Tanzania: Selected Issues and Statistical Appendix

This Selected Issues and Statistical Appendix for **Tanzania** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **November 6, 2002.** The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Tanzania** or the Executive Board of the IMF.

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TANZANIA

Selected Issues and Statistical Appendix

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I. FISCAL DEVELOPMENTS AND ISSUES[1]

A. Introduction

1.   Following years of loose fiscal policy and high inflation, in the second half of the 1990s fiscal management shifted radically in Tanzania. The government, with assistance from the donor community, embarked on an ambitious stabilization and reform agenda. In the fiscal area, efforts focused on strengthening fiscal management via broad-based policy and administration reforms. At the same time, increased transparency and coordination with donors on macroeconomic policies and structural reforms helped mobilize financial support. The resulting decline in the size of the overall deficit position and, most important, the contraction in the government's domestic financing needs led to a steady fall in inflation (Figure I.1).[2] Building on these successes, and, more recently, in the context of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), the government has been increasingly using fiscal policy to promote growth and channel resources toward poverty reduction.

Figure I.1. Tanzania: Fiscal Performance and Inflation, 1991/92-2001/02 1/
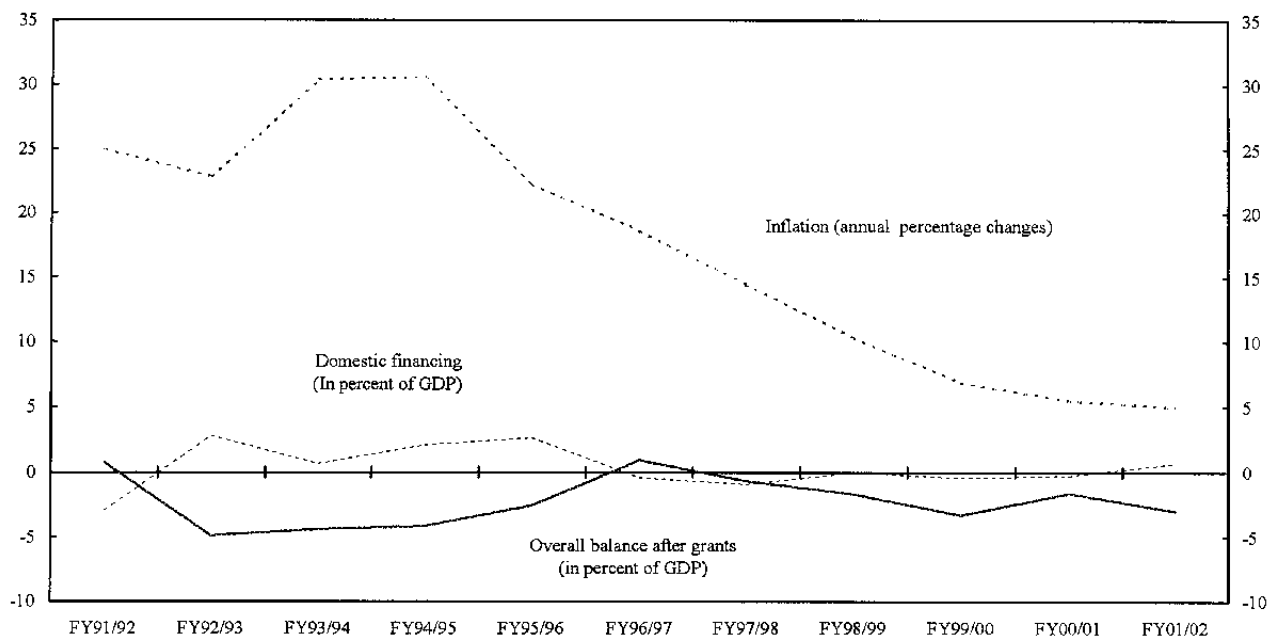
Source: Tanzanian authorities.
1/ Fiscal year runs from July to June. Data for 2001/02 are preliminary.

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[1] Prepared by Annalisa Fedelino.

[2] The fiscal year runs from July to June. While, to the extent possible, data cover the 1990s, the analysis will focus on the second half of the decade.

2.   While significant progress has been achieved in a number of reform areas, major challenges remain ahead. This section reviews developments in the main fiscal indicators and related structural reforms to explain the success in (and the remaining vulnerabilities to) fiscal management. The structure of the section is as follows: Subsection B contains a brief overview of the structure of the public sector. Main developments in revenue and expenditure are covered in Subsections C and D, respectively. Government financing and domestic debt are in Subsection E. Subsection F concludes.

B. Structure of the Public Sector

3.   Tanzania's fiscal consolidation efforts have taken place against a background of a traditionally large and dominating public sector—the legacy of socialist policies pursued since independence through the early 1990s. The gradual economic liberalization and the government's progressive disengagement from various economic activities deeply affected fiscal performance. [3] The tax base gradually moved away from a large, easy-to-tax public sector to the private sector, which still remains largely informal. On the expenditure side, as the parastatal sector was downsized, the government was called to take over guaranteed debt, provide funding for retrenchment costs, and cover the recapitalization costs of ailing financial institutions.

4.   Despite the reduced role of the government in the economy the structure of the public sector remains complex. Comprehensive data on central government operations are available on a timely basis; attempts are being made to provide consolidated fiscal accounts for central as well as local governments (Box I.1).

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[3] For an overview of liberalization and reforms in the first half of the 1990s, see Gondwe and others (1996). For recent progress in privatization, see Section V.

Box I.1. Institutional Structure of the Government Sector and Data Framework

Central government. It consists of the central administration (presidency, ministries, and the National Assembly), 20 regions, and various commissions and offices, including the Tanzania Revenue Authority, which was established in 1995 as a semiautonomous agency under the general supervision of the Ministry of Finance. These entities are covered in the state budget. Monthly "flash reports" on central government operations (revenue, expenditure, and financing) are available on a timely basis, usually three weeks after the end of the relevant month. While data include transfers to local governments and other government institutions, the overall operations of these institutions are not covered by the central government data. Budgetary central government data for Tanzania mainland also include transfers to Zanzibar, but not union taxes collected in Zanzibar.

Local governments. There are currently 114 "local authorities" (urban, district, and municipal councils), created under the 1982 Local Government Act, which provided for the devolution of political, administrative, and financial powers to them. Elected councils were empowered to, among others, enact by-laws, collect revenue, and formulate and execute local budgets. Local authorities have also the primary responsibility for the delivery of social services in the areas of primary education, primary health, local water supply, local roads, and agriculture extension. Following the establishment of a Ministry for Regional Administration and Local Governments in 1998, a revamped Local Government Reform Program started to be implemented in 1999.

The accounts of the central government are not consolidated with those of the local governments. The consolidation is in part impeded by differences in the fiscal year at central and local levels—the latter follows the calendar year. Steps are being taken to promote such consolidation—for example, local authorities have started submitting standardized reports on their operations, although consolidated reports are yet to be published.

Executive agencies. These government institutions perform essential public functions not carried out by ministries, such as the Civil Aviation Authority and the National Bureau of Statistics. The main objective is to perform regulatory functions and ensure efficiency in the delivery of public services through better financial management, while allowing private-sector-like terms and conditions of employment. Out of the ten executive agencies currently operating, only two are self-financed (the Tanzania Civil Aviation Authority and the Business Licensing and Registration Authority); the others are partly financed from transfers (block grants) from the state budget.

Other government institutions. These are institutions with a semiautonomous status, including research, training, and academic institutions, such as the University of Dar-es-Salaam. They typically receive transfers from the state budget, primarily for salary costs.

Sources: IMF (2002); and Tanzanian authorities.

C. Revenue

5.   **Total revenue** has shown a mixed pattern over the last decade (Figure I.2). As a share of GDP, it steadily declined from 14 percent of GDP in 1991/92, but recovered somewhat in the mid-1990s, rising to 13.5 percent of GDP in 1996/97. Since then, it has hovered around 12 percent of GDP. While Tanzania's revenue performance still remains below that of other countries in the region (Table I.1), two qualifications apply:

- The **erosion in the tax base** since 1996/97, at a time when the economy has been growing at an average of almost 5 percent, can be explained by three main factors: (i) with the role of parastatals in the economy declining, the emerging informal

economy has largely remained outside the tax net;[4] (ii) tax collection and administration have not kept pace with the rationalization of the tax system and tariff reform (see below); and (iii) exemptions and tax incentives for some sectors (such as mining and tourism, which account for an estimated 3 percent and 10 percent of total economic activity, respectively) have taken a further toll on tax revenue.

Table I.1. Regional Comparison of Fiscal Performance, 1999/2000

	Tanzania 1/ 1999/2000	Kenya 1/ 1999/2000	Malawi 1/ 1999/2000	Uganda 1/ 1999/2000	Mozambique 2000	Zambia 2000
	(In percent of GDP)					
Total revenue	11.3	22.7	17.5	11.7	12.7	19.6
Tax revenue	10.1	22.5	15.9	10.8	11.6	19.4
Taxes on imports	3.2	3.6	2.4	1.2	2.0	6.0
Taxes on goods and services	2.6	8.8	6.0	7.4	7.5	5.1
Income taxes	3.0	6.9	7.3	2.1	1.8	6.4
Other taxes	1.3	3.2	2.6	0.0	0.4	1.9
Nontax revenue	1.2	0.2	1.6	0.9	1.0	0.2
Total expenditure 2/	17.1	22.5	30.1	23.9	29.4	32.4
Recurrent expenditure	12.6	20.1	19.5	10.4	13.6	17.1
Wages and salaries	4.2	8.4	4.8	4.0	6.3	5.4
Interest payments	1.9	3.9	3.8	1.0	0.2	6.4
Domestic	1.2	2.8	2.3	0.3	0.0	1.4
Foreign	0.7	1.1	1.5	0.7	0.2	1.7
Goods and services and transfers	6.5	7.8	10.9	5.4	7.0	5.3
Net lending	0.0	0.2	0.0	4.2	2.1	0.0
Development expenditure	5.3	2.2	10.6	8.4	13.4	10.1
Domestic financed	0.3	0.5	2.1	2.8	4.5	2.3
Foreign financed	5.0	1.7	8.5	5.5	8.9	7.8
Grants	4.5	0.5	7.0	5.5	10.5	5.8
Nonproject	1.5	0.0	4.2	2.6	4.8	1.0
Projects	3.0	0.5	2.8	2.9	5.8	4.8
Overall balance, excluding grants	-5.8	0.2	-12.6	-12.2	-16.7	-12.8
Overall balance, including grants	-1.3	0.7	-5.6	-6.7	-6.2	-7.0
Memorandum item:						
Primary sector 3/	46.8	27.2	32.7	39.1	20.0	26.4

Sources: Tanzanian authorities; and IMF, various documents.

1/ Fiscal year runs from July to June.
2/ For Mozambique and Zambia, includes statistical discrepancy.
3/ Indicative; it refers to different years across countries.

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[4] During the central planning period, revenue targets were usually met by using discretionary measures for public enterprises. See also Gondwe and others (1996).

- Furthermore, Tanzania's economic structure differs from that of other countries in the region. Tanzania has the largest share of the primary (subsistence) sector in its economy among its comparators (Table I.1), which limits its tax base given that the primary sector is often informal and cannot be taxed effectively. In fact, Tanzania's share of revenue over monetary GDP—which accounts for about 70 percent of total economic activity—would be higher, at more than 17 percent.[5]

Within the general trend outlined above, performance has varied considerably across different taxes, mainly reflecting the net impact of various policy changes (Figure I.2).[6]

6.   Indirect taxes (value-added tax, excises, and import duties) remain the most important revenue group, accounting for about 60 percent of total tax revenue. Among these taxes, the role of **import duties** has shrunk considerably over time owing to trade liberalization (Table I.2), which involved a reduction of the nonzero tariff bands from seven in 1996/97 to three in 2001/02, a reduction in the maximum tariff rate from 40 percent to 25 percent, and a corresponding decline of import duties as a share of GDP from 1.8 percent of GDP to 1 percent over the same period (Table I.3). Further reductions in import duties are to be expected from the implementation of regional trade agreements in which Tanzania participates, notably the Southern African Development Community (SADC) and the East African Community (EAC).

Table I.2. Tanzania: Nonzero Tariff Rates, 1996/97-2001/02 1/
(In percent)

1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
5	5	5	5	5	
10	10	10	10	10	10
15					15
20	20	20	20	20	
25			25	25	25
30	30	30			
40					

Source: Tanzanian authorities
1/ Fiscal year runs from July to June.

7.   A **value-added tax** (VAT) was introduced in July 1998—the most important tax reform measure over the last five years—with a rate of 20 percent, replacing a multirate sales (turnover) tax. While the liberalization of the petroleum sector had a positive impact on VAT performance (see below), VAT collections, excluding petroleum products, have stagnated over the period, as indicated by its stable share of GDP at around 3.3-3.4 percent of GDP. At

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[5] This conclusion is tentative, since the availability of data on nonmonetary GDP is limited, and their accuracy doubtful.

[6] For a review of tax reforms, see G.G. Johnson and others (1999).

the same time, the VAT efficiency ratio (excluding petroleum products) has remained at around 0.16; meanwhile, although the overall VAT efficiency ratio has slightly increased to 0.2, this level still compares unfavorably to the average for sub-Saharan Africa of 0.27 (Table I.3).[7]

Table I.3. Tanzania: Indirect Taxes, 1997/98-2001/02

	1997/98	1998/99	1999/00	2000/01	2001/02
	(In percent of GDP)				
Import duties	1.6	1.5	1.3	1.2	1.0
VAT 1/	2.7	3.5	3.3	3.9	4.1
VAT on domestic goods and services	1.2	1.7	1.6	1.6	1.6
VAT on imports	1.5	1.8	1.6	2.4	2.5
VAT on petroleum	0.2	0.0	0.0	0.8	0.8
VAT on other imports	1.3	1.8	1.6	1.6	1.7
Excises	2.0	1.4	1.3	2.0	2.2
Excises on domestic goods and services	1.5	1.0	1.0	0.9	0.9
Excises on imports	0.4	0.4	0.3	1.1	1.3
Excise on petroleum	0.2	0.3	0.2	1.1	1.2
Excise on other imports	0.2	0.1	0.1	0.0	0.1
Memorandum items:					
VAT efficiency ratio 2/	0.13	0.17	0.16	0.20	0.20
VAT on nonpetroleum products	2.5	3.5	3.3	3.2	3.3
Efficiency ratio (excluding petroleum) 2/	0.12	0.17	0.16	0.16	0.16
Excises on nonpetroleum products	1.8	1.1	1.0	0.9	1.0

Sources: Data provided by the Tanzania Revenue Authority; and IMF staff calculations.

1/ VAT was introduced in July 1998; data for 1997/98 refer to the sales tax.

2/ Defined as a ratio of VAT revenue to GDP, divided by the VAT rate.

8.   **Exemptions** are largely accountable for the low VAT efficiency ratio. They are regulated by two schedules in the 1997 Value-Added Tax Act and its subsequent amendments: the Second Schedule, which lists a number of exempted goods (imported and not) and services, such as unprocessed agricultural products, financial services, education services, and others; and the Third Schedule, which provides reliefs, that is, a list of exempt organizations (government entities and NGOs), as well as inputs used by both VAT-exempt suppliers and nonexempt suppliers (such as mining) on the basis of their exempt status under the previous sales tax. The scope of exemptions has increased since the original provisions in the VAT Act. The number of "Exempt supplies and imports" under the Second Schedule increased from the original 15 to 21 in 2001/02; over the same period, "reliefs" granted under

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[7] This ratio is generally used as a measure of VAT performance and is defined as VAT revenue to GDP divided by the VAT rate. Tanzania's efficiency ratio on nonpetroleum products of .16 means that a 1 point increase in the VAT rate would yield an increase of about 0.16 percentage point of GDP in VAT revenue (Ebrill and others, 2001).

the Third Schedule rose from the original 13 to 18. The main findings from a recent study (Tanzania Revenue Authority, 2002) on exemptions are summarized in Box I.2.

Box I.2. Exemptions Granted at Customs

Tanzania's tax regime allows for various exemptions. Exemptions granted at the customs level (covering import duties, as well as VAT and excises levied on imports) account for the largest share of forgone tax revenue. Based on a recent study by the Tanzania Revenue Authority in 2000/01, the loss in tax revenue resulting from customs and VAT exemptions (excluding income tax, for which data were not available) amounted to about T Sh 200 billion (2.6 percent of GDP, or 23 percent of gross collections); out of this amount, T Sh 165 billion (or about 84 percent of total exemptions) was granted at customs (see table below). While still very large, in 2000/01 the size of customs exemptions declined markedly relative to previous years (from above 40 percent to 27 percent of total gross collections), as a result of the elimination of VAT exemptions on petroleum imports.

Ratio of Exemptions to Collections at Customs Level, 1997/98-2000/01

(In billions of Tanzania shillings)	1997/98	1998/99	1999/00	2000/01
Value of exemptions	172.6	162.3	184.2	164.8
Total departmental collections	209.5	247.7	278.7	442.2
Ratio of exemptions to net collections (in percent)	82	66	66	37
Ratio of exemptions to gross collections (in percent)	45	40	40	27

The distribution of customs exemptions by beneficiaries reveals a drop in the share of parastatals and an increase in the share of government (see table below). While the share of NGOs has declined since a peak in 1998/99 due to a tightening of eligibility criteria for charitable institutions—covering both NGOs and religious organizations—this seems to have affected the former more than the latter, whose share has actually increased since. Private companies and individuals remain the largest beneficiaries, accounting for about 40 percent of all exemptions. Finally, the distribution of exemptions granted at customs by product shows that materials and motor vehicles are the largest categories. The exemption regime for motor vehicles seems to be in need of a review: "for every shilling collected from motor vehicles, a little more than a shilling was exempt" on another motor vehicle (Tanzania Revenue Authority, 2002). However, a proposal to eliminate these exemptions for civil servants, announced in the 2002/03 budget speech in June 2002, was later rejected by the National Assembly.

Table 2. Distribution of Exemptions Granted at Customs, 1996/97-2000/01

(In percent of total exemptions)	1996/97	1997/98	1998/99	1999/00	2000/01
Private companies and individuals	40	39	36	49	37
Parastatal organisations	20	17	2	<1	<1
Government	15	15	18	15	24
NGOs	11	12	26	24	19
Religious organisations	8	6	6	6	11
Investment Promotion Centre	6	11	12	6	6

Exemptions are being streamlined. In addition to the elimination of the VAT exemptions on petroleum, all VAT exemptions on government purchases were eliminated in the context of the 2001/02 budget; government exemptions from excises and tariffs were eliminated in the context of the 2002/03 budget. These measures should help eliminate a potentially important revenue loophole, as taxes can be evaded by disguising otherwise taxable transactions as government purchases. In addition, the authorities are considering the introduction of a treasury-check system for administering exemptions for NGOs and motor vehicles imports from qualified civil servants, starting in January 2003.

Source: Tanzania Revenue Authority (2002).

9.   **Excises** have been considerably streamlined in the last few years. Their number was reduced from 52 to 6 in 1999/2000 (for more detail on the current tax system, see Statistical Appendix Table [32]). As a result, collections from nonpetroleum excises almost halved in the last five years, to 1 percent of GDP in 2001/02; in the same year, total collections from excises accounted for just above 2 percent of GDP—more than half of which, therefore, are accounted for by petroleum products (Table I.3).

10.   The liberalization of the **petroleum sector** had a positive impact on tax revenue. The government monopoly on the importation of refined petroleum products was abolished in April 1997, followed by the liberalization of retail prices in June 1999 and the closure of the state-owned refinery at end-1999. As a major step to limit tax evasion, VAT exemptions on imports of petroleum products were eliminated as of July 2000, and a number of levies and charges, which used to be transferred to the state-owned petroleum company, were included in the excise tax. Currently, **three taxes are levied on petroleum products**: (i) the VAT; (ii) specific excises (on the VAT-inclusive base); and (iii) the fuel levy, an earmarked specific excise for the Road Fund.[8] While a 5 percent import duty used to be collected on imported petroleum products, this fell away when the 5 percent tariff band was removed in July 2001.[9] Petroleum contributes to a large share of revenue, equivalent to 2.4 percent of GDP in 2001/02 (Table I.4).

Table I.4. Tanzania: Taxation of Petroleum Products, 1997/98-2001/02

	1997/98	1998/99	1999/00	2000/01	2001/02
	(In percent of GDP)				
Petroleum taxation 1/	1.2	1.0	0.8	2.4	2.4
Value-added tax	0.2	0.0	0.0	0.8	0.7
Excises	0.2	0.3	0.2	1.1	1.2
Road toll	0.7	0.6	0.5	0.6	0.6

Source: Tanzanian authorities.

1/ Excludes custom duties, which were reduced from 5 percent to zero in July 2001.

11.   **Taxes on income** registered the weakest performance over the period. As a share of GDP, income taxes declined from about 3 percent in 1997/98 to 2.7 percent four years later (Table I.5). Part of the decline since the peak in 1999/2000 can be attributed to the

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[8] The mining sector is exempted from paying taxes on petroleum, with the exception, as of July 2002, of excise duties, which are nonetheless refundable.

[9] This measure was, however, accompanied by an increase in petroleum excises, so as to preserve the revenue base.

substitution of the windfall tax on petroleum in July 2000 with VAT and excises on petroleum (although a small portion of windfall tax due was still collected in 2000/01). Income tax collections declined despite a number of revenue-enhancing reforms in 1999/2000, including the reintroduction of a 10 percent capital gains tax, the elimination of the exemption on interest from treasury bills and its replacement by a 15 percent tax, and the reform of the personal income tax system.[10]

12.   Among taxes on income, the **corporate income tax** (including private companies and parastatals) was the weakest performer; its marked decline, from 1.3 percent of GDP in 1997/98 to 0.7 percent of GDP in 2001/02, is mainly attributable to the frequent changes in incentives regime for investors (Box I.3).[11]

13.   The **pay-as-you-earn (PAYE) tax**, levied on salaried employees, was the best performer. Its increase as a share of GDP at a time of disappointing performance of overall income taxes would seem to indicate that some of the sectors that have been growing fast (like mining and tourism), but which remain largely outside the tax net because of their exempt status, carry a significant revenue potential.

14.   Following a pattern similar to tax revenue, **nontax revenue** declined after the mid-1990s but recovered somewhat in the last three years, when it stabilized at about 1.2–1.3 percent of GDP (Figure I.2). Nontax revenue (whose largest component is the transfer of profits from the Bank of Tanzania, along with dividends from privatized parastatals in which the government retained a share) is collected from more than 60 sources, including—in the form of fees for government services and charges for licenses—ministries, regions, and other government institutions. Of these, 5 ministries (with 15 sources) account for more than 75 percent of collections.

15.   Important reforms in **tax administration** have also been implemented in recent years: introduction of a new duty drawback system in April 2000; introduction of the taxpayer identification number (TIN) in 2000, which paved the way for the elimination of the withholding tax on goods and services for the TIN holders in the context of the 2001/02 budget;[12] computerization of the PAYE; and biomarking of petroleum products in 2001, as a measure to reduce smuggling and fraud in goods in transit. A Large Taxpayer Department (which covers the largest 100 taxpayers in Dar-es-Salaam) and a unified tax appeal mechanism started operations in November 2001.

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[10] The number of tax bands was reduced from 12 to 5; the top rate was lowered to 30 percent, the same level as for the corporate income tax; and all cash allowances were made subject to income tax.

[11] For details on income tax brackets and rates, see Statistical Appendix Table [32].

[12] This tax is an advance payment on income tax (Statistical Appendix Table [32]).

Box I.3. Tax Incentives

The evolution of tax incentives for investors in Tanzania during the last decade can be classified into various phases:

- During 1990-97, the taxation regime for investors was governed by the **1990 National Investment Promotion and Protection (NIPPA) Act**, which granted income tax holidays to the holders of Certificates of Approval from the Investment Promotion Center (IPC).

- In 1997, a new **Investment Act** was enacted, which discontinued the tax holiday regime but grandfathered it for existing investors.[1] At the same, the Tanzania Investment Center (TIC) replaced the IPC. Benefits for TIC certificate holders included capital expensing of no more than 100 percent of the original cost of investment, indefinite loss carryforward, and reduced import duties on capital goods. However, the criteria for the issuance of TIC certificates remained loose for a number of reasons: (i) specified investment thresholds were too low to be binding, (ii) the 12 specified priority sectors eligible for TIC certificates could in practice encompass the whole economy; and (iii) TIC certificates were not only available to newly operational companies, but also to old companies that made new investments. This allowed some of the largest parastatal taxpayers (such as the brewery and the cigarette company) to enjoy the tax benefits simply as a result of their privatization (which allowed their treatment as "new" companies).

- In 1998, a new **Mining Act** established tax privileges for investors in the mining sector: 100 percent capital expensing coupled with additional 15 percent capital expensing, exemptions from import duties and the VAT, indefinite loss carryforward, deferment of royalty payments, and refund of paid royalty in case of negative cash-operating margins.

- In order to reduce inequality across sectors, **100 percent capital expensing was extended to all investors** as of July 1999, but loss carryforward was limited to five years; at the same time, the deduction for interest expenditure was withdrawn.

- The 2000/01 budget harmonized the withholding taxes on interest earnings, dividends, and royalties for future recipients of TIC certificates holders with those of other taxpayers. With this measure, the **TIC certificates ceased to grant any tax advantages to their holders**, although the benefits for existing TIC certificate holders were grandfathered. In addition, the 2001/02 budget did not extend the additional 15 percent capital expensing provided under the Mining Act to new investors.

- In the context of the 2002/03 budget, further changes took place: the 100 percent capital expensing was replaced by 50 percent expensing followed by a depreciation schedule based on three different classes of assets; interest deductibility was reinstated; and loss carryforward was made indefinite. These recent changes do not apply to the mining sector, which continues to be governed by the regulations described above.

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[1] As tax holidays had a five-year limit, they will have all expired by end-2002.

Sources: 2001/02 and 2002/03 Budget Speech, and information provided by the Tanzanian authorities.

D. Expenditure and Expenditure Management

16.   Expenditure remained quite stable as a share of GDP over the last five years, but the share of interest payments and wages declined markedly in favor of other recurrent and development expenditure (Figure I.3), particularly in poverty-reducing expenditure (see

below). The level of expenditure, which averaged about 17-18 percent of GDP in the last five years, remains much lower than that in other countries in the region (Table I.1).

17.   **Wages and salaries** declined from a peak of 4.7 percent of GDP in 1997/98 to about 4 percent of GDP in 2001/02. While initial efforts aimed at reducing the size of the civil service and keeping the wage bill under control, the medium-term civil service reform (Box I.4).targets an improvement in the quality of services and gradual increase in civil service salaries—which are reportedly below private sector salaries by a factor of up to ten

18.   **Interest payments** declined considerably, from above 3 percent of GDP in the mid-1990s to 1.5 percent of GDP in 2000/01. Savings have arisen both on domestic interest payments (owing to the virtuous cycle of smaller borrowing requirements, lower inflation, and lower nominal interest rates) and external interest payments, reflecting the debt relief provided, including recently under the HIPC Initiative (see also Section IV).

19.   Expenditure composition has gradually shifted in favor of **poverty reduction programs**, reflecting Tanzania's Poverty Reduction Strategy. Within a steady increase in **expenditure on goods and services**—from 4.5 percent of GDP in 1997/98 to almost 9 percent of GDP in 2001/02—nonwage recurrent expenditure on **priority sectors** increased from 1.3 percent of GDP in 1997/98 to 3.5 percent of GDP in 2000/01; over the same period, the share of priority sector recurrent expenditure (including wages) in total recurrent expenditure increased from about 30 percent to more than 50 percent (see Statistical Appendix Table 15).

