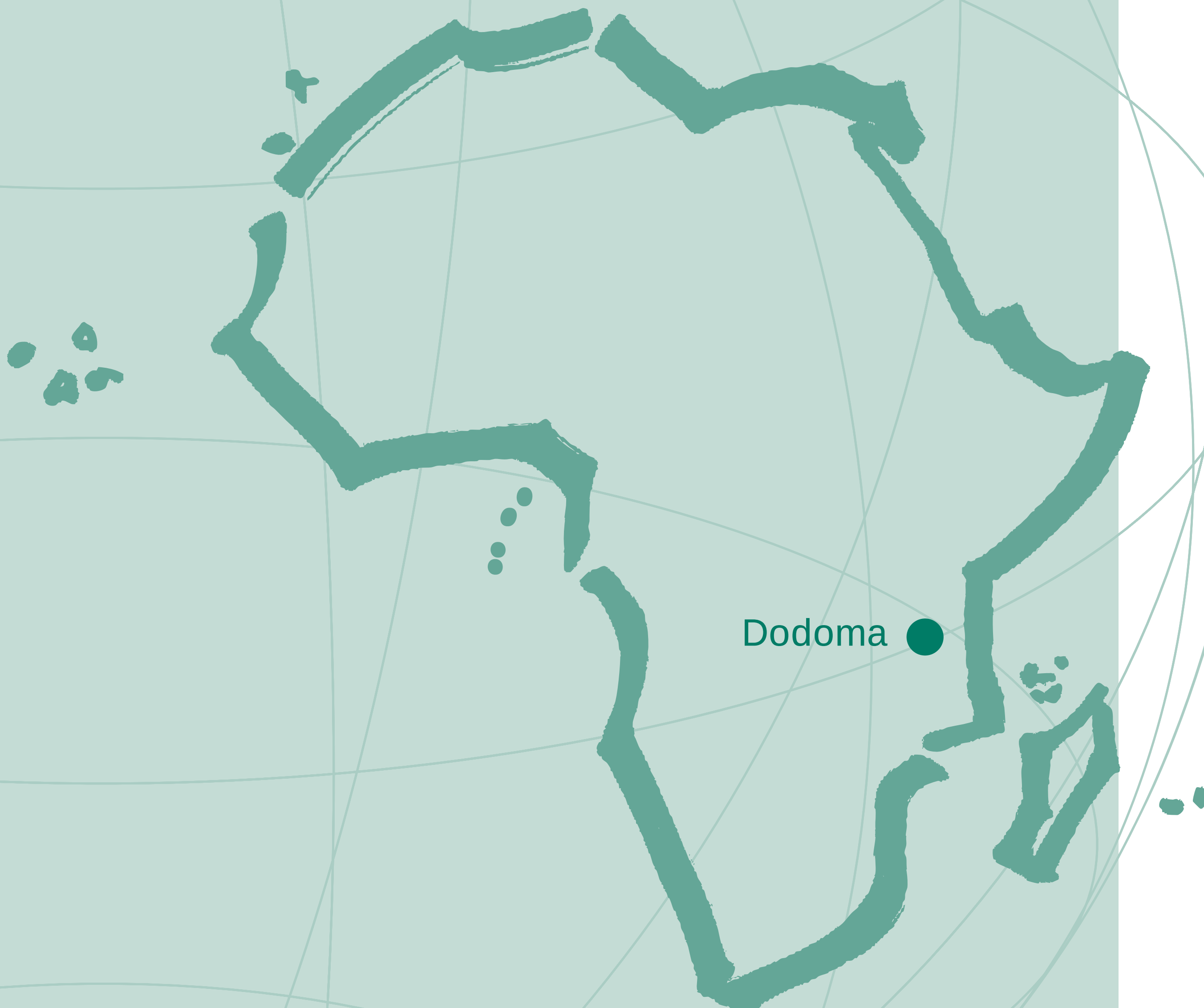
Tanzania



key figures

• Land area, thousands of km²	945
• Population, thousands (2001)	35 965
• GDP per capita, $ (2001)	260
• Life expectancy (2000-2005)	51.1
• Illiteracy rate (2001)	23.2

