quite successful in its attempt to stabilize the economy and among other factors; the major issue has been to cut down on government activities. Foreign exchange reserves reached US\$ 1 billion at the end – March 2001, which is equivalent to five months, imports of goods and non-factor services. This is a record level of reserves in Tanzania's history. Generally, macroeconomic and fiscal developments during 2000/2001 are in track and in line with government's objectives and targets.

5.2.1.2 Exchange Rate Policy

The unification of the foreign exchange market followed the introduction of foreign exchange bureaus in 1992, which were allowed to transact in foreign exchange at freely determined exchange rates for current account transactions, and the liberalization in 1993 of nearly all remaining foreign exchange transactions for current account purposes. Although the parallel foreign exchange market is still in existence, its premium is small reflecting mainly the operation of residual capital controls, the financing of illegal activities, and tax evasion. The virtual disappearance of parallel exchange rate premium also reflects the extent to which the adoption of the crawling peg at the start of 1986 has realigned the real exchange rate to its long-run path. Currently the exchange rate is determined freely at the inter- bank foreign exchange market (IFEM), which was introduced in June 1994 to replace weekly foreign exchange auctions that were started in July 1993 shortly before the foreign exchange market was unified. As the rate of domestic inflation declines and becomes consistent with inflation in Tanzania's major trading partners, the real value of exchange rate is expected to become more stable. As at the end of 1998, the real exchange rate was slightly overvalued. In general the liberalization of exchange rate has

boosted exports and foreign exchange inflows, making it possible for the country to accumulate foreign exchange reserves equivalent to its four-month's worth of imports.

Exchange rate developments in 1999/2000 was that, the weighed average exchange rate of shilling was TZS 710.2 US\$ compared to TZS 684.9 per US\$ recorded in 1998/1999, registering a nominal depreciation of 16.3 percent. The pace of depreciation was high during the first quarter of the year when the shilling depreciated persistently from TZS 721.7 per US\$ in June 1999 to TZS 797.2 per US\$ in September 1999 and has stabilized at about TZS 800.0 per US\$ since then. The depreciation in the exchange rate of the shilling in the first quarter was a reflection of shortfall in the supply of foreign exchange following a sharp decline in exports in 1999. It could also have represented a correction, following four years of appreciation in the real effective exchange rate of the shilling.

5.2.1.3 Inflation Rate

The cash budget system, which matches expenditure obligations with available resources, has managed to curb budget deficits (both before and after grants) and generated surpluses during its period of implementation. This success has made it possible for the government to repay its liabilities rather than borrow from the banking system beginning 1996/1997, and to reduce growth in broadly defined money supply (M3) from 36.1 percent in 1994/1995 to 7.7 percent in 1997/1998. Reduction in money supply growth has in turn helped to reduce inflation to 12.9 percent to 1998 to a single digit level of 7.7 percent by June 1999. Apart from government borrowing, earlier attempts to reduce money supply were frustrated by poor credit policies of the state-owned banks, which resulted into massive bank borrowing by public institutions especially agricultural marketing parastatals, government guaranteed co-operative unions, and other insolvent borrowers.

Inflation in Tanzania, either in the short run or the long run, is influenced more by monetary factors and to a lesser extent by volatility in output or depreciation of the exchange rate. In order to control inflation in Tanzania, the government should pursue tight monetary and fiscal policies. In the long run, the government should also pursue policies to increase food production to ease some of the supply constraints.

5.2.2 Fiscal Position

5.2.2.1 Government Expenditure

Government fiscal objective for 1998/99 was to reduce the budget deficit by TZS 10.0 billion, with a corresponding reduction of credit from the banking system and domestic suppliers and to increase revenue collection up to or above TZS 670 billion or 13.0 percent of GDP. The country's overall economic objective was to achieve a real GDP growth rate of 3.5 percent and to reduce the inflation rate to 7.5 percent by the end of June 1999. In order to achieve the above objectives the government employed various revenue and expenditure measures. Revenue measures included the introduction of Value Added Tax (VAT), various reforms in tax laws, efforts to fight evasion, introduction of bonded warehouses, and the abolition of export tax to on traditional agricultural goods. Alongside the revenue measures, the government put in place expenditure reduction measures. These included the continuation of cash budgeting by matching expenditure to revenue collection and the introduction of a system of computerizing all government commitments in the ministries.

A. Revenue

Total revenue collection reached TZS 689.3 billion, or 13.2 percent of GDP compared with the targeted revenue collection of TZS 699.5 billion or 13.0 percent of GDP. The revenue collection in 1998/99 was higher by TZS 70.2 billion or 11.3 percent, compared to TZS 619.1 billion collected in 1997/98. This revenue performance was largely attributed to good performance in VAT, customs duty, and income tax as per table 3. Tax revenue amounted to TZS 616.3 Billion of the total revenue collection in 1998/99, and non-tax revenue reached TZS 73.0 billion and refund was 13.0.

B. Financing

An overall surplus after grants of TZS 53.4 billion was recorded during the year under review. The government spent TZS 35.2 billion out of this surplus to reduce domestic debts. The remaining TZS 19.3 billion used to make net repayment of foreign loans

C. Expenditure

Total expenditure, excluding amortization, reached TZS 819.3 billion or 89.3 percent of the estimated expenditure of TZS 917.6 billion.

Table 5.4 Tanzania Mainland Central Government Operations (in million of TZS)

Item	1997/98 Actual July- June	1998/99 Budge t estimate July-June	1998/99 Actual July- June	1998/99 Actua l as % of estimate July- June
Total Revenue	619,083.1	699,521.0	689,325	98.5
Taxes on Imports	180,662.1	221,052.6	218,698.1	98.9
Sales/VAT and Excise on local Goods	140,520.0	180,786.6	175,256.3	96.9
Refunds	--	--	13,823.8	--
Income Taxes	149,787.9	156,064.2	162,894.1	104
Other Taxes	95,152	74,975.5	73,356.4	97.8
Non. Tax Revenue	52,960.5	66,642.1	73,041.2	109.6
Total expenditure	758,857.7	917,589.0	819,336.3	89.3
Recurrent expenditure	543,750.5	653,124	682,812	104.5
Road fund	--	--	38,395.4	--
Retention fund	--	--	19,725	--
Wages and Salaries	218,842.2	244,782.0	220,478.0	85.5
Interest payments	95,170.5	109,909.0	93,999.7	85.5
Domestic	50,621.4	47,009.0	33,517.4	71.3
Foreign	44,549.1	62,900.0	60,482.3	96.2
Other goods, services & transfers	229,737.9	298,433.0	368,334.7	123.4
Dev. Expenditure and net lending	215,107.2	264,465.0	136,523.9	51.6
Local	--	--	18,807.5	--
Foreign	--	--	117,716.4	--
Overall Deficit (cheques issued) before grants	-132,774.6	-218,068.0	-130,011.0	59.6
Grants	130,852.9	198,665.0	169,945.6	87.8
Of which: project	129,036.0	165,000.0	100,499.8	60.9
MDF funds			47,530.2	
Overall deficit (cheques issued) after grants	-8,921.7	-24,403.0	39,934.5	-1.63.6
Adjustments to cash and other items (net)	-76,243.2	-14,469.0	-48,770.3	337.1
Overall deficit (cheques cleared)	-85,164.9	-38,872.0	-8,835.8	-22.7
Financing	85,164.9	38,872.0	8,835.8	22.7
Foreign Financing (net)	81,495.8	49,400	-19,324.1	-39.1
Loans	153,917.6	115,600.0	53,842.8	46.6
Program loans	80,068.9	51,600.0	36,626.6	71.0

Development project loans	73,848.7	64,000.0	17,216.6	26.9
Amortization	-72,421	-66,200.0	-73,167.0	-110.5
Domestic (net)	3,669.2	-10,528.0	28,159.9	-267.5
Bank borrowing	-23,605.1	-10,000.0	8,024.9	-80.2
Non- Bank (net amortization)	27,274.3	-528.0	13,135.0	-248.7
Privatization proceeds		9,000.0	7,000.0	77.8
Amortization	-53,419.5	-9,528.0	-35,228	369.7
Estimated GDP at market prices (millions of TZS)	4,929,469.0	5,532,096.0	6,884,940.0	6,884,940.0

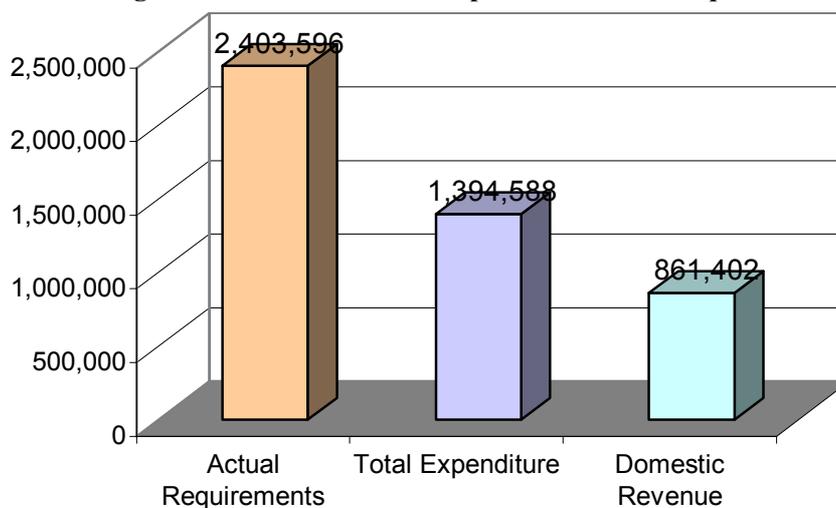
Source: Ministry of Finance of Tanzania

Recurrent expenditure was higher than the projected amount of TZS 653.1 billion by 4.5 percent, mainly on account of large social sector and infrastructure allocations. The higher allocation to these sectors was a result of higher than expected Multilateral Debt Relief Fund (MDF) inflows, which amounted to TZS 47.5 billion. Government spending on interest payments, both external and domestic amounted to TZS 94.0 billion, or 85.5 percent of targeted spending of TZS109.9 billion during 1998/99. Furthermore the government made a principal repayment of TZS of 108.4 billion, out of which TZS 73.2 billion and TZS 35.2 was re-paid to external and domestic creditors respectively Overall total debt service accounted for 22.1 percent of total government expenditure and 28.9 percent of domestic revenue during 1998/99. The government also spent TZS 220.5 billion on wages and salaries, compared to the targeted amount of TZS 244.8 billion during 1998/99. On the other hand, development expenditure amounted to TZS 136.5, billion, equivalent to 51.6 percent of the projected outlays of TZS 264.5 billion during the period under review. The low level of development spending explained by low donor inflows during 1998/99.

5.2.2.2 Foreign Assistance

Our domestic revenue can only finance 58 percent of total expenditure. This means that about 42 percent of our budget is dependent on foreign assistance and growth is inadequate. The economy needs to grow 8 percent or more per annum in order to increase self-reliance and reduce poverty. The following figure shows that the domestic revenue is different from actual requirements in 2000/2001 fiscal years.

Figure 5.2 Budget Frame for 2000/01 Compared to Actual Requirements



Source: Ministry of Finance of Tanzania

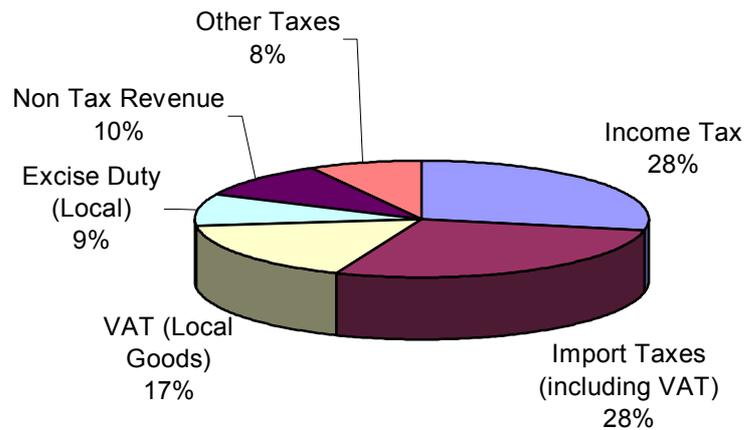
Monetary policy recent years following the abatement of strong upward pressure on the exchange rate, the focus has shifted to absorbing excess liquidity in the interest of holding inflation at a low single-digit level. The Bank of Tanzania (BOT) effected this tightening of monetary policy in February 2001, after the 91-day treasury bill rate had declined to only 3 percent, by increasing the weekly tender size of treasury bills and selling foreign exchange. As a result, by June 2001 short-term interest rates had increased to 4.2 percent, and the growth of reserve money had been slowed to below the initial program projection. Nevertheless the broad money aggregates M2 and M3 grew significantly faster than expected.

5.2.2.3 Aggregate and Individual Tax Revenue

The taxation system in Tanzania is centralized or consolidated under the Tanzania Revenue Authority as a simple administration agency. As extreme consolidation or centralization would give rise to a large and unwieldy organization specific major taxes or one designated department administers a group of related taxes. The authority established in 1996, comprises of three major tax departments of import (Customs) duty, Income taxes and Value added tax (VAT) together with other minor taxes. Each department is headed by a commissioner, with deputy commissioners and various heads of departments. The three commissioners are answerable to the commissioner general who is responsible for the overall efficient day-to-day administration of the Authority. It is under the general supervision of the minister of finance. The authority was formed as an autonomous body in order to bring efficiency in revenue administration and collection. The authority is administered by a governing Board, which is formulating and implementing policies. The aim was to avoid the usually rigid ministerial bureaucracy in an effort to raise adequate revenue for social and economic development on the other hand the government's main objective is to increase the revenue effort.

Despite the tax reforms in recent years, Tanzania's revenue-to GDP ratio remains low, however tax rates are already relatively high, and improvements in the ratio will need to come from a broader tax base as the private sector further develops and administration improves. The TRA is receiving technical assistance from World Bank and bilateral donors. In fact large part of potential revenue still remains uncollected due to intentional tax evasion. The (Figure 3) shows the percentage of total revenue collected in Tanzania in 1999/2000 from different TRA and other departments.