20.   Increased foreign financing for social sectors (Figures I.3 and I.4) was mostly channeled to **development expenditure,** which increased from the officially reported 3.8 percent of GDP in 1997/98 (the lowest level during the decade) to 4.3 percent of GDP in 2001/02; about 80-90 percent is foreign financed.[13] Given the difficulty of tracking donor project flows, which in most cases are not channeled through the budget, the actual level of development expenditure remains uncertain. For the same reason, the apparent increase in development expenditure may also reflect better recording of these flows (Box I.5).

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[13] The development budget basically consists of a list of sectoral projects, including their amounts and donor source. While part of the project funds are used for current outlays related to the specific project, all project amounts are classified under development expenditure.

Box I.4. Civil Service Reform

Background

The **first phase** of civil service reform started in 1993, aiming at reducing the size of both the civil service and the wage bill. Its main achievements were as follows:

- The number of civil servants declined from a peak of 355,000 in 1992 to 264,000 by 1998/99—a payroll reduction of about 90,600, including 16,000 "ghost" workers.
- Control over employment levels and the aggregate wage bill improved. For example, the wage bill exceeded the budget level by 40 percent in 1994, but only by 2 percent in 1999.

After a two-year interruption due to budgetary constraints, the **second phase** of the reform resumed in June 2000, focusing on improving services and increasing salary scales. In particular:

- A performance management system was introduced to allow rationalization of ministries' functions.
- The pay structure was rationalized and some decompression achieved.
- A Selective Accelerated Salary Enhancement (SASE) scheme, funded by donors, was introduced for key government positions.

The **wage bill** in 2001/02 reached about TSh 340 billion (just below 4 percent of GDP; and TSh 10 billion lower than budgeted as prospective hiring has not fully materialized as envisaged). The average basic salary was TSh 82,064 (about US$82) in 2001/02 (see table below).

Civil Service Wages, 2001/02 Budget

	2001/02
	(In billions of TSh)
Total wage bill	360.3
Civilian wage bill	290.5
	(TSh per month)
Minimum basic salary	46,000
Average basic salary	82,064
Middle-level salary earner	141,225
Upper-middle level salary earner	348,019
Top-level salary earner	901,000

Source: Tanzania Civil Service Department.

The way forward

Looking ahead, in the 2002/03 budget the wage bill is set to increase to TSh 412 billion (4.2 percent of GDP). It is then projected to progressively increase every year, on the basis of a comprehensive medium-term plan; specifically, if the wage bill in 2001/02 is set equal to 100, it would amount to 212 by 2007/08. At the same time, as government salaries reach targeted levels, the SASE program will be phased out.

Most of the increase in the wage bill will come from higher salaries rather than increased employment. Over the period, the total number of civil servants will increase from the current 264,000 to 277,000, largely at the TGST grade (teachers). Employees at the lower grades will be downsized from the current 34,000 to 7,000. Employment in the health sector is set to remain stable, with a shift of staff from lower into higher grades.

Source: Valentine (2002).

Box I.5. Foreign-Financed Development Expenditure

According to the available data on budget execution, foreign-financed development expenditure remained quite stable, as a share of GDP, over the last five years (with the exception of 1999/2000, when it temporarily increased to 5 percent of GDP). However, recent evidence from a comprehensive survey of foreign-financed projects shows that recorded expenditure (which is defined as the sum of the project grants and loans channeled through the budget) is much lower than actual expenditure, for two main reasons:

- **At the level of budget formulation,** it is difficult to capture all donor-funded projects because either implementing government agencies do not submit all the relevant information to the Budget Department or donors do not share this information with the government with sufficient notice to have it incorporated in the budget. To address this problem, the Ministry of Finance completed in May 2002 an inventory of all projects foreseen for the following fiscal year, in coordination with donors. It is for this reason that the development budget for 2002/03 is projected to rise by more than 2 percent of GDP, as it is believed to include, for the first time, a comprehensive list of donor-funded projects.

- **At the level of budget execution,** even when donor-funded projects are included in budgetary appropriations, funds are often not channeled through the exchequer system and therefore are not captured in data on budget execution. The problem is obviously exacerbated for in-kind projects, which are based on direct acquisition from donors of goods and services to be passed on to the government. Reflecting these factors, a significant discrepancy has arisen between amounts approved and amounts recorded for donor-funded projects (see table below). This discrepancy has narrowed over time, reflecting more realistic budgetary estimates, improved project implementation, and improved reporting on project outlays; still, the share of actual recorded expenditure relative to budgetary appropriations remained below 60 percent in 2000/01.

Execution of Development Expenditure, 1996/97-2000/01

	1996/97	1997/98	1998/99	1999/00	2000/01
Actual development expenditure in percent of budgeted expenditure	6.1	27.5	45.9	52.2	56.5

Source: Utz (2002).

How do budgetary data compare with other data on project assistance in Tanzania? According to the UNDP Development Cooperation Report, Tanzania received about US$990 million in aid in 1999 (the latest data available). Of this amount, about 25 percent was in the form of technical cooperation, 40 percent was investment project assistance, 25 percent was balance of payments (program) support, and 10 percent was emergency and relief assistance. Therefore, excluding the last two categories (program support is not tied to projects, and food aid and emergency relief are generally provided directly to NGOs), the resulting UNDP estimate for technical cooperation and investment project assistance to Tanzania in 1999 was about US$640 million—much larger than the US$270 million captured in the budget for that year. The existence of a gap between the two sets of data is not surprising, as part of the US$640 million assistance was channeled to NGOs and the private sector. However, even assuming that half of this assistance was directed outside the budget, this would still leave a gap of US$50 million between budgeted amounts and development aid provided to the central government—an underestimation of about 15 percent. This exercise is obviously purely illustrative, as it is not known what share of donor assistance was intended to go to the central government. It nonetheless highlights the data limitations and remaining challenges in capturing donor-funded projects.

Source: Utz (2002).

21.   One of the major factors contributing to improved expenditure control and the related fiscal discipline has been the introduction of a **centralized payment system** in 1996, under the Central Payment Office (CPO) at the Ministry of Finance, and the institution of a single treasury account at the Bank of Tanzania. These measures were coupled with the adoption of a **cash-rationing system**, which limits cash spending in line ministries to cash availability. This system prevents spending units from accessing directly central bank overdraft facilities, while placing their spending authority within the limits of cash releases centrally controlled by the Ministry of Finance. These cash releases are decided on the basis of available cash (revenue and net foreign financing flows—while "new" domestic financing is generally not allowed), and are effected on a monthly basis (with the exception of priority sectors, which receive full quarterly cash allocations).

22.   The cash-rationing system has not come without costs in terms of budget execution:

●   As revenue (and thus expenditure allocations) were generally overestimated in the past, severe cuts were made under the cash-rationing system.

●   The implementation of the cash-rationing system in the earlier years was not tailored to budget allocations approved by the National Assembly, but was instead mostly affected by decisions made on an ad hoc basis. Charges other than salaries and interest payments were treated as a residual.

●   The lack of relation between the actual cash releases and the original budget allocations created negative incentives for spending units to devote efforts to improve their budget preparation. Over time, a disconnect has been created between budget formulation and actual spending needs. Spending units at times made use of supplier credit and the accumulation of domestic arrears to smooth out volatility in monthly cash allocations; these arrears were sometimes settled once larger cash releases were received, but some arrears have continued to accumulate (Box I.6).

Box I.6. Accumulation of Domestic Arrears

The practice of tight cash allocations—while successful in limiting recourse to inflationary financing—has at times resulted in a buildup of domestic arrears. The areas most typically affected have been utility payments, food, and upkeep needs (for schools, hospitals, and prisons). Starting in 1998, the European Union has contributed to the clearance of nondefense arrears accumulated through June 1998. As a result of these efforts, the stock of pre-June 1998 audited arrears (TSh 70 billion) has been cleared, half of which funded by the EU.

Arrears accumulated during the period July 1998-June 2001 amounted to TSh 70 billion (largely audited by an external consultant); by end-June 2002, these arrears were also cleared.

Information on arrears accumulation during 2001/02 remains incomplete. According to the authorities, utility payments would have suffered delays during the fiscal year but largely been settled by end-June 2002. In order to prevent the reemergence of these problems, a treasury circular was issued in July 2002, detailing a new procedure for utility payments. Commitments for such payments will be centralized through the Integrated Financial Management System at the Accountant General's Office on behalf of spending agencies. Accordingly, spending agencies will have to abide by such commitments, as it will not be possible to reallocate funds for other purposes.

23.   Major reforms in **public expenditure management** were undertaken in the second half of the 1990s. In addition to the creation of a central payment office mentioned above, in 1998/99 an Integrated Financial Management System (IFMS) was introduced on a pilot basis in ten ministries and then extended to all ministries during 2000/01; regional subtreasuries and the TRA tax collection offices in Dar es Salaam were also connected as of end-2001. This computerized system has greatly enhanced the recording, monitoring, and reporting of central government expenditure. The enactment of the Public Finance Act and its regulations as of July 2001 has allowed the implementation of a commitment control system, supported by the IFMS. In addition, government bank accounts were rationalized, and their reconciliation takes place on a weekly basis. Finally, reflecting better reporting and recording procedures, the closure and audit of accounts has improved.[14]

E. Budget Financing [15]

24.   In the second half of the 1990s, as stabilization and liberalization policies and the related reform agenda began to be implemented, the availability of **foreign financing** increased. This has helped support the government in its resolve not to make use of relatively expensive or inflationary domestic financing, while allowing sufficient credit resources for the private sector and a necessary buildup of international reserves. In addition, as fiscal consolidation took hold, financing needs (excluding grants) generally declined from a peak of almost 9 percent of GDP in 1993/94 (Figure I.4). In the last few years, budget deficits increased considerably to about 7-8 percent of GDP, partly reflecting additional social programs;[16] they nonetheless remained below those of comparator countries in the region (Table I.1).

25.   The **composition of foreign financing** progressively shifted away from project financing to direct budgetary support (Figure I.4), as donors became more confident in the government's policies; more recently, the Public Expenditure Review consultations have provided a forum for concerted action and strengthened cooperation between the government and development partners.

26.   Owing to increasing foreign financing, **domestic financing** declined and reached negative levels at the end of the 1990s (Figure I.4). Following a couple of years of small positive levels, domestic financing reverted to negative levels in 2001/02.

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[14] While the 1998/99 Audit Report was published in December 2000, 18 months after the end of that fiscal year—or twice as long as the 9 months required by law—the tabling of the 2001/02 accounts in the National Assembly is expected by March-April 2003.

[15] Debt and debt dynamics in Tanzania are covered in Section IV.

[16] During 1998/99-1999/2000, the budget had to bear the costs of bank recapitalization (almost 3 percent of GDP over the period).

F. Summary and Conclusions

27.   The rationalization of expenditure programs and the progressive shift from domestic to foreign financing were at the core of Tanzanian macroeconomic stabilization in the second half of the 1990s, contributing to a sharp reduction in inflation. However, the burden of the fiscal adjustment has fallen disproportionately on expenditure. On the other hand, strict expenditure control, with outlays limited to available domestic revenue and external concessional financing, allowed a decline in net domestic financing of the budget in 1996/97–1998/99 and zero or little domestic financing of the budget thereafter. On the other hand, revenue has not kept up with the pace of the growing economy, due to structural policy changes and despite improvements in tax administration.

28.   Now that macroeconomic stabilization has been largely achieved, the government is in a better position to address Tanzania's pressing social needs. Accordingly, it has formulated an ambitious poverty reduction strategy, that hinges on substantial increases in the allocations to priority sectors. For this to be possible without jeopardizing fiscal sustainability, there is a need to ensure (i) higher domestic revenue; (ii) sounder public expenditure management; and (iii) continued external assistance.

29.   **Revenue enhancement** is key to the successful implementation of the poverty reduction strategy without relying unduly on foreign assistance. This will require a further rationalization of tax exemptions, a continued improvement in tax administration, and a calibration of future tax reform so as to broaden the tax base and streamline the tax system while safeguarding and enhancing revenue performance.

30.   **Sounder public expenditure management** will allow a gradual phasing out of the tight cash-rationing system, in order to preserve the integrity of budget formulation, execution, and monitoring. Full implementation of the IFMS will be a central piece in this strategy. In addition, the fiscal decentralization strategy undertaken by the government— under which local authorities will receive increased financial and administrative responsibilities, including for the delivery of social services—will need to be accompanied by measures to ensure that funds are used for their intended purposes.

31.   In the short to medium term, continued mobilization of highly **concessional financing** on a large scale will be required for the full implementation of the government's plans for priority sector spending. Sustained fiscal performance relative to the government's objectives and targets will need to be underpinned by increased transparency and accountability of the government's operations, for example by improving data recording and reporting, and by stepping up the government's current efforts in the fight against corruption.

32.   While Tanzania is making substantial progress in all of the above areas, future challenges remain ahead. Significant contingent liabilities could arise from the parastatal sector, both from the consolidation of parastatal debt and from the retrenchment costs of parastatal restructuring (see Section V). Increased devolution of spending power to local governments will need to take place in a general framework of fiscal discipline, in order not

to jeopardize the hard-fought achievements in this area. Fiscal policy will therefore be called on to promote the efficient use of available resources, so as to increase productivity in the economy, as well as promote sustainable and equitable growth.

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Valentine, Theodore, 2002 *Revisiting and Revising Tanzania's Medium-Term Pay Reform Strategy: Final Report* Public Service Reform Program (Dar es Salam.

Figure I.2. Tanzania: Revenue Developments, 1991/92-2001/02 1/
(In percent of GDP, unless otherwise indicated)
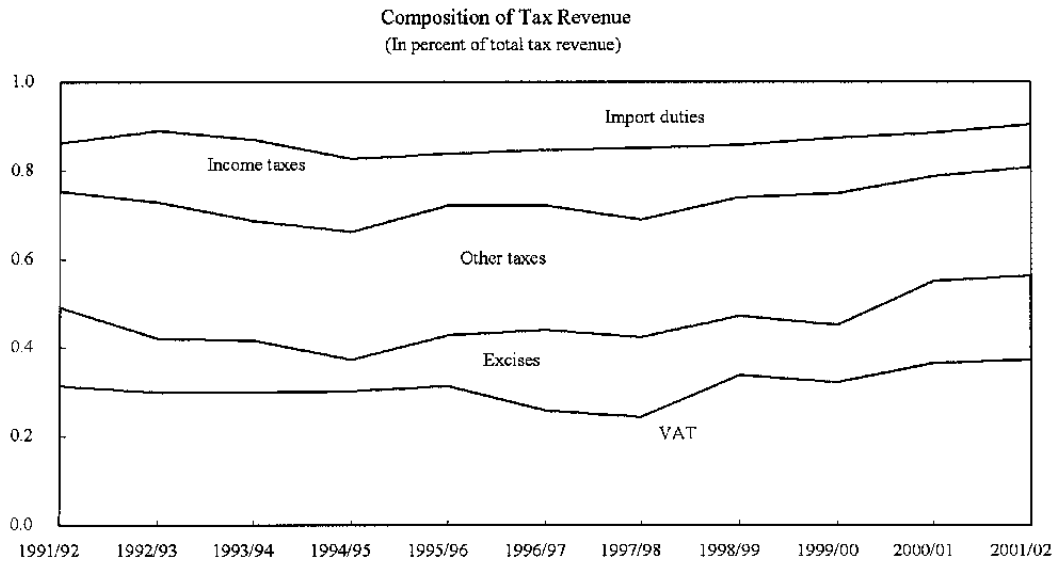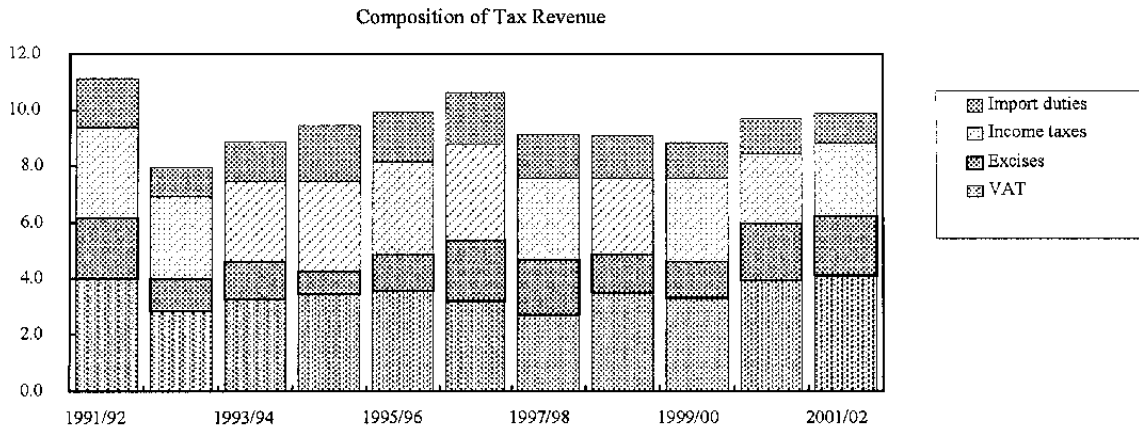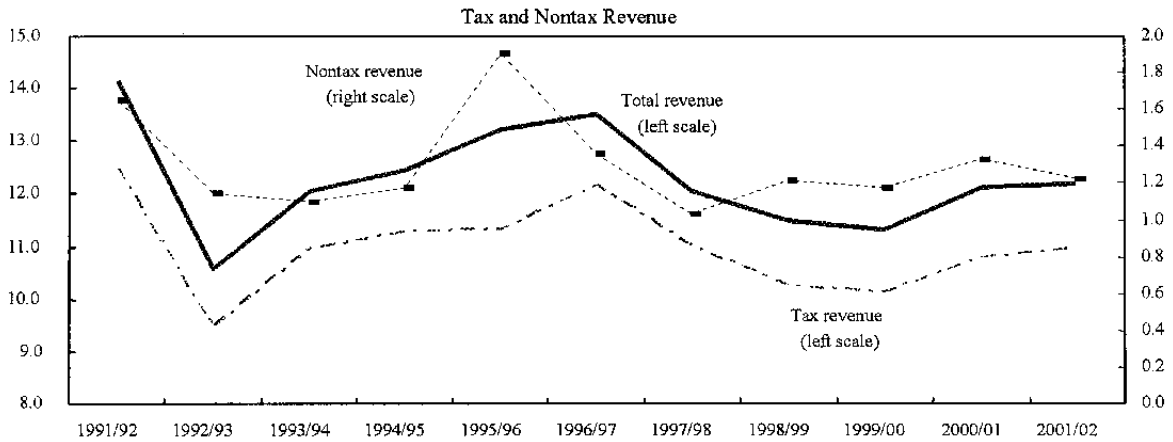
Tax and Nontax Revenue

Composition of Tax Revenue

Composition of Tax Revenue
(In percent of total tax revenue)

Source: Tanzanian authorities.
1/ Fiscal year runs from July to June. Data for 2001/02 are preliminary.

Figure I.3. Tanzania: Expenditure Developments, 1991/92-2000/01 1/
(In percent of GDP, unless otherwise indicated)

Composition of Expenditure
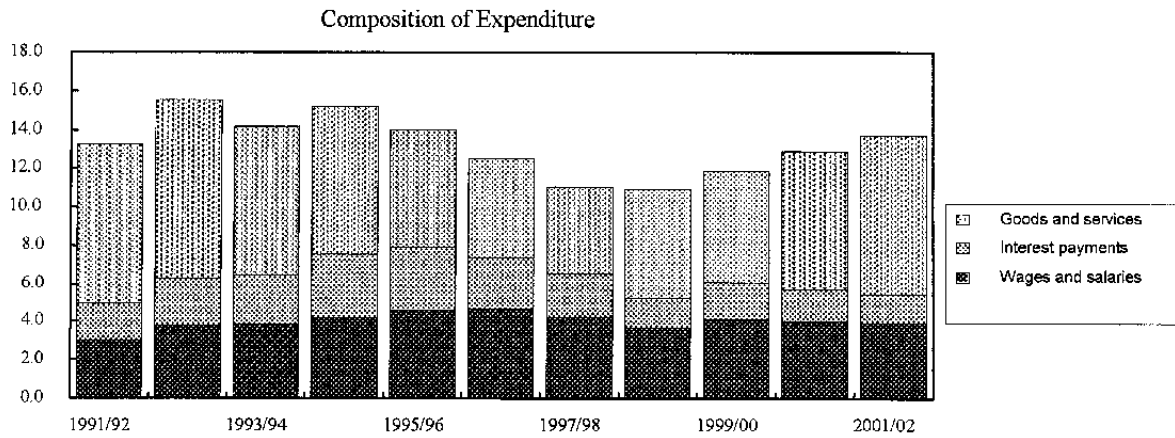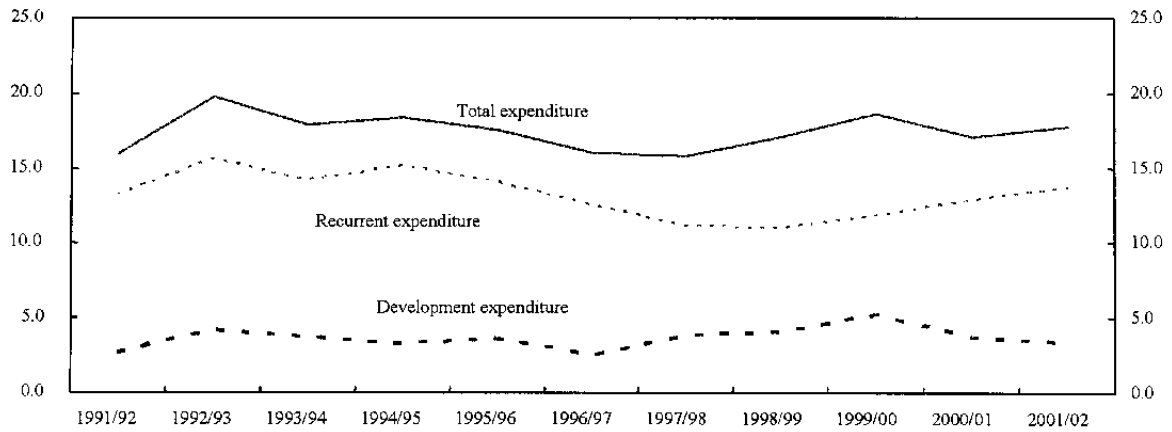
Composition of Expenditure
(In percent of total expenditure)
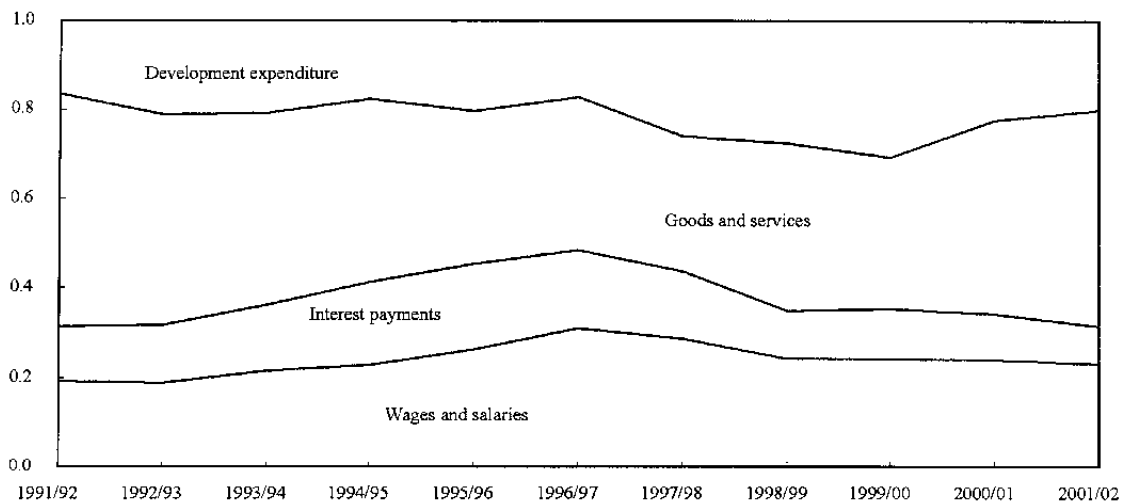
Source: Tanzanian authorities.
1/ Fiscal year runs from July to June. Data for 2001/02 are preliminary.

Figure I.4. Tanzania: Budget Financing, 1991/92-2001/02 1/
(In percent of GDP, unless otherwise indicated)
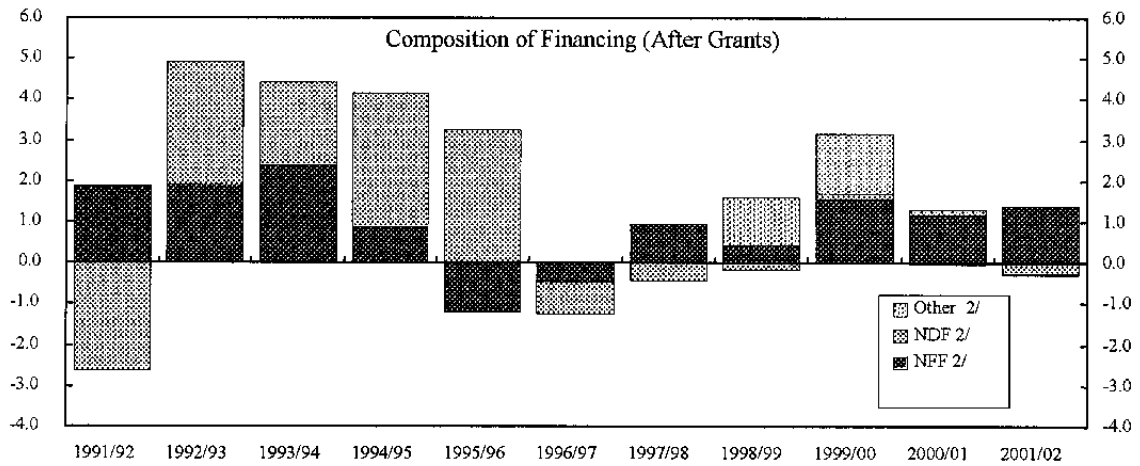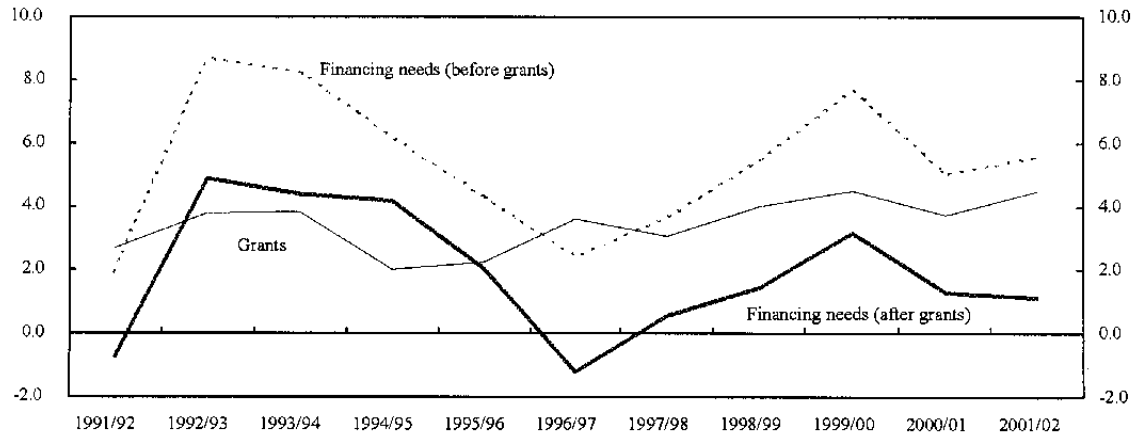
Composition of Gross Foreign Financing
(as a share of total gross foreign financing)
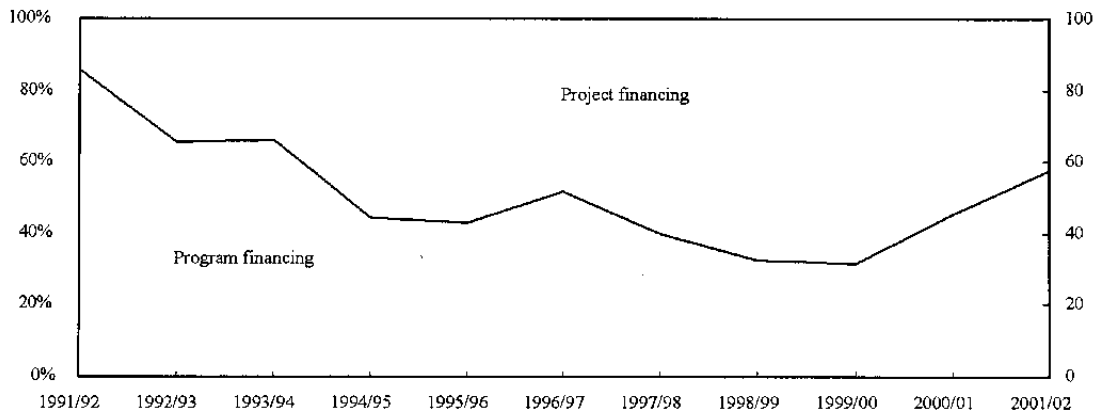
Source: Tanzanian authorities.