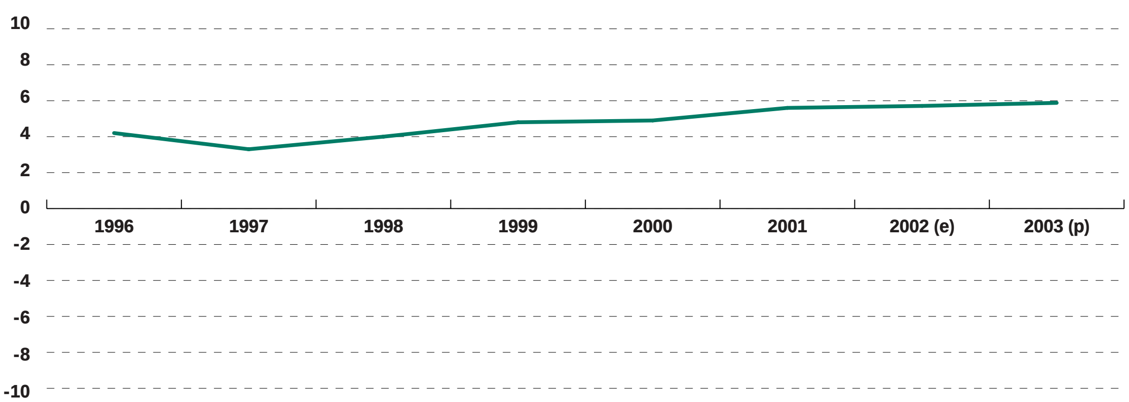
Tanzania

The Tanzanian economy is showing strong growth as a result of continuing improvement in agricultural production and strengthening macroeconomic fundamentals. In 2001, real GDP growth continued the recent upward trend reaching 5.6 per cent from a yearly average of 4.5 per cent since 1995. The outlook on growth is stabilisation, with real GDP growth estimated at 5.7 per cent in 2002, and projected to moderate to 5.9 per cent in 2003. The improving growth performance since 1995 has been accompanied by fiscal orientation that has enabled increased budgetary allocation towards priority sectors for poverty alleviation, in accordance with Poverty Reduction Strategy Papers (PRSP) targets. Prudence in monetary management has brought monetary expansion under control and has contributed to a downward trend in inflation, which is expected to be maintained in 2002 and 2003. The external position of Tanzania was precarious in 2001 as a result of poor export performance, which emanated from low commodity prices. The difficult external situation is expected to continue in 2002 and 2003. At the same time, debt cancellation following from Tanzania's Heavily Indebted Poor Countries (HIPC) decision point agreement with the major creditors is expected to contribute to easing external pressures on the country. Tanzania is making progress with the structural transformation of the country, with privatisation of state-owned enterprises a major plank in the government's platform for transforming the economy.

Fiscal management has enabled increased budgetary allocation for poverty alleviation in Tanzania

However, after nine years in the privatisation programme, Tanzania is unlikely to meet its completion target. Although the government has made a renewed

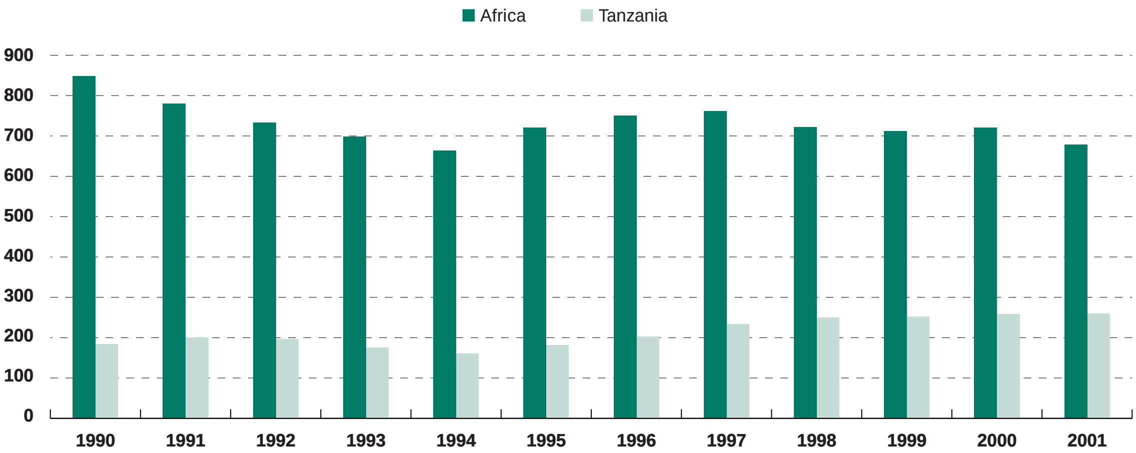
Figure 1 - Real GDP Growth



Source: Author's estimates and predictions based on IMF data.

effort to push ahead with privatisation since starting its second phase of the programme (2000-2004), the pace is being slowed by several problems including resistance from the public and trade unions on management of enterprises proposed for privatisation. The privatisation process has also not been helped by the fact that the government has had to retake control of some privatised companies that have failed in private hands. The political environment in Tanzania is quite stable with the government making renewed efforts to resolve problems that could create political instability in the country. The government is also tackling, though belatedly, governance-related problems to deepen the democratic orientation of the country.

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



Source: Authors' estimates based on IMF data.

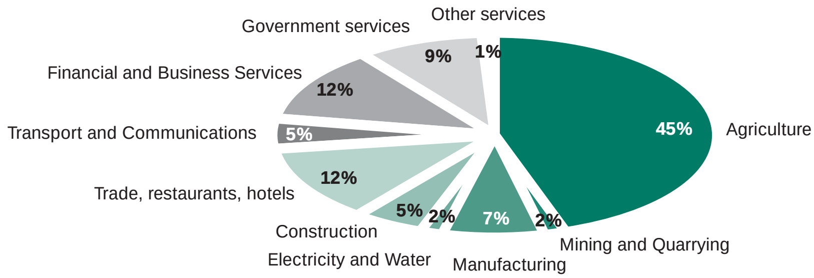
Recent Economic Developments

The Tanzanian economy continued to show strong economic growth performance in 2001. Real GDP growth was estimated at 5.6 per cent in 2001, up from 4.9 per cent in 2000. Tanzania's growth performance in 2001 maintained the upward trend from the annual average growth rate of 4.2 per cent during 1995-1999. The increase in economic growth in 2001 was due mainly to improved agricultural performance buttressed by strengthening macroeconomic fundamentals.