Figure 5.3 Sources of Revenue 1999/2000



Source: Ministry of Finance of Tanzania

5.2.2.4 Private Sector Development

In October 1999 the government announced new measures to strengthen the development of the private sector in Tanzania, which became increasingly dynamic since the country embarked on a macroeconomic stabilization and liberalization programme in the mid-1990s. Under an agreement signed with the World Bank, a \$25m loan to strengthen capital markets and to create a Privatization Trust Unit (PTU). The funds will also be used to finance training and provide technical assistance for insurance services. The PTU, which will control the government's residual stakes in divested entities, is to broaden its activities to enable more ordinary Tanzanians to participate in divestitures of parastatals. Structural reform, aimed at bolstering market efficiency and private sector-led growth is a main element of our poverty reduction strategy; the World Bank-including under the Programmatic Structural Adjustment Credit, approved in June 2000- and other donors, supports many of the reforms. The focus of the privatization program is on restructuring and divesting the large utilities and monopolies.

Measures undertaken by this sector are geared towards creating a conducive environment for economic growth through promotion of private sector investment, which will in turn lead to creation of employment and reduction of poverty. The sound macroeconomic policies, the divestiture of public enterprises, market liberalization and tax reforms have to a great extent created a better environment for private sector growth. In order to develop the private sector, the government will continue to implement policies that encourage and promote investment, to reduce costs related to production and trade, foster competition and enhance private sector participation in the national economy. It is the government's expectation that private sector growth in agriculture, large and small-scale industries, tourism and others will improve job creation.

5.2.2.5 Foreign Direct Investments

Foreign direct investments in Tanzania have been increasing since 1992 when an investment promotion policy was adopted and implemented. Currently, more than half of all approved new investments in Tanzania are foreign owned. Foreign direct investment in Tanzania cuts across a wide range of sectors, but heavy investments have recently been directed to industrial holdings, mining, financial sector and agriculture. During 1998/99 the flow of FDI is estimated to have increased by 8.0 percent to US\$ 178.8 million, from US\$ 165.6 million recorded in 1997/98.

Most of the taxes being lowered in order to promote FDI, including to reduce stamp duty on proceeds from rental income to 1.5 percent, the aim is to create a conducive environment for investment in housing sector and to check evasion.

1. Debt Developments

The country's indebtedness has been growing despite debt reduction measures undertaken by the government. The overall total debt stock (external and domestic debt) amounted to US\$ 8,871.7 million as at end June 1999, an increase of 1.0 percent when compared to US\$ 8,779.1 million registered at the end of June 1998. During the financial year 1998/99 actual debt service amounted to US\$ 310.6 million. This amount portrays a decrease of debt servicing of 1.7 percent when compared to US\$ 315.9 million paid out in the previous year. In the review period, the government spent about 32.7 percent of its budgeted revenue for debt service, compared with 33.5 percent 1997/98

Table 5.5 External Debt Developments

	(Million of US\$)			
Item	1994/95	1995/96	1996/97	End of 1997/98
1. Overall total Debt Committed (2)	8440.70	7,793.40	8,033.80	7,846.70
2. Disbursement debt creditor category (2)				
of which:	6,917.50	6,496.20	6,535.00	6,379.70
Bilateral debt	3,426.3	3,009.4	2,941.2	2,794.6
Multilateral debt	3,022.4	3,008.4	3,130.1	3,094.6
Commercial debt	226.7	239.6	233.4	291.5
Other private creditors	242.2	238.8	230.4	199.0
3. Disbursed debt by borrower category (2)				
of which:	6,917.50	6,496.20	6,535.00	6,379.70
Central government	6,523.0	6,093.0	6,140.9	5,950.4
Public corporations	220.5	205.2	196.3	175.4
Private sector	174.0	198.0	196.8	253.9
4. Disbursed Debt by use of funds (2)				
of which:	6,917.50	6,496.20	6,535.00	6,379.70
Balance of payments support	1,889.4	1,659.6	1,506.5	1,481.9
Transport and telecommunication	1,325.1	1,265.3	1,326.4	1,292.3
Agriculture	1,017.3	950.6	940.0	906.3
Energy and mining	691.8	709.8	735.7	787.1
Industries	654.0	597.6	559.5	522.1
Social welfare and education	219.0	238.4	256.2	274.9
Finance and Insurance	215.1	190.7	182.2	166.6
Tourism	89.9	89.8	89.9	77.6
Others	815.9	794.4	937.9	870.9
5. Total Amount of Loans Contracted (1)	122.5	148.5	592.4	318.8
Government	77.5	116.5	475.3	306.3
Public Corporations	32.3	---	---	3.3
Private	12.7	32.0	117.1	9.2
6. Disbursement (1)	241.2	320.3	341.7	307.9
7. Total Debt Service (Actual) (1)	180.10	212.00	218.70	204.60
Principal	115.6	140.1	122.6	138.0
Interest	61.7	71.8	95.5	66.4
Others	2.8	0.1	0.6	0.2
8. Net Transfers on Debt (6-7)	61.1	108.3	123.0	103.3
9. Export of goods and services (1)	1,089.6	1,222.8	1,251.5	1,265.3
10. Total Debt Service as percentage of Export of Goods and services	16.5	17.3	17.5	16.2

Source: Debt Management Department-Bank of Tanzania.

External debt continued to be a heavy burden to the government budget. During the financial year 1998/1999, the scheduled external debt service ratio rose to 34.2 percent, up from 27.9 percent recorded during the previous year. Both ratios indicate the unsustainable debt burden to the economy. Likewise, actual debt service ratio increased to 17.4 percent during 1998/99, from 16.2 percent during 1997/98. Total external debt committed, as at 30 June 1999 was (provisional) US\$ 7,972.9 million, an increase of 1.6 percent when compared to US\$ 7,846.7 million recorded at the end of June 1998. Out of the total amount, disbursed outstanding debt was (provisional 1999) US\$ 6,580.3 million, while committed undisbursed debt was {provisional 1999} US\$ 1,392.6 million. The profile of disbursed outstanding debt by creditor category reveals that multilateral and bilateral debts were the largest accounting for 50.6 percent and 42.5 percent of the total debt, respectively. During 1998/1999 new loans contracted amounted to US\$ 197.3 million, a decrease of US\$ 121.5 million when compared with US\$ 318.8 million, while actual debt service was US\$ 187.9 million, while actual debt service was US\$ 187.9 million, hence a net inflow of US\$ 33.8 million.

The proportion of total debt owed to commercial sources and other private sector creditors was very small, accounting for 3.8 percent and 3.1 percent, respectively. Central government is the largest borrower, accounting for 93.7 percent of total debt. The proportion of public corporations and private sector in the total debt was 2.5 percent and 3.8 percent respectively. Despite the implementation of the Paris club V agreement, where significant amounts of debt were cancelled and some rescheduled, debt stock continued to increase. The increase was due to a build-up of the rescheduled debts as a result of repeated rescheduling, and the application of market interest rates on the rescheduled amounts. In addition, there had been an accumulation of arrears on the side of non-Paris club debts, which were not paid at all. In this case Tanzania's economy remains vulnerable to exogenous shocks, especially climatic conditions, which could slow attainment of the objectives. Moreover, the unsustainable debt burden facing the country leaves it highly dependent on the continuation of substantial financial assistance from the donor community.

During the fiscal year 1999/2000, the government was also determined to reduce the burden of external debt through the following measures: (i) to use Paris Club initiatives to seek an amelioration of debt burden (ii) to complete the verification of debts and conclude bilateral agreements with the individual creditors as agreed under Paris Club mechanism (iii) to continue negotiations with the non-Paris Club creditors for debt relief terms comparable to those offered by the Paris Club (iv) to continue encouraging donors to contribute to the Multilateral Debt Relief Fund (MDF) (v) to continue to implement the National External Debt Strategy (NDS). Based on analysis undertaken by the government in collaboration with the multilateral financial institutions, Tanzania's stock of external debt as at June 1999 stood at US\$ 6.38 billion as follows:

(a) Multilateral Financial Institutions	3.42 billion
(b) Paris Club countries	2.00 billion
(c) Non-Paris Club countries	0.86 billion
(d) Private Creditors	0.10 billion
Total	6.38 billion (eq. to TZS 5.1 trillion)

On April 2000 the World Bank and International Monetary Fund (IMF) jointly determined that Tanzania had reached decision point for debt relief under the enhanced Highly Indebted Poor Countries Initiative (HIPC), which was conceived by the G-7 countries in June 1999 and adopted by the multilateral financial institutions in September 1999. The same month Paris Club countries approved further debt relief to Tanzania in the framework of the enhanced HIPC initiative. The decision of multilateral financial institutions as well as the Paris Club creditors, who are also our donors, to grant Tanzania enhanced debt relief, was due to the fact that the international community sees it fitting and it recognizes the efforts of the government of Tanzania in reforming the economy and fighting poverty. As they said themselves in their statements, this debt relief will strengthen Tanzania's ability to fight the war against poverty. The relief was known as "Decision Point" the "Completion Point" will be granted after some certain condition concluding: continue to implement macroeconomic and fiscal policies and good governance, (1) government budget management both revenue collection and expenditure control (2) to prepare an Interim Poverty Reduction Strategy Paper (PRSP) with the participation of civil society and the donor community, which already prepared on February 2000 and submitted to the World Bank and IMF by August 2000 (3) we are required to complete certain activities concerning poverty including data on poverty, capacity to monitor programs and reflection of poverty reduction priorities in 2000/01 budget, undertaking school mapping, to continue with immunization of children under 2 years of age, the fight against AID/ HIV and to obtain debt relief from other creditors.

1. *Sustainability of Tanzania's Debt*

The sustainability of Tanzania's debt position is still high, in this case Tanzania needs more relief in Heavily Indebted Poor Country (HIPC) in order to reduce poverty. The country has a high debt service to revenue ratio, a factor that makes the country's debt even more unsustainable. A large proportion of government revenue is actually spent on debt repayment. The following (Table 5.6) shows the real situation, which the government of Tanzania faces in debt service.

Table 5.6 Debt Service and Government Revenues

	1997	1998	1999	2000
Debt service/Revenue	33	27	25	24
External debt	24	18	17	18
Domestic debt	9	9	8	6

Source: Bank of Tanzania.

Debt Management Committee (DCC) is the operational arm of the Debt Co-ordination Committee (DCC). It was been entrusted with the task of overseeing the implementation of operational aspects as contained in the debt strategy. Debt recording and monitoring started 1988 when the government designated the Bank of Tanzania as the central institution responsible for recording and managing Tanzania's external debt database. Before that, the country had no centralized system for debt recording and monitoring. Accordingly, the government requested assistance from the Technical Assistance Group (TAG) of the Commonwealth Fund for Technical Co-operation (CFTC) to set up a debt management system. The TAG has since then provided assistance in various aspects related to setting up the debt recording and monitoring system in the external debt department of the Bank of Tanzania, including the provision of initial computer hardware and software. The commonwealth secretariat also provides on-line support services, whenever necessary.

The major problems with the debt management in Tanzania were unavailability of the debt itself. Compared to the trend of export earnings per annum, Tanzania realizes that export is not growing fast enough to be able to comfortably repay the debt. Infrastructures especial roads in the rural area are needed to reduce the cost of export in Tanzania so that to compete (sell at low price) in the world market in order to increase export. The country cannot rely on continued foreign assistance to reduce the effect of the trade deficit on the balance of payments, at the same time attract Foreign Direct Investment (FDI).

For the economy to follow the successful pattern of the past decade, growing will have to be export led. The large substance sector and low incomes of the bulk of the population make reliance on export led growth inevitable. Sustaining the high rate of export growth will prove challenging as many of the obvious opportunities have already been exploited. Thus sustaining high rates of economic growth depends upon continued rapid export growth, to provide the demand for the growth of output and to address the trade deficit, and on attracting FDI to sustain the growth of investment. The two are inter linked. A significant proportion of the FDI is being drawn towards investment in mining and manufacturing and the marketing of agricultural crops and products which should, in the due course boost exports.

5.3 Technical Assistance in Fiscal Affairs

Tanzania has traditionally relied on official bilateral and multilateral donors for financing its development projects and balance of payments requirements. As in other low-income countries, Tanzania's debt problems have been caused by a combination of faulty domestic policies and adverse external shocks. During the 1970, most of the aid flows to Tanzania come from bilateral sources, received aid from over 50 bilateral sources. The Nordic countries have been the major

source accounting for over 30 percent of the country's total Official Development Assistant (ODA) receipts between 1970 and 1996. The second group of major bilateral donors has been German and Netherlands, each contributing around 8 percent of total aid over the past 20 years. The third major group consists of Canada, the United States, each accounting for about 6 percent of Tanzania's total aid receipt. Italy and Japan become important new donors in the late 1980s. In case of aid in the form of loans, the contribution of multilateral donors has risen much faster from an average of less than 135 percent in 1970 to 1975 to over 85 percent in 1987 to 1996. Major multilateral donors include the International Monetary Fund (IMF), the World Bank, and International Development Association (IDA) etc. During the reform period the amounts have been in the range US\$ 200 to 350 million per annum.

As I Mentioned above, Tanzania receives much technical assistance in fiscal affairs like IMF, World Bank and individual country like Japan as follows e.g.

A. Technical assistance from International Organization (i.e. IMF & World Bank)

The US\$ 70.2 million Tanzania Tax Administration Project financed by US\$ 40 million equivalent credits from the (IDA), the World Bank's lending arm for the poorest countries. Bilateral donors play a large part in financing this projects as well as US\$ 23.2 million from Danish International Development Authority (DANIDA) Denmark, Department For international Development (DFID) United Kingdom, European Union (EU) European Union, Finnish International Development Authority (FINIDA) Finland, and Swedish International Development Authority (SIDA) Sweden, 7.0 million government of Tanzania. Responsible agency is Tanzania Revenue Authority (TRA) and Ministry of Finance, and the proposed terms is grace period 10 years, years of maturity 40 years, commitment fee 0.50 percent and service charge is 0.70 percent. Implementation period is 2000 to 2004. The target population is the taxpayer and the tax administration agency.

(a) Reasons of the project:

Collection reflected both the structure of the tax system and deficiencies in tax administration. Notwithstanding the introduction of several recent measures (including a new investment act in 1997 and the introduction of Value Added Tax (VAT) in 1998), further reforms to simplify and rationalize the tax regime were necessary. This included reforming the complex (11 band) rate structure of personal income tax, rationalizing and closing loopholes in the area of corporate taxes including exemptions, and simplifying the excise system. In administration side tax evasion endemic mainly as a result of (i) institutional weaknesses in the TRA including technical/managerial competence, lack of equipment, poor infrastructure, antiquated business process, weak tax audit and investigative functions (ii) virtually no incentives for voluntary compliance or sanctions for non-compliance.