1/ Fiscal year runs from July to June. Data for 2001/02 are preliminary.

2/ NDF: net domestic financing; NFF: net foreign financing; Other: recapitalization of banks and parastatals, and amortization of parastatal debt.

II. RECENT ISSUES IN THE IMPLEMENTATION OF MONETARY POLICY[17]

A. Background

33.   Tanzania's commitment to prudent macroeconomic policies in recent years provided a strong basis for non-inflationary growth and earned the support of many donors. Annual inflation averaged 6 percent during the 1999-2002 period, down from 20 percent during the period 1995 to 1998. Donor inflows, on average about 6 percent of GDP over 1999-2002, supported the budget and contributed to a significant buildup of gross international reserves to the equivalent of more than six months of imports of goods and nonfactor services.

34.   Recent monetary developments were characterized by strong monetary expansion, as large foreign inflows were not fully sterilized and the demand for broad money expanded with the gradual deepening of the financial system. Partly reflecting the lack of suitable lending opportunities, the banking system developed an increasingly large structural liquidity surplus, which triggered an excess demand for treasury bills and, consequently, a decline in interest rates on bills and deposits. Interest rates on loans, however, remained high, mainly on account of impediments to bank lending and weak competition in the banking system. The Bank of Tanzania (BoT) has been slow in mopping up excess liquidity out of concern over rising interest rates and adverse effects on Tanzania's competitiveness. The downward trend in interest rates, which has become negative in real terms, raises concerns about excessive monetary easing and possible inflation, and contributes to a continuing increase in foreign currency deposits.

35.   This paper reviews the objectives and recent implementation of monetary policy by the BoT, when the stance of monetary policy was significantly modified, in part to address structural changes in the financial sector. It also discusses impediments to bank lending—in large part responsible for high lending rates—and how they can be removed so as to promote a more dynamic financial sector development. The paper is organized as follows: Subsection B lays out the framework of monetary policy. Subsection C reviews recent monetary developments, including interest rates, exchange rates, and credit policies. Subsection D discusses impediments to bank lending, and Section E concludes.

B. The Monetary Policy Framework

Monetary policy objectives

36.   According to the Bank of Tanzania Act of 1995, the primary objective of monetary policy is " ... to formulate and implement monetary policy, directed to the economic objective of maintaining price stability, conducive to a balanced and sustainable growth of the national economy of Tanzania." The BoT's *Monetary Policy Statement* of June 2002 states that "inflation control is not an end in itself, but rather, is the means by which monetary policy

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[17] Prepared by Koffie Ben Nassar.

contributes to overall economic performance."[18] While these statements are consistent with a strong focus of the BoT on price stability, the policy statement further states that monetary policy objectives for 2002/03 aim at "allowing credit to the private sector to grow by 21.5 percent at end-June 2003 from the stock of June 2002,"[19] indicating that it also pursues other objectives.

37.   The choice of a single versus multiple objectives of monetary policy remains a controversial subject in the literature. The arguments for a single objective—in particular, price stability—are based on the view that monetary policy cannot affect the long-term growth of the economy.[20] In this view, efforts to stimulate growth above its potential rate lead to higher inflation. Accordingly, monetary policy can at most only moderate short-run fluctuations in output. Others even doubt that discretionary monetary policy can effectively dampen economic fluctuations, given that lags in recognizing turns in the business cycle, and subsequent lags in the response of the economy to changes in monetary policy, make it difficult to time policy actions accurately enough to moderate business cycles. Therefore, some central banks find it useful for purposes of transparency, accountability, and independence to be restricted to price stability alone, since this reduces their vulnerability to political pressure for an expansionary policy. Moreover, focusing on price stability also makes it easier to observe the channels of transmission of monetary policy and, therefore, easier to determine the right instruments.

38.   In practice, many central banks in both advanced and developing countries tend to pursue multiple objectives, in particular employment and growth, in addition to price stability. In developing countries, pressure to pursue a growth-oriented monetary policy arises from the concentration of output in a few commodities, which, coupled with underdeveloped financial markets, makes such countries more vulnerable to destabilizing shocks, both internal and external. Furthermore, the limited access to international capital markets and the often large but uncertain inflows of foreign aid faced by developing countries may also lead their monetary authorities to give a larger weight to external equilibrium in their monetary policy objectives. Finally, where financial systems remain particularly rudimentary, the authorities may seek to use monetary policy to direct credit to sectors regarded as central to the nation's development strategy.

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[18] Bank of Tanzania, "Bank of Tanzania's Inflation Control Strategy," *Monetary Policy Statement* (Dodoma: Bank of Tanzania, June 2002), p. ix.

[19] Bank of Tanzania, *Monetary Policy Statement*, June 2002, p. 36.

[20] See Steven Kamin, Philip Turner, and Jozef Van't dack, "The Transmission Mechanism of Monetary Policy in Emerging Market Economies: An Overview" in *The Transmission of Monetary Policy in Emerging Market Economies*, BIS Policy Papers, No. 3 (Basel: Bank for International Settlements, 1998), pp. 5-64.

The Monetary Policy Framework

39. The preparation of Tanzania's monetary policy framework starts with the *Monetary Policy Statement*, which is presented twice a year by the Governor of the BoT to parliament. This document reviews recent developments and lays out, for the period ahead, policies to be implemented, the reasons for adopting them, and the means by which the BoT intends to achieve them. The Monetary Policy Standing Committee of the Board of Directors is responsible for implementing monetary policy. Annex I summarizes the process of monetary policy formulation in Tanzania.

40. The BoT conducts monetary policy by managing base money as the operational target, with a view to attaining a level of broad money that is consistent with its macroeconomic objectives, including GDP growth, inflation, and an adequate level of international reserves. Given that fiscal deficits have largely been covered by external grants and loans, the central bank intervenes in the money market to manage liquidity so as to maintain the desired path for base money. The central bank also intervenes in the foreign exchange market in order to ensure orderly market conditions consistent with its exchange rate policy.

41. Based on a money demand function, the BoT determines the growth of broad money (M2, which excludes foreign currency deposits).[21] M2, which serves as the intermediate guide for monetary policy, is translated into an operational target for base money (M0) by using an assumed money multiplier that is set on the basis of a three-month moving average of the multiplier:[22] the percentage growth target for M0 is thus expressed as a band of ± 1 percentage point around the center value. Thus, the framework aims at managing base money to attain the target for broad money consistent with the inflation objective. In the process, interest rates and the exchange rate are expected to respond endogenously to the behavior of base money. The supply of base money is managed by adjusting the amount of treasury bills auctioned each week for liquidity management purposes and engaging in repurchase operations with the commercial banks. Annex II presents the central bank's approach to liquidity forecasting. The BoT relies on treasury bills, foreign exchange, and repurchase operations as the primary instruments for conducting monetary policy.

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[21] The existence of a stable long-run relationship between money and inflation is supported by the results of a study conducted by the BoT research staff, which examined the demand for money in Tanzania for the period 1987-97. See J.J. Nyella, "Demand for Money" (unpublished; Dar es Salaam: Bank of Tanzania, 1998). However, there is evidence that in recent years the money demand function has shifted and become unstable. As a result, the BoT uses its judgment in order to arrive at a reasonable projection of velocity.

[22] The money multiplier has not been stable in the past. A study by BoT staff suggests that the estimation of the multiplier could be improved by exploring more fully the time-series properties of the multiplier. See M.M. Mbawala, "The Money Multiplier" (unpublished; Dar es Salaam: Bank of Tanzania 1998).

C. Implementation of Policy

Taming inflation

42.   The Tanzanian financial system underwent a substantial transformation in the 1990s. While in the beginning of the decade the system was monopolized by state-owned commercial banks and characterized by government-determined interest rates and directed credits (backed by central bank lending to the banks), by 1996 private-owned banks—including subsidiaries of well-known international institutions—were in operation, interest rates were fully liberalized, government interventions in credit allocation and central bank financing of the commercial banks had ceased, regular treasury bill auctions had started, and an interbank foreign exchange market had been introduced.

43.   Thereafter, helped by declining financing requirements of the government,[23] the central bank implemented its reserve money program with the sole objective of taming inflation. The framework served well in bringing inflation down to single digits in 1999. Actual growth in base money and broad money was mostly below their upper bands (Figure II.1). The tighter liquidity conditions were also evidenced by the amount of 91-day treasury bills offered and total bids received during this period (Figure II.2). As a result, the 12-month inflation rate declined from 15 percent in December 1997 to 7 percent in June 1999 (Figure II.3).

Monetary policy in support of growth and development

44.   With inflation in the single digits, the BoT turned increasing attention to promoting economic growth and development. In 1999, the rate of growth of credit to the nongovernment sector, especially the agriculture sector, and real GDP were sluggish (Table II.1), which the BoT interpreted as evidence for an increase in the output gap. The external terms of trade also deteriorated (Table II.1), as a result of a sharp drop in international prices of Tanzania's export crops. Meanwhile, foreign inflows of about 7 percent of GDP were increasingly being channeled through the budget to finance social sector expenditures (mainly nontradable goods). In the face of these new challenges, the central bank loosened monetary policy by accumulating foreign reserves at a rate faster than programmed and not sterilizing them.[24] In addition to the foreign inflows channeled through the budget, the BoT bought foreign exchange on a net basis on the interbank foreign exchange market, thereby putting pressure on the exchange rate to depreciate (Table II.2). The monetary authorities also cut back on the issuance of treasury bills in order to lower interest rates (Figure II.4), all of which

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[23] See Section I of this issues paper.

[24] According to the Taylor rule, $[R_t^* = \text{constant} + \alpha E_t(\pi_{t+1}) + \gamma y_t]$, and the output gap (y_t) and a fall in expected inflation $E_t(\pi_{t+1})$ call for a loosening of monetary policy so as to lower desired interest rates (R_t^*).

Table II. 1. Tanzania: Selected Economic and Financial Indicators, December 1996 - June 2002

	1996	1997	1998	1999	2000	2001	2002 June
	(Annual percentage change, unless otherwise indicated)						
Real GDP growth (at market prices)	4.5	3.5	3.7	3.5	5.1	5.6	...
Agriculture sector (in real terms)	3.9	2.4	1.9	4.1	3.4	5.5	...
Inflation (end of period)	15.5	15.4	11.3	7.0	5.5	4.9	4.5
Terms of trade	-6.4	17.5	-2.5	13.5	-2.7	-8.2	...
Growth of credit to nongovernment							
sector 1/	-43.0	29.5	35.7	25.5	9.4	18.8	27.4
Net foreign assets of the banking							
system (in percent of M3)	7.0	43.0	45.5	50.7	64.5	74.3	72.6
BoT	-14.9	18.4	19.7	26.1	35.4	42.3	41.3
Commercial banks	21.9	24.7	25.8	24.6	29.1	31.9	31.3
	(In percent of total credit)						
Agriculture production	11.7	7.5	7.5	5.7	6.3	9.6	11.2
Marketing of agricultural produce	6.0	1.4	2.6	0.8	0.4	0.0	0.0
Export of agricultural produce	2.4	1.7	0.8	0.6	0.1	0.0	0.0
Agriculture sector (total)	20.1	10.6	10.9	7.1	6.8	9.6	11.2
Other sectors	79.9	89.4	89.1	92.9	93.2	90.4	88.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: National Bureau of Statistics (NBS); and Bank of Tanzania (BoT).

1/ The decline in 1996 reflects loan write-offs of T Sh 112 billion by the National Bank of Commerce and the Cooperative and Rural Development Bank.

Table II. 2. Tanzania: Turnover in the Interbank Foreign Exchange Market, January 1999 - June 2002
(In billions of U.S. dollars)

	Bank of Tanzania			Commercial Banks			Nonbank Financial Institutions			Turnover	Weighted Average Rate (WAR)
	Sale	Purchase	Net	Sale	Purchase	Net sale	Sale	Purchase	Net sale		
Jan-99	16.4	4.4	12.0	26.7	22.9	3.8	1.2	17.0	-15.8	44.3	682.0
Feb-99	20.2	2.8	17.4	21.9	27.0	-5.1	1.5	13.7	-12.2	43.5	688.3
Mar-99	24.3	14.3	10.0	37.4	31.9	5.5	0.8	16.2	-15.5	62.4	692.2
Apr-99	25.6	0.8	24.8	25.1	32.2	-7.1	1.4	19.1	-17.8	52.1	702.0
May-99	10.5	2.0	8.5	31.0	19.8	11.2	0.9	20.6	-19.7	42.4	705.8
Jun-99	14.3	7.0	7.3	38.4	25.5	12.9	0.9	21.0	-20.1	53.6	721.7
Jan-Jun 1999 Total	111.2	31.3	79.9	180.4	159.2	21.2	6.6	107.7	-101.1	298.2	698.7
Jul-99	5.2	10.7	-5.5	34.2	18.0	16.2	1.3	12.1	-10.8	40.7	778.4
Aug-99	8.8	19.7	-10.9	39.1	15.6	23.5	1.2	13.7	-12.6	49.0	791.8
Sep-99	6.5	11.1	-4.6	35.7	19.8	15.9	1.0	12.4	-11.4	43.2	797.2
Oct-99	8.2	37.6	-29.4	51.4	16.4	35.0	1.1	6.8	-5.6	60.7	797.3
Nov-99	0.0	53.5	-53.5	70.9	9.4	61.5	1.3	9.3	-8.0	72.2	797.3
Dec-99	0.0	27.3	-27.3	48.5	13.1	35.4	1.9	10.0	-8.1	50.4	797.4
Jul-Dec 1999 Total	28.7	159.7	-131.0	279.6	92.1	187.4	7.8	64.2	-56.4	316.0	793.2
Jan-00	15.5	3.0	12.5	16.8	24.1	-7.3	1.4	6.6	-5.2	33.6	799.0
Feb-00	13.6	16.8	-3.2	29.5	21.7	7.8	1.5	6.1	-4.6	44.6	800.2
Mar-00	9.6	7.9	1.7	23.9	17.8	6.1	1.0	8.8	-7.8	34.5	800.7
Apr-00	2.3	0.0	2.3	21.7	17.0	4.7	1.1	8.1	-7.0	25.1	799.7
May-00	12.0	7.7	4.4	26.4	23.8	2.6	1.0	7.9	-6.9	39.4	799.5
Jun-00	11.3	9.3	2.0	25.6	21.8	3.8	1.3	7.0	-5.7	38.1	799.6
Jan-Jun 2000 Total	64.2	44.7	19.6	143.7	126.2	17.6	7.3	44.4	-37.1	215.2	799.8
Jul-00	9.7	17.2	-7.5	32.7	21.8	10.9	1.1	4.5	-3.4	43.4	799.4
Aug-00	4.9	27.4	-22.6	49.6	22.4	27.2	1.2	5.8	-4.6	55.6	799.3
Sep-00	0.1	17.5	-17.4	46.3	24.0	22.3	0.9	5.8	-4.9	47.3	799.3
Oct-00	36.9	6.3	30.6	23.6	48.1	-24.5	1.7	7.8	-6.1	62.2	801.9
Nov-00	4.2	16.4	-12.2	36.9	17.6	19.3	1.2	8.3	-7.1	42.3	802.6
Dec-00	0.0	31.9	-31.9	50.2	13.1	37.2	1.5	6.8	-5.3	51.7	803.3
Jul-Dec 2000 Total	55.7	116.6	-61.0	239.3	146.9	92.4	7.5	38.9	-31.4	302.4	801.0
Jan-01	22.1	7.5	14.6	30.8	37.8	-7.0	1.7	9.4	-7.7	54.6	805.2
Feb-01	20.0	0.0	20.0	21.4	37.6	-16.2	1.6	5.4	-3.8	43.0	816.2
Mar-01	15.1	0.0	15.1	34.1	42.5	-8.4	1.2	8.2	-7.1	50.3	841.6
Apr-01	18.0	14.3	3.7	36.7	36.2	0.4	1.9	6.1	-4.3	56.5	887.2
May-01	27.3	15.0	12.3	27.9	34.5	-6.6	1.5	7.2	-5.8	56.7	888.5
Jun-01	1.3	17.4	-16.1	37.9	15.5	22.4	1.2	7.5	-6.3	40.4	888.9
Jan-Jun 2001 Total	103.8	54.2	49.6	188.7	203.9	-15.3	9.0	43.8	-34.8	301.4	854.6
Jul-01	15.6	25.0	-9.4	51.4	36.3	15.2	1.9	7.6	-5.8	68.9	888.2
Aug-01	7.8	19.7	-11.9	41.3	23.6	17.7	1.8	7.6	-5.8	50.9	890.5
Sep-01	0.0	19.5	-19.5	31.1	20.2	10.9	14.2	5.6	8.6	45.3	891.7
Oct-01	16.9	0.1	16.8	33.0	42.7	-9.7	1.8	9.0	-7.2	51.7	898.3
Nov-01	5.6	5.0	0.6	37.9	32.1	5.8	1.5	7.8	-6.2	45.0	914.0
Dec-01	0.0	34.1	-34.1	52.9	14.7	38.1	1.9	5.9	-4.0	54.7	916.6
Jul-Dec 2001 Total	45.9	103.4	-57.5	247.5	169.5	78.0	23.0	43.4	-20.4	316.5	899.9
Jan-02	31.7	0.0	31.7	22.1	50.7	-28.6	2.4	5.4	-3.0	56.1	929.7
Feb-02	20.3	0.0	20.3	25.2	40.6	-15.5	1.6	6.4	-4.8	47.0	958.0
Mar-02	10.3	0.0	10.3	39.7	45.8	-6.1	1.6	5.8	-4.2	51.6	971.0
Apr-02	5.8	19.9	-14.1	52.9	34.6	18.2	2.2	4.0	-1.8	60.8	978.5
May-02	2.5	6.6	-4.1	52.5	42.3	10.2	1.5	2.8	-1.3	56.4	980.2
Jun-02	27.0	8.0	19.0	50.7	62.6	-12.0	2.0	2.2	-0.2	79.6	956.8
Jan-Jun 2002 Total	97.5	34.4	63.0	243.0	276.7	-33.7	11.2	26.5	-15.4	351.6	962.4

Source: Bank of Tanzania (BoT).

contributed to the base money exceeding its target and to a growing liquidity overhang
(Figures II.1 and II.2).

45.   Reflecting the larger-than-anticipated monetary expansion, foreign currency deposits
increased substantially (Figure II.5). The buildup of excess liquidity prompted the Fund to
make reserve money a benchmark under the program supported by the Poverty Reduction and
Growth Facility (PRGF) in 2001. To meet the reserve money target, the central bank started to
rely heavily on repurchase operations (Table II.3); however, insufficient action by the
monetary authorities caused the reserve money benchmark for end-June 2002 to be missed by
a wide margin (Figure II.1).

46.   As a result of this excess liquidity, the ratio of net foreign assets of the banking system
to broad money (M3, including foreign currency deposits) increased from 50 percent at end-
December 1999 to 74 percent at end-December 2001 (Table II.1). In 2002, mindful of the fact
that liquidity developments were eroding its control over monetary conditions, as well as
unfavorably affecting savings mobilization, the central bank began securitizing the
government's nonmarketable debt and placing it in the market; at the same time, it began
diversifying the maturity profile of available securities by introducing seven-year and five-
year treasury bonds. With these instruments, the BoT hopes to more effectively mop up the
excess liquidity.

47.   **Inflation.** Even though base money rose substantially above its upper band during the
period August 1999 to June 2000 (Figure II.1), both headline and nonfood inflation continued
to decline (Figure II.3). Headline inflation declined steadily from 7 percent in 1999 to 4.5
percent in 2002. The 12-month nonfood inflation rate rose sharply from 1.5 percent at end-
December 2001 to 6 percent at end-April 2002, primarily on account of an upward revision to
electricity tariffs. While recent liquidity developments and currency depreciations may have
also put some upward pressure on nonfood inflation, the magnitude of these effects and the
lags involved are not known. The effect on aggregate headline inflation was mitigated by
favorable weather conditions—agriculture-related products make up about 70 percent of the
consumer price index.

48.   **Interest rates.** The deviations above the reserve money target made liquidity
conditions unstable in the money market. Initially, the benchmark rate (91-day treasury bill
yield) rose sharply during June-December 1999 (Figure II.4), reflecting the BoT's efforts to
mop up liquidity (Figures II.2). Subsequently, the loosening of monetary policy caused the
benchmark rate to fall by 720 basis points between March and June 2000. Thereafter, the
growing excess liquidity in the banking system—as measured by deviations from the reserve
money and broad money targets (Figure II.1) and oversubscription in the treasury bills market
(Figure II.2)—coupled with a further decline in inflation (Figure II.3), contributed to the
downward trend of interest rates (Figure II.4). Interest rates have been negative in real terms
since early 2001, but so far have not had a significant impact on the spread between deposit
and lending rates—which remained wide at about 15 percent on average (Figure II.6).

Table II. 3. Tanzania: Repurchase Operations, January 1998 - June 2002
(In millions of Tanzania shillings, unless otherwise indicated)

Value Date	Rates (Percent per annum) Average	Tenor (Days) Average	Total Amount Sold	Maturity Value	Interest Paid
Jan-June 1998	9.2	10	53,000	53,120	119.6
July-Dec 1998	10.3	10	21,911	21,968	56.8
Jan-June 1999	5.7	9	10,000	10,012	12.3
July-Dec 1999	4.9	8	45,150	45,201	50.8
Jan-June 2000	4.0	8	50,500	50,545	44.7
July-Dec 2000	4.2	11	4,000	4,004	3.9
Jan-June 2001	3.2	11	55,100	55,155	55.3
July-Dec 2001	2.8	13	103,619	103,714	94.7
Jan-June 2002	2.8	8	204,156	204,268	112.2

Source: Bank of Tanzania (BoT).

Lending rates remained rigid on account of structural impediments to bank lending, which are discussed in Subsection D below. Interest rate adjustments throughout the banking system were led by the National Bank of Commerce (NBC), the most important bank in the loan and deposit segment of the market.

49.   **Exchange rate.** While Tanzania's terms of trade continued to decline (Table II.1), donor inflows exerted upward pressure on the exchange rate, as aggregate demand and the absorptive capacity of the economy failed to grow apace. In response, the monetary authorities began to manage the exchange rate so as to maintain external competitiveness (Figure II.7). During the period 1999-2001, the central bank's intervention in the foreign exchange market amounted to annual average net purchases of US$30 million (Table II.2),[25] and the exchange rate vis-à-vis the U.S. dollar remained virtually unchanged from July 1999 to January 2001 (Figure II.7). Since then, the nominal exchange rate has depreciated by about 15 percent, reflecting not least the BoT's efforts to restore price competitiveness.[26] While central bank interventions may have helped in preventing a deterioration of the competitiveness of the economy, they contributed to the build-up of excess liquidity, which could eventually conflict with the paramount objective of price stability.

50.   **Bank lending.** As mentioned in Subsection B, the BoT explicitly monitors credit growth in evaluating the stance of monetary policy, owing mainly to the special role credit is expected to play in the government's strategy of promoting agriculture, exports, and economic growth. Perhaps because the private market for credit is poorly developed in Tanzania, the monetary authorities may hold the view that monetary policy is more likely to affect aggregate demand by influencing the quantity or availability of credit than through the direct or indirect effects of changes in interest rates. More likely, however, low bank credit to the private sector reflects structural impediments to lending. Table II.1 shows that credit to the agriculture sector as a whole has failed to recover since the mid-1990s. From a small base in 2000, credit to the nongovernment sector grew by 19 percent in 2001, of which more than 8 percentage points was attributable to a switch from foreign to domestic financing of working capital by a foreign-owned company. The relatively strong increase in credit to the nongovernment sector in 2002 reflected a growing willingness by banks to negotiate their lending rates in order to deploy excess liquidity.

51.   The BoT does not convey any sense of urgency in acting to sterilize the foreign inflows. Insofar as the inflows are not interest rate responsive, restoring positive real interest

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[25] Developments in the interbank foreign exchange market (IFEM) reflect the seasonality of economic activity in Tanzania. The first half of the calendar year is a lean period, when the demand for foreign currency exceeds supply and the central bank intervenes to provide foreign exchange. During the second half of the year, exports pick up, and the BoT intervenes to purchase foreign exchange.

[26] Section III of this issues paper evaluates the competitiveness of the Tanzanian economy.

rates would have no impact on the level of such inflows; however, it would be important to encourage further financial deepening and demand for deposits. Meanwhile, it is imperative that efforts to remove impediments to bank lending be accelerated, in order to promote a more dynamic development of the financial sector and raise the productive capacity of the economy. The remainder of this paper discusses impediments to bank lending and the authorities' efforts to remove them.

D. Impediments to Bank Lending

52.   As a sign of the unfinished financial sector reform agenda, commercial banks find it difficult to lend owing to high risks and operating costs. Financial holdings as measured by the M3-to-GDP ratio remain very low (20 percent at end-2001). The banking system provides a narrow range of financial products, usually limited to demand, savings, and time deposits, while loan portfolios tend to be confined to crop financing, trade credit, and working capital for well-established firms. The risks and costs associated with bank operations are reflected in a wide interest rate spread and the prevalence of overdraft and short-term lending (Table II.4). Term financing is rarely available, and the usual practice is to continue rolling over short-term loans. Some of the factors behind the banks' narrow loan portfolio—33 percent of the deposit base on average at end-2001—that need to be addressed include (i) obstacles to the use of land as collateral for bank loans; (ii) the weak legal and financial infrastructure; (iii) the inadequate legal, regulatory, and supervisory framework for microfinance operations; and (iv) the limited human resource capacity.

Table II.4. Tanzania: Total Loans and Overdrafts, January 1996 - June 2002
(In percent of total)

	1996	1997	1998	1999	2000	2001	2002 June
Loans	44.0	29.1	29.0	31.0	34.4	38.0	38.5
Overdrafts	56.0	70.9	71.0	69.0	65.6	62.0	61.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Tanzania.

Obstacles to the use of land as collateral for bank lending

53.   Until 1999, land ownership in Tanzania was defined by the Land Ordinance of 1923, under which ownership was in the form of leases of 33, 66, or 99 years. This policy was changed in the Land Act of 1999, which states that "all land in Tanzania is public land vested in the president as trustee on behalf of all citizens." This act recognizes two forms of

ownership: the granted right of occupancy for 99 years, and a derivative right—derivative of a granted right of occupancy. The act further restricts occupation of land by noncitizens unless it is for investment purposes, as defined under the Tanzania Investment Act of 1997. This implies that citizens and noncitizens can own a house but not the land on which the house is built. Furthermore, the owners of a house cannot sell or transfer the rights of occupancy. Public tender provides the only exception to this principle under the act, in which it is left to the Minister of Lands to decide to auction rights of occupancy.