Agriculture remained the dominant sector of the economy, contributing about 45 per cent of GDP in 2001. The sector grew by 5.5 per cent in 2001 compared with 3.4 per cent in 2000 mainly as a result of improved weather conditions. The improved agricultural output was reflected in all the major sub-sectors. The fisheries sub-sector expanded by 7 per cent in 2001 compared with 6.4 per cent in 2000 due largely to market expansion, following the lifting of the ban imposed on Tanzanian fish products by the EU at end-2000. In cash crop production the output of coffee, tea, lint cotton and cashew increased while tobacco output decreased on account of declining tobacco prices and poor crop husbandry. The poor crop husbandry was the result of lack of extension services in tobacco growing areas. In addition, prices of fertiliser and other farm inputs were high forcing farmers to reduce fertiliser application. Food crop production grew by 5.9 per cent in 2001 compared with 2.9 per cent in 2000. Most food crops recorded significant increases on the 2000 levels. Maize output was 2.24 million tonnes in 2001 from 2.12 million in 2000; paddy rice doubled to 992 000 tonnes from 476 000; wheat output increased from 32 000 tonnes to 118 000 tonnes; whilst pulses achieved moderate increase from 584 000 tonnes to 674 000 tonnes. Nonetheless, Tanzania faced a difficult food situation in 2001 and early 2002. The FAO global information and early warning system reported that in the 2001/02 marketing season (June-May) Tanzania ran a cereal deficit of around 840 000 tonnes necessitating the importation of about 600 000 tonnes of cereal and about 150 000 tonnes of food aid. The factors behind the difficult food situation include: drought in some parts of the country; pests and increased demand for cereal from neighbouring countries. Also, poor infrastructure made it difficult for cereals to be transported from the usually surplus areas in the south and south-west to the areas of shortages, mainly in the north, central and eastern parts of the country.

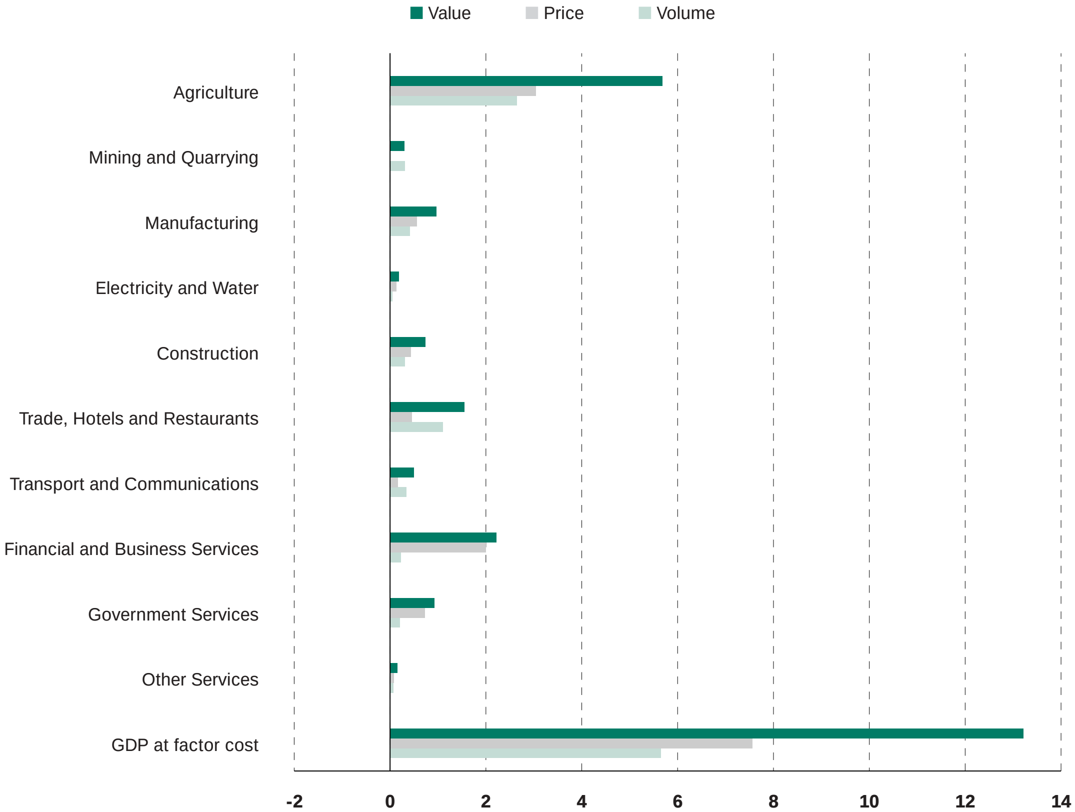
The industrial sector accounted for about 11 per cent of GDP in 2001. Manufacturing, which is the main sub-sector, was responsible for 7 per cent of GDP. Manufacturing experienced a marginal increase in output, with a growth rate of 5 per cent in 2001 compared with 4.8 per cent in 2000. This increase was

Figure 3 - GDP by Sector in 2001



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

Figure 4 - Sectoral Contribution to GDP Growth in 2001



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

made possible by higher electricity generation as a result of good rains experienced in areas where hydro electricity is generated. Production increases were experienced in industries such as iron sheet, paint and cement. The mining and quarrying sub-sector maintained a strong growth rate at 13.5 per cent in 2001 from 13.9 per cent the year before. The marginal decline in the growth rate in 2001 was due to reduced volume of production of some minerals especially gemstones and diamonds.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**19.8**	**15.5**	**17.6**	**17.0**	**17.7**	**17.7**
Public	3.4	3.1	6.0	5.4	5.6	5.5
Private	16.4	12.4	11.6	11.6	12.1	12.2
Total Consumption	**97.6**	**97.2**	**90.8**	**91.6**	**92.5**	**93.6**
Public	15.3	7.0	6.6	6.3	6.7	6.7
Private	82.3	90.2	84.1	85.3	85.8	86.9
External sector	**-17.4**	**-12.7**	**-8.4**	**-8.6**	**-10.2**	**-11.3**
Exports	24.1	13.8	14.7	15.9	16.6	16.5
Imports	-41.5	-26.5	-23.1	-24.5	-26.8	-27.8