(b) Project components and cost

Component and costs:

- Improving the legal framework by updating, consolidating and where necessary, enacting laws and regulations for taxes and customs, introducing framework for the Taxpayer Identification Number (TIN), and supporting the establishment of harmonized appeals machinery, (total cost was US\$ 0.8)
- Broadening the tax base by increasing the number of registered taxpayers, rationalizing the number of deductions, exemptions and concessions granted by the tax laws, and identifying new sources of revenue and new areas expanding the tax base (US\$ 1.8 million)
- Strengthening the institutions by introducing modern management system to all TRA departments, improving training and revisiting the incentives/performance structure. Specifically, this component will focus on improving tax collection through- process re-

engineering and computerization of the three revenue departments and TRA support departments, improving the recovery of tax arrears, improving the control of tax evasion and facilitating voluntary compliance (US\$ 37.7 million).

- Improving the administrative infrastructure by rehabilitating, refurbishing and equipping existing tax offices/customs facilities and by constructing a limited number of new facilities (US\$ 20.5 million)
- Project coordination and implementation, including project management preparation activities have been financed by a project preparation facility of (US\$ 1.9 million). Price contingency was (US\$ 6.5).

(c) Assessment of project for Project Management Report (PMR)-based disbursement, a detailed review of the proposed financial management arrangements was conducted during the appraisal to assess adequacy and readiness of the project to operate the revised disbursement procedures under the Loan Administration Change (LACI). This review was based on the Bank's guidelines for "review of financial management system" and focused on the assessment of TRA accounting system as well as the format and contents of the PMRs to be submitted by the TRA in support of withdrawal applications.

2 Major related projects financed by the Bank and/ or other development agencies (completed, on-going, and planned). (a) Bank financed – (i) customs reform under second modernization project, support for VAT under parastatal and public sector reform, private sector for development under private public sector management reform are ongoing, on the other hand not completed. TRA organization Establishment Import Declaration Form (IDF) project completed, also financed by Bank. Civil service reform is under planned. (b) Other development agencies – (i) DFID (Tax administration under United Kingdom (U.K.) assistance to TRA (TRA support project, EU, FINIDA and World Bank (tax administration under VAT support, United National Development Programme (UNDP) and World Bank (tax administration) under Automated System for Customs Data Management (ASYCUDA), SIDA (tax administration) under TRA human resource development project and German Technical Cooperation (GTZ) tax administration under tax project are on going or not completed. Only part of VAT support financed by FINIDA and World Bank are completed but EU is ongoing.

- Learned from other operations in Tanzania include: (i) the need for close project supervision which is facilitated in this case by the transfer of project preparation and supervision to the resident mission, (ii) the need to assure adequate counterpart funding, which is facilitated by instituting advance payment of a portion of the government's contribution in the project account and institution of an appropriate revenue retention scheme and (iii) close supervision cooperation which has resulted in the donors working towards a program approach and focusing on a conceptual framework within which interest donors can contribute.
- Value added of Bank support:

The Bank is centrally involved, both because of the government's desire to benefit from the Bank's international experience in tax administration and because the government of Tanzania has, in past relied heavily on Bank's advice in the steps undertaken so far. The Bank is playing a key role in helping TRA develop the framework within which the anticipated donor-financed efforts agreed. Finally Bank participation plays a catalytic role in initiation and supporting the reform, which involves wide-ranging organizational.

- Possible controversial aspects: The Bank has initiated discussion on integrity in Tanzania at the highest level of government. Integrity is an issue, which may prove controversial for several projects in Tanzania. Activities under this project will follow guidelines to be formulated and adopted by the government of Tanzania. Tanzania is representative of anticorruption efforts in recent Bank technical assistance including Latvia, and

Guatemala. Tanzania took tough stance against corruption by forming the TRA in 1996. From its inception the administration had a reputation for being tough on corruption. A national report on corruption led to an action plan to combat it monitored by the administration's board, where an Oversight Committee on Integrity was established. In a parallel effort, an internal investigation unit was set up in the Internal Audit Department. Finally a media campaign was mounted, supported by telephone hotlines and provisions for paying informants reporting tax evasion. Learning from experience, there is improvement in the country, loans have carefully specified performance indicators for use in interim and post-project assessment. Lessons for which there is already evidence include the importance of high-level political commitment, good pre-project diagnostic work, participatory project design, and strong data recording ability. There is also evidence on the effectiveness of computerization combined with personnel, organizational and managerial reform, and the ineffectiveness of computerization without institutional strengthening. Still Tanzania fighting with corruption.

- Summary of benefit and cost: The fiscal impact of the project is estimated by projecting increases in the effective tax ratios arising from proposed tax administrative measures, which reflect both the increased efficiency of the TRA to collect and audit and the estimated impact of the increases in the tax base, but it is very difficult to conclude the reality because some are still ongoing, others only planned, while others completed. Infact we need further reform according to economic changes.

B. Country specific technical assistance (Japan)

Tanzania is among few countries, south Sahara that the Japanese government attaches priority in extending its development aid. It is rated as the second largest recipient of Japanese Grant and Technical Assistance among African countries in the Sub- Saharan Region. On the average, Japan's is grant aid assistance to Tanzania is to the tune of 5.0 billion Yen (approximately TZS 25 billion) annually. Tanzania does not receive loans from Japan any more.

a) Japan's Official Development Aid (ODA)

The charter has several salient features and philosophical underpinnings including the imperative of humanitarian considerations, recognition of the interdependent relationship among member nations of the International Community, the necessity for conserving the environment and the necessity for supporting self helps efforts of developing countries. The Japan's Official Development Aid is classified into:

- Grant Aid – Currently, the following types of grant aid are extended to Tanzania (a) Project Grant aid extended to specific projects. (b) Increase of food production (Kennedy Round II), this is extended for purchase of agricultural machinery and inputs such as tractors, fertilizers, agro-chemicals, and spares. (c) Food Aid (Kennedy Round I), this is aid extended for the supply of rice. Under KR I and KR II over Japanese Yen 13.0 billion has been extended in the form of KR II and Yen 7.656 billion in the form of KR I. In July 2000 Yen 1.434 Billion was extended under KR I. (d) Debt Relief Grant, this is a grant that Japanese Government extends when some repayments are made by the developing country i.e. Tanzania on the official loans. In 1989 the government of Japan decided to address the debt and development problems of developing countries Under Japanese debt relief grant aid programme, Tanzania repayments of debt obligations arising from previous credits, are reimbursed by the government of Japan to Tanzania's debt relief cash cover collected complement the government revenue. Over a total of Japanese Yen 11,997,837,000 has been extended since 1989 to date. Under the program, importation of

- goods is done through normal commercial transactions by opening letters of credits. In April and June 2000 Japanese Yen 547,837,000 was provided.
- Non Project Grant aid (NPG), it is an import support facility that is extended for importation of eligible commodities, on the condition that beneficiary companies pay the government of Tanzania the equivalent in Tanzania shillings which then used to finance development programmes. This is balance of payment support that is made available to Tanzania by Japanese government since 1987 to support the structural adjustment reform programme. The government in consultation with the Embassy of Japan administratively manages allocation of funds under this grant; the generated funds are utilized to finance development projects that are jointly agreed upon by the two governments. To-date NPG grants have been provided as follows: 1992-JY 2.5 billion (NPG 6), 1995-JY 1.5 billion (NPG 8), 1996-JY 1.5 billion (NPG 8), 1997-JY 1.5 billion (NPG 11), 1998/99-JY 1.5 billion (NPG 12), 2000-JY 1.0 billion (SPGESD). Special local accounts are opened with National Bank of Commerce ((NBC) 1997 City Drive Branch, Dar es Salaam to receive cash cover under NPG 6,7,9,11,12. The generated funds are utilized to finance development projects that are jointly agreed upon the two governments. Sector Programme for Environment and Social Development grant (SPGESD) which is basically a non-project grant and was extended to Tanzania for the first time 2000.
 - Technical Co-operation-This type of grant of aid is directly associated with transfer of technology. It involves acceptance of trainees, dispatch of Japanese experts, equipment survey remains and volunteers.
 - Loans- this category represents long-term low interest loans, which are generally known as ODA loans. The Overseas Economic Co-operation Fund (OECF) implements these loans. Under ODA loans, the government Tanzania had secured Yen credits from the OECF for financing the implementation of various development projects. To- date, Tanzania does not qualify for Japanese credits.
 - Capital Subscriptions and contributions to multilateral organizations- the government of Japan provide funds to multilateral organization, which in turn extend the assistance to developing countries.

b) Projects financed by Japan on loan basis (OWCF Yen credits):

- First Yen credit: Yen 2,016 million (10 August, 1976), approximately TZS 40.3 million for the National Development corporation (NDC).
- Second Yen credit: Yen 5,448,000 (3 April 1978), utilized for two ships of Zanzibar, and on 19 July 1980 MS Tsuneishi ship building Co. of Japan handed over another two ships MV Maendeleo and Mv Mkombozi to Zanzibar. Some of the loan utilized to purchase of some 500 units of tippers and lorries. Another amount used for telecommunication facilities expansion project.
- The third Yen Credit: was of Yen 6.26 million, signed on 2 April 1980, utilized for the project of Telecommunications expansion and supply of construction equipment for the Kibiti Lindi road.
- The fourth Yen Credit: signed on October 19981 and the funds utilizes for the project of Kilimanjaro rural electrification network, lower Moshi irrigation project and the other one to purchase of raw materials and spare parts for our local industries.
- Disbursed outstanding debt to Japanese government, as last year was US\$ 316,290.

c) Sectors Benefiting Japan's ODA

Japan has been assisting Tanzania by extending financial and technical assistance over many years. Major sectors of Tanzania economy that have benefited from the assistance are: (1) Agricultural: Kilimanjaro Agricultural Development Centre (KADC). Lower Moshi Agriculture

Development Project. Improvement Project for Post Harvest Facilitation in Kilimanjaro. Increased Food Production, (supply of fertilizers, agro-chemicals, tractors, farm implements and spares). Food Aid- supply of rice. (2) Basic Infrastructure: Rehabilitation of Dar es salaam power Distribution Network. Kilimanjaro Region Electric Distribution Network. Morogoro Road Improvement Project. Road Improvement and maintenance in Dar es Salaam. Dar es salaam Water Supply. (6) Rehabilitation of TV Zanzibar. (3) Health: Medical Equipment Supply for the National Hospital. Malaria Control Programme. (4) Environment: Environment Conservation.

d) Matters to be considered and Appreciation to Japan

Concerning to human resource development, JICA conducts training programmes for African countries and the World Bank scholarship graduate courses including Tanzania, in this case we appreciate it much as human capital is very important for developing countries. Also Tanzania has prepared a broad National Action Plan for the implementation of TICAD (II) "Tokyo Declaration was adopted calling for the promotion of self-help efforts by the developing nations in Africa" and a request submitted to the embassy. The main focus is on poverty reduction. The main sectors proposed for support under TICAD for which specific projects shall be prepared for support include in the sectors of Tourism, Agriculture, Fishery, Debt management, Education, Health, Water, Environment, Community, Development, External trade, Small and medium scale industries, Small scale Mining, Energy. Land development, communication and transport.

Japan has expressed willingness to support aid coordination initiatives in order to reduce transaction costs and improve effectiveness of aid to Tanzania. While they appear to be cautious about providing aid through sector basket funds and Poverty Reduction Budget Support (PRSBS), Japan is already participating in joint funding initiatives in the sectors of education, agriculture and also in poverty monitoring. With regard of government efforts to improve external resources predictability in line with the Public Expenditure Review (PER) process and Medium Term Expenditure Framework (MTEF), Japan has also expressed willingness to support these efforts by providing aid projections for the entire MTEF period.

Tanzania also appreciate the recently adopted ODA policy which is based on three principles:

- Different approach, which focuses on countries with rapid development achievements.
- Comprehensive approach that is basically focusing on economic development coupled with measures to promote foreign trade and foreign direct investments.
- The third principle is the balanced approach, which takes, into account development of economic infrastructure and provision of the basic human needs and other related new areas of assistance such as environment conservation, control of population growth and AID. This approach is the largest in terms of its application to developing countries including Tanzania. The principle takes into account a balance in developing and implementing large projects and small-scale projects at grass-roots level targeted to achieving broadly based economic growth.

e) Japan's Development Strategy for development Assistance

Japan played a leading role in shaping the new development strategy "shaping the 21st century" adopted in the Organization for Economic Co-operation and Development (OECD) in May 1996. The goal of development is 'people centered' and the goals of development must be focused on improving the quality of life for individual human being. The Japanese government acknowledges that the primary responsibility of the developing countries themselves is to seek to improve their own status of "ownership". This in a way is in line with Tanzania's thrust to craft its own framework of development process and ownership of programs through the Tanzania Assistance Strategy "TAS".

The following is the exchange notes signed between the government of Tanzania and the government of Japan during 2000/2001

Table 5.7 Amount m-million, while b-billion.

Date	Project Name	Yen	Tzs
17/1/2000	Fish Market Complex	840.0 m	6.32 b
17/1/2000	Study on the Mwegu Smallholder Irrigation Project	30.0 m	226.0m
9/3/2000	Supply of Equipment for Exhibition to the National Museum	28.0 m	210 m
9/3/2000	Improvement of the Equipment for Immunization and Micronutrient program	406.0 m	2.84 b
9/3/2000	Food Aid (KR)	480.0 m	3.36 b
17/4/2000	Debt Relief Grant	175.1 m	1.3 b
17/4/2000	Increase of Food Production	800.0 m	6.0 b
17/4/2000	Non project type Grant Capital Assistance	1.0 b	7.5 b
29/6/2000	Debt Relief	372.6 m	2.6 b
29/6/2000	Mwegu Smallholder Irrigation Project	982.0 m	7.365 b
29/6/2000	Integrated Fish Market Complex	789.0 m	6.0 b
31/7/2000	Radio Tanzania Dar es salaam	1,434 m	10.5 b
31/7/2000	Mtwara Vocational Training Center	339.0 m	2.5 b
25/8/2000	Debt Relief Grant	442.3 m	3.3 b
18/1/2001	Debt Relief Grant	102.5 m	739.6 m
18/1/2001	Food Aid	500.0 m	3.4 b
18/1/2001	Makuyuni Ngorongoro	90 m	619.2 b
19/3/2001	Debt Relief Grant	439.0 m	3.0 b
22/5/2001	Debt Relief Grant	95.0 m	678.2 m
22/5/2001	Makuyuni Ngorongoro Road Construction	3.2 b	22.2 b
6/7/2001	Increase of Food Production	800.0 m	5.7 b
18/9/2001	Rural Water Supply in Hanang, Singida, Rural, Manyoni/Singida districts.	410.0 m	3.0 b

Source: Ministry of finance 2001.