54.   Mortgages, elsewhere the most commonly accepted collateral for bank loans, are also regulated under the Act. Section 112 allows individuals or corporations to create a mortgage under the right of occupancy or lease.[27] Section 115 further states that a mortgage does "not operate as a transfer of any interests or rights" in land but rather confers to the lender the power and remedies in the event of default by the borrower, subject to the latter's equitable right to redemption. The lender is required to observe certain conditions to facilitate recovery of interest and payments. Generally, these conditions include provision of (i) security documents at the Registrar of Titles; and (ii) a 30-day notice to the borrower and such other persons as the Commissioner of Land or Village Council, spouse of borrower, guarantor, etc., stating the nature, extent, and consequences of the default. In addition, the lender must allow a period of not less than 90 days (inclusive of the 30 days' notice) for the borrower to honor his debt, after which the lender is entitled to sue the borrower for monies due, appoint a receiver of income arising from the mortgaged property, and enter into possession of or sell the mortgaged property (Sections 125 to 128).

55.   The Land Act makes land as a collateral illiquid and costly for a creditor to realize through foreclosure or other legal means. Provisions under Section 124 grant the borrower the right to redeem the property pledged as mortgage at any time before its sale is effected; according to Section 131 (2), a pledged mortgage can be sold only after the lapse of a forty-day notice. Even when sale of the mortgaged property is pursued, Section 132 (2) requires that the lender obtain the highest market price achievable, and, by virtue of Section 112 (3), a mortgage of a matrimonial home is valid only if all documents or forms used in applying for such a mortgage are signed or consented to by both the borrower and spouse. In the event that the lender pursues the defaulting borrower, provisions under Section 139 allow the borrower to sue for relief against the exercise of remedies available to the lender. The borrower may exercise this right at any time following the service of the notice of default by the lender. Owing to abuse by defaulters of these provisions, banks tend to discount the value of mortgages to reflect the cost of sale and delays in realizing the proceeds—a practice that lowers the creditworthiness of potential borrowers and hampers the development of mortgage-based lending, as well as the flow of credit to small and medium-sized enterprises.

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[27] Section 112 stipulates that "[a]n occupier of land under a right of occupancy and a lessee may, by an instrument in the prescribed form, mortgage his interest in the land or a part thereof to secure the payment of an existing or a future or a contingent debt or other money or money's worth or the fulfillment of a condition."

56.   Overall, the mortgage-related provisions of the Land Act entail a considerable bias in favor of the borrower. As a result, views on whether and how the Land Act should be amended differ widely. The Tanzania Bankers' Association (TBA) wants the law to be amended so that rights of occupancy can be taken over or sold. The TBA presented its recommendations to the government along these lines. The authorities acknowledged the validity of the TBA's case and expressed the intention to propose legislative changes by early 2003. The Fund staff is of the view that, for the legislative changes to be effective, they will have to be complemented by broader reforms of the judiciary system to ensure that borrowers' and lenders' rights are protected in an equitable and timely manner.

Weak legal and financial infrastructure

57.   Tanzania's legal system is still weak, and so the enforceability of legal contracts is uncertain and banks find it difficult to enforce collateral security. First, there is no adequate valuation and registration system for collateral that would establish lenders' rankings in secured property. Second, administrative and court-related costs in foreclosure are very high, owing especially to liberally granted court injunctions that are prone to delay the process for several years. Third, there is limited expertise in commercial law at the judicial level, and, as a consequence, judgments and decisions are sometimes flawed and inconsistent. Fourth, loans that are six months' overdue must be fully provisioned for, irrespective of collateral. Finally, loan loss provisions are not fully tax deductible. As a result of these factors, many potentially good loans, which would otherwise have acceptable security, are not made because banks lack faith in the courts to look after their interests should it become necessary to liquidate the security. In addition to taking regulatory or legislative action to improve the procedures affecting the commercial foreclosure process, the authorities intend to take measures aimed at strengthening the capacity of the land registry and of the commercial court, the latter with a view to keeping the average case resolution period below six months.

58.   Furthermore, there is no credit information bureau, a situation that impedes bank lending by allowing uncertainty over asset quality to persist. Likewise, firms' financial statements are not reliable because no common accounting standards are enforced. Smaller borrowers are particularly discriminated against because of the high cost of gathering information about them. In 2002, two private reference bureaus were established, and the TBA intends to use their services instead of establishing its own.

Inadequate framework for microfinance operations

59.   Tanzania's agriculture- and livestock-based rural economy accounts for about half of GDP and almost two-thirds of foreign exchange earnings, and it provides employment to more than 80 percent of the productive workforce. Its further development is held back, among other things, by poor access to credit facilities—commercial banks find it expensive to serve small and widely dispersed customers, while the latter find the transaction costs, accessibility, and conditions for borrowing from formal financial institutions prohibitive. In the absence of commercial banks, microfinance institutions (MFIs) such as savings and credit cooperative societies (SACCOs), savings and credit associations (SACAs), and

nongovernmental organizations fill the void. These community-based institutions are generally very small (on average, membership ranges from 20 to 200) and often lack professional staff. Leading members handle very limited operations on a voluntary basis, struggle to raise capital from members in the form of membership fees and share capital, and to a very limited extent mobilize financial savings for on-lending; mostly, however, they are not capable of maintaining accounts and drawing up a balance sheet.

60.   In 2002, the commercial bank CRDB, with support from the Danish International Development Agency (DANIDA), has started a pilot project aimed at providing training for the MFIs to manage their own lending operations and assess lending risks. The goal is to extend a credit line to selected SACCOs for on-lending to their members, while the CRDB does off-site and on-site monitoring. Other commercial banks are planning to establish microfinancing units, but, so far, this constitutes only a small part of their loan portfolios owing to a lack of appropriate outreach technology, know-how, and of a legal, regulatory, and supervisory framework for microfinance operations.

61.   Lack of a unified regulatory and supervisory framework prevents the effective supervision of MFIs. SACCOs are registered under the Cooperative Societies Act of 1991 and are supervised by the Cooperative Department of the Ministry of Cooperatives and Marketing, while SACAs are registered by the Ministry of Home Affairs but supervised by the Ministry of Community Development, Women and Children's Affairs, thus leaving them outside any effective supervision. Furthermore, poor record keeping and a lack of regular and adequate reporting handicap any attempt at supervision.

62.   In an effort to establish an enabling environment for the development of microfinance, the authorities approved a National Microfinance Policy in May 2000 and set up a task force for the preparation of a legal, regulatory, and supervisory framework for microfinance operations. The task, divided into three phases, was contracted to a consultant, who started work in July 2002. The first phase is aimed at developing an appropriate legal framework for microfinance operations. A draft report on the findings and recommendations for amendments to the Banking and Financial Institutions Act of 1991, the Bank of Tanzania Act of 1995, the Cooperative Societies Act of 1991, and other related legislation was submitted to the authorities in September 2002. The second phase, which is expected to be completed in early November 2002, involves the development of an effective regulatory framework for microfinance operations, including appropriate accounting principles and reporting guidelines. The third phase of the project concentrates on the development of a harmonized supervisory framework for microfinance operations. The final product is expected to be submitted for parliamentary approval in February 2003 and issued in May 2003.

Limited human resource capacity

63.   Banks have difficulties in finding and recruiting suitable personnel—not least because of Tanzania's legacy of government-directed credit—while labor laws are not sufficiently flexible to dismiss nonperforming employees. For available working-level staff, extensive training is required in basic banking operations, such as credit analysis, loan monitoring, and

problem loan management. Individual banks currently provide on-the-job training for their employees, as well as external training through institutions within the country and abroad.

E. Concluding Remarks

64. This paper argues that, while monetary policy in Tanzania has been successful in bringing inflation down, it has been much less effective in pursuing other objectives. Thus the expansionary policies pursued by the BoT since 1999 have not sufficiently boosted aggregate demand, owing mainly to impediments to bank lending. Uncertainty as to whether the legal due process will prevail prevented many applicants from obtaining bank loans; it also prevented a narrowing of the interest rate spread and impeded the development of term lending. As a result, banks have so far not played an important role in promoting private sector growth. There is no doubt that, if the impediments to bank lending were to be removed, the number of viable borrowers would increase substantially and the loan-to-deposit ratio would rise. The costs of these impediments to the Tanzanian economy are clearly high. Unresolved, they will act as a significant brake on growth. Meanwhile, a tighter monetary stance aimed at restoring positive real interest rates is called for to promote financial deepening and prevent the quality of commercial bank loan portfolios from deteriorating.

Monetary Policy Process

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┌─────────────────────────────────────────┐
│                                          │
│            Bank of Tanzania              │
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└─────────────────────────────────────────┘
                     │
                ┌─────────┐
                │ Issues  │
                └─────────┘
                     │
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┌──┐
| Monetary Policy Statement |
| to |
| Parliament |
| Monetary Policy Statement charts out the strategy for monetary policy for the year ahead. The statement defines the policy goals for the year, outlines actions, and identifies policy tools and targets (both operational and intermediate) |
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┌──┐
| Monetary Policy Standing Committee of the Board |
| Meets monthly to review performance in the conduct of monetary policy during the previous month and lays down the strategy and approves targets for the subsequent month |
└──┘

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┌──┐
| The Monetary Policy Subcommittee |
| Meets weekly to review reserve money program by examining the performance of various instruments, assess expected liquidity in the economy, and recommend Open Market and Foreign Exchange Market Operations for the two weeks ahead |
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| Sources of Information and Basis for |
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┌──┐
| Reserve Money Programming |
└──┘

┌──┐
| Reserve money Programming at the Bank of Tanzania uses |
| (i)   the Monetary Policy Program as approved by the MPC and developments in the balance sheet of the BOT during the week; and |
| (ii)   developments in the markets--matrix of reserve money components. |
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Liquidity Forecasting

```
┌─────────────────────────────────────────────┐
│         Opening Stock of Base Money          │
└─────────────────────────────────────────────┘
                      │
                  ┌───────┐
                  │  Add  │
                  └───────┘
                      │
      ┌───────────────────────────────────┐
      │   Liquidity-Expanding Transactions │
      └───────────────────────────────────┘
```

1. Redemption of treasury bills (91 days)	4. BOT domestic expenditure
2. Redemption of treasury bonds	5. Government expenditure
3. Inflows of foreign exchange	6. Increase in BOT claims on government

```
                ┌──────────┐
                │ Subtract │
                └──────────┘
                      │
      ┌───────────────────────────────────┐
      │  Liquidity-Contracting Transactions │
      └───────────────────────────────────┘
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| 1. Government external obligations | 3. Government domestic receipts |
| 2. BOT external obligations | 4. Domestic in BOT claims on government |

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      ┌───────────────────────────────────┐
      │   Net (Closing) Stock of Reserve Money │
      └───────────────────────────────────┘
                      │
      ┌───────────────────────────────────┐
      │  Compare with Target Corridor of Base Money │
      │        and take appropriate action          │
      └───────────────────────────────────┘
                      │
      ┌───────────────────────────────────┐
      │      Policy Action Action by BOT   │
      └───────────────────────────────────┘
```

| If below target corridor | If above target corridor |

Inject Liquidity
Sale of foreign exchange
Reduce tender sizes of treasury bills and bonds
Repurchases (reverse)
Lend to DMBs (lower discount rate).

Withdraw Liquidity
Sale of foreign exchange
Sale of treasury bills and bonds
Repurchases.

Figure II.1. Tanzania: Deviations of Base Money and Broad Money from Their Upper
Bands,
June 1997 - June 2002

Source: Bank of Tanzania (BoT).

Figure II.2. Tanzania: Subscriptions for 91-Day Treasury Bills, January 1998 - June 2002

Source: National Bureau of Statistics (NBS)

Figure II.3. Tanzania: Price Developments, June 1996 - June 2002

Headline inflation

Nonfood inflation

Source: National Bureau of Statistics (NBS).

Figure II.4. Tanzania: Interest Rate Developments, January 1999 - June 2002

Discount rate

91-Day Treasury bill rate

Interbank rate

Repurchase rate
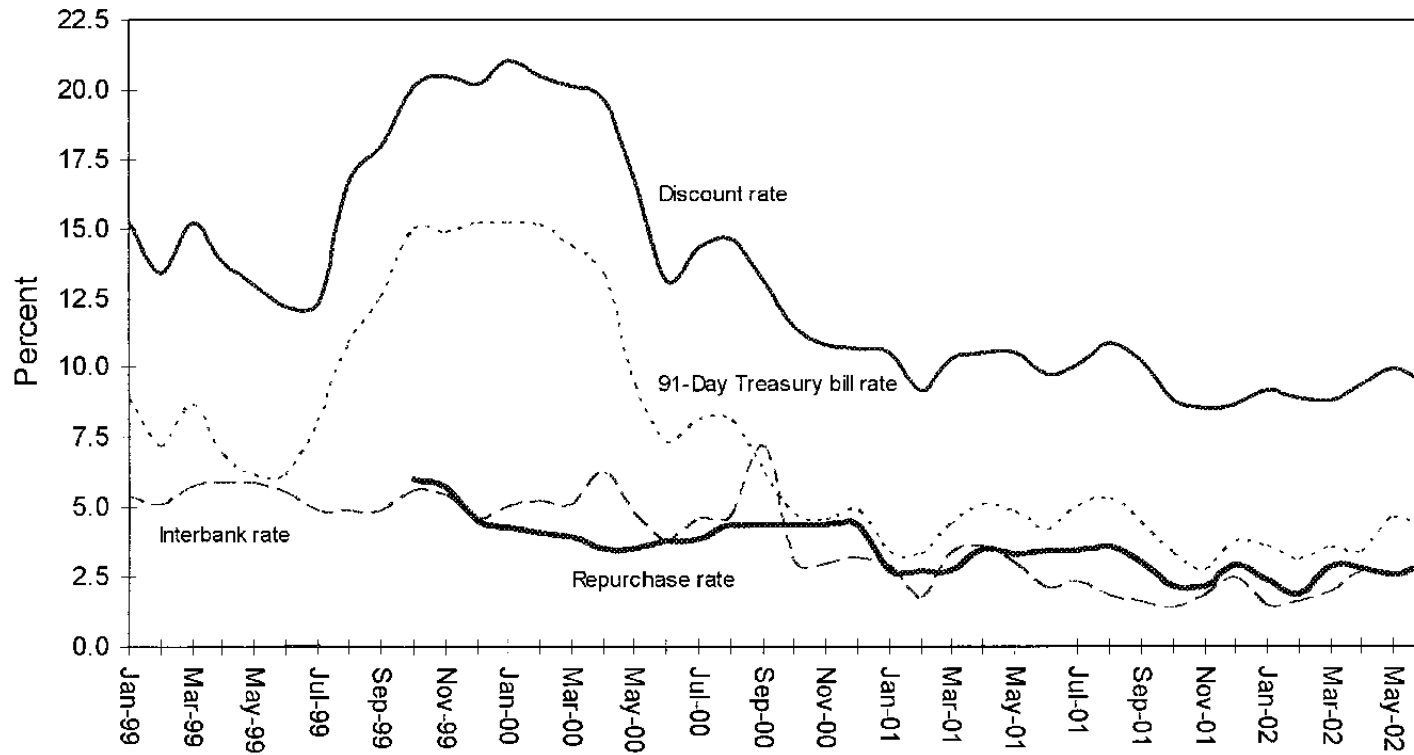
Source: Bank of Tanzania (BoT).

Figure II.5. Tanzania: 12-Month Growth of Broad Money,
Foreign Currency Deposits, and Reserve Money,
June 1997 - June 2002
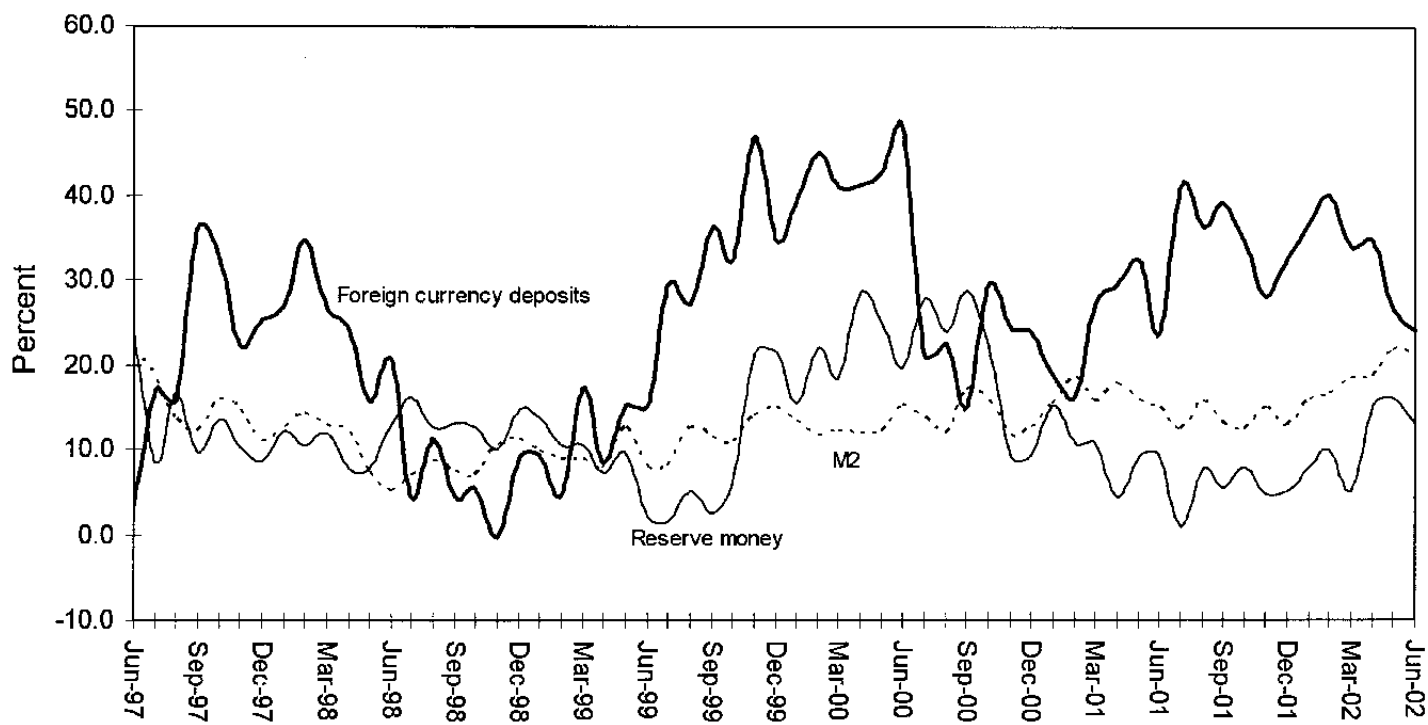
Source: Bank of Tanzania (BoT).

Figure II.6. Tanzania: Weighted Treasury Bills and Bank Rates, October 1999 - June 2002
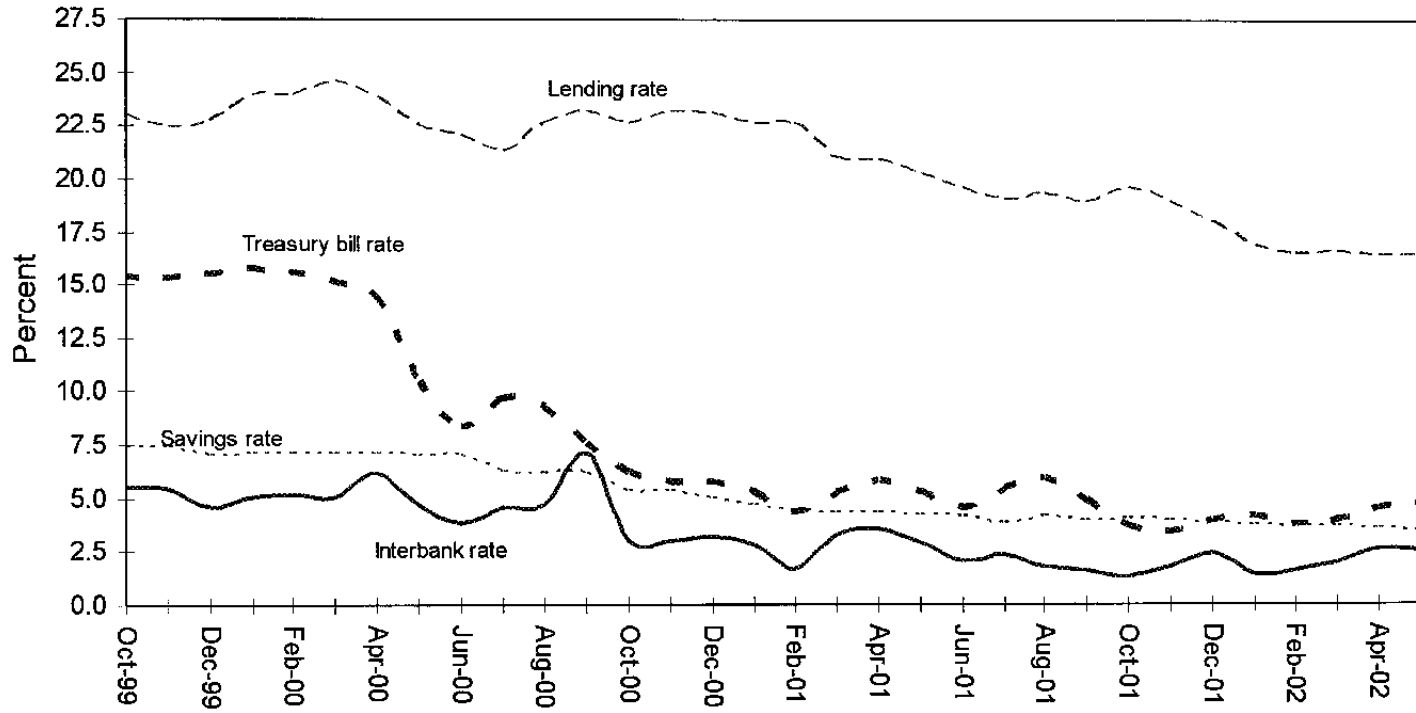
Source: Bank of Tanzania (BoT).

Figure II. 7. Tanzania: Exchange Rates, January 1997-July 2002
(1995=100; foreign currency per Tanzania shilling)
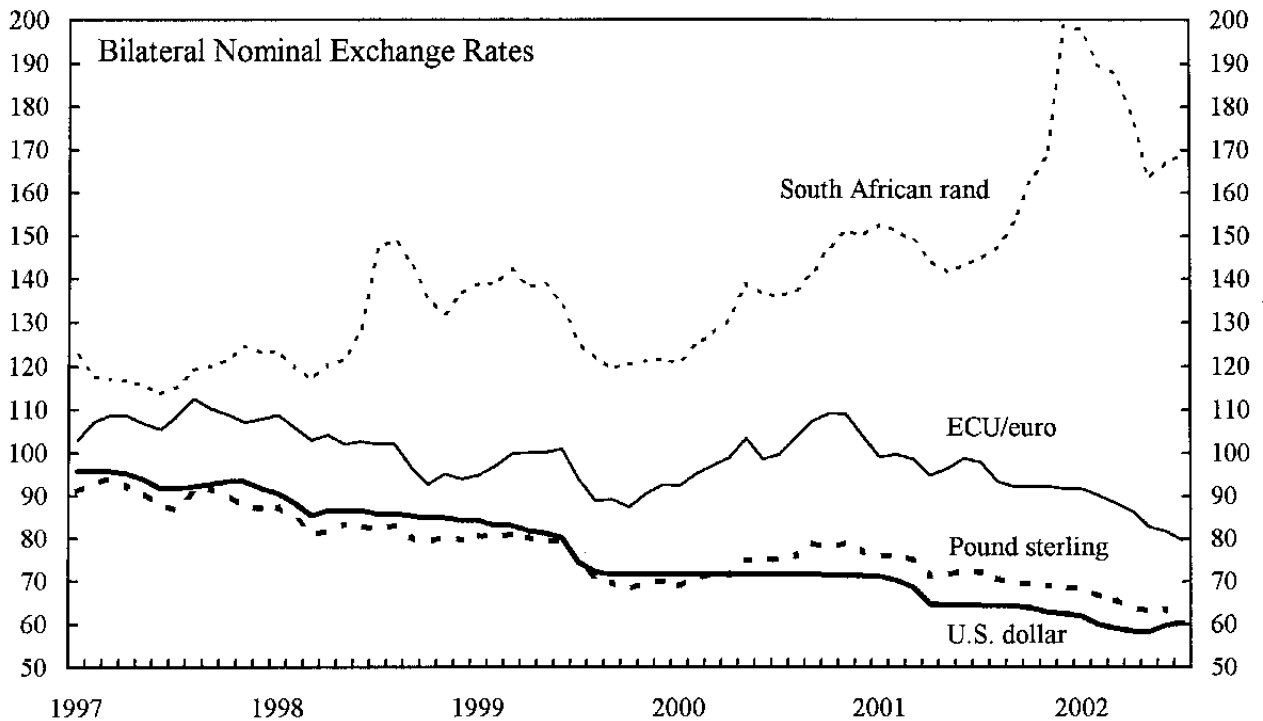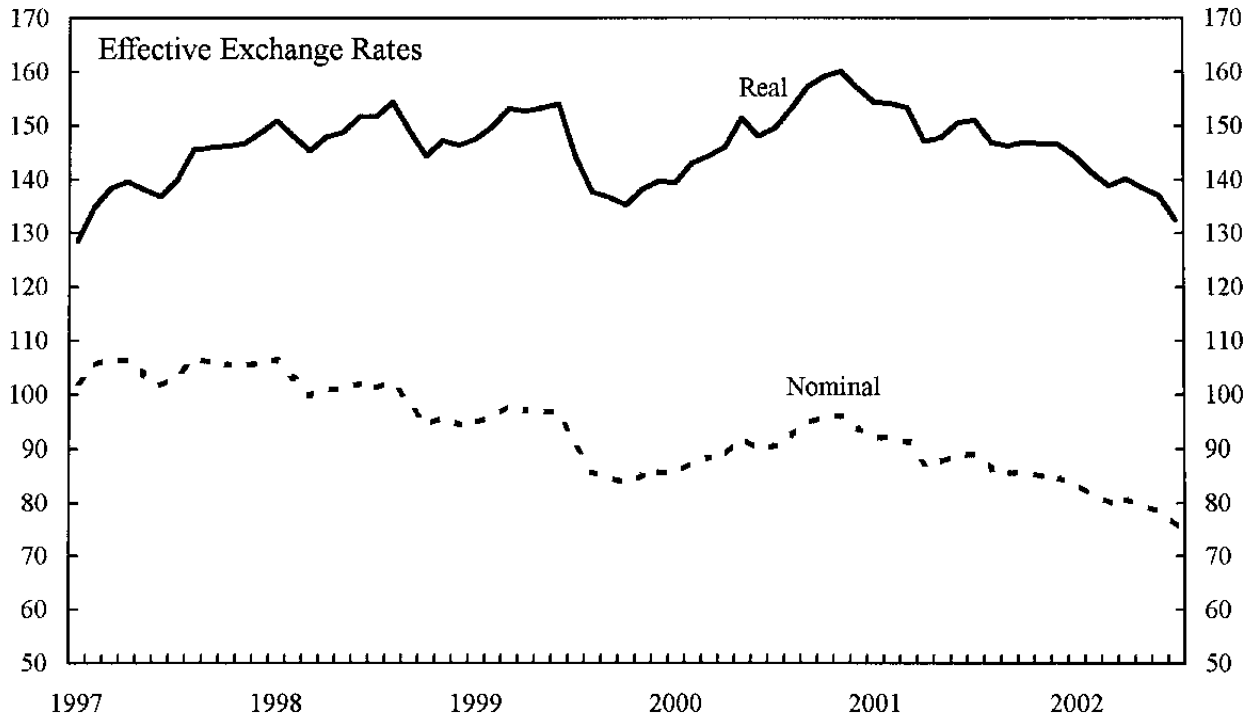
Sources: Tanzanian authorities; and IMF, Information Notice System.