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

The services sector, which accounted for about 44 per cent of GDP in 2001, was a mixed bag in growth activity. The trade sub-sector, including hotels, retail and wholesale trade achieved a growth rate of 6.5 per cent in 2001 against the rate of 6.7 per cent in 2000. Trading activity in 2001 gained from the government's strategy of promoting private sector activity. The tourist trade was mixed in 2001, with an increased number of visitors but less receipts. Although the number of tourists visiting Tanzania increased to 525 122 in 2001 from 501 699 in 2000, the receipts in tourism dropped to $725 million from $739 million over both years. The reduction in tourist receipts was as a direct result of the September 11 events reducing American and European tourists who are usually the biggest spenders. Growth in the construction sub-sector remained strong at 6.7 per cent in 2001, though at a reduced rate from 8.4 per cent in 2000 with the reduction in growth due mainly to a decline in the construction of residential buildings. Similarly, growth in financial and business services decreased to 3.3 per cent in 2001 from 4.7 per cent in 2000 despite an increase in the number of companies offering financial services. The decline in growth was the result of government monetary policy that slowed down activity in the sub-sector. Growth in public services, especially education and health, increased from 5.6 per cent and 5.1 per cent respectively in 2000 to 6.2 per cent and 5.6 per cent respectively in 2001. These services continued to receive government priority under Tanzania's HIPC initiative implementation.

The expenditure components of GDP show that the recent upward trend on gross capital formation was maintained in 2001. Total consumption also increased in 2001, with increases in both private and public consumption. The resurgence of total consumption in GDP emphasises Tanzania's dependence on foreign savings for investment. The recent declines in public consumption, which suggested that Tanzania was moving away from its socialist past, when public sector activities underpinned growth, appeared to be reversed in 2001. The outlook on the demand structure of GDP is further increases in consumption (public and private) that will lead to decline in gross investment.

Macroeconomic Policy

Fiscal and Monetary Policy

Tanzania's recent fiscal policy has been directed at three main objectives: *i)* to control the growth of the budget deficit and achieve fiscal stability; *ii)* to direct more fiscal resources to priority sectors in accordance with the country's Poverty Reduction and Growth Facility (PRGF) agreement; and *iii)* to reduce the incidence of waste and abuse in the public sector. In all three objectives, Tanzania has made significant headway in recent years, which continued into 2001/02. The positive results have been achieved by strict adherence to a cash budgeting system and large inflows of external assistance, without which Tanzania would have suffered large budget deficits, by reason of the country's poor effort at domestic revenue mobilisation. At the same time, Tanzania has been implementing fiscal measures to improve the domestic effort at financing the budget as well as to control expenditure. In 2000/01, the government enacted two laws for revenue mobilisation and expenditure management. These were the "Public Finance Act 2001"' and the "Public Procurement Act 2001". The Acts, which became operational in fiscal 2001/02 aimed at improving supervision, control, and auditing of public funds and the acquisition of goods and services by the government. In 2001/02 the government undertook further measures aimed at consolidating tax reforms, including expansion of the tax base, improving tax administration to enhance voluntary compliance, and elimination of tax evasion. Significantly, in an effort to enhance revenues, VAT exemptions for the government and its institutions was abolished. Also, the government strengthened its control over tax exemptions for NGOs, religious and charity organisation.

The revenue measures put in place so far yielded some dividend as the tax/GDP ratio rose to an estimated 11.1 per cent in 2001/02 from 10.7 per cent the previous year. The tax revenue sources that improved in 2001/02 include income tax, VAT on domestic goods, and excise duty. Other revenue sources such as VAT on imported goods, and customs duty were unsatisfactory. This was on account of difficulties encountered by suppliers and agents following the issuing of the new public finance and procurement regulations and reforms of customs structures that were not easily understood.

During 2001/02, the government's expenditure policies focused on reduction of poverty through increased budgetary allocations to the priority sectors involved in the poverty reduction strategy. The government's total expenditure was estimated at 18.4 per cent of GDP in 2001/02 compared with 16.9 per cent of GDP in 2000/01. The government significantly made headway in its policy of directing expenditure towards priority social services for poverty alleviation. This was achieved at the expense of capital spending, which fell to 3.2 per cent of GDP in 2001/02 from 3.5 per cent of GDP the year earlier. The government was unable to push up capital spending due to shortfalls in local funds and low disbursement of foreign funds, coupled with what the government described as, lack of information on foreign funds disbursed directly to donor-funded projects outside the budget system.

The budget outcome remained relatively stable in 2001/02 showing an estimated overall deficit of 1.1 per cent of GDP, the same outcome as the previous year. The primary balance also remained stable at 0.4 per cent of GDP in 2001/02, from 0.6 per cent of GDP in 2000/01. The government refrained from building up new domestic arrears by financing the entire budget deficit in 2001/02 from external sources. The outlook on the budget situation is stability with the overall budget deficit falling slightly to an estimated 1per cent of GDP in 2002/03.