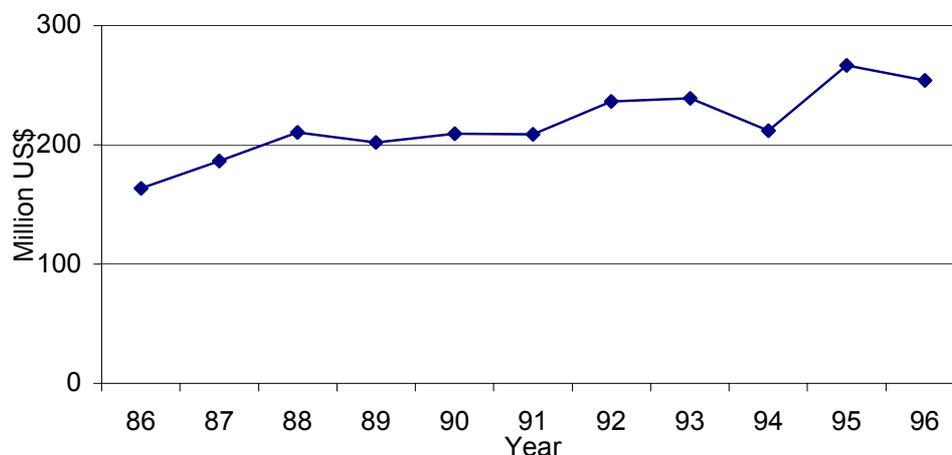
f) Reality and Appreciation from International Organization

From 1986 to date, the government has been implementing various programs aimed at revamping the economy; with support from the World Bank, the International Monetary Fund (IMF), and other multilateral and bilateral agencies, the government efforts are supported by the international donor community in form of aid. As mention before, Tanzania is one of the poorest countries in the world; country receives many technical assistance from the international organization such as IMF and World Bank and individual countries; in all fiscal affairs in order to improve fiscal performance and structural reforms. Technical assistance from various sources enforces that after many years of government's efforts on economic reform, the economy of our country has now attained a strong foundation. It is important to put in place conditions for strengthening the environment, which will enable the economy to grow faster in order to bring about the benefits of macro-economy on the Tanzania society. For over a decade now Tanzania has struggled to reduce its outstanding debt, through various debt programs, designed in collaboration with donors and international financial institutions e.g. in 1998 the government spent about 33.5 percent of the budgeted revenue for debt servicing while in 1999 spent 32.7 percent; In many speeches the Ministers on behalf of the government appreciate it e.g. the Minister for finance when he was introducing to the National Assembly the estimates of government revenue and expenditure for the financial year 2000/2001 "On behalf of the Government, I should register our gratitude to donor countries which assisted us in our struggle towards Tanzania's entry into the enhanced (HIPC) Highly Indebted Poor countries Initiative, and which continue to support us in our pursuit for a better future for the people of Tanzania". On the other hand good relationship with the donor community which resulted from good performance, as we are seeking more advice about the economic growth from educated and experienced countries, more commitment and responsibility for managing technical assistance, good record keeping and paying back the debt to the donor community, transparent on technical assistance e.g.

frequent report to the donor community, success in microeconomic performance and improved management to the economy. Tanzania appreciates to the donor community for all their technical assistance. It is very difficult to mention individual appreciation, but generally people of Tanzania know and appreciate very much about technical assistance from our donor community.

The World Bank supported Tanzania's economic recovery efforts although there were failures in governance and organization for development, low capacity for economic management by advising the good ways to implement or recover the economy, recently they are insisting us to focus more on public sector management especially anti-corruption work in order to avoid the past mistakes, for example during 1993/94 relations between government and major donors deteriorated seriously over failure of the former to collect counterpart funds under the Commodity Import Support (CIS) scheme and to increase the tax collection efforts general. There were increasing suspicious of corruption. Donors started to question the effectiveness of their aid. The IMF cancelled the programme and essentially pulled out on 1994. During the years 1993-1995 reform got track, fiscal policy went out of control, there were large-scale tax exemptions granted by the minister of Finance and a general feeling that corruption and tax evasion were rampant. Government revenue fell, and government reverted to heavy borrowing in the Central Bank. Much of fiscal control and discipline that had been developed from 1986 was lost. The government set off on a shadow programme with the IMF for the period of January-June 1996, which was successfully implemented. This was watched carefully by all donors and was praised by IMF. The IMF came back with a new three-year programme followed by other donors. Since then the relations have improved and are now good. Donor confidence was restored and normal aid operations resumed after the new government comes into power and is fully committed. The following figure (Figure 5.4) shows technical corporation, that due to the good relationship with donors between 1976 to 1996, the value of technical assistance increased by more than 12 times from US\$ 21.4 million in 1970 to a peak of US\$ 266.7 million in 1995. The share of Technical Assistance, which was 56 percent in 1970, had dropped to 19 per cent by 1995. It rose to 29 per cent in 1985 and stabilized at around 30 percent in 1990. From 1986 US\$ 163.4 to US\$ 210.2 in 1988 then stabilized up to 1991 to US\$ 209.0 for the second phase government, then decreased 1994 when the donor started suspicious of corruption. Actually relationship between the government and donors in 1993/94 had a significant adverse effect on aid flows to Tanzania. Donor confidence was restored and normal aid operations resumed after the new government came into power in 1996 and make more effort on fighting with corruption. In 1995 technical assistance was US\$ 266.7.

Figure 5.4 Total Technical Assistance Grants in Tanzania



Source: World Bank Effective Development Assistance (EDA) database 1996

g) The General Reality and Problems of Technical Assistance to Tanzania

A fundamental problem was that, there was no clear government policy on the role or limits of technical assistance. The government policy was so undefined that responsibility was scattered among five ministries, with uncoordinated procedures for determining priority needs, recruiting expatriates, issuing immigration visas and work permits, extending contracts, training of local counterpart/replacement personnel, negotiating donor funding and evaluating expatriate performance. Following longstanding criticism of both donors and Tanzania over this matter, which culminated with the Helleiner Report of 1995 and commitment in 1997 to do something to rectify the situation, the government has finally decided proposals to restore better use of external resources allocated for technical assistance recruitment and enhancing ownership by the government in the management of these resources. Recently donors have started to provide more information upon request concerning their direct expenditures on technical assistance.

An efficient partnership or efficient local control requires a well-run bureaucracy, and that in turn requires a competent staff and organization. As long as the government pays a very little relative to the private sector, it will find it hard to retain or recruit the best people. On top of this there was a virtual stop on new hiring, which means that there is a little new blood coming into the system. Donors are involved in various topping-up exercise, either to key personnel or to key units to bring about a more efficient organization, but this in turn complicates the general overhaul of the civil service. The government has set down principles of civil services reform including gradually increasing real wages, but already they are behind on latter count. Given the constraints of the cash budget and limited ability to collect taxes, it might be hard to achieve the goals. However, an overall assessment is that to-day bilateral donors see a great potential in Tanzania due to the management commitment and good macroeconomic performance.

The old structural problems like an efficient civil service, a slow rate of project implementation and poor accountability in project management solved and some still working on it step by step. Tanzania took a lead role on drafting and discussing the Policy Frame Work Paper (PFP) and Public Expenditure Reviews (PERs). The relevant ministries are more involved than earlier and the same can be said about the PERs. The work is now done on three levels. First, there is a steering committee that is overseeing the process at the policy level. This consists of the Permanent Secretary's (PSs) in the relevant ministries and is chaired by the PS in the Ministry of Finance. Second, there are technical advisory groups that oversee the implementation of the technical studies and the PER process. This group consists of senior official from the relevant ministries and is chaired by the deputy PS in the Ministry of Finance. Third, there is a working group to monitor and co-ordinate the progress on the technical studies. Also the Deputy P permanent Secretary in the Ministry of Finance chairs this, includes key personnel from the relevant ministries and representatives of donors and research institutions. This group meet twice a month during the process, also a small secretariat providing logistical support and other help, which consists representatives from the ministries and the World Bank, the approach is very participatory and is open both to ministries, the research community and donors.

5.3.1 Tax Policy

Tanzania has during the past years made substantial progress in stabilizing the economy. One of the major issues has been to cut down on government activities and there has been a remarkable contribution. Although a tax reform has been an important components in Tanzania's economic reform programme the domestic revenue GDP ratio has remained low. Some of the factors behind the decline in the tax-GDP ratio over the past years substantial reductions in external taxes, relative large tax incentives for new investments, downsizing of the parastatal

sector and sluggish private sector growth. Preliminary results on tax incidence among household groups shows that poorer (household) paid indirectly a relative large share of import duties- with regard to income taxes the tax rates is high among the poorer households then fall and rise as households become richer. In longer term Tanzania needs to significantly increase domestic revenue to facilitate its developments programme. Projecting tax revenue, keeping the tax rates unchanged we found that towards the end of the year 2004 the tax revenue GDP ratio will reach 17 percent. An alternative option to generate additional revenue would be to increase the tax rates. This does not seem to be a viable strategy. The things to be considered is how to improve public service delivery in crucial to promote economic growth and reduce poverty and how should tax policies be designed in order to satisfy both an increasing demand of public services and to provide an enable ling environment for private sector development. We have to improve tax policy on how to reform the tax system in order to have potential Revenue.

5.3.1.1 Enhance Administrative and Economic Efficiency of Indirect Taxes, Corporate and Personal Income Taxes

Tax reform is a continuous process of a critical appraisal (review) of the fiscal and tax structure and administration system in order to make appropriate changes to ensure that the objectives and goals of an ideal fiscal and tax system are realized. The exercise involves the review of the fiscal system as a whole or in some selected aspects of the system. Tax reform is a deliberate effort to identify any weakness in the taxation system with a view to their rectification resulting into a more efficient taxation system. The review is a continuous process because our objective in tax system may vary over time. Our country requires different tax policies, which will also encourage private investment.

Tax evasion and exemptions in Tanzania are among factors, which bring poor performance. Besides the statutory exemptions Tanzania investment center has also the right to exempt specific foreign investor from duties. Corruption also is the major problems in tax departments although the government fighting much on it, by establishing different measures including establishing corruption bureau (PCB), firing staffs who are not integrity etc. Recently tax agenda through: application of VAT on petroleum products and consolidation of all other taxes on them, repeal of import-specific partial remissions on customs duties and abstention from imposing additional minimum dutiable values and basing existing ones on international prices (except sugar), harmonization of investment incentives, reduction in scope of exemptions, reduction in the number of excise taxes from 52 to 6, abolition of withholding tax on goods and services, starting operation of a unified tax appeals system, and the establishing of a more efficient duty drawback system based on technical assistance recommendations are being done and we continue to be implement it.

5.3.1.2 Payroll and Social Security Taxes

Payroll levy; this tax normally based on the gross salary paid by the employer to his/her employees. It is applicable to all employers having more than four employees and is required to be paid every month and the rate applicable is four (4%). Insurance income, this is calculated as per section 20 (6) of Income Tax Act 1973. This source of income is very important since the government decided to allow private companies dealing with insurance to join the industry. Originally this industry was dominated by the state owned corporation.

5.3.1.3 Property Taxes and Tariffs

Property Tax is charged on owner's property. The authority sets rate of taxes. The exempted properties as museum, places for worship, land used for sporting, properties of charitable and educational institutions etc. Import duties are levied on most goods entering Tanzania at ad valorem rates between different tax rates (being amended every time), duties for specific items should be checked with customs tariffs.

5.3.1.4 Minimum Taxes

According to the budgetary difficulties we induced the authorities to introduce discretionary measures, including the recurrent use of temporary duties and "minimum dutiable value" (MDV) for import tax assessment, that have reduced the efficiency and transparency of the tariff system, not only that based on market prices of the products and brings confusion, as this valuation method was not transparent to importers (solved). Amendment in many aspects is done e.g. there is only three rates of import duty (other than zero) that is, 10, 15, and 25 percent in that order. Goods, which had 5 percent now no duty charge. The reduction of some rates will reduce the cost of production especially with respect to industries. 2001 in order to address dumping and transshipment, which causes unfair competition upon domestic industry, it is proposed to introduce suspended duty on certain imported goods. The list of goods to be affected is in Finance bill, 2001. Consistent with the rules of the World Trade Organization (WTO) of which Tanzania is a member, the procedure for valuation of goods for taxation purposes has changed. The procedure known as "Agreement on Customs Valuation (ACV)" is now in use. That is to say, Minimum Dutiable Values (MDV) are no longer used as the basis for tax assessment; with the exception of sugar, which is governed by special agreement between the investors.

5.3.1.5 Tax Incentives

The investments incentives include tax relief's and concessional tax rates which can be accessed by the investor under the Income Tax Act 1973, the Customs Tariff Act 1976 and the Value Added Tax 1997 and Immigration Act 1995. Tanzania have enacted specific economic, fiscal and tax incentives in order to encourage both foreign and local investment. Tax incentives are available to a holder of a certificate of incentives under the Fiscal laws as mentioned above. But under the present economic realities of cash based agriculture economy, numerous small-based enterprises and the trend towards encouragement of investments, Income tax is the opportunity cost. Apart from withholding tax from wage earners, tax from business profits is difficult to ascertain. Although tax reform has been an important component in Tanzania's economy, the domestic revenue GDP ratio has remained low. Some of the factors behind the decline in the tax GDP ratio over past years are substantial reductions in external taxes, relatively large tax incentives for new investments, downsizing of the parastatal sector and sluggish private sector growth which has not generated enough revenue to compensate for the cost revenue from the shrinking parastatal sector.

5.3.1.6 Taxation of Financial Services and Transactions

The financial sector is under the management of the Ministry of Finance, supported by the Bank of Tanzania and Tanzania Revenue Authority in the operations of the financial matters in the economy. The ministry of finance pronounces/direct Fiscal and Monetary policies which are tools applied by the TRA and the Bank of Tanzania to collect revenue and regulate the cost of capital and its supply in the economy. Fiscal policy being one of the tools to manage the economy involves comprehensive planning of budgets i.e. revenue and expenditures and financing part of the budget deficit through Bank borrowing. Measures taken are aimed at: (a) generating revenue

to the government through direct and indirect taxes and non-tax-revenues, (b) changing the level of government spending i.e. expenditures of the government to conform to the revenue collected and avoid bank borrowing.