III. EXTERNAL COMPETITIVENESS AND EXPORT PERFORMANCE OF TANZANIA [28]

A. Introduction

65.   Fostering competitiveness is important if Tanzania wants to pursue an export-led growth strategy. Trade is considered an engine of economic growth, and recent experiences from many countries, most prominently in East Asia, have provided strong evidence of a positive link between export growth and economic growth. In particular, the manufactured exports sector is usually on the frontier in introducing new technology into an economy. In this context, performance of manufactured exports could serve as an indicator for the trends in the external competitiveness of a country. This section analyzes developments in external competitiveness and the export performance of Tanzania over the last decade. It begins by examining the changes in the real effective exchange rate (REER) since 1990 and assessing competitiveness based on a purchasing power parity (PPP) framework. However, the PPP-based real exchange rate has many weaknesses as an indicator of competitiveness over time, including its ignoring of developments in the economic fundamentals of Tanzania. Therefore, this section also estimates deviations of the real exchange rate from its equilibrium level, which is calculated from an econometric model that accounts for changes in the economic fundamentals. External competitiveness has many facets, and not all of these facets can be captured by the real exchange rate. Other factors, like the cost of doing business, quality of infrastructure, and tax structure are also important aspects of competitiveness. This section also presents an analysis of changes in these qualitative aspects of external competitiveness. This section primarily focuses on Tanzania; however, as Tanzania is actively pursuing regional integration policies, we also analyze, whenever possible, the relative competitiveness and export performance of Tanzania within the East African Community (EAC) and with South Africa.

66.   This section is organized as follows. Using various multilateral and bilateral real exchange rates, subsection B assesses whether Tanzania's real effective exchange rate remained at a competitive level during the1990s. Subsection C evaluates the misalignment in the real exchange rate based on results from an equilibrium real exchange rate model that accounts for changes in the economic fundamentals of Tanzania. Then, subsection D presents an analysis of qualitative aspects of competitiveness, such as the cost of doing business. Subsection E contains an evaluation of Tanzania's export performance in the 1990s and examines whether this performance supports the findings from the competitiveness analysis. The last subsection summarizes our conclusions.

B. PPP-Based Real Exchange Rate and Competitiveness

67.   Before applying the real effective exchange rate based on the purchasing power parity (PPP) framework as an indicator of Tanzania's external competitiveness, several points about the appropriate use of such indicators have to be clarified. First, in order to compare competitiveness across countries or over time within a country, the choice of a suitable base (i.e., equilibrium) period is important. We have selected 1990 as the base year for our

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[28] Prepared by Mumtaz Hussain.

calculation of REER for all three members of the EAC and South Africa. The reasons for selecting 1990 as a base year for Tanzania include the lower black market premium, compared with levels observed in 1980s, a relatively stable real exchange rate in the 1990-95 period despite substantial exchange rate liberalization, and the strong growth in exports in the first half of 1990s, revealing external competitiveness.[29] Moreover, as all three EAC member countries were implementing structural reforms in the late 1980s and early 1990s, it is appropriate to review the evolution of export performance and competitiveness of these economies only after 1990, when the policy regime in these economies became more comparable. Second, in order to reach a meaningful assessment of competitiveness based on the real effective exchange rate, many technical issues associated with these indices need to be addressed, including the choice of partner country weights, reliability of the price or cost indices, and relevance of the price indices. We have calculated various multilateral and bilateral real exchange rates and REER indices based on different prices (e.g., consumer prices and wholesale prices) and partners to check whether the conclusions regarding Tanzania's external competitiveness within the EAC hold up for various real exchange rate measures.

68.   Starting with a pegged system in 1990, Tanzania gradually liberalized the exchange rate. Foreign exchange bureaus were authorized in 1992 to buy and sell foreign exchange at freely negotiated rates. In 1993, a weekly foreign exchange auction system was introduced, and the official exchange rate was guided by the average rate from these auctions. Consequently, the exchange rate premium in the parallel market gradually declined to below 10 percent of the official rate in 1993 from its peak of about 400 percent in 1986. A market-determined exchange rate was adopted when an interbank foreign exchange market replaced the auction system in 1994.

69.   The real effective exchange rate appreciated in Tanzania in the second half of the 1990s. The REER based on trade-weighted consumer prices reveals a large real appreciation of the currency since 1996 (Figure III.1). This index is calculated from the Information Notice System (INS) database of the IMF and covers 23 major trading partners.[30] Table III.1 presents the weights for the REER index. Figure III.1 also displays various components of the REER: the nominal effective exchange rate, relative consumer prices, and an index of the nominal exchange rate between the Tanzania shilling and the U.S. dollar. While the nominal effective exchange rate remained stable, higher inflation in Tanzania than in its trading partners in the mid-1990s led to a real appreciation of about 50 percent between end-1995 and end-2000 (Table III.2). Thereafter, the real effective exchange rate has been depreciating primarily owing to a weakened currency, which declined by about 16 percent against the U.S. dollar during the last 18 months through June 2002.

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[29] These factors were also present in Kenya, South Africa, and Uganda, albeit to a lesser extent. Nevertheless, the selection of 1990 as a base (i.e., equilibrium) period is a subjective choice that has implications for any conclusions about the level of competitiveness.

[30] The INS methodology for REER construction is discussed by Zanello and Desruelle (1997).

70.   Alternative measures of REER show similar patterns of real appreciation in the second half of the 1990s. The literature shows that both the wholesale price index (WPI) and import price index of trading partners are more appropriate price indices than the consumer price index to evaluate competitiveness, as these prices indices include fewer or no nontradable commodities (Hinkle and Montiel, 1999). Thus, we have also calculated three alternative REERs based on the wholesale and import prices of five major trading partners using only export weights.[31] Because the set of trading partners and weights are different from the INS database, we have also calculated REERs based on the CPIs. All three REERs display similar patterns over the 1990s (Figure III.2). After a stable real effective exchange rate for 1990–95, a large real appreciation is clearly evident from all three indices during 1996–98. However, the REERs based on the wholesale and import prices display much larger losses for Tanzania's competitiveness than does the REER based on consumer prices, as total appreciation in the REER based on import prices is 50 percent during 1996-98 compared with only a 35 percent appreciation in the CPI-based real effective exchange rate.

71.   As Tanzania is mainly an exporter of primary products (e.g., agriculture crops and minerals), export prices are likely to be determined in the world market and in major currencies. In this situation, bilateral real exchange rates with respect to major currencies can also inform us about the competitiveness of the export sector. We have calculated bilateral real exchange rates for the three major currencies (U.S. dollar, U.K. pound sterling, and Deutsche mark) to see whether there are any significant differences in these real exchange rates (Figure III.3). All three bilateral real exchange rate indices are highly correlated and have similar patterns, except for the recent two years. The various indicators discussed above reveal largely similar patterns of competitiveness for Tanzania in the 1990s. Whereas the bilateral real exchange rate in the first half of the 1990s remained stable and thus suggested no loss in competitiveness, Tanzania's external competitiveness appears to have declined in the second half of the 1990s with respect to all three major currencies. The use of a floating exchange rate regime did not help to avoid a real appreciation of the currency of about 50 percent between 1996 and 2000.

72.   Tanzania's competitiveness relative to the other members of the EAC (Kenya and Uganda) and South Africa substantially worsened in the second half of 1990s (Table III.2). The REERs for these countries also show that Tanzania's currency appreciated in real terms, compared with the currencies of Uganda, Kenya, and South Africa (Figure III.4). Although broad trends for the real exchange rate are similar in Kenya and Tanzania, the loss in competitiveness is much smaller in Kenya. Over the whole decade, the total real appreciation was about 45 percent in Tanzania but only about 20 percent in Kenya. Uganda and South Africa, on the other hand, experienced a real depreciation in the 1990s and thus made substantial gains in their external competitiveness. The developments in relative competitiveness can be more clearly displayed by using the bilateral real exchange rates of these countries (Figure III.5). This comparison of competitiveness indicates that, unless the trend of the last few years in the REER is reversed, Tanzanian exporters will be at a

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[31] Based on average export shares for 1990–95, we have selected Germany, the United Kingdom, Japan, Italy, and the United States. The INS system also lists the same five countries as the largest trading partners, but with slightly different weights.

disadvantage within the EAC and domestic producers will face significant pressure from South African imports because of the appreciated currency.

73. Our conclusion that Tanzania's external competitiveness, as measured by the real effective exchange rate, eroded in the second half of the 1990s, however, should be taken with some caveats. It is based on the assumption that changes in the real exchange rate from the base period are only temporary, and, therefore, that any deviation of the REER from its level in the base period should be considered a misalignment. However, as noted above, the selection of the base (or equilibrium) period–1990 in our case–is a subjective judgment, and another base period could lead to different conclusions about the competitiveness. Moreover, this approach ignores the changes in the economic fundamentals that affect the equilibrium real exchange rate of an economy over time. For example, an equally plausible interpretation could be that the higher value of the REER since 1996 is a reflection of changes in the fundamentals of the Tanzanian economy (e.g., increased productivity, improved economic policy, better external environment, etc.) and, thus, does not necessarily mean an erosion in competitiveness. In the next subsection, to account for changes in the fundamentals of the economy, we estimate the equilibrium real exchange rate for Tanzania and calculate the misalignment by using the fundamentals approach instead of assuming a fixed base period as an equilibrium point.

C. Equilibrium Real Exchange Rate and Competitiveness

74. According to the fundamentals approach to the equilibrium real exchange rate, the underlying equilibrium real exchange rate is not fixed over time but is variable, based on the changes in an economy's fundamentals, such as terms of trade, productivity, and the policy stance.[32] Modeling the equilibrium real exchange rate (ERER) generally aims at determining the level of the real exchange rate that is consistent with both internal equilibrium (i.e., equilibrium in goods and labor markets) and external equilibrium (i.e., a sustainable current account). Thus, the *ERER* is correlated with a set of exogenous and policy variables – macroeconomic fundamentals – and can be specified as the following:

$$ERER_t = \alpha_0 + \alpha\,(F_i) + \varepsilon_t. \qquad (1)$$

Here F is a vector of variables that have been identified in the empirical literature as determinants of the equilibrium exchange rate. This vector includes the terms of trade (*ToT*), factor productivity of Tanzania relative to its partners (*RFP*), policy stance such as government consumption (*GC*) and trade openness (*OPEN*), and foreign capital flows— proxied by official development assistance (*AID*). Thus, the model in equation (1) can be further specified for Tanzania as below:

$$ERER_t = \alpha_0 + \beta_1 TOT_t + \beta_2 RFP_t + \beta_3 GC_t + \beta_4 OPEN + \beta_5 AID_t + \varepsilon_t. \qquad (2)$$

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[32] Owing to data limitations in the case of Tanzania, we concentrate on a few major economic fundamentals of the equilibrium exchange rate.

75.   Data constraints have led us to make some compromises in implementing the preceding analytical framework. First, we only use the external real exchange rate; this is measured as a ratio of domestic CPI to trade-weighted foreign prices, because data on the internal real exchange rate (i.e., relative prices of nontradable commodities to tradable commodities) is not available for Tanzania. For foreign prices, we use alternatively trading partners' consumer prices and wholesale prices. Second, owing to a lack of data on relative factor productivity, we use the relative growth rate of real GDP per worker (*RGDP*), measured in PPP dollars, as a proxy. Third, in the absence of data on public sector demand for nontradables and a measure of the stance of trade policy for a longer period, we use proxies for these policy variables: government consumption expenditures as a share of GDP, which are likely to be more intensive in nontradables, and trade openness, as measured by total trade share in GDP. The latter proxy measure is based on the argument that a more liberal trade regime leads to greater specialization in production and, hence, to a higher trade ratio. Our sample contains 32 annual observations covering the 1970-2001 period.

76.   We have tested for the time-series properties of all variables prior to estimation of the long-run equilibrium real exchange rate. We have applied the augmented Dickey-Fuller (ADF) test to check the existence of unit roots. The results in Table III.3 regarding the ADF test show that all variables in the ERER models are nonstationary in levels but these variables become stationary in the first difference.[33] The existence of a unit root in levels allows for the direct estimation of equation (2) using the cointegration regression. The results of the long-run equilibrium real exchange rate model based on the cointegration regression are reported in Table III.3 and discussed below. As the empirical models (except model 5) are estimated in log form, the coefficients represent elasticities of real exchange rate with respected to the economic fundamentals.

77.   Although, in theory, the terms of trade have an ambiguous impact on *ERER*, an improvement in *ToT* in Tanzania, defined as the ratio of its export prices to import prices in the world market, appreciates the currency in real terms. The theoretical ambiguity is caused by the fact that an improvement in *ToT* will not only have a positive income effect, which increases the demand for nontradable goods and, hence, their prices, but also a substitution effect that increases the demand for imports. Thus, the overall impact of a change in *ToT* on the real exchange rate depends on the relative sizes of the income and substitution effects. However, in the case of Tanzania, the income effect is likely to be stronger because imports are a smaller share of total GDP and because the terms of trade have been deteriorating for a long period. The significant positive coefficient on the terms of trade variable substantiates the view that the income effect dominates the substitution effect in Tanzania. Although the estimated coefficient on ToT is positive, it is relatively small, suggesting that the equilibrium real exchange rate is not very responsive to changes in the terms of trade. For example, according to most of the models in Table III.3, a 10 percent deterioration (improvement) in *ToT* would cause only about a 1.5 percent real depreciation (appreciation) of the currency.

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[33] The ADF test is based on the "*t*" statistic on the distributed lag term (α) in the following equation: $\Delta RER_t = \alpha RER_{t-1} + \sum_{j=1}^{k} \beta \Delta RER_{t-j} + \varepsilon_t$. The null hypothesis of unit root is rejected if (α) is significant.

78.   Policy fundamentals also influence the equilibrium real exchange rate. Our proxy for an open trade regime has a large negative estimated elasticity with respect to the real exchange rate, in line with the theoretical prediction that trade-liberalizing reforms depreciate the currency (Hinkle and Montiel, 1999). As reported in Table III.3, a 10 percent increase in the total trade-to-GDP ratio will depreciate the equilibrium real exchange rate by about 15 percent. Compared with a previous study of Tanzania (Nyoni, 1998), our estimate from a similar model is much larger, partly because our study also includes a more volatile period for the real exchange rate and openness variables (namely, 1994-2001). The alternative model (model 5), which is comparable to a recent study for Uganda (Atingi-Ego and Sebudde, 2000), suggests a similar impact of openness on the equilibrium real exchange rate.[34] The estimated elasticity of the *ERER* with respect to government consumption, a proxy for public sector demand for nontradables, is positive and significant. This result is consistent with previous empirical studies. For example, a 10 percent increase in government consumption expenditures – about 1 percentage point of GDP, based on the levels in 2001– will be consistent with about 5-6 percent appreciation of the equilibrium real exchange rate. Thus, as these expenditures are likely to increase in the context of implementing the poverty reduction strategy in Tanzania, there will be an upward pressure on the equilibrium real exchange rate.

79.   The relative productivity variable influences the ERER in two ways. First, on the domestic level, the Balassa-Samuelson effect predicts that a higher productivity growth in the tradables sector than in the nontradables sector leads to an increase in the ERER by lowering the relative prices of tradables. Second, at an international level, higher productivity growth of a country relative to its partners causes higher demand for nontradables and thus appreciates its ERER. Empirical evidence from Tanzania supports this hypothesis, as the estimated elasticity is about 0.4. However, this result is based on relatively weak data for the real GDP, which is measured in purchasing power dollars. Our results suggests that, as the Tanzanian economy is likely to grow at a faster pace than its trading partners owing to both a likely catching up and the recent effort to increase investments, the equilibrium real exchange rate will appreciate further.

80.   As Tanzania has little access to borrowing from international capital markets, its current account depends heavily on official flows, primarily official development assistance (ODA). In general, an increase in capital inflows (and aid) appreciates the real exchange rate by increasing the demand for nontradable commodities. The greater is the appreciation pressure on the real exchange rate, the higher is the marginal propensity to spend aid on nontradable commodities and the larger is the aid share in total economy. Tanzania exhibits high aid dependence by any standard (e.g., an aid-to-GDP ratio that averaged 10 percent in recent years). This aid dependency has raised concerns about external sector competitiveness, even though a significant portion of foreign aid goes to project-related imports.

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[34] According to model 5, a 2 percentage point increase in openness (the trade-to-GDP ratio), which is roughly equal to the 10 percent increase in *log(OPEN)* used in other models, will depreciate the real exchange rate by about 16 percent.

81.   Our empirical results do not provide support for the theoretical prediction that an increase in foreign aid appreciates the currency and, hence, weakens competitiveness. Contrary to the theory, model (1) in Table III.3 shows that a 10 percent increase in the official development assistance-to-GDP ratio will depreciate the equilibrium real exchange rate by about 4.3 percent.[35] However, we believe that this model not only has some important economic fundamentals missing but also inaccurately assumes that all types of aid have a similar impact on the equilibrium real exchange rate. For example, when other fundamentals of the real exchange rate are included in the model (e.g., model 2, with the addition of terms of trade), the negative impact of aid on the real exchange rate declines substantially.[36] More important, when we use a different formulation of model 2 (i.e., model 5), the impact of foreign official assistance disappears as the estimated coefficient becomes statistically insignificant.[37]

82.   Models 3-4 test the hypothesis that various types of official foreign assistance have differential effects on the equilibrium real exchange rate. Whereas grants are more likely to be consumed, especially if untied, loans are usually linked to specific investment projects. Consequently, grants are likely to appreciate the currency through increased demand for nontradable goods, but loans may strengthen the supply response of the nontradable sector, thereby depreciating the real exchange rate. Moreover, loan inflows are likely to have a more differential impact on the real exchange rate than grants because large borrowing, even if it is concessional, for a highly indebted country like Tanzania will worsen debt sustainability and weaken the currency. Empirical evidence for Tanzania strongly favors the view that grants and loans have a differential impact on the equilibrium real exchange rate. For example, model 4 shows that, when overall foreign aid is replaced with its components (grants and loans), the results regarding aid impact change substantially. When separated from the loans, the grant variable does not have a statistically significant impact on the equilibrium real exchange rate. Foreign loans, however, still have a large negative coefficient, which suggests that a 1 percent increase in the foreign borrowing-to-GDP ratio will depreciate the real exchange rate by about 0.5 percent. We believe that this negative correlation between the real exchange rate and external borrowing is partly caused by structural adjustments, which are not accommodated in our models. For example, Tanzania borrowed heavily under the structural adjustment programs of the late 1980s and early 1990s; at the same time, the exchange rate premium in the parallel market declined from about 400 percent in 1986 to below 10 percent in 1993 because of economic reforms. We believe further research is needed to account for these structural changes in an equilibrium real exchange rate model. In sum, we find no evidence that an increase in official foreign assistance has caused any erosion in external competitiveness.

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[35] Based on a similar model, Nyoni (1998) estimates that a 10 percent increase in foreign aid inflow in Tanzania caused the real exchange rate to depreciate by about 5.6 percent.

[36] The same is true when we add the relative growth of real GDP per worker instead of the terms of trade.

[37] This model of ERER has been applied to other countries (see Atingi-Ego and Sebudde (2000)).

83.   Based on cointegration regressions, the real exchange rate of the Tanzania shilling was slightly overvalued at end-2001 but is gradually moving toward its equilibrium level. In order to extract the long-term trend component of the fundamentals for calculating an equilibrium real exchange rate, we have smoothed the data series by using a Hodrick-Prescott smoothing filter.[38] The estimated equilibrium real exchange rate shows that the currency was significantly overvalued during 1997-99 (Figure III.6). However, since 2000, the fundamentals of real exchange rates have been improving, and, thus, the equilibrium real exchange rate has been rising. Consequently, the gap between the real effective exchange rate and the equilibrium real exchange rate has been narrowing. By 2001, the currency was overvalued in real terms by about 9-12 percent, compared with the 40 percent real overvaluation in 1998.[39] These estimates suggest that Tanzania's competitiveness has been improving in recent years. Contrary to the assessment of a real exchange rate based on the PPP approach in the previous subsection, which indicated an overvaluation of about 45 percent in 2001, the fundamentals approach suggests a relatively small (about 10 percent) overvaluation of the currency in real terms in 2001. The latter evidence is in line with our view that economic reforms have been improving the efficiency of the Tanzanian economy and thereby gradually offsetting the erosion in competitiveness in 1996-98. This view is also supported by the evidence on other aspects of competitiveness.

84.   We complement our analysis of the equilibrium exchange rate with other aspects of external competitiveness. First, we can analyze the relative cost of doing business within the EAC region. For small open economies, cost-based measures of competitiveness are a useful guide to the profitability of producing goods and services. As we do not have consistent and comparable overall business cost and unit labor cost indices for the EAC members, we compare and evaluate various aspects of doing business: utility costs, infrastructure, tax system, and institutional structure. Second, we can use the actual performance of Tanzanian exports during the 1990s to draw conclusions about the developments in its competitiveness. The growth of exports relative to Tanzania's regional competitors and the performance of sectors more sensitive to changes in the REER (e.g., manufactured exports) can be used as supplementary evidence for judging the changes in external competitiveness. The next two subsections focus on qualitative measures of competitiveness and Tanzania's export performance to supplement our analysis of external competitiveness.

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[38] The Hodrick and Prescott (HP) smoothing method is widely used to obtain a smooth estimate of the long-term trend component of a data series. However, like many other smoothing techniques, the HP filter's estimate of the permanent component depends on the smoothing coefficient used.

[39] Using model 3, we get estimates for overvaluation between 12 percent (for the CPI-based real exchange rate index) and 9 percent (for the WPI-based real exchange rate) for 2001.

D. Qualitative Measures of Competitiveness

85.   The discussion of qualitative aspects of Tanzania's external competitiveness is based on diverse sources of information. Tanzania embarked on a program of structural adjustment in the late 1980s and has since undertaken many measures to enhance efficiency and productivity in the economy. Similarly, Uganda started its economic reform program in 1986 when a reform-minded government took office. However, Kenya was always a relatively more market-oriented economy. Moreover, the recent efforts to form a free trade area and customs union among the three countries further induce us to do a comparative analysis of their external competitiveness. Furthermore, we want to analyze whether economic reform has improved efficiency and productivity, and whether such gains in efficiency could offset the drag of the real appreciation of the Tanzania shilling on the export sector.

86.   All three countries have been exporting primary commodities, with coffee, tea, cotton, and fish being the main exports. Moreover, most of the manufactured exports from Kenya and Tanzania are agriculture related. A study by the U.S. agency for International Development (USAID) provides a comparative analysis of the cost of production for major crops (Odhiambo and others, 1996). We focus only on the costs of two major agriculture exports: coffee and textiles/cotton (Table III.4). The labor cost for producing coffee was very similar in all three countries in 1992/93, but the cost in U.S. dollars of supplying clear coffee was much higher in Tanzania than in the other two countries, mainly because of a lower crop yield. Tanzanian's cost for one kilogram of clean coffee was US$2.2, compared with US$1.1 and US$0.8 for Uganda and Kenya, respectively. Similar patterns in the cost of producing a square meter of fabric were present in these countries. Despite relatively cheaper cotton lint and lower wages for skilled labor, Tanzania had the highest cost of producing textiles, about 40 percent more than the cost in Kenya. This comparative analysis indicates that Tanzania was less competitive in coffee and textiles in the early 1990s. Unfortunately, we do not have more recent data on the cost of production for clean coffee and textiles to assess changes in competitiveness as a result of the economic reforms. However, data on coffee yield for 2000/01 suggest that Tanzania has made significant progress in improving the efficiency of agriculture sector production (Table III.4).

87.   Costs of major utilities and taxes on certain inputs have been higher in Tanzania (Table III.5). Tanzanian businesses had to pay twice as much for electricity than those in Kenya in 1994 and were paying even higher average electricity tariffs in 2000. Recently, the cost of industrial fuel in Tanzania has been significantly higher than in Kenya, although both countries had about the same costs in 1994. Fuel cost is the highest in Uganda, partly because of the higher transportation cost resulting from its landlocked geographic position. Higher petroleum taxes in Tanzania have led to higher fuel costs. Tanzania has also higher telecommunication costs and a much higher cost of registering new businesses than Kenya. The authorities are aware of these problems, which were also discussed at the recent investor roundtable, and have taken some steps to improve the business environment (e.g., lowering electricity tariffs for businesses in April 2002 and reducing taxes on some industrial fuels in the 2002/03 budget). Finally, although exports are zero rated for the value-added tax, Tanzania has a slightly higher VAT rate than other members of the EAC.

88.   The business community's perception of Tanzania's relative economic performance and prospects has been improving in recent years, as is evident from the analysis carried out

in the recent reports on Africa's competitiveness (World Economic Forum, 1998 and 2000/01). Albeit somewhat subjective, this approach is comprehensive as it covers many aspects of competitiveness, including infrastructure, labor, and the performance of institutions. This assessment utilizes both published data and business survey responses to compare the performance of 22 major African economies. The overall performance of Tanzania was below average in 1997, as it was placed at the 16th position out of a total of 22 African countries (Table III.6).[40] However, Tanzania's ranking on the overall competitiveness index improved in 2000/01 report, suggesting that continued good economic policies and reforms have improved Tanzania's perception by the business community. For example, Tanzania was ranked lower than Kenya and Uganda in 1997 but was ranked better than these countries on the competitiveness index in 2000/01.

89.   Tanzania scores even better on two other performance indices: the backward-looking improvement index and the forward-looking optimism index. The improvement index indicates changes in the business community's assessment of various policies and costs of doing business in the year of survey relative to five years earlier; the optimism index shows expected changes in these areas for two years in the future. The improvement index clearly shows that Tanzania, which was ranked third in the 1997 survey and is listed at the top in the 2000 survey, has made tremendous progress in providing a business environment conducive to economic growth (Table III.6). Uganda has performed equally well, but Kenya was ranked much lower on the improvement index. At the same time, the business community in Tanzania is more optimistic about the government's efforts to further improve the business environment in the coming years, as Tanzania was ranked second among 24 African nations on the optimism index in 2000/01. These perception indices clearly indicate that economic reforms in Tanzania have improved the business environment and enhanced economic efficiency. However, the overall ranking is still weak, indicating substantial room for further improvements.

90.   The survey responses for the *Africa Competitiveness Report* and the recent investor roundtable discussions indicate that Tanzania has substantial work ahead to make its business sector more competitive in the region. The exchange rate policy was considered supportive of the export sector, but access to credit for this sector was rated poor. On the government indicator, Tanzania has a relatively lighter burden of government regulations, but, despite many years of reform, its tax system is still considered an obstacle for business growth. Tanzania's banking system is perceived to be open, but it is considered as not serving adequately the credit demands of businesses, especially smaller firms. Although Tanzania's ranking on infrastructure is similar to other EAC members, the costs of transportation, electricity, and telecommunications are considered a major hindrance for competitiveness.

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[40] The 1998 report contains 23 countries, of which 22 were included in the report for 2000/01. Overall performance is based on six sets of indicators: openness (trade and exchange rate policies); government (fiscal performance, tax structure, burden for businesses of government regulation, and government efficiency); finance (saving and investment rates, banking quality, and access to financing); infrastructure (level and adequacy of infrastructure, and costs of infrastructure); labor (skill, health, and work conditions); and institutions (antitrust policy, legal system, crime, and stability of the policy regime).