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

	1994/95	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total revenue and grants[b]	**15.0**	**14.3**	**15.4**	**15.8**	**17.3**	**16.7**
Taxes	11.3	10.3	10.0	10.7	11.1	11.2
Grants	2.5	2.8	4.1	3.8	5.0	4.3
Total expenditure and net lending[b]	**17.0**	**15.5**	**17.1**	**16.9**	**18.4**	**17.7**
Current Expenditure	14.1	12.9	11.6	13.0	14.7	13.8
Excluding interest	*10.7*	*9.5*	*9.7*	*11.3*	*13.2*	*12.5*
Wages and salaries	5.0	4.4	4.0	4.1	4.2	3.8
Interest on public debt	3.4	3.4	1.9	1.7	1.5	1.3
Capital expenditure	2.5	2.3	5.3	3.7	3.5	3.7
Primary balance	**1.4**	**2.2**	**0.3**	**0.6**	**0.4**	**0.3**
Overall balance	**-2.1**	**-1.1**	**-1.6**	**-1.1**	**-1.1**	**-1.0**

a: Fiscal year commences 1 July.
b: Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

The monetary policy objective of the Bank of Tanzania (BOT) has been to curb inflation through a containment of monetary expansion, and to improve the official reserve levels of the country. The BOT has had a successful tract record in controlling the growth of money supply over the past five years, with the rate of monetary expansion averaging 10.2 per cent per annum during 1996-2000. The monetary authorities were successful in reducing further the growth of monetary aggregates to about 8 per cent in 2001. In response to the tight monetary policies, the rate of inflation has been on a downward trend, with the year-to-year rate declining from 6 per cent in 2000 to 5.2 per cent in 2001. The recent downward trend of inflation has been helped by improving domestic food production and the large food imports that relieved the food situation. The index of food inflation declined to 6.1 per cent in 2001 from 7.2 per cent the previous year. The outlook on inflation is further reduction with the annual average rate estimated at 4.8 per cent in 2002, with a projected fall to 4.2 per cent in 2003. Interest rates have also been on a downward trend. The weighted average of the rate on the 90-day treasury bill fell from 8.4 per cent in 1999/00 to 4.6 per cent in 2000/01.

Tanzania operates a market-determined foreign exchange regime. The BOT intervenes in the foreign exchange market only to smooth large seasonal fluctuations. The country's foreign exchange market experienced some difficult situations in 2001. As a result of a drop in export earnings in the first half of the year, caused by delays in exporting cashew nuts, the shilling fell sharply. The shilling again came under pressure during November and December, owing to lower than anticipated tourist receipts, following the events of September 11. Over the year as a whole the shilling depreciated by about 14 per cent against the US dollar. The rate of depreciation has since slowed down, with the shilling depreciating by only 2 per cent against the dollar during the first half of 2002.

External Position

Tanzania has maintained its liberal external environment. The recent external trade policy has been pursued within the framework of the Southern African Development Community (SADC) trade protocols and the East African Community (EAC) Treaty focused on achieving regional integration. Tanzania pursued further measures to enhance the external environment in 2001/02. The government made amendments to its customs tariff structure, reducing the import tariff band from 4 to 3. Moreover, consistent with the rules of WTO, Tanzania changed its procedure for evaluating goods for taxation purposes, adopting the procedure known as the "Agreement on Customs Valuation". Further, Tanzania has reduced substantially its import tariffs on cross-border trade with its EAC members to motivate legitimate trade among East Africans. Under the arrangement with other EAC member countries, goods exported from Kenya or Uganda to Tanzania will benefit from a reduction in import duty of 80 per cent.