Non-tax revenue covers payments in exchange for goods and services provided by the government. The major sources of non-tax revenue are parastatal dividends, royalties, fees, other charges and appropriation in Aid. Dividends are the amount of money that the government earns as a shareholder of the parastatals. Non-tax revenue has been a potential source of government revenue for quite a long time now. In the fiscal year 1997/98 for example, non-tax revenue collected amounted to about TZS 67 billion, which is about 12 –percent of total recurrent revenue.

5.3.1.7 Tax Treatment of International Capital Flows

Value Added Tax (VAT) in respect of capital goods, imported, purchased, or received for use in investment shall be charged at 20 percent but deferred up to the date of commercial production of goods or services.

Customs and Excise department, the importation of capital goods for investment in the specified priority sectors are charged import duties not exceeding 5 percent. Importation of goods for capital goods for investment in sectors of economic infrastructures (construction of roads, bridges, railways, airports, installation of electricity, telecommunication, water services, as well as export processing zones) are charged import duty zero rate (0 percent).

Income taxation imposes maximum corporate tax rate of 30 percent on net taxable profits (for both resident and non-resident), Withholding tax rate of 10 percent on dividends, Withholding tax rate of zero percent (zero rate) on interest on loans, 100 percent write off of any capital expenditure incurred in the production of income in such year of income, indefinite carry forward of losses and deficits of total income.

5.3.1.8 Cross-border Issues in Both Direct and Indirect Taxes

Before 1999 cross border trade between Tanzania and its neighbors- mainly Rwanda, Burundi, Uganda, Malawi, Congo and Zambia-labyrinthine and restrictive trade policies were cheating the Government out of millions of shillings in lost revenue. The study highlights the adverse effects on revenue of high tariffs, complex and anachronistic import and export licensing arrangements. After investigating the cross border trade and agricultural and industrial commodities, we concluded that, despite the magnitude of unofficial trade flows-, which is almost impossible to quantify the prospect of a clampdown, is viewed with skepticism, because of its potential impact on national and regional food security.

For goods crossing the borders recently within East Africa, custom duties have been reduced with the aim of discouraging the flow of goods through unofficial routes, instead promoting open and legitimate trade. On the other hand recently, heads of East African Community member states agreed to put in place an environment conducive to encourage cross-border investments in economic activities, infrastructure, and trade between countries within the community. Simplification of border trade was emphasized in order to motivate legitimate trade among the people of East Africa. Accordingly, import tariffs on cross-border trade have been reduced substantially. Exports from Tanzania and Uganda to Kenya will enter with import duty reduction of 90 percent. For instance if import duty in Kenya is 25 percent, exports from Tanzania to Kenya will be charged only 2.5 percent. Goods from Tanzania to Uganda will get a reduction in import duty of 80 percent. Therefore, if import duty in Uganda is 25 percent then the goods from Tanzania will enter Uganda at import duty of only 5 percent. Under this arrangement, goods exported from Kenya to Uganda or Tanzania will get a reduction in import duty 80 percent. The

tariff reduction in the east African Community area presents a challenge to our people to make use of the expanded market.

5.3.1.9 Agricultural Taxation

The budget year 2000 rationalized local taxes. Import taxes on tractors and all export taxes on agriculture commodities. The land Rent on commercial farms reduced from 600TZS per acre to TZS 200 per acre per annum on agricultural farms, livestock ranches, and forests. The objective is to encourage expansion of large-scale farms and avert hoarding of land, and at the same time emphasize the importance of paying tax on this resource. Also stamp duty on proceeds from the sale of agriculture abolished last year. The 2001 budget proposed current rate description of goods zero percent inputs for agriculture, animal husbandry and fishing, human and livestock pharmaceuticals and medicaments, inputs for manufacturing pharmaceutical products etc. The issue is to remove nuisance taxes especially in the area of agriculture and animal husbandry by creating conducive and transparent investment environment, and enhancing social development consistent with the poverty reduction programme.

5.3.1.10 Ad Val Orem versus Specific Excise Rates

Last budget streamlining of excise system, with remaining excises on petroleum products, beer, cigarettes, wine, and soft drinks was done. Duties are payable on the traditional excisable commodities such as alcoholic drinks and tobacco, at a variety of rates. These duties often include a ‘Specific’ as well as an advalorem element e.g. 20 percent plus TZS 150 per thousands. Excise duties are levied in addition to VAT on certain luxury items, at different rates.

5.3.1.11 Interaction Between Inflation and Taxation

The large budgetary shortfall together with the quasi-fiscal deficit, which arises from the gap between revenues and public expenditures swollen by large outlays on administration since 1992, have been the main forces driving inflation and the growth of domestic debt in Tanzania. Also in order to avoid paying tax on inflation (paper gains) it is necessary to provide a system of tax indexation particularly in a country with a high rate of inflation. Inflation not only increases the tax burden but also decreases the capacity of the government to realize its planned economic and social projects. As prices and incomes rise corporations pay proportionately more tax and individuals move into a higher marginal tax bracket. The government also suffers as the real value of the revenue declines (less expenditure in real terms). However there are practical difficulties in the introduction of an indexed linked tax system in Tanzania. Indexation is an innovation and ideal sophistication that may have to wait for sometime as the general level of economic development and the tax administration structure improve.

If sufficient precaution not taken during the introduction of VAT, inflation could occur on prices and wages rise, because some goods and services could be taxed at a low or higher VAT rate than the previous sales tax rate. In order to avoid it, they introduced two measures that’s (a) sales tax paid on business stocks at commencement of VAT was set up against VAT payable in the first month of VAT regime. The set off removed double taxation on opening business stocks at the commencement of VAT, (b) we conducted intensive public educational programmes to inform business and consumers the expected effects on inflation.

5.3.2 Tax and Customs Administration

In the area of tax administration the introduction of a system of making white petroleum products in the country in order to distinguish locally and consumed products from those earmarked for export (transit) reduced tax evasion in the petroleum sector in customs department. Establishment of single Unified Tax Appeal machinery for the whole departments on July 2000 expected to create more tax compliance. To minimize and control tax exemptions, this measure provides great opportunity for controlling government expenditure and for trapping people or private institutions, which use government exemptions for their own benefits.

While the government has taken several initial steps towards strengthening tax administration much remains to be done. On the framework the government continues to consult actively with the IMF and in the process of addressing many weaknesses in both tax and customs. It also consulting with the Foreign Investment Advisory Service (FIAS) on redefining the role of Tanzania Investment Center (TIC) and rationalizing the benefits offered to investors, which are recognized to be the single largest source of revenue loss. On the administration side, the government has been receiving support from World Bank and several donors on various aspects, including recommendations for creating and organizing TRA, implementation and expansion of Automated System for Customs Data Management (ASYCUDA), introduction, amendments and strengthening of VAT, introduction of Tax Identification number (TIN), development of an information system (IS) strategy, and preparation of an institutional strengthening needs and plan. Implementation of the proposed program over the next five years constitutes a key element of the government strategy in this area.

5.3.2.1 Improving the Effectiveness of Tax and Customs Administration; increasing tax compliance through strengthening of collection

In Tanzania revenue policies aimed at consolidating tax reforms, which began in recent years, including expanding the tax base, improving tax administration, to enhance voluntary compliance, and eliminating tax evasion by unscrupulous traders. The appropriate tax policies are necessary in order to, raise revenue to increase government capacity to finance economic infrastructure, social services, law and order, and to service national debt, to put in place a tax administration that minimizes the cost of compliance, to improve the country's international competitiveness, to put in place a predictable tax system, to provide special tax inducement for selected sectors such as agriculture, and avoid imposing a heavy burden on the poor.

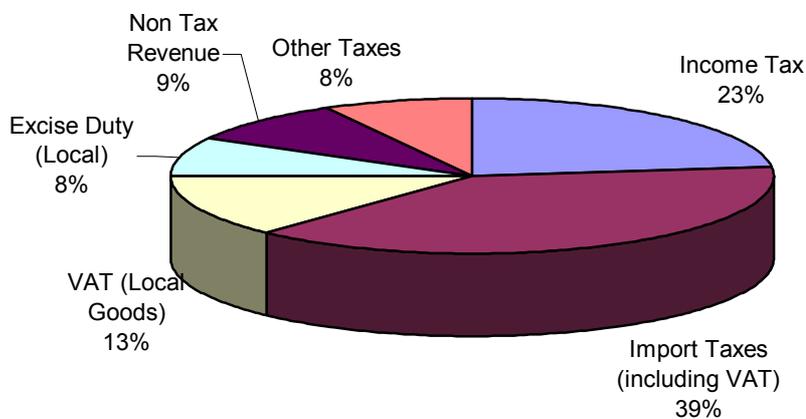
To get more revenue improvement in the caliber of its staff (through training, remuneration and other incentives including performance contracts) required. The strengthened TRA systems facilitated greater voluntary compliance by improving the transparency, equity and efficiency of the tax system, and reducing the cost of compliance through increasing the availability of information to the taxpayer and removing the distortions within the system. In addition to the simplification of tax laws and the tax procedural requirements, this included review of the tax rates with a view to rationalize and, where possible, reducing the rates to encourage compliance. The TRA intended to reduce evasion by strengthening its investigation, audit and assessment capabilities through better systems, equipment, improved training and both increasing the level and enforcement of sanction.

The customs department retrenched many staff during the establishment of TRA and after the probationary period. As a result, there was significant need for basic training in procedures as the department transfers and recruits staff to build the necessary complement. A core component of the customs department was the implementation of the customs computerized systems, and the roll out of Automated System Customs Data Management (ASYCUDA). Training for some officers who used the new modules of the system was critical. The department sated out the plan for major improvements to classification and valuation procedures, which in turn required all customs officers to undergo training.

The TRA has established a reputation by retrenched more than 1100 staffs in 1996. Tanzania for aggressive action on corruption in response to the Warioba Report, a TRA Action plan to combat corruption was prepared and the TRA Board monitors implementation. An internal investigation unit has been established in the Internal Audit Department. One of the functions of this department is to ensure integrity amongst its stuffs. There was a media campaign in the press and on television, supported by telephone hotlines and the provision of rewards to informants. Nonetheless, the TRA is well aware of the invasive nature of the problem, especially in the customs. A recent survey confirmed continued public concern with integrity in the TRA and the customs in particular.

Tax administration is thus a key element in the government's strategy for increasing tax revenue as well as decreasing economic distortions and promoting the transparency of tax and customs collection. It is also a requirement for successful implementation of the International Monetary Fund (IMF) supported Enhanced Structural Adjustment Facility (ESAF), as well as for continued donor balance of payment support. Among other problems the department suffered from control of transportation of transit fuel by the road, relationship with neighboring countries in exchanging information about transit goods special agreement between the investors, poor management, cumbersome documentary requirements couplet with bureaucratic and discretionary paper-based procedures, ineffective enforcement practices which rely largely on physical inspection, control of transportation of transit fuel by road, lack of infrastructure and equipment etc. Some of the tings solved and the government continue to consult the IMF in addressing the weaknesses. The following figure shows good performance of the customs departments in year 2001, on the other hand is the leading department to collect revenue.

Figure 5.5 Sources of Revenue 2000/2001



Source: Ministry of Finance of Tanzania, 2001

5.3.2.2 Audit and Taxpayer Service Functions

Implemented regulations for Public Finance Management Act and Public Audit act on march 2001. In August 2000 established unified tax appeals mechanism. In April 2000 began reporting revenue through Integrated Financial Management System (IFMS). In July 2001 all remaining tax exemptions for the government (except those constituting contractual obligations) are eliminated.

5.3.2.3 Implementing Significant New Taxes

Most of the time amendment on taxes and levies are being done for the objective of improving the tax regime in order to expand the base through increasing compliance, removing nuisance taxes especially in the area of agriculture and animal husbandry, improving Tanzania's international competitiveness, creating a conducive and transparent investment environment, and enhancing social development consistent with the poverty reduction programme. In short, these proposals are intended to stimulate rapid economic growth and poverty reduction. Also the government introduced 2001 the tax on game chance, which expected to yield revenue for the government TZS 7,000 million.

5.3.2.4 Establishing Special Control Over the Largest taxpayer

TRA commenced operations of the large taxpayers unit on July 1, 2001. The staff is still undertaking studies on how to control large taxpayers. This will help tax officials to improve efficiency in tax collections.

5.3.2.5 Introducing Measures to Bring Small/ Medium-size Taxpayers into the Tax net

The administration needs some changes, starting of large taxpayer's department is the first step in the right direction. What should follow are the small and medium enterprises department and wage and investment income earners departments. The taxpayers as categorized have the same needs according to the nature and number of taxes they handle, complexity of tax laws they are involved in the number of their interactions with the tax authority. These changes should go together with the scrapping of the present wasteful separation of income and consumption taxes administration.

5.3.2.6 Rationalizing Customs Procedures to Secure and Facilitate Trade

Tanzania's experience makes clear the adverse consequences of a restrictive trade regime and the associated cost-price distortions on both locative efficiency and longer-term macroeconomic performance. In the 1970s and early 1980s, trade distortions reduced the profitability of export crops, leading to sharp contraction in export earnings and foreign exchange shortages. Despite the imposition of tight import controls, these shortages led to reductions in critical imports of intermediate goods and raw materials, cutbacks in industrial production, and deterioration in the country's infrastructure. The phasing out of trade restrictions since the mid 1980s played a key role in the revival of export sector and recovery and rationalization of imports, and laid the foundations for sustainable growth.

Trade liberalization induced a pronounced shift in income from the public sector and areas of the private sector that could easily be tapped for revenue by the government, toward farmers, small enterprises, and the informal sector. At the same time, the liberalization of trade and exchange system caused imports and customs duties to grow rapidly while the domestic tax base was shrinking. This was reflected in a falling tax to GDP ratio and increased reliance on trade taxes for budgetary revenues. This dual effect, which had not been fully anticipated in Tanzania, points to the importance of broadening a country's tax base and implementing reforms in tax administration in the early stages of liberalization. The slow progress Tanzania has made in domestic tax reform has hampered its efforts to achieve import liberalization and tariff rationalization, encouraged the use of both temporary duties and nontransparent means of import taxation, and indirectly reduced the competitiveness of exports. This has impeded Tanzania's

efforts to achieve steady multilateral trade liberalization and to become better integrated with regional common markets.

Concluding Remark:

Today, a central objective in Tanzania's development strategy is reducing the import tax burden, with a view to further improving export incentives and raising a locative efficiency. It is important to avoid the recurrence of past episodes of reversals in trade reform owing to budgetary shortfalls. The recent implementation of the value added tax, which broadens the country's tax base and improves the efficiency of its tax system, is an important step toward preventing such reversals. Strong political will should now be exerted, however to remove the tax tariff exemptions that continue to place a burden on Tanzania's budget and impede its efforts to achieve further trade liberalization. In rationalization of the tax system, we are festering region cooperation within SADC and East African Community to widen the economic base, boost trade and investment.