91.   On the labor side, although Tanzania has a relatively less disruptive work environment, the hiring practices are deemed to be inflexible, and the education system is judged to be weak. Finally, on the institutional front, Tanzania's performance was ranked much better than Kenya's and Uganda's despite some concerns about the frequent changes in government policies regarding the business sector and the complex, as well as costly, procedures for starting new businesses.

E. Tanzania's Export Performance in the 1990s

92.   The export sector performance was mixed in the 1990s. Whereas total exports of goods grew substantially in the first half of the 1990s, they then declined persistently in 1997-99, following the real appreciation of the currency during 1996–98 (Figure III.7). Since 2000, aggregate exports have been recovering, mainly due to increased gold exports. However, if we adjust for the growth in gold exports, which grew from US$3 million in 1998 to US$254 million in 2001, the rest of the export sector does not show much improvement.[41] The average annual growth of exports (U.S. dollar value) was about 13 percent for the period 1991-95 but exports declined by about 3 percent annually over 1996-99 – a time when the real exchange rate sharply appreciated and agriculture production was affected by adverse climatic conditions related to the El Niño phenomenon (Table III.7). The average annual growth rate of exports for the whole decade was only 5.6 percent, compared with export growth of 8.1 percent for developing countries and 7.8 percent for Kenya. As Tanzania's terms of trade remained relatively stable during the second half of the 1990s, persistent decline of nongold exports after 1996 cannot be explained by developments in the terms of trade. One of the factors for the poor performance of exports in the 1997-99 period was a significant real overvaluation of the currency, which has been discussed in previous subsections.

93.   Since 1990, Tanzania has made progress in diversifying its exports' composition and destination and, thus, has reduced its vulnerability to external shocks generated from primary commodities (Figure III.8). At the beginning of the 1990s, Tanzania was mainly an exporter of a few traditional agricultural commodities, when coffee and cotton accounted for about 40 percent of total exports. With the liberalization of the marketing and exporting of agricultural commodities, Tanzania's traditional exports more than doubled between 1991 and 1996 (an annual growth rate of 16), partly due to the emergence of new cash crops (e.g., cashew nuts). After 1996, when traditional and manufactured exports were declining, exports of minerals and fish products grew substantially, increasing from about US$107 million in 1997 to about US$400 million in 2001 (an average growth rate of 33 percent per year). The geographical pattern of exports also changed during the 1990s, with a substantial increase in the share of exports to Africa and other developing countries. For example, exports to Kenya rose from 1 percent in 1990 to about 5 percent of the total exports in 2001.

94.   Notwithstanding the good overall performance, the share of manufactured exports has been declining in Tanzania since 1997, except for a small recovery in 2000-01. As the

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[41] Based on data from the Bank of Tanzania, overall exports grew by 6.9 percent annually, while nongold exports grew by only 2.9 percent per year during the1991-2001 period.

manufacturing sector is usually more sensitive to external competitiveness, the significant decline in manufactured exports in 1997-99 suggests that the real overvaluation of the currency had adversely affected the sector (Figure III.7). While manufactured exports were about 16 percent of total exports during 1994-96, the share of these exports declined to about 6 percent during 1998-99. The trade regime in Tanzania is designed to provide incentives and some relative protection to the manufacturing sector through a cascaded tariff structure. Under the current structure, which has only three nonzero tariff rates (10, 15, and 25 percent), capital goods and unprocessed raw material imports have no import duty, while most of the finished consumer goods are subject to a 25 percent import tariff in order to encourage domestic manufacturing. Moreover, the government applied various restrictions (licensing, minimum dutiable values, suspended duties, etc.) on selected imports to promote domestic manufacturing sector. Despite all these measures, manufactured exports declined in the second half of the 1990s. In addition, manufactured exports accounted for only 6 percent of the manufacturing sector's total annual output during 1998–2000, indicating that most Tanzanian firms produce for domestic consumption.

95.   Several factors explain the decline in traditional and manufactured exports since 1997. First, the large real appreciation of the currency since 1995 has eroded the competitiveness of the export sector. Second, the decline in world prices for commodities (e.g., coffee and cashew nuts) has reduced export earnings. Third, a severe drought in 1998–99 caused a decline in agricultural production. Fourth, trade liberalization and increased regional integration led to a decline in the manufacturing sector, which was heavily protected prior to the 1990s. Overall, although Tanzania's manufacturing sector is weaker than Kenya's, the growth performance of all categories, except clothing, has been better than Kenya's in recent years (Table III.8).

F. Conclusions

96.   Several important conclusions can be drawn from this analysis of Tanzania's external competitiveness. First, the real effective exchange rate indicators based on the PPP approach point to a significant worsening of Tanzania's external competitiveness in the mid-1990s. Similarly, the estimated equilibrium real exchange indicates that the currency was significantly overvalued in real terms during 1996-2000, although some of the real overvaluation has been offset in the last two years by improvements in the economic fundamentals. However, in 2001, the real exchange rate was still about 10 percent overvalued compared to its equilibrium level. Thus, the broad trends of a real overvaluation of the currency are similar under both the PPP-based approach and the fundamentals approach. Second, despite Tanzania's high dependency on foreign aid, our empirical results for the equilibrium real exchange rate do not provide support to the theoretical prediction that an increase in foreign aid appreciated the currency and eroded the competitiveness in Tanzania. However, we believe further research is needed to account for the structural shifts in Tanzania, a factor that is missing in our model, and to get a more definitive answer on the impact of foreign aid on competitiveness. Third, the adverse impact of the overvalued currency in 1996-2000 is evident from the decline in Tanzania's market share in the world after 1996 and the sharp decline in manufactured exports. However, the recent increase in total and manufactured exports reveals that external competitiveness has been improving. Fourth, some of the loss in competitiveness due to the real appreciation of the currency has been offset by the authorities' economic reforms, as is evident from the increased export

diversification and improved external position. However, agricultural exports are still stagnant, partly because of depressed commodity prices, and manufactured exports are rebounding only slowly; both of these facts suggest that further reforms in these sectors are needed to improve efficiency and competitiveness. Finally, the business community in Tanzania viewed favorably the authorities' efforts during the second half of the 1990s to promote private businesses; it also has a positive outlook for the coming years. However, the business community also observes that Tanzania's private sector still faces several problems that are not captured by the traditional measures of competitiveness (i.e., real exchange rate), including poor access to credit and generally high costs of doing business.

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Table III.1. Trade Weights for Real Effective Exchange Rate (REER) of Tanzania

(In percent)

Partner	Weight	Partner	Weight	Partner	Weight
United Kingdom	16.10	Belgium	3.65	Brazil	1.66
Germany	11.87	India	2.76	Finland	1.51
Japan	11.16	China	2.72	Spain	1.36
Italy	10.11	Denmark	2.42	Australia	1.30
United States	8.13	Canada	2.37	Norway	1.23
Netherlands	5.54	Kenya	1.86	Singapore	1.23
France	4.48	Switzerland	1.78	Korea	1.22
Sweden	3.78	Pakistan	1.75	Total of 23 countries	100.00

Source: IMF, Information Notice System (INS).

Table III.2. Real Effective Exchange Rates (REERs) and their Components for
Tanzania and Other Regional Economies

(Percent change)

	1990–95	1996–2000	Dec/2000–Jun/2002
REER – Tanzania			
% change in REER (-dep.)	-2.5	50.7	-13.2
% change in NEER (-dep.)	-58.2	-8.7	-17.4
% change in relative prices	133.5	64.8	4.9
% change in NER (-dep.)	-66.2	-27.8	-16.2
REER – Kenya			
% change in REER (-dep.)	10.7	8.9	-6.0
% change in NEER (-dep.)	-43.1	-15.5	-1.2
% change in relative prices	94.6	28.7	-4.8
% change in NER (-dep.)	-55.0	-33.2	0.1
REER – South Africa			
% change in REER (-dep.)	-1.3	-17.1	-18.6
% change in NEER (-dep.)	-20.1	-34.5	-25.8
% change in relative prices	23.5	26.6	9.6
% change in NER (-dep.)	-28.7	-47.5	-24.7
REER – Uganda			
% change in REER (-dep.)	-11.1	-4.0	-5.3
% change in NEER (-dep.)	-25.5	-21.3	-1.2
% change in relative prices	19.2	22.0	-4.2
% change in NER (-dep.)	-56.3	-40.8	-0.7

Source: IMF: Information Notice System (INS).
Notes: NEER is the nominal effective exchange rate, while NER is an index of nominal exchange
rate of local currency with respect to U.S. dollar.

Table III.3. Fundamentals of Long-Run Real Exchange Rate in Tanzania

	CPI-Based RER					WPI-Based RER	
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (1)	Model (5)
log(OPEN)	-1.624	-1.652	-1.500	-1.489	-0.091	-1.423	-0.080
	[11.12]	[17.03]	[16.83]	[15.39]	[10.29]	[11.31]	[14.56]
log(GCGDP)	0.706	0.572	0.621	0.745	0.064	0.465	0.040
	[5.59]	[5.97]	[7.63]	[7.38]	[4.60]	[4.31]	[4.78]
log(ODAGDP)	-0.430	-0.337			-0.016	-0.353	0.002
	[6.31]	[3.84]			[1.34]	[6.16]	[0.27]
log(TOTG)		0.146	0.144		0.301		0.46
		[2.57]	[3.55]		[1.89]		[4.79]
log(RGDP)				0.404			
				[1.60]			
log(GRANTGDP)			-0.037	-0.005			
			[1.06]	[0.17]			
log(LOANGDP)			-0.495	-0.752			
			[6.17]	[8.96]			
Constant	9.807	9.250	8.654	8.987	5.740	9.543	4.700
	[22.43]	[22.06]	[34.35]	[27.93]	[6.96]	[25.66]	[9.80]

Unit root test for residuals

ADF test statistic	4.04	4.44	4.95	6.20	4.75	4.23	5.73
test's significance	0.004	0.001	0.000	0.000	0.001	0.002	0.000

Notes: Whereas model 1 is the same as used by Nyoni (1998), models 2-4 include additional variables and disaggregated aid variable. Model 5, which has been used by Altingi-Ego (2000) for Uganda, is different as it includes openness, government consumption, and aid variables without logarithmic transformation. The augmented Dickey-Fuller (ADF) test results indicate that all variables in our models have unit roots in levels but become stationary in first difference. For the ADF test, the MacKinnon critical values for rejection of the null hypothesis of a "unit root" are as follows: -3.65, -2.95, and -2.61 at the 1 percent, 5 percent and 10 percent levels, respectively. The ADF test results for the level and first difference of the variables are reported below:

a) Total trade as share of GDP - log(OPEN):   (-1.85, -6.54)
b) Government consumption as share of GDP- log(GCGDP)   (-1.88, -4.82)
c) Total ODA as share of GDP – log(ODAGDP)   (-2.31, -5.81)
d) Terms of trade index for goods – log(TOTG)   (-1.40, -5.85)
e) Growth in real GDP per worker relative to major partners – log(RGDP)   (-0.47, -4.38)
f) External grants as share of GDP – log(GRANTGDP)   (-2.38, -4.48)
g) Loans as share of GDP – log(LOANGDP)   (-2.37, -9.30)
h) REER based on CPIs   (-2.03, -3.00)
i) REER based on WPIs   (-2.15, -3.25)

Table III.4. Comparative Competitiveness of EAC Countries for Selected Crops

Indicators	Tanzania	Kenya	Uganda
Coffee 1/			
Cost per kilogram clean coffee	2.2	0.8	1.1
Average yield (kilogram per hectare)	211	550	450
Labor cost (wages- dollar per day)	0.8	0.9	0.8
Dollar return to family labor (Arabica coffee)	-0.3	4.7	1.4
Coffee – average yield (kilogram per hectare) in 2000/01	450	506	612
Cotton and textile 2/			
Production cost of 200 grams per sq. meter of fabric (dollars)	2.4	1.7	2.0
Cost of cotton lint (dollars per kilogram)	1.4	2.1	1.5
Skilled labor cost (dollars per month)	46.0	136.0	170.0
Total taxes on textile related imports 3/	5.0	7.7	3.4

Sources: Odhiambo and others (1996). Coffee yield in 2000/01 is from the Food and Agriculture Organization database.
1/ Data are for year 1992/93.
2/ Data year varies for the three countries between 1993 and 1994.
3/ Tax cost is measured as percent of cost of production.

Table III.5. Selected Costs of Doing Business in EAC Countries
(In U.S. dollars, unless otherwise indicated)

Indicators	Tanzania	Kenya	Uganda
Costs in 1994			
Electricity cost per kilowatt-hour	0.073	0.035	0.075
Water cost per cubic meter	0.104	0.560	0.001
Industrial fuel cost per liter	0.353	0.373	0.489
Costs in 2000			
Electricity cost per kilowatt-hour	0.105	0.093	0.080
Water cost per cubic meter	...	...	0.851
Industrial fuel cost per liter	0.626	0.440	0.719
Of which: taxes	0.353	0.167	0.209
Telecommunications: per three-minute local call, (1999)	0.080	0.050	0.150
Telecommunications: per three-minute call to the U.S., (1999)	13.00	11.00	9.00
VAT (in percent)	20	16	17
Costs of entry regulations for new business in 2002			
Average number of days required to complete registration (days)	37	68	36
Cost to register a business	582.4	155.2	429.0

Sources: For 1994, Odhiambo and others (1996). For 2000, data collected from various sources (e.g., meeting with business community in Tanzania, and the 2000 RED report for Uganda). Telephone costs are from the 2001 UNCTAD report for Mozambique. Entry regulation data from the World Bank.

Table III.6. Competitiveness of Tanzania Relative to African Countries

Country	Competitiveness Ranking 1/		Improvement Ranking 1/		Optimism Ranking 1/	
	1997	2000	1992–97	1996–99	1997–99	1999–2001
Mauritius	1	2	11	14	14	19
Tunisia	2	1	8	6	17	6
Morocco	5	5	7	2	7	4
Egypt	6	6	2	8	4	11
South Africa	7	7	16	15	20	17
Zambia	*12*	*11*	*10*	*10*	*6*	*14*
Kenya	*13*	*21*	*9*	*13*	*13*	*13*
Uganda	*14*	*16*	*1*	*5*	*3*	*10*
Tanzania	**16**	**13**	**3**	**1**	**2**	**2**
Ethiopia	17	10	17	9	5	7
Mozambique	18	17	4	3	1	3
Zimbabwe	20	22	6	22	16	22
Malawi	21	18	12	20	9	12
Nigeria	22	19	19	4	10	1

Source: World Economic Forum (1998 and 2001).
1/ Overall competitiveness is an average of six indices: openness, government, finance, labor, infrastructure, and institutions. The "improvement" and "optimism" indices demonstrate business communities' attitudes toward the reforms and growth; they are constructed from nearly 30 "direction of change" questions in the business survey.

Table III.7. Exports Growth
(Annual average rate, in percent)

Country	1991–95	1995–99	1999–2001	1991–2001
Tanzania	**13.1**	**-2.9**	**7.6**	**5.6**
Tanzania – Bank of Tanzania data	13.6	-5.3	17.8	6.9
World	9.3	2.7	4.0	5.6
Developing countries	12.7	3.6	7.9	8.1
Africa	2.6	2.4	9.0	3.8
Kenya	14.7	2.7	4.0	7.8
Uganda	27.7	-8.0	-10.2	5.8

Source: IMF: Direction of Trade Statistics, unless otherwise indicated.

Category of exports	Export Composition in 2000		Trend Growth: 1996-2000 1/		Change in World Market Share 2/	
	Tanzania	Kenya	Tanzania	Kenya	Tanzania	Kenya
Fresh food	69.2	59.9	4.0	1.0	3.7	1.4
Minerals	24.4	11.1	26.5	-6.0	5.7	-2.6
Processed food	2.7	8.9	37.0	4.0	0.1	-7.8
Basic manufacturing	0.8	8.4	1.0	-4.8	-6.6	-11.0
Wood products	0.5	2.4	-7.0	7.0	7.7	-0.6
Textiles	0.5	1.7	-7.0	8.0	-0.6	-7.7
Clothing	0.8	0.5	1.0	16.0	-5.9	-3.6
Other exports	1.2	7.1	47.5	0.4	...	...

Table III.8. Competitiveness of Tanzania's Exports Relative to Kenya's

Source: COMTRADE database from United Nations Statistical Department (2001).

1. Trend growth is average annual growth weighted by individual weights of specific products within sector.

2 Gain (+) or loss (-) in market share is a combination of change in competitiveness, initial specialization of exports on dynamic markets and

on product facing a dynamic demand in the world market, and responsiveness of exports to changes in world demand.

Figure III.1. Tanzania: Real and Nominal Effective Exchange Rates, December 1990-June 2002
(Index, 1990=100)
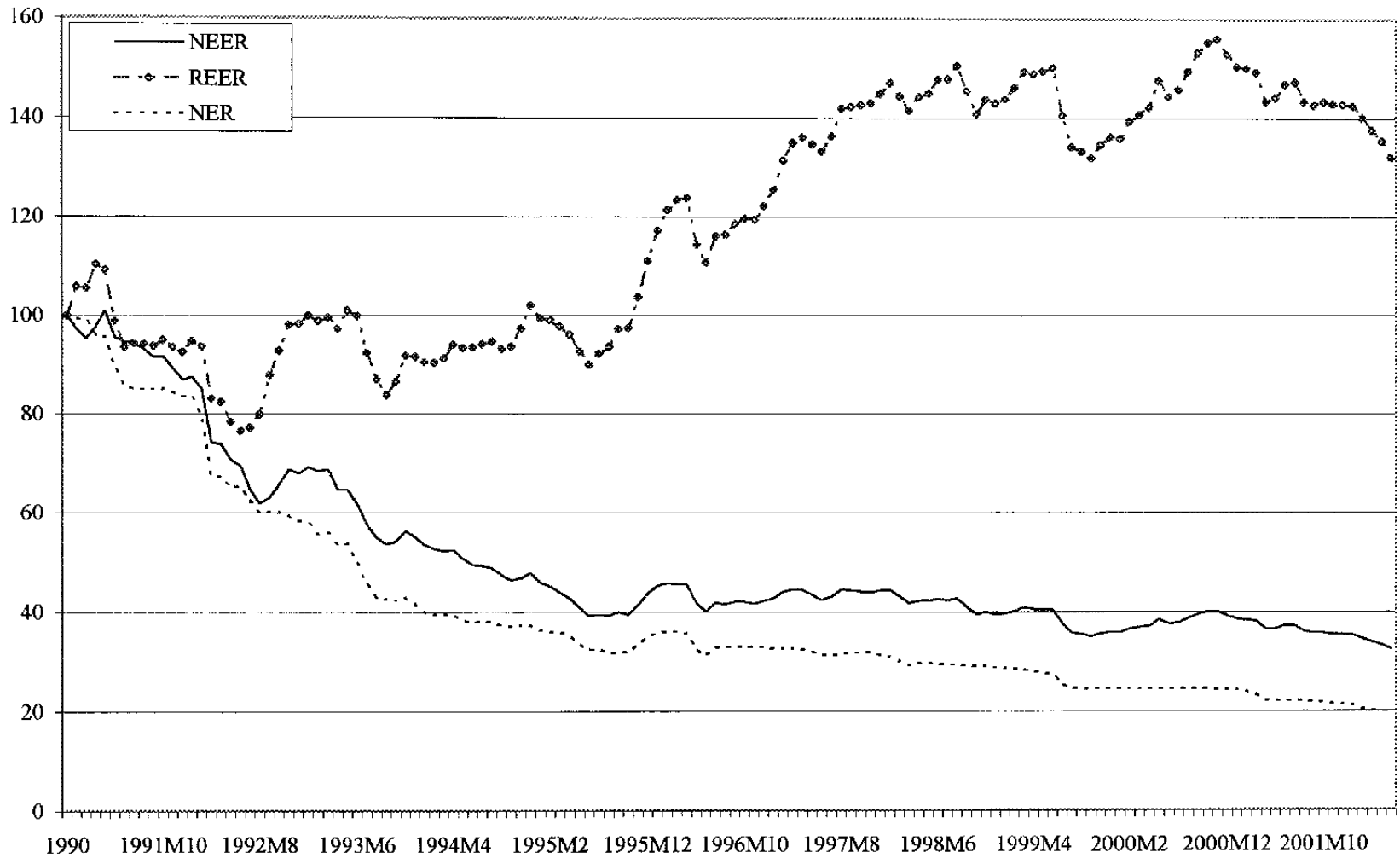
Source: IMF, Information Notice System (INS).

Figure III.2. Tanzania: Export-weighted Real Effective Exchange Rates, 1990:I-2002:II
(Index, 1990=100)
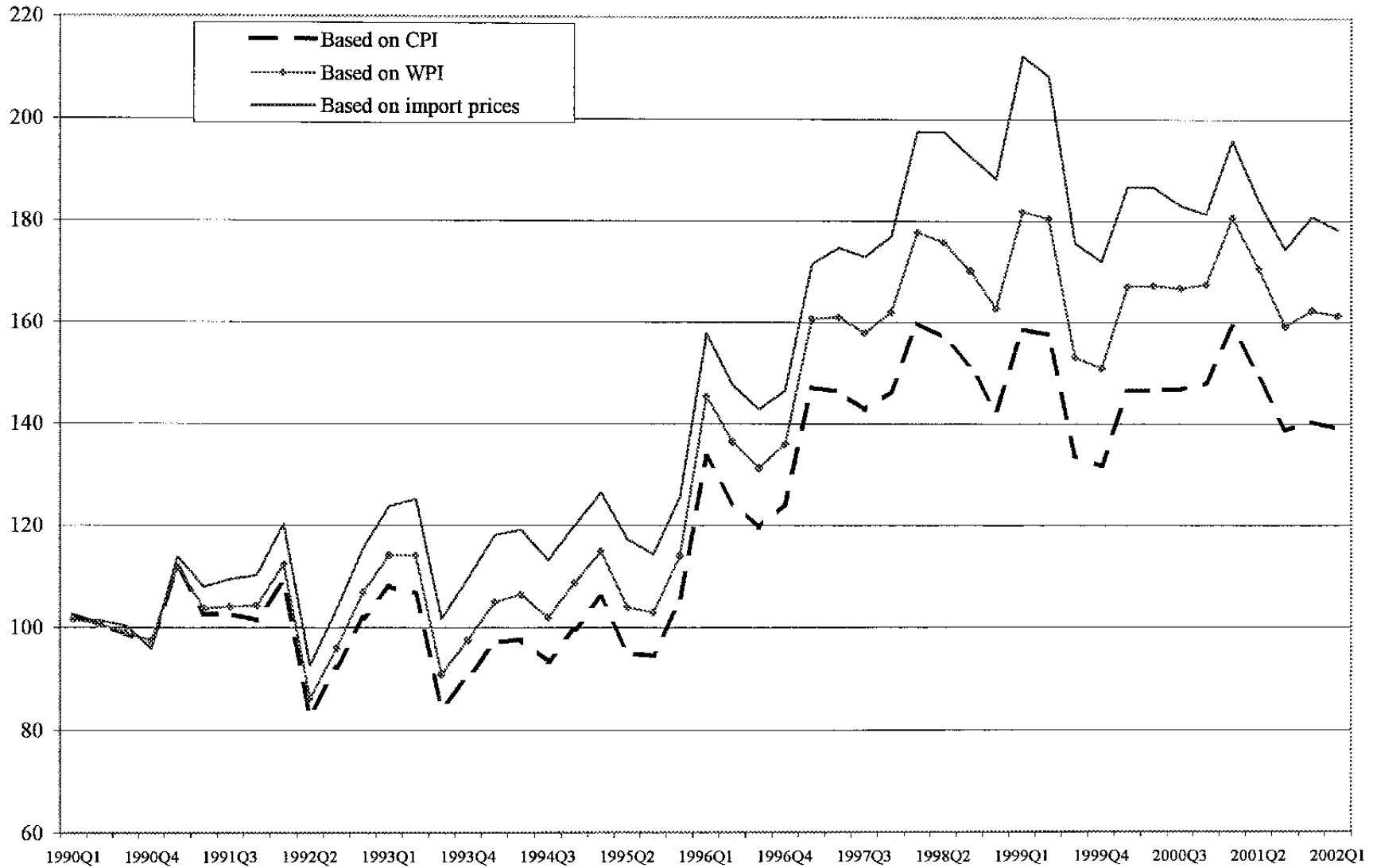
Source: IMF, International Financial Statistics, and Direction of Trade Statistics. IMF staff calculations.

Figure III.3: Tanzania: Bilateral Real Exchange Rates for Major Currencies, 1990:I-2002:II
(Index, 1990=100)
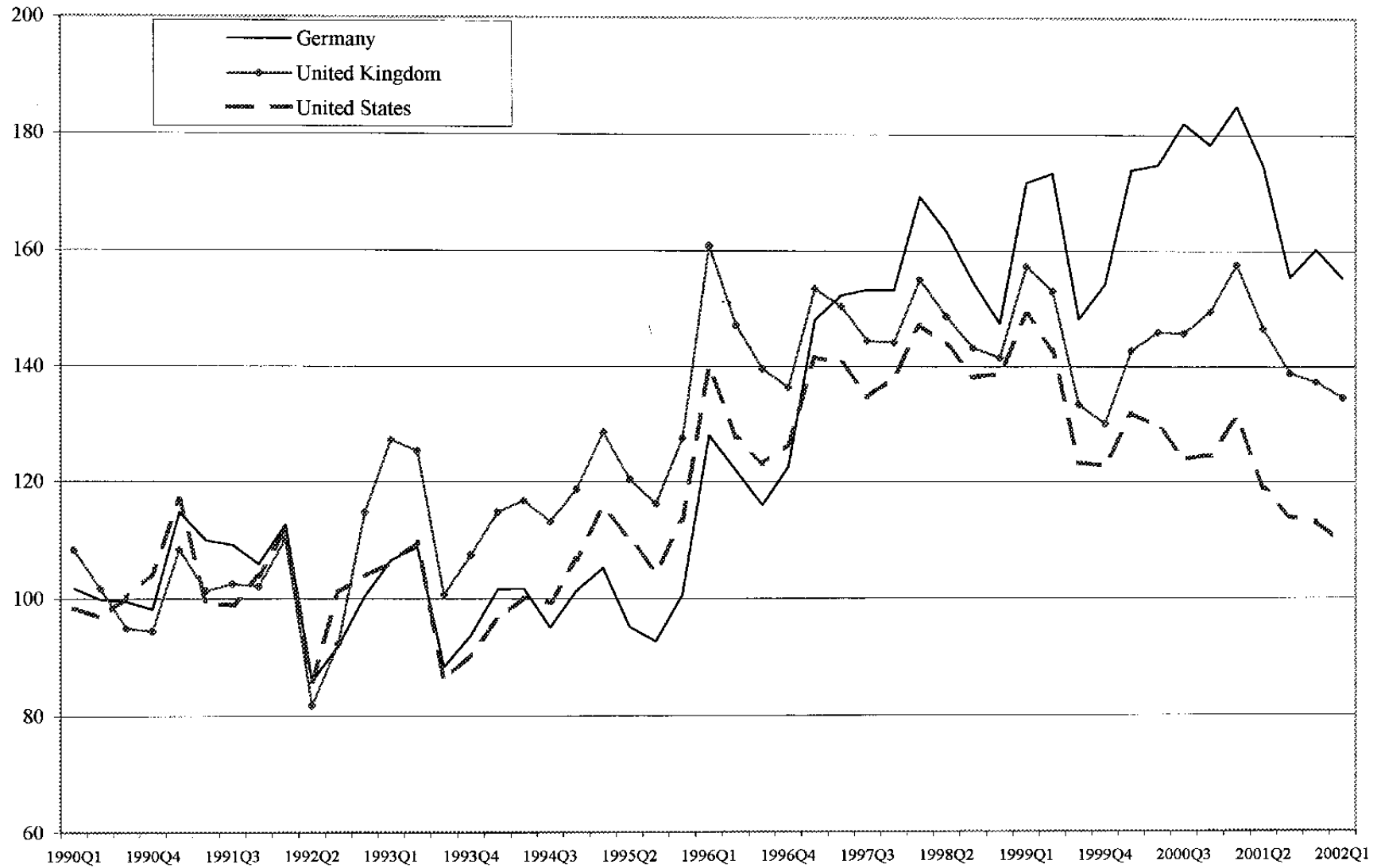
Source: IMF, International Financial Statistics. IMF staff calculations.