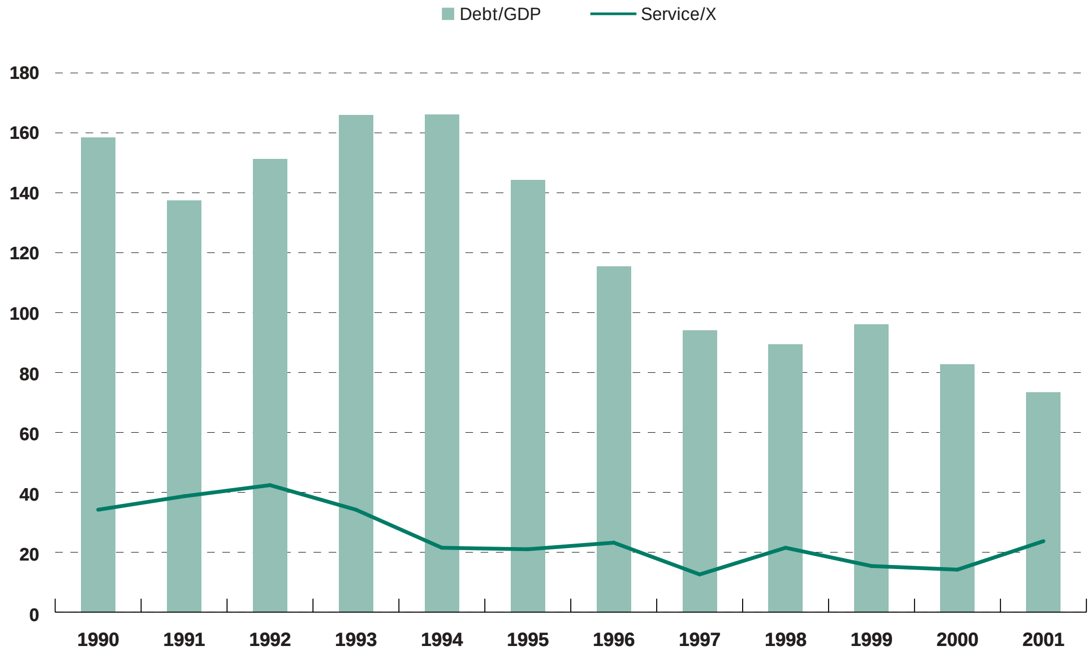
Tanzania's external position showed mixed results in 2001. Although both exports and imports rose as a proportion of GDP in 2001, a larger expansion in imports caused the trade deficit to rise from 7.4 per cent of GDP in 2000 to 7.6 per cent of GDP in 2001. During 2001, total exports of goods increased to $738.9 million from $588.4 million in 2000, with the increase coming from minerals, manufactured goods, fish and fish products and horticultural products. Mineral exports continued to dominate total exports, accounting for about 39 per cent with gold exports commanding the lion's share of about 91 per cent in 2001. Exports of gold gained from the start of gold production by Kahama Gold Mining Corporation during the second half of 2001. Manufactured exports increased by about 30 per cent in 2001 as a result of the ongoing revamping of the industrial sector that attracted private investors. Conversely, in 2001 receipts from Tanzania's traditional export commodities including coffee, cotton, tea and cashew nuts fell by about 21 per cent. The export prices of these commodities continued to fall in world markets, which contributed to lower export volumes in 2001. The persistent low export prices have kept domestic producer prices low with sometimes delayed payments to farmers. Consequently, producers have either paid less attention on their respective crop farms or replaced them with some other non-exportable crops. Total imports of goods increased 25 per cent in 2001 rising from $1.22 billion in 2000 to $1.52 billion. The increase was attributed largely to a rise in imports of capital and intermediate goods. Imports of capital goods increased 27.3 per cent due to a surge in imports of transport equipment, building and construction equipment and machinery. This surge was on account of ongoing investments in the country, particularly in mining and telecommunications. Imports of intermediate goods increased 51.1 per cent in 2001 partly owing to an increase in oil and industrial raw materials imports. The increase in oil was as a result of volume rather than a price effect, and was in line with the introduction in March 2001 of increased domestic demand following expansion in economic activity in most sectors. The deterioration in the trade account contributed to the current account deficit rising to 4.4 per cent of GDP in 2001 from 4.2 per cent of GDP the year before. The other component of the current account that was also poorer in 2001 was current transfers, which remained significant at $442.8 million but was down on the $465.8 million achieved in 2000. The services account showed a deficit of $98.9 million in 2001 compared with a deficit of $92.8 million in 2000. The deficit in 2001 was attributed to higher service payments in transportation, communication, insurance, financial services, computer and information services, royalties and fees and other business services largely associated with the on-going market oriented economic policies of Tanzania. The

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade Balance	-12.5	-9.6	-7.4	-7.6	-8.8	-9.5
Exports of goods (f.o.b)	13.0	6.3	7.3	8.3	8.7	8.7
Imports of goods (f.o.b)	-25.5	-15.8	-14.7	-15.9	-17.4	-18.1
Services	-4.1	-2.6	-1.0	-1.1		
Factor income	2.1	-0.9	-0.9	-0.5		
Current transfers	6.4	3.9	5.1	4.7		
Current account balance	**-8.1**	**-9.2**	**-4.2**	**-4.4**		

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

Figure 5 - Stock of Total External Debt (percentage of GDP)



Source: World Bank.

services account also suffered from lower tourism receipts, as a result of the impact of 11 September on the tourist trade in Tanzania. The income account showed a deficit of $44.1 million in 2001, which was an improvement on the deficit of $83.3 observed in 2000. The improvement in 2001 derived from decreased income payments, mainly from a decline in the scheduled interest payments as part of the HIPC initiative package. The outlook on the external situation is further deterioration in the trade deficit, which is estimated to widen to 8.8 per cent of GDP in 2002 and projected at 9.5 per cent of GDP in 2003 as imports rise faster amidst stagnation in exports.

The total external debt of Tanzania at end-December 2001 stood at $7.37 billion. The profile of the debt stock by creditor category indicates that 59.9 per cent is owed to multilateral creditors; and 31.9 per cent is owed to bilateral creditors. Commercial debts and other creditors account for 5.3 per cent and 2.9 per cent respectively. Tanzania reached the HIPC completion point in November 2001. Following from the decision point agreements debt relief from all creditors will amount to $2.02 billion in NPV terms, about $3 billion in nominal terms. In January 2002, Paris Club creditor countries followed up their HIPC completion point agreement with Tanzania to cancel debt worth $737 million in NPV terms. The amounts cancelled represent 90 per cent of pre-cut off date commercial debt. Under this arrangement, Tanzania became the fourth country after Uganda, Bolivia and Mozambique to complete the Paris Club process of debt reduction under the Enhanced HIPC initiative.

Structural Issues

The government of Tanzania has reaffirmed its commitment to transform the economy by promoting and strengthening the participation of the private sector, both domestic and foreign. In line with its objective of promoting private participation in the economy, the government has launched the Corporate Plan (2001-2006) intended to revamp the National Investment Act (1997) and capitalise on the increasing inflow of FDI to the economy.