5.3.3 Budget and Public Expenditure Management

5.3.3.1 Budget

The budget is prepared and presented to the parliament by the ministry of finance has focused on cash budget, providing funds to ministries on the basis of revenue collected on the previous month to meet the monthly ministerial budgets. Fiscal policy will remain geared toward maintaining macroeconomic stability, while raising expenditures allocations to priority sectors-education, health, water, HIV/AIDS, roads, lands. In 2001/02 context of the medium-term civil service pay reform; we have increased the average wage by about 9 percent, which will allow for professional and senior staff a further reduction in the gap relative to compensation in the private sector. In addition, the total allocation for recurrent expenditures on the priority sectors has been increased by 29 percent. The budget includes a contingency allowance of 0.5 percent of GDP, including for possible cost of retrenchment of parastatal employees. The deficit is entirely financed by confessional foreign financing, including debt relief under the initiative for Initiative for Heavy Indebted Poor Countries (HIPC). Following the completion of an inventory of public sector domestic debt by November 2001, we intended to start paying down the parastatal debt that was taken over by the government. Privatization receipts will be used to cover the costs of parastatal restructuring. We also intend to clear all audited arrears that had been outstanding at the end of June 2000 (TSH 40 billion) by the end of December 2001, an action that will constitute a performance criterion under the Poverty reduction and Growth Facility (PRGF) arrangement

In the context of budget 2001/1 we made further progress with tax reform. The withholding tax on goods and services which deductible from the corporation income tax was abolished for holders of a taxpayer identification number (TIN); in order to limit the revenue losses we decided to maintain the tax for taxpayers who have not registered for the TIN. We have also increased excise taxes, introduced a new gaming tax, and eliminated the exemption from the value added tax (VAT) for government purchases. These measures are expected to offset a revenue loss expected from a further reduction and rationalization of import tariff rates. Nevertheless, out of revenue considerations, we decided to maintain the housing levy and merge it with the vocational education-training levy in order to improve compliance. Control over tax exemptions for nongovernmental, religious, and charitable organizations has been strengthened. The exemption on fuel purchases for electricity company (TANESCO) will be removed in the context of the rationalization of electricity tariffs currently in preparation. The elimination of the government exemption from customs and excise duties had to be postponed for one more than year because spending units were not yet in a position to submit their budget proposal for 2001/02 on a tax

inclusive basis. However all necessary steps are being taken to ensure that this situation will be rectified in time for the year 2002/03 budget. In the area of tax administration, the unified tax appeals mechanism and large taxpayer unit started operation on September 2001.

5.3.3.2 Public Expenditure Management

In strengthening expenditure management, government-spending units have been basing all their expenditures on local purchase orders (LPOs) generated by departments, and agencies (MDAs) and their respective sub treasuries from the integrated financial management system (IFMS). As a result all central government budgetary expenditures is now implemented through the system. The regulations under the new Public Finance Act started on July 2001, and we notified the public that the government will not honor any LPOs that are not generated by the IFMS. The budget for 2001/02 provides adequate funding for expenditures that have been a major source of arrears in recent years, including utility bills and expenditure on food (for school children, hospital patients, soldiers and prisoners). As is the case with contributions to pension funds and interest costs, these expenditures are now considered first charges under the cash management system to avoid under funding. These measures as well as the generation by the IFMS of comprehensive monthly commitment, expenditure, and arrears monitoring reports from the start of the current fiscal year, should assist in preventing new expenditure arrears. The submission by the MDAs of cash flow plans from October 2001 will further strengthen the cash management system. We intend to begin publishing quarterly budget execution reports drawn from the IFMS, starting with a report for the first quarter of 2001/02. This action will constitute a performance criterion under the PRGF arrangement.

With regard to increasing the comprehensiveness of the IFMS, the 12 revenue collection points of Tanzania Revenue Authority (TRA) in Dar es salaam were brought on line during the month of July 2001. Training for staff operating the computerized system will be stepped up during 2001/02. We have rolled out IFMS to all regions, and all sub treasuries are now operating on the IFMS. We have also introduced commitment control in all spending units, both at the central level and in the regions. Various circulars and directives have been issued to spending units detailing procedures to be adopted in the procurement of goods and services using the IFMS. All balances in government bank accounts with the Bank of Tanzania and the commercial banks as of end June 2000 were reconciled and since July 2001 large volume bank accounts at the Bank of Tanzania have been reconciled on a weekly basis. The reconciliation process allowed 169 accounts of the more than 300 bank accounts with the Bank of Tanzania to be closed

Our fiscal decentralization strategy will focus on a number of arrears that will help promote increased harmonization and transparency of the operations on local governments. In this regard we intend to develop a strategy and a timetable for harmonizing local government taxes. We will also review the possibility of having all levels of government adopt the same fiscal year. In order to increase accountability for the use of public funds, we will require local governments to submit quarterly reports of their revenue and expenditure; these will form the basis for a consolidated annual report on their operations, which will be published. In the meantime we are giving publicity to the amounts and timing of budget transfers to local governments as well as requiring local authorities to post their quarterly reports in a public location.

5.3.4 Expenditure Policy

5.3.4.1 Social Safety Nets Schemes and Rationalize Social Insurance Schemes

Government expenditure policies aim at strengthening allocating more resources to the priority areas targeting poverty reduction and growth. These areas include social services such as

education, health, water, and agriculture especially rural roads, judicially, as well as the company against the spread of AIDS/HIV. There is however a need to continue with rationalization of different types and levels of local government taxes as well as those charged by the central government with a view to improving the environment for investment in areas outside of the urban centers. The government also raised salaries of civil servants including employees of government agencies, and established a contributory pension fund for central government employees.

In 1999/91 the United National Development Programme (UNDP) and International Labor Organization (ILO) granted the government through project URT19Q1003, which aimed at transforming the Provident Fund into a comprehensive Social Security Scheme. After a thorough study by ILO, recommendations were presented and adopted by the government to establish the National Social Security Fund (NSSF) based on social insurance principles. The purpose of the scheme is to offer protection to its members against economic and social distress that otherwise would be caused by substantial reduction of earnings as a result of old age, invalidity, death of the breadwinner, employment injury and maternity. Furthermore the scheme offers provisions of health care of an insured person and his immediate family. The NSSF also takes care of assisting reasonable burial expenses upon the death of an insured person. Members of the scheme who are used to monthly or periodic payments are assured of continued monthly payments after retirement or after becoming invalid. Payment under this scheme will also consider the member's social need depending on the contingency facing the member while working. The International Social Association (ISSA) widened Social Security coverage to include the informal sector because in many developing countries, only a small minority of populations had access to social benefits. Most of present day pension industry only focuses on the pension able employed citizens. This social group accounts for only three percent of Tanzanian population. Tanzania has at least 10 separate statutory schemes, which are segregated and stratified. But all schemes cover employees in the formal sector of the economy which employ less than 15 percent of the population. Some of these schemes are contributory and some are not. In 1998 the government tabled the Act called, The Government Pensions Act, 1998. The aim of the legislation was to repeal the colonial Ordinance and introduce a social security scheme for government employee under pension able service. The challenge confronting social security in Tanzania, according to various analyses, centers on how it can be broadened to cover unemployment insurance and universal health insurance.

From July 1999 the government established the Public Service Pension Fund and rose the compulsory retirement age from 55 to 60 years. Also the minimum pension rate has been adjusted from TZS 2,000 per month to TZS 10,000 per month, and the minimum lump sum pension payments has been increased from TZS 5,000 per month to TZS 20,000 per month. Similarly the minimum taxable salary was increased from TZS 20,000 per month to TZS 45,000 per month. At the same time the minimum wage has been increased from TZS 30,000 per month to TZS 45,000 per month.

Additionally, the government has put in place safety nets directed at protecting the incomes of the poor. One important initiative in this area, the Tanzania Social Action Fund (TASAF), is aimed at generating cash incomes directly to vulnerable groups that are involved in carrying out projects chosen and managed by communities. In addition to the monetary benefits, the TASAF process has also helped to strengthen the technical and managerial capacity of the poor, as well as participatory approaches in planning and implementing poverty-oriented interventions at the community level. Other initiatives include: Small Entrepreneurs Loan Facility; Poverty Eradication Initiatives; Community Based Initiatives Trust; National Income Generation Programme; Agricultural Input Fund; and Youth and Women Development Funds. In reflection of similar concerns, the government will shortly develop, together with some international partners, a special programme aimed at providing support (such as credit and improved inputs)

for the rural poor. Although prompted by essentially different considerations, the recent abolition of primary school fees and other enrolment-related contributions is expected to provide relief for many vulnerable households.

5.3.5 Fiscal Federalism

5.3.5.1 To rationalize Interregional Transfers System

Local Government Authorities exist for the purpose of consolidating and giving more power to the people to competently participate in the planning and implementation of development programmes within their respective areas and generally through the country. Local Government Authorities are classified into two categories. Urban authorities are responsible for the administration and development of urban areas ranging from townships, municipalities and cities of Dar-as salaam and Mwanza. Rural authorities commonly known as District Councils form the second category. All Local Government Authorities are mandated to play two main functions of administration, law and order; and economic and development planning in their respective arrears of jurisdiction. Source of revenue for local government is from a number of local taxes and fees collected in each local authority. Numbers of taxes always differ from one local administration to another; this is due to the fact of the economic base of the area.

The Government is implementing Local Government Reform Programme (LGRP) with the objective of improving service delivery to the public. Actual phased implementation of LGRP was launched in 38 councils in January 2000. The launching of implementation of the reform programme was preceded by the following policy, legal and strategic interventions: Endorsement of policy paper on local government reform by the government; Enacting region administration Act No. 19 of 1997, which paved the way for the restructuring of region administration, so as to become an important government arm for advisory and backstopping support to local government Authorities; Amendments of Local government laws by Act No.6 of 1999 to provide enabling provisions for implementation of local Government Reform; Adoption of Action plan and budget for the period July 1999 to December 2004, paving the way for sequencing of implementation of local government reform programme. Steps have been taken to prepare the ground for promoting principles of democracy, transparency, accountability, integrity and the rule of law at the local level. In particular, progress has been made in sensitizing and educating the general public through a weekly radio programme. Codes of conduct for councilors and staffs have been published and issued for enhancing accountability, transparency and integrity on the part councilors and staffs. An encouraging move has been made in the development of participatory planning framework at the local level. All Phase-1 councils have formed council reform teams, which are spreading the reform process. As part of capacity building, training in financial management has been undertaken on in-house basis through the Zonal Reform Teams. Measures aimed at strengthening decentralized management of staff by local government authorities have also been taken.

Preparation of the monitoring and evaluation (M&E) system for the LGRP to monitor service delivery the local government level is at its final stage. Implementation of the system is planned for the second half of 2001. Activities so far completed include: Designing and testing of a prototype of the M&E system in selected local authorities; Assessment of the test results and specification of a manageable number of sector indicators that will be used during the initial period of the implementation of the system; Design of a database that will be used to manage data when the system comes into operation; Preparation of a manual that will be used to guide users on how to implement the system. . The review team endorsed the local government reform policy, the implementation strategies, and the manner the reform is being managed. The team provided a valuable snapshot of where the reforms are currently succeeding and failing. It also identified

blockages that need to be addressed both administratively and as a matter of policy. Capacity building aimed at improving financial management at local government level continued throughout the year 2000/01. This was largely done through in-house training provided to the relevant staff of the phase 1 local government authorities. A computerized system of financial management and accounting (also known as Platinum Epicor) which was introduced in 28 councils at the beginning of 2000, continued to be implemented throughout the financial year as part of capacity building. Implementation of the system aims particularly at enhancing financial accountability in the local government authorities especially in ensuring that funds allocated to pro-poor sectors are not diverted to other unintended purposes. The plan is to roll out the implementation of the integrated financial management system (IFMS) to another batch of 29 councils during the year 2001/02.

5.3.5.2 To Consider Assignments of Tax and Expenditure Responsibilities

The government advised by main donors to improve co-ordination of taxation between the central government and local authorities in order to end double taxation in various parts of the country. Not only has frequent double taxation distorted revenue inflows in some instances, but it has also provided opportunities for graft at the municipal level. Ending the phenomenon will require the clear demarcation of the respective catchments areas of municipal authorities and central government. In mid-August 2000 they suggested that “demand driven” fees and levies should be applied at the local level, while the central government should apply income and corporate taxes, and customs duties. It remains to be seen whether progress on the issue of double taxation will be speedy. Poor infrastructure and communications continue to impede co-ordination between local authorities and the central government in many regions, while the debate over responsibility for taxation also touches on the thorny issue of the triangular relationship between the central government, municipal authority and the Tanzania Revenue Authority (TRA).

5.3.5.3 To formulate to Borrowing by Local Government

On 1999 the European investment Bank (EIB) long time financing institution, provided \$9.7m credit to Tanzania financial institutions for on lending to finance small and medium-sized investments. The credit made available through several financial intermediaries including the East African Development Bank (EADB) and Stanbic Bank Tanzania (SBT). According to EIB, the credit facility was organized in response to the wide-ranging economic reforms undertaken in the country, and to assist with the implementation of the privatization programme. The scheme aimed to offer assistance to export-oriented business serving the domestic market in the sectors of, industry, agro-industry, horticulture, mining and tourism. Also with regard to promoting the development of financial sector, the proposed amendments to the Lands Act to facilitate the use of land and real estate as collateral for bank lending will be considered by the government in the near future.

5.3.5.4 Private Sector

Measures undertaken by sector are geared towards creating a conducive environment for economic growth through promotion of private sector investment, which will in turn lead to creation of employment and reduction of poverty. The sound macroeconomic policies, the divestiture of public enterprises, market liberalization and tax reforms have to a great extent created a better environment for private sector growth. In the reform to develop the private sector, the government will continue to implement policies that encourage and promote investment, to reduce costs related to production and trade, foster competition and enhanced private sector

participation in the national economy. It is the government's expectation that private sector growth in agriculture, large and small-scale industries, tourism and others will improve job creation.