Figure III.4. Regional Real Effective Exchange Rates, 1990-2002:II
(Index, 1990=100)
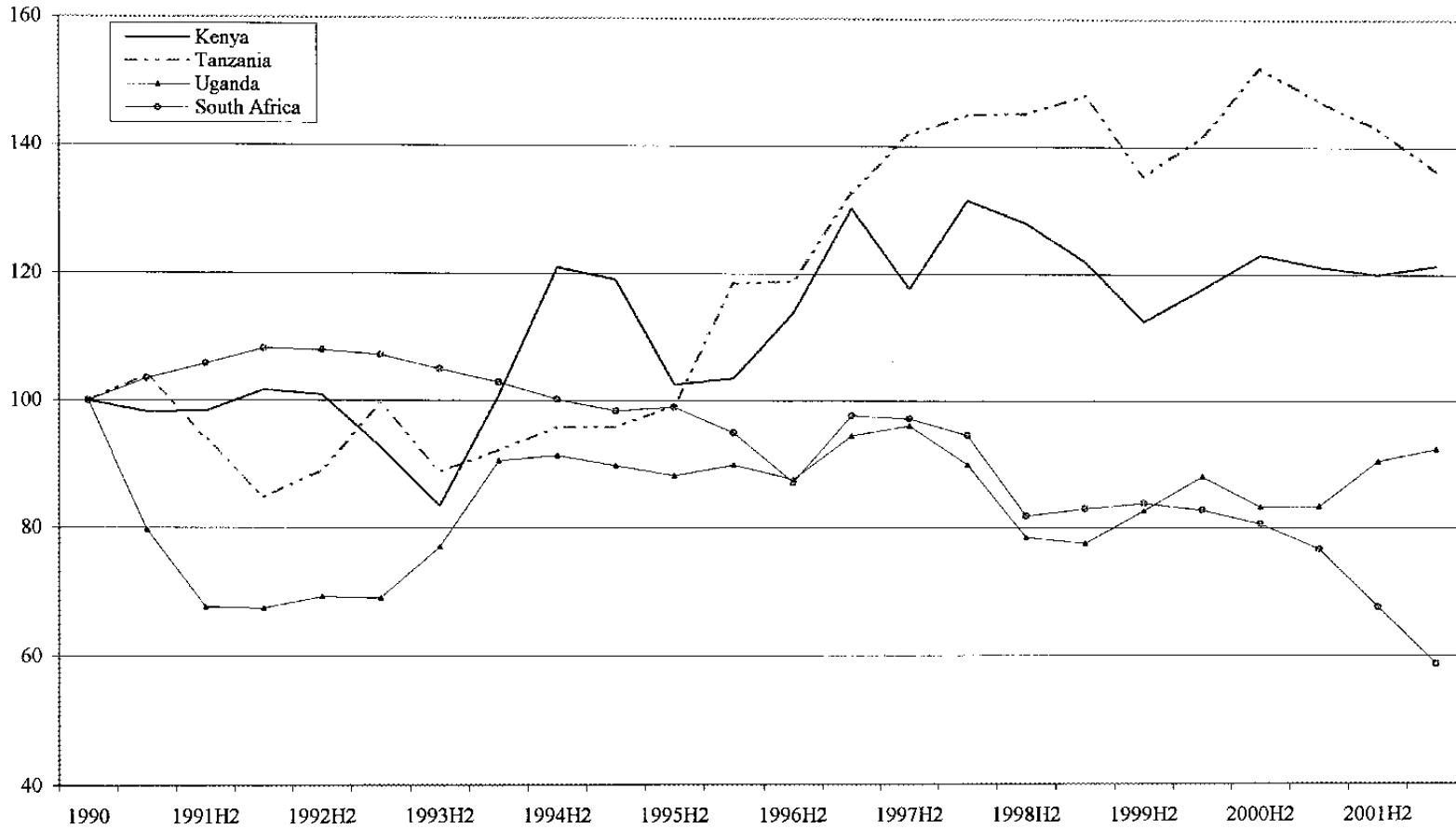
Source: IMF, Information Notice System (INS).

Figure III.5. Tanzania: Bilateral Real Exchange Rates with Regional Competitors, 1990:I-2002:II
(Index, 1990=100)
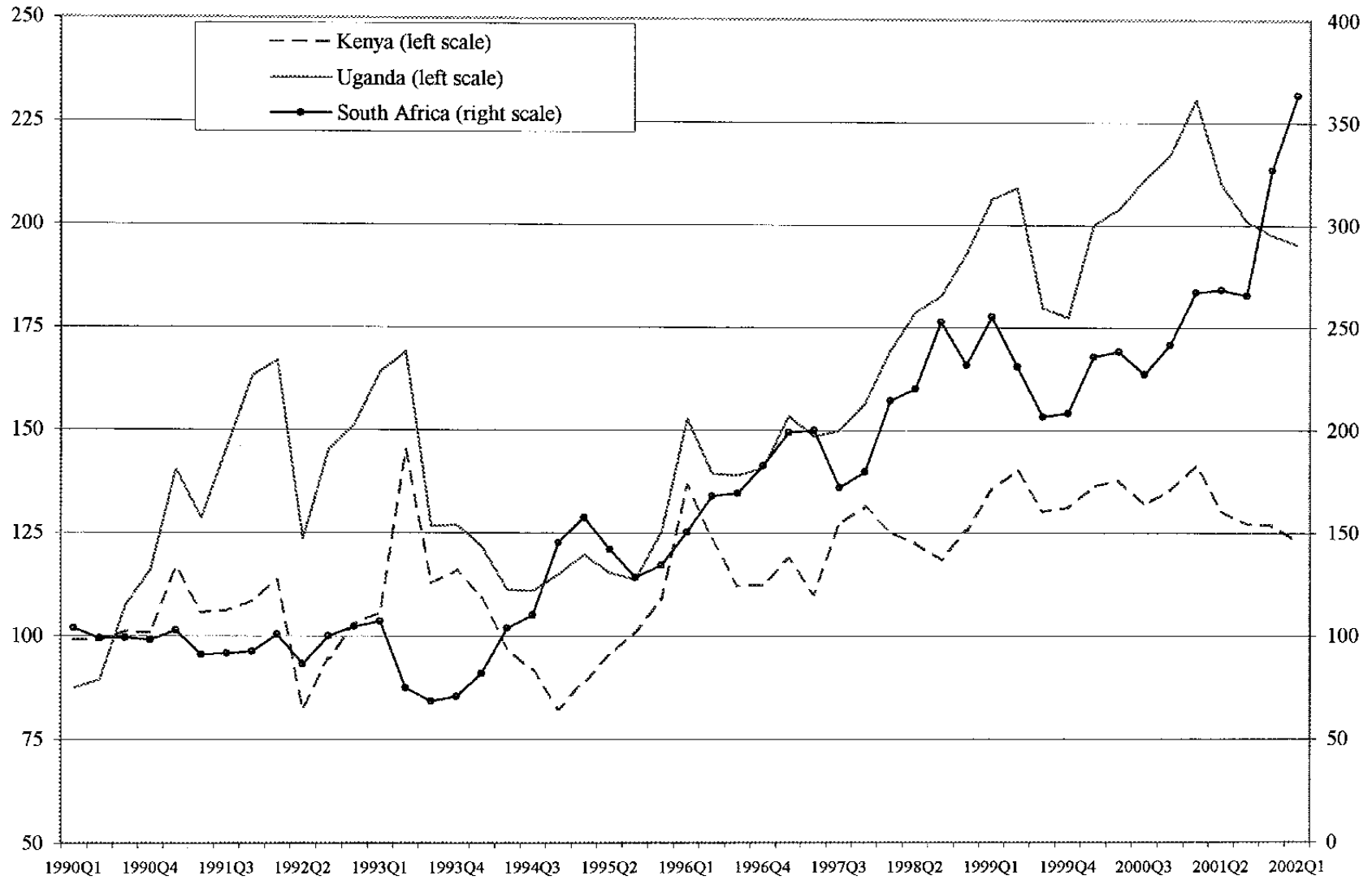
Source: IMF, International Financial Statistics. IMF staff calculations.

Figure III.6. Tanzania: Comparison of Actual REER and Long-Run Equilibrium Real Exchange Rate

Real Effective Exchange Rate (REER) (Based on CPIs) and Equilibrium Real Exchange Rate

Real Effective Exchange Rate (REER) (Based on WPIs) and Equilibrium Real Exchange Rate
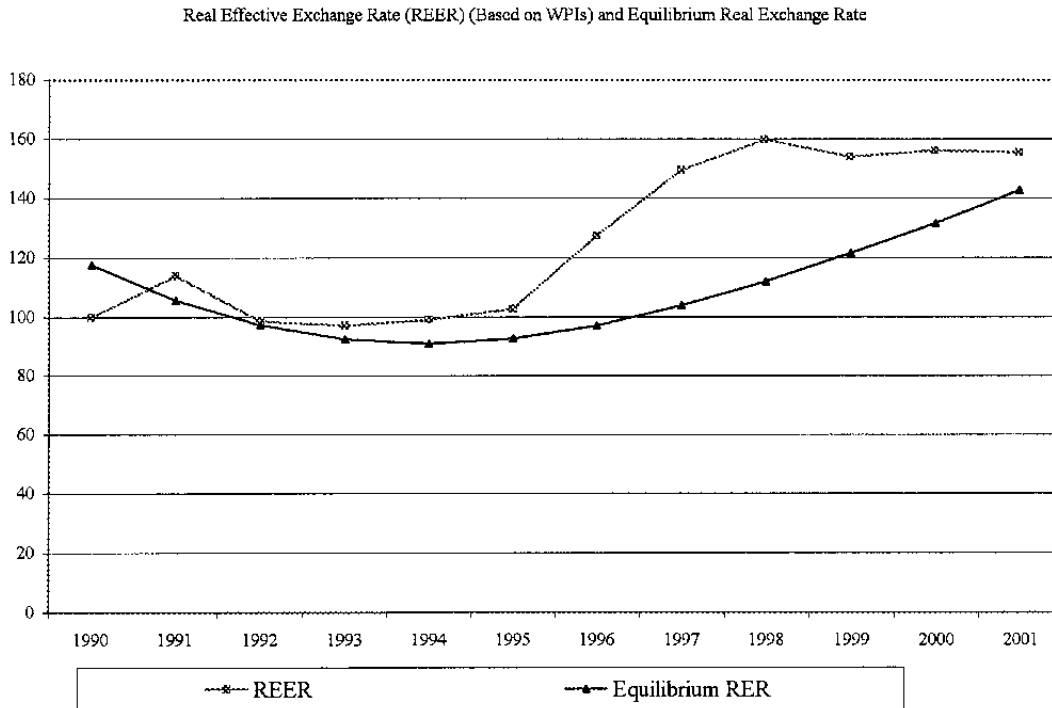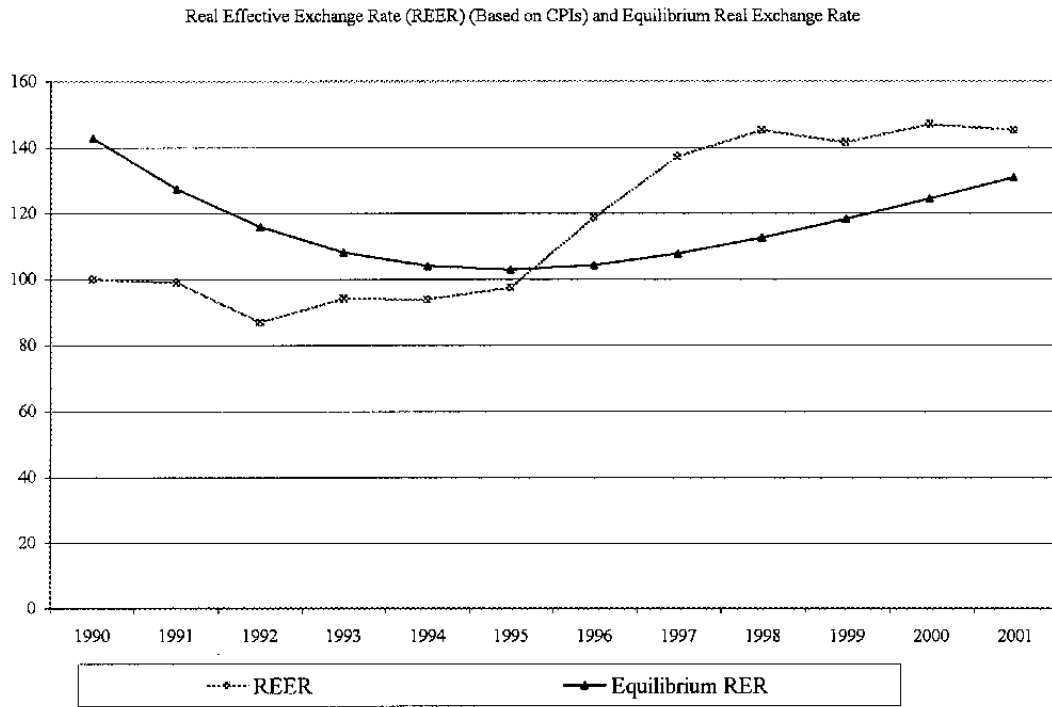
Source: IMF, Information Notice System and IMF staff calculations.

Figure III.7. Tanzania: Exports and Imports Indices (Based on U.S. dollar values) and Real Effective Exchange Rate (REER), 1990-2001
(Index, 1990=100)
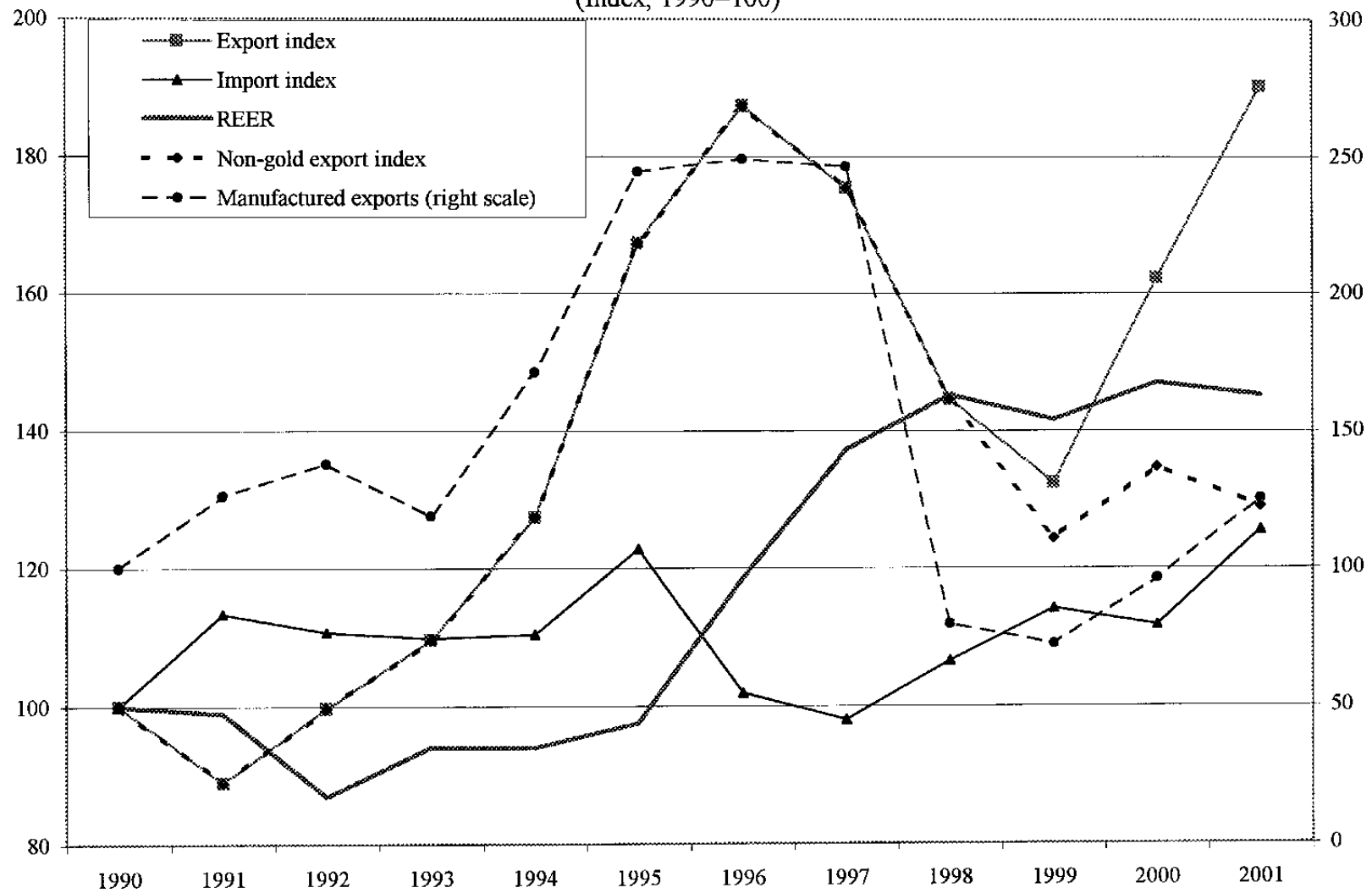
Source: IMF, International Financial Statistics, Tanzanian authorities, and IMF staff calculations.

Figure III.8. Tanzania: Changes in Composition of Goods Exports, 1990-2001

Composition of Exports: Average Shares for 1990-91
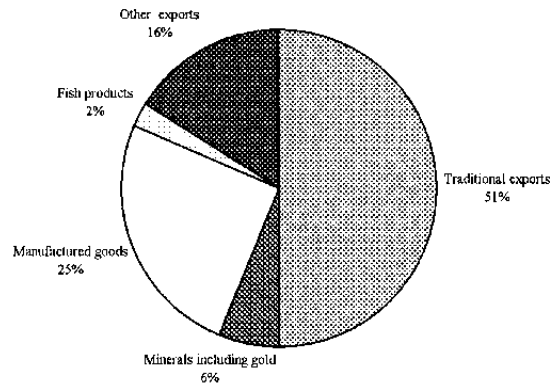
Composition of Exports: Average Shares for 1995-96
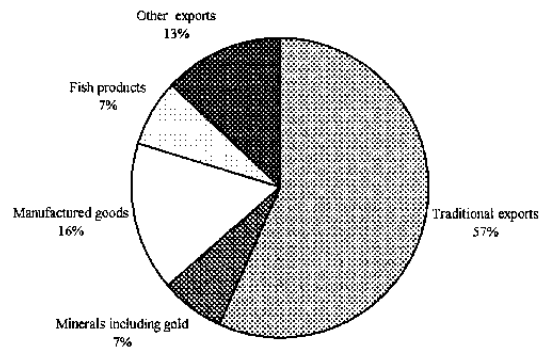
Composition of Exports: Average Shares for 2000-01

Source: Tanzanian authorities.
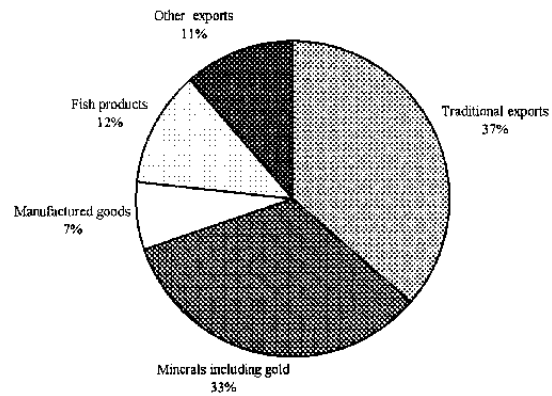
IV. AN ASSESSMENT OF PUBLIC DEBT SUSTAINABILITY IN TANZANIA AFTER THE HIPC INITIATIVE [42]

A. Introduction

97.   On November 27, 2001 Tanzania became the fourth country to reach the completion point under the enhanced framework of the Heavily Indebted Poor Countries (HIPC) Initiative. External debt–service relief under the enhanced HIPC Initiative from all of Tanzania's creditors is expected to amount to approximately US$3 billion over time (US$2.026 billion in net present value (NPV) terms). As a result of HIPC Initiative assistance, the NPV of Tanzania's total external debt has been reduced by some 54 percent.

98.   Debt–service payments have been cut substantially—as a percentage of government revenue, debt service has been reduced from 19 percent in 2000/01 (July–June) before HIPC Initiative assistance to an average after HIPC Initiative relief of 7.7 percent over the subsequent few years. Resources made available by this debt relief are to be used to fund antipoverty programs, which are outlined in Tanzania's poverty reduction strategy paper (PRSP).

99.   One key objective of the HIPC Initiative is to put a recipient country on a trajectory of external sustainability that does not require further rounds of debt relief. The (external) debt sustainability analysis (DSA) that underpins the debt relief provided to Tanzania under the enhanced HIPC Initiative was prepared by the staffs of the International Monetary Fund and the International Development Association and is detailed in the joint completion point document of November 8, 2001.[43] In the baseline scenario, which assumes average economic growth of 5.7 percent between 1999/2000 and 2008/09 and 6 percent between 2008/09 and 2017/18,[44] the staffs' judgment is that, after full debt relief under the enhanced HIPC Initiative, Tanzania's external debt position would be sustainable over the medium term. This conclusion is based on a number of benchmarks agreed under the HIPC Initiative that signal whether external debt is sustainable. For example, the NPV of the debt–to–exports ratio was expected to remain well below the HIPC Initiative target of 150 percent over the projection period. In the sensitivity analysis of the DSA, two pessimistic scenarios were considered: scenario 1 assumed lower economic growth and exports, and scenario 2 assumed lower external grants. Under both scenarios, the debt indicators deteriorate considerably but remain sustainable—the impact of lower growth on the debt indicators is considerably larger. This underscores the need for Tanzania to implement structural policies that are growth enhancing, and to maintain access to external grants and highly concessional financing.

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[42] Prepared by Ashok Bhundia.

[43] Available at www.imf.org.

[44] The interest rate, exchange rate, and macroeconomic assumptions are detailed in Tables 8 and 9 of the completion point document.

100.   One potentially important class of public debt that is not considered in the DSA is public domestic debt, including government guarantees. In the medium term, depending on the evolution of future government policy regarding the mix of domestic versus foreign borrowing, domestic debt may become an important source of additional stress on the government's fiscal position. Moreover, if at any time the international donor community were to reduce its support to Tanzania, the government may have to borrow more from domestic sources at market–determined interest rates to allow for a gradual adjustment of its fiscal position. Otherwise, a large compression in government expenditures would be needed to close the fiscal gap, resulting in adverse consequences for the wider economy and the program of poverty–reducing expenditures.

101.   This section extends the traditional DSA analysis in two ways: it includes domestic debt in the analysis; and the framework analyzes the implications for debt sustainability of the willingness of creditors to provide new financing to Tanzania. The focus of the framework is on the primary fiscal balance (excluding grants) that the government would be required to run to maintain a sustainable path for government debt, subject to the behavior of creditors, and the macroeconomic assumptions underpinning the projections.

102.   The degree of access to highly concessional financing to help finance Tanzania's priority expenditures has major implications for debt sustainability in Tanzania because of the large grant element provided by this type of financing. Different assumptions about the growth in concessional financing could have a large impact on the primary balance required for debt sustainability. One of the scenarios considered in this section also sheds light on the implications for fiscal policy of a withdrawal of donor support.

103.   We focus here on the path of the primary balance that is consistent with debt sustainability–defined as a public debt–to–GDP ratio that is constant or declining over time. The growth in concessional loans is assumed to be driven by the willingness of external donors to provide additional concessional financing, and the growth in domestic debt by the rate of growth in nominal U.S. dollar GDP. The primary fiscal balance (nominal fiscal balance, excluding interest payments) can serve the government as an operational target to ensure that its debt profile remains sustainable, given assumptions about the availability and terms of future sources of financing. If fiscal policy were on an unsustainable path, the government would need to implement changes in taxes and expenditure to bring about the required adjustment in the primary balance, or make efforts to secure additional concessional financing.

B. The Analytical Framework

Benchmark Model

104.   Following Edwards (2002),[45] the level of nominal public debt is disaggregated into two types: (i) concessional debt (DC) granted by multilateral agencies and other donors, and

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[45] Sebastian Edwards, "Debt Relief and Fiscal Sustainability," *NEBR Working Paper* 8939 (Cambridge, Massachusetts: National Revenue of Economic Research, 2002).

(ii) debt issued on commercial terms (DD). For simplicity, it is assumed that all new external debt taken up by Tanzania's public sector after the HIPC Initiative completion point is on concessional terms (specifically, IDA terms), and all new domestic debt is contracted at market–determined interest rates in the domestic capital market.

105. In the model simulations, all debt is denominated in foreign currency (U.S. dollars).[46] The stock of public debt at time t is then DC_t plus DD_t. The net increase in this stock at time t is given by the following expression:

$$\Delta D_t = \{\ r_t^C\ DC_{t-1} + r_t^D DD_{t-1}\} + pb_t \qquad (3)$$

where r_t^C and r_t^D are the interest rates paid on concessional and domestic debt, respectively, and pb_t is the primary balance. Two key parameters in the model govern the rate at which the government can accumulate nominal debt and still maintain a sustainable debt position: θ is the rate at which external creditors are willing to provide a net increase in concessional loans, and β is the rate at which domestic creditors are willing to fund a net increase in domestic debt. However, θ and β cannot be so large as to allow the nominal stock of total public debt to increase as a proportion of GDP without bound. If g is the rate of growth in real (U.S. dollar) GDP and π^* is U.S. dollar inflation, then the following condition is necessary for a debt-GDP ratio that is bounded (does not increase without limit):[47]

$$\theta \leq (\ g + \pi^*) \text{ and } \beta \leq (\ g + \pi^*). \qquad (4)$$

106. This bounded property ensures that the primary balance, pb_t, required to prevent a financing gap (net of foreign and domestic loans) converges over time to a steady state level. The expression for the dynamic path of the primary balance that is consistent with debt sustainability is then the following (see the appendix for the derivation):

$$pb_t = \frac{(r^d - \beta)}{(1 + g + \pi^*)}\left[\frac{(1 + \beta)}{(1 + g + \pi^*)}\right]^{t-1} dd_0 + \frac{(r^c - \theta)}{(1 + g + \pi^*)}\left[\frac{(1 + \theta)}{(1 + g + \pi^*)}\right]^{t-1} dc_0, \qquad (5)$$

where dd_0 and dc_0 are the initial (time $t=0$) ratio of domestic debt and concessional debt to GDP, respectively (in U.S. dollars).[48] Specifically, this is the initial stock of debt after full HIPC Initiative relief, including additional relief by bilateral creditors.[49]

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[46] In subsection C, the benchmark model is extended to include valuation effects from changes in the real exchange rate.

[47] Since both the domestic and foreign debt is converted into U.S. dollars, the nominal growth in U.S. dollar GDP is equal to the sum of the real growth in U.S. dollar GDP plus U.S. dollar inflation.