The restructuring and privatisation of state-owned enterprises (SOEs) remains a major plank of the government's attempt to transform the economy. Tanzania started its privatisation programme in 1992 and established by law a year later, the Presidential Parastatal Sector Reform Commission (PSRC), to oversee the programme. Tanzania embarked on privatisation as part of an effort to break with the socialist past of the country in which every part of the economy was controlled by the state. The major motivation was to loosen the colossal impact of the loss-making SOEs on the economy, as the government had to provide huge subsidies to keep them afloat. The initial programme (1993-99) focused on divesting small manufacturing and service oriented parastatals, while the second phase (2000-2004) focuses on the relatively big enterprises in telecommunication, transport, energy and mineral, water and finance sectors. Since the start of the second phase, the government has made renewed efforts to speed up the programme. In 2001, major efforts were made to strengthen the economic infrastructure, through privatisation of utilities and transport services. The roads agency (TANROADS) was established to manage trunk and regional roads. Also, in the roads sector, the government's initiative of attracting private participation was given a boost in 2001 with the proposal to build a road on a build-operate-transfer basis from Dodoma to the lake Victoria zone. The road project, proposed by a local company is expected to attract leading international engineering firms and receive financial support from regional development organisations, international bodies and the private sector. The government also launched in 2001 its plan to increase private participation in the railways through a strategic investor to manage and operate Tanzania Railway Corporation for a period of 25 years. In the energy sector, the government decided to hand over the day-to-day management of TANESCO to the private sector. The new management team from South Africa is expected to ensure that TANESCO reaches financial viability before its proposed privatisation in 2006.

With nine years completed of the privatisation programme, by June 2002 the government had divested 260 out of the total 395 enterprises that formed the core of the programme. Although the government continues to make an effort, it is unlikely that the sale of the remainder of the SOEs could be completed by the December 2003 deadline for the second phase, given the problem of resistance from the public and trade unions on the management of SOEs proposed for privatisation. The course of the privatisation programme has sustained a blow as a result of the argument in 2002 between the government and the European consortium, which holds a 35 per cent stake in Tanzania Telecommunication Company over shares which have not been paid for. Also, there was only one bidder, South African airways to buy Air Tanzania, while the PSRC has had to retake control of a number of small companies, which failed in private hands.

UNIDO published a report in 2001 based on three main surveys on Tanzania: a competitive survey of manufacturing enterprises; an investor survey on the operating environment for foreign investors; and a study of the privatisation process in Tanzania. In the investor survey, industrialists cited a number of factors constraining their operating environment. These include the uncompromising attitude of Tanzania Revenue Authority; lack of clarity in rules and regulations governing the business sector; too many tiers of government; civil service hostility towards business; and problems with bribery and corruption. Foreign investors faced similar constraining problems in addition to problems with land acquisition; ineffective commercial court systems; extensive municipal costs, taxes in the guise of licenses and permits; long delays in acquiring work permits for foreigners; fringe costs associated with labour; and the ineffectiveness of the Tanzanian Investment Centre in its role as co-ordinator and facilitator. The privatisation study highlights some of the successes in the process to include those privatisations where production is aimed at the domestic market; where there is a foreign partner who provides foreign exchange and access to credit; where the technology is not too advanced; where the company's operations are not energy-intensive; where the government's equity stake reduces the bureaucratic problems facing the firm; where pay is related to performance; and where there is heavy investment in training.

The government appears to be on top of some of the constraints cited in the UNIDO study though most of the problems stand as a challenge to Tanzania in the quest to attract investment to the economy. The government has enacted new land legislation and restructured the Tanzania Investment Centre. Also, a unified tax appeal mechanism has been established and the Commercial Court System strengthened. Further, there has been some rationalisation of licensing procedures as well as the removal of advance payments of income tax prior to commencement of business. Besides, the government has launched the Tanzania National Business Council – under the chairmanship of the President – to provide an avenue for regular consultations between the government and representatives of the private sector. Nevertheless, the Corporate Plan (2001-2006), which underscores the government's determination to tackle the problems, also intimates that solving all the problems would be a long-term phenomenon.

Political and Social Context

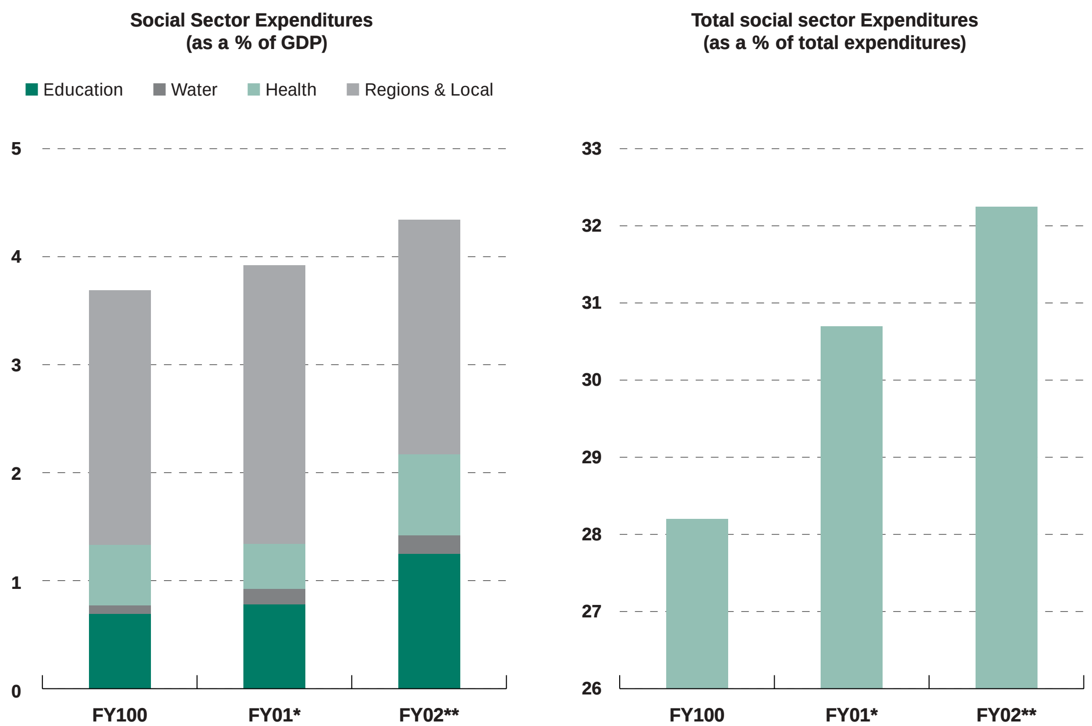
The democratic option in Tanzania appeared to take a firmer root in 2001 as the government took steps to resolve some of the problems that were creating political instability in the country. These problems included the political tensions in Zanzibar and Pemba. In Zanzibar, an accord to end the political impasse between the government and opposition was signed in October 2001 and was followed by a new agreement in January 2002 to implement the accord. The government also took steps to enhance the reconciliation process in Pemba. In early 2002, a committee was set up to investigate the killings on the island during the political violence that followed the 2000 elections. The government moved in 2001 to buttress Tanzania's democracy with comprehensive initiatives aimed at fostering good governance. These initiatives include, the preparation of the National Anti-Corruption Strategy and Action Plan and its publication throughout the country; establishment of the Good Governance Co-ordination Unit; extension of the offices of the Prevention of Corruption Bureau to the districts; establishment of a Human Rights and Good