5.3.6 Other Special Assistance

5.3.6.1 Statistical Data Collection

The government has prepared a comprehensive Poverty Reduction Strategy with participation of domestic and international stakeholders. While we were preparing the Poverty Reduction Strategy Paper (PRSP) 2000, the government was simultaneously implementing certain agreed activities concerning poverty. These included: improving statistics on poverty incidence in the country; strengthening institutional capacity for monitoring of our plans; ensuring that the government budget is focused towards poverty reduction; carrying out school mapping; continuing with the immunization programme for children and strengthening the fight against the spread of HIV/AIDS. In this case the government attached great importance to the development of comprehensive poverty monitoring and evaluation system in 2000/01. These efforts were directed towards: Defining an institutional framework and responsibilities for collecting, using, storing and disseminating disaggregated data on poverty; Developing indicators to monitor progress towards medium and long-term targets; Ensuring continued involvement of the stakeholders in poverty monitoring; Securing funding for poverty monitoring activities. Substantial progress has been made in developing a consolidated institutional framework for monitoring poverty at the level, a poverty monitoring master plan, and funding arrangements.

In this case we still need assistance in the institutional framework, especially in survey and census; the major task in this area is to conduct pertinent surveys and the national censuses. This task is coordinated by the National Bureau of Statistics and is currently designed to include completion of the latest Household Budget Survey and Labor Force Survey (HBS) carried out during 2000 to 2001; National Census (NS) 2002; Agricultural Survey (AS) 2003; Demographic and Health Survey (DHS) 2004; Labor Force Survey (LFS) 2005; Household Budget Survey (HBS) 2006; Agriculture Survey (AS) 2008; DHS (2009); Labor Force Survey (LFS) (2010); National Force Survey (HB) 2011, and National Census (NC) 2012. As a key data collection agency in Tanzania, the National Bureau of Statistics will play a pivotal role in ensuring that the Poverty Reduction Strategy Paper (PRSP) data requirements are met. The NBS has many other roles to play, apart from its role as a central data collection agency for the PRSP. The quality timeliness of most macroeconomic data in Tanzania remain poor, and these deficiencies complicate the analysis of economic and financial developments, that's why we need special assistance in the areas of statistic data collection in order to implement further measures to strengthen National Bureau of Statistics. Not only that also improved statistics, especially with regard to poverty surveys and assessment would help the authorities better monitor the implementation of the Poverty Reduction Strategy Paper (PRSP). It was felt that a strategic, long-term plan was required to manage the many completing and sometimes conflicting demands that are placed on the NBS. To ensure that the agency adequately responds to national data requirements within the constraints of its available resources, the ten- year work programme noted above was developed. The programme includes a detailed costing and capacity building requirement.

5.3.6.2 Training on the Topics in the Public Finance

Research and analysis: the major task in this area is to strengthen poverty-related research and analysis, with gender focus. This task is overseen by the President's Office, Planning and

Privatization, and will work in close collaboration with Research on Poverty Alleviation (REPOA) and other quasi- autonomous and private research institutions. This group will also coordinate participatory poverty assessments. The research and analysis group has identified research priorities along the: Research that tests the assumptions underlying the PRSP, detailed studies on the impact of policies and strategies on poverty, research that addresses the knowledge gaps that were identified in the original PRSP.

The total cost for activities envisaged under master plan (excluding its administration) is estimated at TZS 7.5 million US\$ 8.6 million for the three-year period through 2003/2004. Of this total, the Research and Analysis group will need TZS 4.1 billion; the survey and censuses group, TZS 1.3 billion.

5.3.6.3 Training on Tax Administration

The government has succeeded in a big way to curb opportunity for tax evasion, but still a large part of potential revenue remains uncorrected. In this case the TRA has to train more staff in order to have competent people who can work efficiently and collect more taxes. The World Bank Program in taxation policy is needed in order to increase working skills and efficiency as the only way to maximize productivity. As TRA still new in operation need more competent staff that will collect tax efficiently. More assistance is needed in order to train the staff because after retrenchment appropriate recruitment, remuneration, staff evaluation (including sanction) and training policies could be implemented to ensure that TRA remains competitive. Training program covering all revenues-related functions could be organized to enhance the ability of managers and staff to implement and sustain the reforms. Efforts to communicate the changes and build broad- based ownership to the reforms could continue but due to the budget constrain the authority failed to train the whole staff.

5.4 Country-Specific Technical Assistance Requirement

5.4.1 Areas in which Further Technical Assistances are needed and to elaborate how this Assistance Should be carried out

Tanzania has made consistent economic progress in the last five years. On the other hand with these achievements, there are still major challenges ahead of us before the majority of Tanzanians can enjoy the benefits of macroeconomic stability. Poverty is still pervasive in the country. Agricultural and Indusial Sectors which have a high potential for job creation have not performed well. Likewise, social and economic services including roads require major improvement. Unemployment particularly among the youth is very high. The HIV/AIDS endemic has now become a major threat to the economy and development of Tanzania. Due to this fact, continued prudent macroeconomic policies and the effective implementation of structural reforms are needed to improve the climate for private sector activity, to strengthen the growth potential of the economy, and to reduce poverty on a sustainable basis.

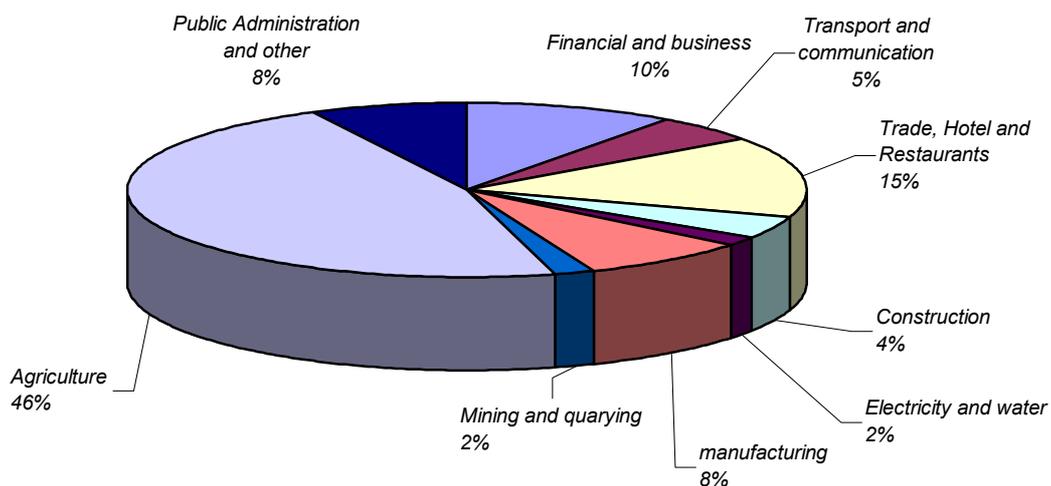
Our comparative advantage in Tanzania is agriculture, which is the foundation of the economy. Tanzania's private sector has responded well to the liberalization of the economy. The previous inefficient monopolies of state owned marketing boards which stifled incentives for farmers by paying low crop prices have given way to competition in the procurement of crops and a higher proportion of export prices being paid to the farmer. The Tanzanian farmer has, in turn, started to demonstrate the true potential of the country as a source of food and beverages as well as agricultural commodities. Tanzania is a large country with a strong agricultural potential that draws on the substantial variations in climate, rainfall, soils and topography across the country. The country is thus able to grow a very wide range of crops. Despite recent positive

developments, agriculture's full potential has yet to be realized. Exports are still dominated by a narrow range of cash crops such as cotton, coffee, tea, tobacco and cashew nuts etc. To the constraints imposed by inefficient marketing organization and poor post-harvest storage and handling must be added the key constraint of transport. The fertile regions of the country in the north and south west have, up to now, been largely cut-off from export markets by poor transport infrastructure. The lack of adequate roads raises production costs and prevents Tanzanian farmers from leveraging Tanzania's comparative advantage in agriculture. In this case we need much assistance on roads.

Agriculture accounts for about half of the National income, three quarters of merchandise exports, is a source of food and provides employment opportunities to about 80 percent of Tanzanians. It has linkages with the non-farm sector through forward linkages to agro-processing, consumption, export it also provides raw materials to industries and a market for manufactured goods.

The government recognizes that strong performance of the agricultural sector will be key in realizing the intended acceleration in real GDP growth (as per figure no 1.5 below, agriculture is 46% of GDP and needed reduction in poverty. On the other hand agriculture is critical to Tanzania's economic and social development goals that are espoused in the Tanzania Development Vision, for three reasons. First, an improvement in farm incomes of the majority of the rural population is a precondition to the reduction of rural poverty. This improvement will be achieved by increasing the real value added in agriculture, expanding traditional and modern investments for production; improving infrastructure, especially in the rural areas; developing support mechanisms and effective schemes for small and medium enterprise; and strengthening good governance and the rule of law. Second, any strategy for addressing food security must involve actions to improve agricultural and livestock production and farm incomes to ensure availability and access to food. Third, agriculture as the single major contributor to GDP is key to the country's overall economic development now and in the near future. Its potential in this regard is substantial. A sustainable growth rate of at least 5 percent in agriculture will have a significant impact on poverty reduction.

Figure 5.6 Sector Contribution GDP in 1998



Source: Ministry of Finance of Tanzania

Agriculture must generate income and employment, provide labor resources to the other sectors of the economy, and provide markets for the manufacturing and agro based industries. Although

agriculture is the mainstay of the Tanzanian economy, its productivity is relatively low. Among other factors, which complicate the agriculture, sector in Tanzania is infrastructure, especially roads transport. We don't have roads especially in the rural areas where most of the farmers live. Transport deficiencies are one of the main bottlenecks for the economy's productive sectors and for improved export performance. The problems that face this sector is mainly a lack of available funds to build up roads or even carry out proper maintenance and repair.

It is expected that the roads can provide the required services to other sector of the economy especially for the current initiatives and efforts to Foreign Direct Investment (FDI), to promote export. Right now expensive transport routes up to international markets are retarding FDI. Generally most of the priority sectors set up by Tanzania in order to reduce poverty depend on this sector for example, without roads that extend to deep villages:

- One cannot effectively distribute malaria drugs.
- One cannot reach citizens to educate them about HIV/AIDS.
- One cannot encourage/motivate qualified teachers to teach or live in villages e.g. workers must sometimes lose as much as 3 days traveling to more urban arrears to pick up their salaries.

The introduction of adequate roads will also facilitate:

- Movement of crops and inputs into the agricultural sectors, as well as associated industrial goods.
- Transport of export crops during bad weather. Currently, farmers in rural areas do not have reliable transport during the rainy season.
- Sale of agricultural goods in internal and external markets.
- Growth in local economies and thereby promote employment.
- Privatization of government related business as the transport infrastructure increases the ability of newly privatized companies to penetrate rural areas.
- Foreign aid for activities as transport costs for moving technical advisor and technical assistance goods around Tanzania decrease.

According to the importance of the sector, during 2000 the government conducted comprehensive studies on the road network which showed that: (a) virtually all feeder roads (27,550 kilometers) are earth tracks or gravel roads in poor condition, requiring rehabilitation or spot improvement, in order to restore access to productive agricultural regions, (b) only 8 percent of the district road network (20,000 kilometers) is in good condition (that is, requiring current expenditure for maintenance), the remaining 92 percent is in fair and poor condition (requiring rehabilitation), (c) only 20 percent of regional road network (24,700 kilometers) is in good condition, the rest is either fair 40 percent or poor. These findings underscore the importance of continuing to improve the road network, in order to provide access to regions with good agricultural potential and markets. For the medium-term period through 2004, the government will be seeking to: (a) rehabilitate about 4,500 kilometers of feeder, district and regional roads in the poorest 8 regions (b) upgrade (from poor to fair quality) about 7,000 kilometers of such roads. In carrying out this work, emphasis will continue to be placed on the 12 poorest regions, (c) in addition to the emphasis on community roads, the government intends to pay special attention to footpaths, tracks and trails, and to mobilize communities in carrying out needed improvements. Moreover, studies will be carried on the modality of travel and transport at the grass root level, with a view to developing effective programmes to support the welfare of women.

Under the 2001/02 budgets, the government has allocated TZS 24 billion for the rural roads (Table 5.8). This amount compares with the estimated TZS 44.3 billion necessary for an annual road programme that, if sustained over the medium term, would ensure adequate improvement of the rural road network and attainment of the Poverty Reduction Strategy Paper (PRSP) objectives.

Table 5.8 Costing of the Roads Programme, 2001/02-2003/ (in billion of TZS)

	2001/02 Budget	2002/03 Projection	2003/04 Projection
Trunk Roads	157.1	190.6	210.8
Construction	112.2	114.9	138.7
Maintenance	44.9	75.7	72.1
Rural Roads	24.1	69.5	76.5
Construction	3.8	-	-
Maintenance	20.3	-	-
Total expenditure	181.2	260.1	287.3

Source: Ministry of Works.2001.

Concluding Remark:

The improvement of the existing major trunk roads and the strengthening of rural feeder roads is a key objective of the government's poverty reduction program for the rural areas. The government is focusing on addressing the weak management capacity and inadequate road maintenance through action on three related fronts. First, the government is providing clear commitments in the budget for recurrent road maintenance costs. Such earmarking approaches have been developed through targeting revenue from user charges for maintenance of the infrastructure. The protection of the road fund in 1999 was a step in this direction. A roads fund board to enhance management of the funds earmarked for roads maintenance was recently legislated by the government. The government has committed itself to engaging private operations to carry out maintenance, upgrading, and rehabilitation in the road sector. Second, the process of establishing a semiautonomous road agency (TANROADS) is now under the way. TANROADS has the principal responsibility for the management and operation (development, rehabilitation, and maintenance) of trunk and major district roads, which are presently under the management of the Ministry of Works. Finally, most critical in these regards is the need to strengthen the management capacity of the government to prioritize investment and develop a cost-effective maintenance system. To this end, it is now engage in a dialogue with the donor community for developing a comprehensive long-term transport strategic framework; the preparation of a ten-year road sector investment and development program has been launched. The Medium-term expenditure framework (MTEF) priorities for the road sector will focus on rural roads and ensure adequate funding for recurrent expenditures related to road maintenance and intergovernmental transfers to districts. The sector requires substantial additional external assistance to supplement existing efforts, particularly in terms of technical assistance. Further external assistance will help Tanzania for major road rehabilitation and maintenance, major road construction, feeder road rehabilitation, construction and maintenance etc.

Tanzania appreciates the Japanese government for technical assistance including infrastructure to support the poverty reduction strategy. Due to good relationship with Japanese government we received many technical assistance including infrastructure as follows:

Summary of Current Involvement of Japan in Tanzania

(million yen)

Sector	
Infrastructure	
1. Supply of equipment for maintenance of truck roads	353
2. Power distribution in Kilimanjaro	437
3. Telephone network distribution	1,284
4. Dar es salaam roads (1991 –1998). Urban	5,189

5.Improvement of bridges in Lindi and Mtwara regions	625
	7,889
Total	(US\$ 58.429)

The government will allocate TZS 1.8 billion monthly from 2001/02 - 2003/4 to improve transport link to the northwestern and southern regions of the country. Increase budgetary allocation to finance rehabilitation and maintenance of 4,500 km in 8 most vulnerable regions, upgrading of roads in the relatively poor regions, and sport repairs in all regions. Develop and prepare a programme similar to the “Urgent Road Rehabilitation Programme (URRP) for districts, feeder and urban roads. Due to the importance roads in building the economy and improving the welfare of the people especially in the rural arrears in Tanzania, external assistance continues to be required in form of more grants and concessional borrowing from external sources.

5.4.2 Approaches of IMF and The World Bank

Since independence in 1961, the Government of Tanzania has been preoccupied with three development problems: ignorance, disease and poverty. A national effort to tackle these problems was initially channeled through centrally directed, medium-term and long-term development plans, and resulted in a significant improvement in per capita income and access to education, health and other social services until the 1970s. Thereafter, these gains could not be sustained because of various domestic and external shocks and policy weaknesses. Indeed, despite sustained efforts since the mid-1980, to address the country’s economic and social problems, one half of all Tanzanians today are considered to be basically poor, and approximately one-third live in abject poverty. In the 1980s the Tanzanian economy was in deep macroeconomic crises, with overall economic performance having declined to the lowest level since independence as a result of debt service obligation as both domestic and foreign debts accumulated. After experiencing a decade of protracted economic decline, Tanzania embarked on structural adjustment in 1986. Its program was supported by the IMF and the World Bank, and was accompanied by substantial foreign assistance. Most of the foreign assistance in Tanzania was used for investment rather than for consumption and Tanzanian increased dependence on foreign assistance did not lead to deterioration in domestic savings performance. Tanzania was getting very little return on domestic investment, in part because the economy was dominated by a large and highly inefficient parastatal sector. Recently, we changed the system and we are undergoing reforms. Productivity of domestic investment also is needed in order to accelerate growth.

As mentioned before accumulation of debt is a major hindrance to development. To-date, we are paying debt principal plus interest from our revenue collection, which is still inefficient, this means that we have to either borrow more or depend on Aid in order to make more progress. Currently, IMF and the World Bank are the main multilateral donors in addition to bilateral donors. In spite of some deterioration in macro economic management; the IMF has over the years stressed the importance of macroeconomic stability, as a precondition for growth and poverty reduction – and this will remain the primary focus of the fund’s advice. But, at the same time the fund has increasingly worked to ensure that social policies are integrated into IMF – supported programs and policy advice, looking to the World Bank to take the lead in giving advice on detailed poverty reduction and social measures. Recently the improvement reflected primarily a new commitment of the country to sound macroeconomic policies and a more open and better-managed economy to address the daunting economic and social challenges, as well as better terms of trade. Where these policies have been sustained, they will raise growth and reduce poverty. Such policies have often been adopted in the context of medium-term policy programs supported by the IMF and the World Bank.

Apart from a somewhat inconstant government commitment for sound policies many developing countries including Tanzania have not been able to fulfill the conditionality that have been applied in the past, and turned increasingly to the IMF and World Bank for emergency balance of payments assistance. The IMF approach was extremely orthodox and strict, in fact to the extent that they sometimes looked like penal codes. The relationship between developing countries with the World Bank and the IMF was very complicated. Countries could not design adjustment programs that address the very real problems they face. Not only that, emergency and nature of the problems could not be considered first. It has been pointed out conditionality is more effective when it focuses on a small range of quantifiable indicators instead of past blanket conditions, the donor community should move towards conditions, which means that they reward good behavior or good policy environments based on expert evaluations rather than reward promises. Such a strategy also requires improved donor co-ordination, since this would make it easier for the Government to take control.

Recently: the World Bank launched the Comprehensive Development Framework (CDF) in January 1999 in response to the fact that despite potential benefits of globalization and technological change, world poverty has increased and growth prospects had dimmed for developing countries during the 1980s and 1990s. It has evoked considerable interest through the development community as an approach that can address the increasingly intertwined challenges faced by development practitioners. Its basic elements are not new. What is new is their joint articulation as a framework to guide development assistance. The first point is that development constraints are structural and social, and cannot be overcome through economic stabilization and policy adjustment alone—they require a long-term and holistic vision of needs and solutions. Second, policy reform and institutional development cannot be imported or imposed; without domestic ownership, reforms and investments are not sustainable. Third, successful development requires partnership among government, local communities, the private sector, civil society, and development agencies. Fourth, development activities must be guided and judged by results. In this context, the 1999 Annual Review of Development Effectiveness (ARDE), authored by Nagy Hanna under the guidance of Robert Picciotto, set out to examine development experience through the lens of CDF principles. A number of papers were commissioned to support the ARDE by providing in-depth review of evaluation and research findings that assess the relevance of the CDF principles and constraints as well as promising approaches to their implication.

According to the explanation above, the conditional ties will persist but will be tailored to suit specific conditions, specific capacities in countries, and specific circumstances. It has become a partnership arrangement; institutions are completely approachable; aid recipients are aware that we have to commit ourselves in order to fight against poverty. But aid recipients need to work with these institutions and others because they have the know-how that helps us to amplify, multiply and accelerate what we are going to do. Without the Bank or without the Fund the way we are fighting against poverty in Tanzania could not work. On the other hand, in the past these conditionality requirements were more or less very dogmatic. In contrast, multilateral institutions looking at the realities and capacities in the particular countries, of course, when dealing with banks there are always conditions. However development banks are now very flexible in dealing with the specific countries after studying the specific conditions of that country. With good cooperation of the international community and the IMF/World Bank, we will be able to overcome our problems. In 2000 there were a meeting at Dar-es-salaam, Tanzania. World Bank held the conference specifically to gather input and engage in a particular discussion on what objectives are most important.

Let's coordinate more. After all "Rome was not built in a day". As we start to move, we need more assistance until we will be able to stand on our own feet.

5.4.3 Impediments in Tanzania

Four impediments affecting IMF and the World Bank Approaches not work properly.

The first one is a donor dependency syndrome and a dependant and defeatist developmental mindset. The mindset of the people of Tanzania and their leaders has succumbed to donor dependency and has resulted in an erosion of initiative and lack of ownership of the development agenda. This condition has not been conducive to addressing the development challenges with dignity, confidence, determination and persistence through hard work and creativity. The educational system has not been structured to counter this deterioration in the ownership of the development agenda and in fostering self-confidence in the determination of the national's destiny.

The second was a weak and low capacity for economic management. The capacity for economic management has not been concert with the demands for micro-economic stability and has not responded to changing conditions as quickly as it should. Generally, there has been some degree of macroeconomic instability. Policy response to changing conditions has been slow. Assuming that all other factors were constant, this situation would impute a lack of policy-making capacity to anticipate and effectively respond to changing conditions. As a result, an environment, which has not been conducive to the sustenance of economic stability necessary for an appreciable and continues flow of investments, has been created. Further aggravating this situation has been the excessive use of administrative controls extending to non-strategy spheres and even precluding the mobilization of capabilities outside the government. The excessive uses of administrative controls and regulations have negated the possibility of harnessing market forces to achieve development objectives with the result that the economy has become weak e.g. the low level of productivity also reflects a low degree of creativity and innovativeness including the low level of utilization of science and technology.

The third one was failures in governance and organization for development. Over time and particularly in recent years, there are indications that there is a risk of cracks in social cohesion and national unity taking shape. Corruption and other vices in the society have been on the increase. This situation raises great concern. The rule of law and the voices of the people in the development process have tended to be weak. The national institution and organizational structure have not been received to cope with the demands of the on-going reforms. As a result, these structures have not been supportive of evolving social relations, which promote the participation of all partners in development and have equally failed to effectively mobilize domestic resources and capabilities to meet the emerging challenges of market-oriented and private sector-led development.

The fourth one was ineffective implementation syndrome. Tanzania has developed a propensity to prepare and pronounce plans and programmes, ambitions that are not accompanied by effective implementation, monitoring and evaluation mechanisms. As a result, implementation has been weak. This situation has given rise to the erosion of trust and confidence among the people on their leader. It is evident that the people are now less enthusiastic about participating in national endeavors.

Another reason that makes IMF and the World Bank not to work might be corruption. Like in any other many countries corruption is malice, which is a big headache to the Tanzania government and its peace loving citizens. As a result all efforts are being exerted to fight it. Due to historical background at one time in the post of independence, Tanzania was total free of corruption. In the late 1970s and 1980s the country went through a period of acute shortage of almost every basic need. There was rationing and long queues for one to get basic needs, permits were introduced. The shortage and permits of that period seriously fuelled corruption in the country. Tanzania to date has had three phases of government. We have the first era (first phase) which concentration was in liberation of African continent and consolidation, the second era

(second phase) concentrated on privatization of state institutions and opening up of the economy, and the third era (third phase) which seriously attention to the economy and fighting corruption and promoting good governance, through accountability, service, enhanced tax collection with a corresponding austeric spending measures. Attention so far in third phase from 1996 government established the Warioba commission, which was given full mandate to extensively inquire into the problem of corruption in the country and come up with recommendations the way forward. The Warioba commissions come up with every detailed report pinpointing ministries, departments and institutions involved in rampant malpractices and corruption and with recommendations of what should be done. The report was been the blue print on corruption in Tanzania.

Every government ministry, independents and public institutions were in 1999 required to identify sources of corruption in their institutions and work out an action program to route out or minimize the incidences of corruption in their working places. Corruption was a high agenda in the parties election manifest during the election campaigns and subsequent general multiparty elections that were held in October 2000. The government has put in place a number of institutions charged with the responsibility of fighting corruption in the country. Among such institutions is the Anti Corruption Bureau (PCB) and the ethics commission headed by William Maina a retired high court judge. The Tanzania parliament has enacted a number of legislation to assist society fight corruption. Resulting from the all these efforts, a number of chief executives, public servants have been sacked from their employment pending court cases on corruption. It is a evident that these efforts have started to have effect on the corruption issue as the penalty for corruption is now very high. Public awareness of corruption has also greatly assisted. Also the country still want/ invite more advice from different peoples to contribute or help in analyzing and fighting with corruption, in this case the government is very seriously about the issue.

5.5. Conclusion: Where We Stand and Where We Go

During the past five years the Government committed itself to implement important measures under economic and financial reforms aimed at building a strong foundation for sustainable development. A number of strategic initiatives have been articulated and are being implemented, drawing on vision 2025, which sets the goals and objectives to be attained in the long-term. The key requirement for reducing poverty is to increase incomes of people and to improve delivery of social services. The only way to raise income is for our economy to grow faster than the current growth rate of 5 percent. We need the economy to grow at more than 8 percent per annum in real terms, then we can be confident of sustained basis for reducing poverty. When the economy grows at a higher rate, the tax base for domestic revenue expands and capacity of government to finance poverty reduction and other national development activities will increase. The main source of increasing economic growth is the revival of Agriculture, which supports 80 percent of Tanzanians. A sustainable growth rate of at least 5 percent in agriculture will have a significant impact on poverty reduction. The government also is doing strategy for economic growth in the promotion and strengthening of private sector, both domestic and foreign (e.g. macroeconomic reforms, privatization of government owned enterprises, reforms of the taxation system etc). The government will sustain this policy stance and further, enhance the reforms geared towards creating a more conducive environment for investment to facilitate growth. This will in turn contribute more to national development and poverty reduction. The government has prepared a comprehensive Poverty Reduction Strategy with participation of domestic and international stakeholders. The strategy was presented to and endorsed by the Executive Boards of the World Bank and International Monetary Fund in November 2000. While we are preparing the Poverty Reduction Strategy Paper (PRSP), the government was simultaneously implementing certain agreed activities concerning poverty. These include: improving statistics on poverty incidence in

the country; strengthening institutional capacity for monitoring of our plans; ensuring that the government budget is focused towards poverty reduction; carrying out school mapping; continuing with the immunization programme for children; strengthening the fight against the spread of HIV/ AIDS. In addition to implement specific poverty measures, we are continuing to implement sound macro economic, fiscal, and good governance policies. The important benchmarks are those related to fiscal management including increasing domestic revenue; controlling public expenditures; and improving business and investment climate, including the tax structure, economic and social infrastructures and other economic services. Bearing in mind the depth of poverty, and the fact that the private sector is still weak, the financing of the poverty reduction strategy will continue to be the responsibility of the government through the budget. The main source of financing will be domestic revenue bolstered by assistance from our development partners, including concessional borrowing from international financial institutions. Actually, we are in need with assistance. The efforts for alleviation emphasize the need to improve resource allocation to fund priority expenditures in physical and social infrastructures (roads, education, health etc including highlighting the growing burden of HIV/ AIDS).

High priority must be given to education and continues learning. Equally, the effective transformation of mindset and culture to promote attitudes of self-development, community development, confidence and commitment to face development challenges and exploit every opportunity for improvement of quality of livelihood is of prima importance. The effective ownership of the development agenda coupled with the sprit of self-reliance, at all societal levels, are major driving forces for the realization of the mindset or future plans. Tanzanians should learn development oriented culture of hard work and creativity, culture of saving and investment, developmental community spirit, broad human development strategy, a learning society, incentive system to reward such attributes as excellence, creativity, innovation, education as a strategic change agent etc.

Competence of the national in the management of development will be achieved when the government provides a conducive environment for factors of effectively harness domestic resources in order to attain competitiveness in their diverse economic activities. Competence and competitiveness, as driving forces will be realized through sound macroeconomic policies, adequate and reliable infrastructure development in particular the development of the road network is absolutely essential for promoting rural development and including energy water and telecommunications for creation of foreign investment and employment, quality education, effective utilization of domestic resources, higher productivity and strengthening of the capacity to effectively anticipate and respond to external changes.

Government must be made an instrument for the promotion and realization of development, equity, unity and peace buttressed by the rule of law and involving public participation in the war against corruption and other vices in society. Good governance must permeate the modalities of social organization, coordination and interaction for development. An institutional framework can achieve this, by being capable for mobilizing all the capacities in society and coordinating action for development. Good governance must be cultivated by promoting the culture of accountability and by clearly specifying how incentives are provided for and related to performance and how sanctions are imposed. Future improvements will follow the attributed by development of mindset and competitiveness, democratization and popular participation, monitoring evaluation and review the implantation, good governance and the rule of law.

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