Governance Commission (following a constitutional amendment and enactment of an enabling legislation); amendment of the Public Leadership Code of Ethics; and complementary reforms of the civil service and the system of local government. Although the government appeared to have taken its time in tackling governance related issues including corruption in the country, these initiatives give a new impetus to acting, for instance, on the report of the Warioba Commission that inquired into corruption in 1996.

Since preparing a comprehensive Poverty Reduction Strategy Paper (PRSP), which was endorsed by the World Bank and the IMF in November 2000, the government has been implementing specific poverty reduction measures and has put in place safety–nets for protecting the incomes of the poor. An important initiative in this area, the Tanzania Social Action Fund (TASAF), is aimed at generating cash incomes directly by vulnerable groups that are involved in carrying out projects chosen and managed by the communities. 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 Funds.

In the health sector, the government has continued to implement its programmes in accordance with PRSP targets. The government is committed to achieve by 2002/03 an increase in the number of children under 2 years immunised against measles and DPT from 71 per cent to 85 per cent; 75 per cent of districts covered by an active HIV/AIDS awareness campaign; increase coverage of births by trained personnel from 50 per cent to 80 per cent; and implement a full malaria control programme. Special attention has been paid to gender issues and attention also given to vulnerable groups, including the poor in rural areas. The government's own review carried out in 2001 showed that per capita public health spending has increased to about $6, compared with $5.50 in 1999/2000.

Figure 6 - The Government is Serious About Poverty Reduction



** Proposed Budgetary Allocation.

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

Moreover, the allocation of resources in the health sector during 2001 was guided increasingly by per capita considerations, rather than the number of beds and health facilities as practised previously. Considerable progress also appears to have been made towards improving survival prospects. The coverage of the Integrated Management of Child Illness increased from 17 districts in 1999/00 to 31 districts in 2000/01. In effect, the number of children immunised against measles and DPT increased from 71 per cent to 78 per cent over the same period. The utilisation of Maternal and Child Health services, including reproductive health and family planning also increased. Moreover, following intensified preparation and adoption of District Health Plans, which now covers about 70 per cent of all the districts, the percentage of births assisted by trained personnel has increased substantially. With respect to the HIV/AIDS pandemic, the government has currently successfully covered all districts with an active HIV/AIDS awareness campaign.

In the education sector, the government has developed an Education Sector Development Programme (ESDP) encompassing pre-primary, primary, adult and secondary education, teacher training and school-based programmes to pursue the objectives of the PRSP. These objectives are to: increase gross primary enrolment from 77 per cent to 85 per cent; increase net primary enrolment from 57 per cent to 70 per cent; increase progression rate of primary to secondary level from 15 per cent to 21 per cent; reduce the drop-out rate in primary schools from 6.6 per cent to 3 per cent; and increase pass rate in standard 7 examinations from 20 per cent to 50 per cent. The government is pursuing these objectives under the ESDP through interventions aimed mainly at *a)* improving quality, *b)* raising enrolment, *c)* optimising effective use of available resources, *d)* reinforcing capacity to manage schools at grass-root level, and *e)* addressing gender, environment and HIV/AIDS concerns. Some specific initiatives already implemented in 2000/01 under the ESDP include: abolition of primary school fees and all other enrolment related contributions; introduction of a grant of $10 per student (compared to $1 hitherto) per annum; and introduction of an investment grant to finance construction of new classrooms, teachers' houses, toilet facilities and rainwater harvesting tanks. These initiatives have achieved some dramatic results following the abolition of school fees and other enrolment related contributions. Gross primary school enrolment is estimated to have risen to 83.2 per cent in 2001 from 77 per cent in 1999, suggesting that the government's target of 85 per cent for 2003 is achievable. At the same time, the net enrolment in 2001 increased rapidly from 57 per cent to 65 per cent. Similarly, encouraging performance has been achieved with the progression rate of primary to secondary level as the current rate is estimated at 20 per cent from 15 per cent in 1999. Also, the pass rate in standard 7 examinations increased from about 20 per cent in 1999 to 22 per cent in 2001. On the other hand, the situation has not changed with the drop-out rate in primary schools, which remains at about 6.6 per cent.