[48] The initial ratios are those prevailing after full enhanced HIPC Initiative relief as at June 2001. Negotiations continue between Tanzania and its non-Paris Club creditors, which

C. Projections

107. The simulations track over time the primary balance required to maintain debt sustainability under the assumption that Tanzania achieves its growth target of 6 percent and inflation target of 4 percent implied by the macroeconomic assumptions (see Table IV.1).[50] Three cases are considered in the simulations:

Case I: recourse to domestic financing

108. This is the baseline scenario and assumes that the donor community is not willing to provide (net) new concessional loans, so that $\theta = 0$, and that any additional concessional financing from donors is sufficient only to roll over the existing stock of foreign obligations of the government as they become due. In the simulation, additional domestic borrowing increases the stock of domestic debt at the same rate as nominal U.S. dollar GDP ($\beta=g+\pi^*=0.1$), and so the ratio of domestic debt to GDP remains constant at its initial level, while the ratio of external debt to GDP declines over time to a steady state of zero.

Case II: external borrowing on highly concessional terms

109. This simulation assumes that, on top of the domestic financing available under case I, additional new loans are available to the government from external donors on highly concessional terms, so that the ratio of external loans to GDP remains constant at its initial level. By comparing case II with case I, we can assess the impact of the concessional financing on the government's required primary balance. In this case, θ and β are equal to growth in nominal GDP ($g+\pi^*$), and so the ratio of the aggregate stock of debt to GDP remains constant at its initial level over the simulation horizon. This case is analogous to the traditional steady state analysis of debt sustainability, which asks what level of the primary balance would stabilize the current level of the debt–to–GDP ratio, given the projections of the growth rate of GDP and the real interest rate.

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complicates the treatment of this debt as at June 2001. To simplify the analysis, and without knowledge of the outcome of these discussions, all debt is assumed to have been provided relief in line with the enhanced HIPC Initiative.

[49] The link between this model and the DSA framework is clear if we assume the exports-to-GDP ratio remains constant at is initial level because then the evolution of the debt-to-GDP ratio over the simulation horizon pins down the evolution of the debt-to-exports ratio, which is an important indicator of external debt sustainability under the DSA framework of the HIPC Initiative.

[50] The primary balances implied by the simulations are conditional on the macroeconomic assumptions being satisfied. Therefore, using this framework, it is not possible to provide insights into what fiscal adjustment would be required, and the form it should take, if, for example, there is a negative shock to GDP (or if there is a shock to θ or β) in one year during the simulation period. In this sense, the simulations are deterministic.

Case III: real exchange rate overvaluation

110. This case incorporates the impact of changes in the real exchange rate on the sustainable primary balance, while the other macroeconomic assumptions are the same as in case II. The real exchange rate is assumed to be overvalued by 10 percent at the completion point, and in each period the gap between the real exchange rate and its equilibrium value is assumed to close by 10 percent. A partial adjustment equation, such as expression below, then governs the path for the real exchange rate over the projection horizon:

$$rer_t = rer_{t-1} - 0.1 * (rer^* - rer_{t-1}). \qquad (6)$$

111. The impact of the real exchange rate on the sustainable fiscal position translates into the following expression, which is expression (1) augmented with changes in the real exchange rate (see the annex for the derivation):

$$pb_t = \frac{(r^d - \beta)}{(1 + g + \pi^*)} \left[\frac{(1 + \beta + \Delta rer)}{(1 + g + \pi^*)} \right]^{t-1} dd_0 + \frac{(r^c - \theta)}{(1 + g + \pi^*)} \left[\frac{(1 + \theta + \Delta rer)}{(1 + g + \pi^*)} \right]^{t-1} dc_0, \qquad (7)$$

where Δrer is the change in the real exchange rate.

Case IV: net repayment of foreign loans

112. This case highlights the risk of foreign creditors' withdrawing from Tanzania. It assumes that foreign creditors reduce their exposure gradually, so that the Tanzanian government is required to make a net repayment of its foreign loans as they fall due—the net repayments amount to a reduction in the nominal stock of outstanding foreign debt of 5 percent in each period. This contrasts with case I, in which donors provide enough external financing to roll over Tanzania's external debt obligations.

Table IV.1. Tanzania: Summary of Macroeconomic and Other Assumptions

	Case I	Case II	Case III	Case IV
Net growth in foreign loans, θ (in percent)	0	8	8	-5
Nominal stock of foreign loans	Remains at initial level (foreign donors provide for a rollover of maturing debt)	Grows at 8 percent	Grows at 8 percent	Falls by 5 percent each period (net repayment each period)
Net growth in domestic borrowing, β (in percent)	8	8	8	8
Initial real exchange rate overvaluation (in percent)			10	
GDP growth, g (in percent)	6	6	6	6
US dollar inflation, π^* (in percent)	2	2	2	2
Domestic inflation, π (in percent)	4	4	4	4
Interest rate on concessional loans, r_t^C (level in percent points)	0.75	0.75	0.75	0.75
Interest rate on domestic debt, r_t^D (level in in percentage points)	8	8	8	8

Figure IV.1 Required Primary Balance for Debt Sustainability (ratio to GDP)

Legend:
- ■ Case I - domestic borrowing only
- △ Case II - concessional borrowing
- ✕ Case IV - withdrawal of foreign donors
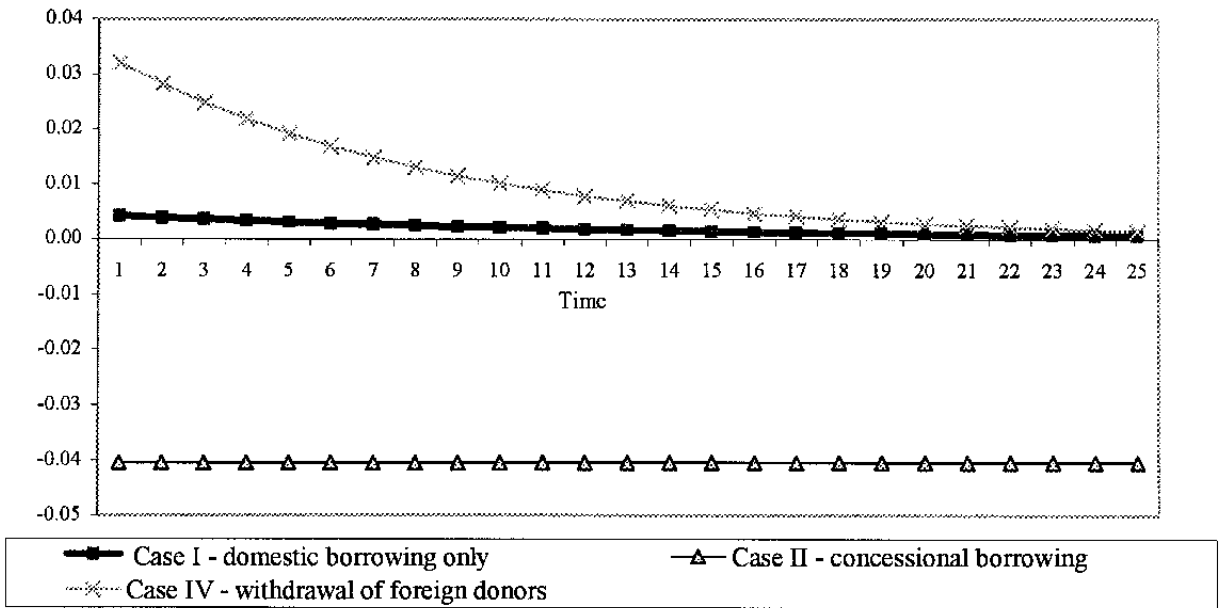
Figure IV.2 Impact of a Real Exchange Rate Depreciation on Case II (ratio to GDP)

····▲···· Case III - real exchange depreciation   ──◆── Case II - concessional borrowing
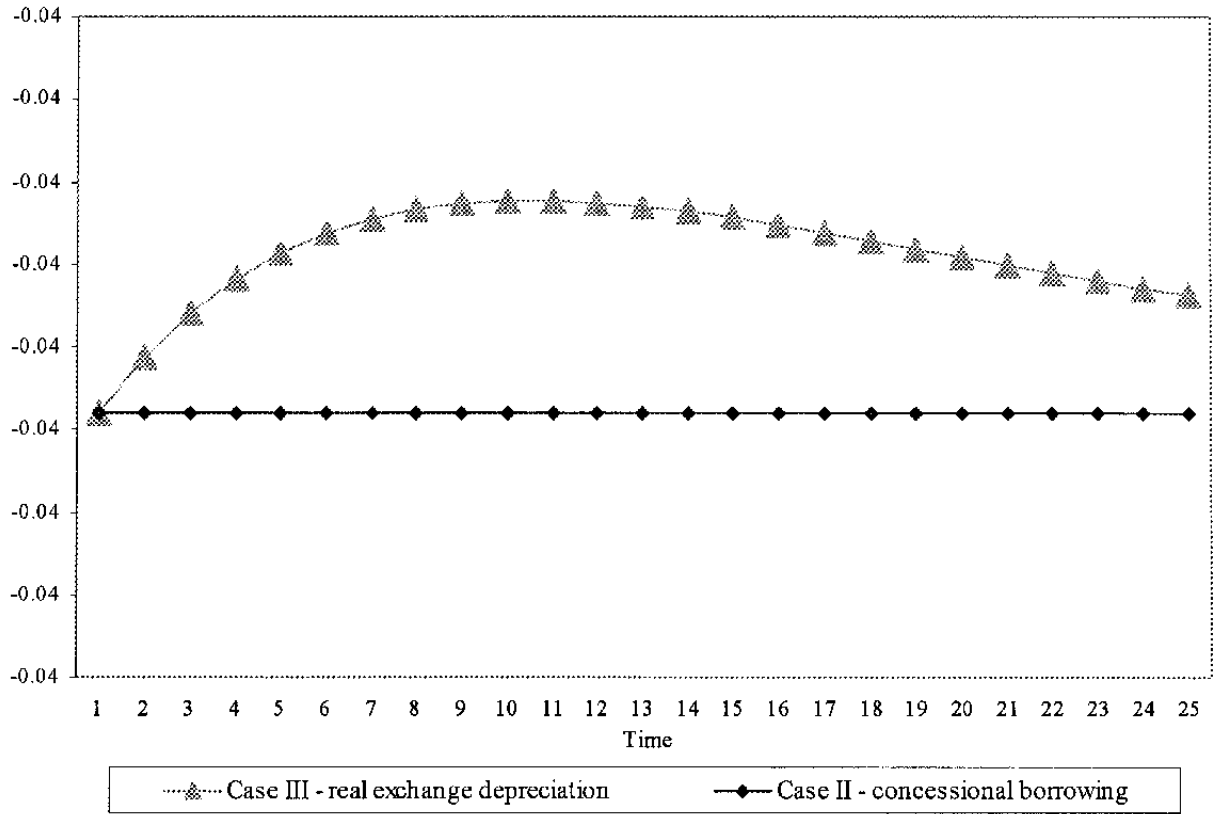
D. Fiscal Effort Under Alternative Cases

113.   The least amount of fiscal effort is required under case II (Figure IV.1).[51] Under this case, the government has access to highly concessional financing from foreign sources; this allows for a rapid expansion in its resource envelope, while maintaining a fiscal position that is sustainable. Of the three cases, growth in the total stock of debt is highest in case II because net new financing from foreign sources grows at the rate of nominal GDP. The large grant element in the foreign financing provides the government with some additional resources, and, because the rate of interest paid on concessional debt is considerably lower than the rate of growth in GDP, the debt dynamics under case II are very favorable.

114.   One important consequence that emerges from a comparison of cases I and II is that the resource envelope of the Tanzanian authorities grows more rapidly under case II. If higher growth in the resource envelope were to have a positive effect on economic growth, possibly through a more rapid expansion in growth–enhancing expenditures, then the gap between the required primary balance under the two cases could be even larger, primarily because the expected growth in GDP might then be higher in case II. The effect of fiscal policy on growth is subject to considerable uncertainty. However, as an illustration, if the higher–priority expenditures in case II were to boost GDP growth by 1 percentage point to 7 percent, the permissible primary deficit would rise from an average of 4 percent over the first ten years of the simulation period to 4.2 percent. This provides an illustration of the potential for a virtuous cycle in which higher–priority expenditures boost growth, with this, in turn, providing more room for additional growth-enhancing expenditure.

115.   Based on recent developments in the primary deficit and projections for 2002/03 and 2003/04, the simulations indicate the debt situation in Tanzania to be sustainable, once account is taken of the level of grants that Tanzania is expected to receive. Under case I, the required primary surplus declines over time from an initial level of 0.4 percent of GDP (before grants), while in case II, the Tanzanian government can comfortably run a primary deficit (before grants) of just over 4 percent of GDP. For fiscal years 2002/03 and 2003/04, grants are projected at 5.7 percent and 4.9 percent of GDP,[52] which would allow the authorities to accommodate, in 2002/03, a primary fiscal deficit of 5.3 percent under case I, and of 9.7 percent of GDP under case II.

116.   The favorable outlook for grant financing and its positive implications for public debt sustainability reflect recent experience in Tanzania. From 1999/2000 to 2001/02, the Tanzania government had a primary deficit of 0.6 percent of GDP (inclusive of grants), while grants averaged about 4 to 5 percent over the last two fiscal years. Overall, the projections for the primary deficit, together with the simulations presented above, suggest that Tanzania's

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[51] Fiscal effort here is defined as the balance between noninterest expenditure and revenue, and not the revenue–GDP ratio. A greater fiscal effort means a smaller primary deficit/larger primary surplus.

[52] These are IMF staff projections as of October, 2002.

projected primary balance is consistent with debt sustainability, so long as the government continues to have access to substantial donor financing on concessional terms.

Fiscal effort when the real exchange rate is overvalued

117. The previous cases assume that the exchange rate is constant over the simulation horizon. Case III takes the macroeconomic assumptions of case II and incorporates the impact of a real exchange rate depreciation toward its equilibrium value—the initial overvaluation of the real exchange rate is assumed to be 10 percent. A depreciation of the real exchange rate adversely affects the sustainable primary balance through a deterioration in the relative purchasing power of the Tanzanian government's tax base (which is in local currency) vis-à-vis its external debt obligations in U.S. dollars. Moreover, if an overvalued real exchange rate is an indication of an imbalance in domestic savings versus investment (domestic absorption is higher than output), then a tightening of fiscal policy would help address the problem by improving the public savings balance.

118. In case III, a steady depreciation in the real exchange rate toward its long-run equilibrium level unambiguously increases the fiscal effort required to maintain a sustainable debt position (Figure IV.2). The impact of a 10 percent overvaluation on the required primary deficit is small but temporary—on average, over the simulation horizon, the required primary deficit falls from 4 percent in case II to 3.9 percent in case III.[53] Eventually, the two cases converge as the real exchange rate converges toward its equilibrium value—the rate of convergence is a function of the speed with which the real exchange rate returns to its equilibrium value. The largest part of the adjustment in the real exchange rate occurs in the early part of the simulation. At first, there is a small reduction in the required (permissible) primary deficit, but once the gap between the real exchange rate and its equilibrium is sufficiently small, the favorable debt dynamics dominate, and the required primary deficit increases—this gives the backward-bending profile for the required primary deficit under case III.

The impact of a gradual withdrawal of foreign donors

119. While the simulations under cases I and II suggest that Tanzania does not have a near-term problem with debt sustainability, for the longer term, the risk remains that foreign donors could withdraw their support. Cognizant of this risk, case IV simulates a gradual withdrawal of foreign donors from Tanzania to assess the impact on the required primary balance.[54] In terms of the model's behavioral parameters, θ is set at −5 percent, which is a net repayment in each period by the Tanzanian government of 5 percent of its outstanding stock of external obligations as they fall due. The impact of even this gradual withdrawal of

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[53] This gap would increase for a larger overvaluation of the real exchange rate.

[54] The precise details of the simulation would depend on the nature and speed of the withdrawal of foreign concessional financing. However, the argument here is that a gradual withdrawal, as captured in the net repayment of 5 percent of outstanding obligations at each period, represents a fairly well–managed and phased exit, thus limiting the damage.

foreign donors on the required primary surplus is significant—the average primary surplus required over the first ten years of the simulation to maintain debt sustainability increases from 0.3 percent in case I to 1.9 percent in case IV. This suggests that even a gradual withdrawal of donor funds would require the Tanzanian government to significantly tighten fiscal policy.

E. Conclusions

120.   Based on the macroeconomic assumptions made about growth, inflation, and the availability of external concessional and domestic financing, the simulations indicate that the Tanzanian government can afford to run a primary deficit that is consistent with debt sustainability, if it continues to enjoy access to highly concessional external financing.

121.   Recent experience suggests that Tanzania does not face debt sustainability problems, but over the longer term the risk remains that concessional financing from donors will dry up. The stylized simulation in case IV indicates that the impact of even a gradual exit of foreign donors would have a significant adverse impact on Tanzania's required primary balance, implying significant fiscal tightening.

122.   Given the pressures to spend resources on social priorities such as health and education, the scope for reducing expenditures is probably limited. Consequently, over the medium term there is a need for the government to put in place revenue–generating measures that raise government revenue as a share of GDP, and to begin to put Tanzania on a fiscal path that is less reliant on debt financing, including external concessional financing. Encouragingly, the simulations indicate that, with access to external concessional borrowing, the Tanzanian government has time to bring about a positive change in revenue–generating capacity from domestic sources.

123.   The framework presented in this section suffers from a number of limitations that should be borne in mind when interpreting the results. First, the growth in θ (the per–period growth in the nominal stock of foreign concessional loans) and β (the per–period growth in the nominal stock of domestic debt) is assumed constant and exogenously given. However, it can be argued that these may change over time to reflect developments in donor attitudes to Tanzania, as well as the evolution of domestic debt markets. Second, the rate of growth of debt financing, external and domestic, may have the desired impact of enhancing growth in the medium to long run, especially if resources are well utilized, thereby improving the debt position. However, notwithstanding these limitations, the framework goes further than the concept of external debt sustainability, and highlights the interrelationships among fiscal policy, debt policy, and the mix of external versus domestic debt for financing poverty–reducing government expenditures.

Upper–case expressions are nominal values, and lower–case expressions are ratios to GDP. Begin with the first expression presented in the main text:

$$\Delta D_t = \{ r_t^C DC_{t-1} + r_t^D DD_{t-1} \} + PB_t \qquad (8)$$

Note that in expression (3) PB_t is expressed as expenditure minus revenue, and so to express it in the usual way of revenue minus expenditure, everything is multiplied by -1:

$$PB_t = -DD_t + DD_{t-1} - DC_t + DC_{t-1} + r_t^C DD_{t-1} + r_t^D DD_{t-1}, \qquad (9)$$

$$PB_t = (r^D - \beta)DD_{t-1} + (r^C - \theta)DC_{t-1}. \qquad (10)$$

Expressing all elements in terms of ratios to GDP, we get the following:

$$\frac{PB_t}{Y_{t-1}(1+g+\pi^*)} = \frac{(r^D - \beta)}{(1+g+\pi^*)}dd_{t-1} + \frac{(r^c - \theta)}{(1+g+\pi^*)}dc_{t-1}, \qquad (11)$$

$$pb_t = \frac{(r^D - \beta)}{(1+g+\pi^*)}dd_{t-1} + \frac{(r^c - \theta)}{(1+g+\pi^*)}dc_{t-1}. \qquad (12)$$

The key behavioral equations that govern the evolution of the ratio of debt to GDP are the following :
$dd_{t-1} = (1+\beta)dd_t$ and $dc_{t-1} = (1+\theta)dc_{t-1}$. Consequently, setting $t = 1$ gives :

$$pb_1 = \frac{(r^D - \beta)}{(1+g+\pi^*)}dd_0 + \frac{(r^c - \theta)}{(1+g+\pi^*)}dc_0,$$

$$pb_2 = \frac{(r^D - \beta)}{(1+g+\pi^*)}\left[\frac{1+\beta}{(1+g+\pi^*)}\right]dd_0 + \frac{(r^c - \theta)}{(1+g+\pi^*)}\left[\frac{(1+\theta)}{(1+g+\pi^*)}\right]dc_0, \text{ and so on,}$$

Therefore,

$$pb_t = \frac{(r^D - \beta)}{(1+g+\pi^*)}\left[\frac{(1+\beta)}{(1+g+\pi^*)}\right]^{t-1}dd_0 + \frac{(r^c - \theta)}{(1+g+\pi^*)}\left[\frac{(1+\theta)}{(1+g+\pi^*)}\right]^{t-1}dc_0. \qquad (13)$$

Including the real exchange rate changes into the expression amounts to augmenting the interest on domestic and concessional debt with the change in the real exchange rate. Then, expression (8) becomes the following:

$$pb_t = \frac{(r^D - \beta)}{(1+g+\pi^*)}\left[\frac{(1+\beta+\Delta rer_t)}{(1+g+\pi^*)}\right]^{t-1}dd_0 + \frac{(r - \theta)}{(1+g+\pi^*)}\left[\frac{(1+\theta+rer_t)}{(1+g+\pi^*)}\right]^{t-1}dc_0, \qquad (14)$$

where Δrer_t is the change in the real exchange rate at time t.

V. Privatization and Regulatory Reform in Tanzania[55]

A. Introduction

124.   A crucial element of the socialist policies pursued by Tanzania after independence was the establishment of public corporations that dominated virtually every sector of the economy. While in 1961 Tanzania had only 3 government-owned companies, by 1988 this figure had grown to 410 parastatals, accounting for two-thirds of employment in the formal sector. Many of these enterprises had been established through nationalization of existing private enterprises. In the late 1980s, signs began to emerge that the performance of these enterprises was unsustainable and dampening Tanzania's growth prospects: with capacity utilization hovering at 25 percent, parastatals built up salary and tax arrears and failed to service their debt obligations. Increasingly, the budget had to subsidize parastatals in order to prevent their closure. Moreover, the population increasingly recognized the declining quality and quantity of goods and services produced by parastatals. Public enterprise reform and privatization were therefore important elements of the new policy agenda when in the early 1990s, Tanzania decided to abandon socialist policies and steer the economy toward market-oriented reforms. The objectives of privatization were to reduce budgetary costs, increase the efficiency of the productive sector, boost growth prospects, and facilitate the provision of affordable and accessible key services. As a result, the government also expected privatization to help reduce the costs of doing business, a critical objective in its efforts to make Tanzania a more attractive investment location.

125.   As monopolies were transferred to the private sector or private operators entered sectors of the economy previously dominated by parastatals, Tanzania began to establish independent regulatory bodies, thereby separating the regulation from the operations of parastatals.

126.   This paper reviews Tanzania's privatization experience and discusses issues that have emerged in the process. While so far about two-thirds of the parastatals have been divested, large state-owned enterprises in the utilities and transportation sectors remain to be privatized. Furthermore, while the available preliminary evidence suggests that investment and productivity have picked up in privatized enterprises, indications are that growth and employment have not yet been affected, possibly because the largest enterprises are still to be privatized.

127.   The first subsection of the paper describes the institutions established to implement the privatization process and the regulatory agencies currently in place. Subsequently, the paper reviews progress in privatization so far. The third subsection discusses problematic issues that have emerged in the process of privatization, particularly in regard to the largest state-owned enterprises. The fourth subsection concludes.

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[55] Prepared by Volker Treichel.

B. The Institutional Framework

Privatization

128. The key institution in charge of executing the government's privatization agenda is the Parastatal Sector Reform Commission (PSRC). Liquidations of parastals and collection of bad loans are the responsibilities primarily of the Loans and Advances Realization Trust (LART). Both the PSRC and the LART receive significant technical and financial support from the World Bank.

The Parastatal Sector Reform Commission (PSRC)

129. In 1993, the government established the PSRC to coordinate and implement the privatization of parastatals in Tanzania. The PSRC's wide-ranging tasks are enshrined in the Public Corporations Act, which was adopted in 1992. The PSRC's mandate includes the following responsibilities: (i) to financially evaluate parastatal entities; (ii) to determine, on a case-by-case basis, the privatization method; (iii) to prepare entities for sale or liquidation; (iv) to implement the sale/liquidation; and (v) to provide policy advice to the government on privatization incentives, safety nets, and compensation packages for employees. The PSRC's initial mandate of five years was extended by another five years in 1998.

130. While the PSRC has wide-ranging powers to audit and evaluate parastatals, it has few decision-making powers and acts essentially as an executive agency of the government in implementing the privatization agenda. Decisions about the completion of transactions and positions on contentious issues are taken by the cabinet and prepared by the PSRC in consultation with the Ministry of Finance, the concerned line ministry, and other involved institutions, such as the Office of the President. Negotiations with workers about retrenchment packages and corporate debt restructurings are being conducted mainly by the Ministry of Finance. Although not formally codified, the PSRC also acts as an advisor to the government in all aspects of the privatization process.

131. The PSRC Act foresees that privatization receipts are transferred to a special fund whose use is determined by the government. In practice, proceeds sent to this fund are used by the PSRC for the purpose of covering expenses that arise in connection with the privatization of enterprises, such as retrenchment costs, parastatal debt charges, and consultants' fees. The balance of the amount has to be transferred to the budget upon request by the Minister for Finance. The PSRC's accounts are audited once a year by an independent auditor. The audit reports are forwarded to the Minister for Finance, the Auditor General, and parliament. Since 1992, privatization proceeds have totaled about T Sh 180 billion, of which about half have been transferred to the budget. Proceeds from the largest transaction—the sale of a 35 percent share in a fixed-line telecommunications company—were used to boost the company's capital and did not generate any privatization receipts by the budget or the PSRC Special Fund. Table V.1 shows how privatization receipts have been allocated.

Table V.1. Tanzania: Use of Privatization Receipts, 1993/94-2001/02 [1/]

(In billions of Tanzania shillings)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Total
Actual privatization receipts	0.1	1.4	29.2	13.1	20.2	45.8	44.0	19.7	10.4	183.9
Transferred to budget	...	....	17.5	13.8	6.4	20.7	2.0	26.6	0.0	87.0
Used to settle parastatal debt	...	0.3	1.3	2.6	14.6	16.7	9.6	23.9	13.2	82.1
Transferred to PSRC operating budget	0.0	0.0	0.2	0.5	0.0	1.1	3.8	1.3	2.5	9.4
Payment to privatization trust	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.2	0.9
Cash available (as of June 30, 2002)										4.2

Source: PSRC.

[1/] Fiscal year runs from July to June.

The Loans and Advances Realization Trust (LART)

132. The Loans and Advances Realization Trust (LART) was created in 1991 to deal with nonperforming assets of the state-owned banks and, later, of all financial institutions. LART holds on behalf of the government nonperforming loans of banks and financial institutions and tries to recover the outstanding amounts, including by restructuring and liquidating companies and seizing the owners' accounts. Through end-April 2002, 61 accounts of owners of nonperforming assets had been closed, out of a total of 93 accounts, and the recovery of 13 had been completed. The recovery of 19 nonperforming assets is still in progress. In total, about T Sh 18 billion of a total of T Sh 27 billion in nonperforming assets have been collected which substantially exceeds the initially estimated recoverable amount of about T Sh 11 billion. To accelerate the recovery of loans, the government has established a Loan Recovery Tribunal, presided over by a high court judge, and following simplified procedural rules.

133. LART's mandate also includes liquidating public enterprises that were never considered for privatization and acting as an agent for the PSRC in the liquidation of companies whose privatization failed. As of end-June 2002, 49 companies had been liquidated by LART.

Regulation

134. As in the process of privatization monopolies were either transferred to the private sector or private operators entered sectors previously dominated by parastatals, the role of the government changed from that of an economic actor to that of a regulator. This change in role necessitated the establishment of a modern regulatory framework that appropriately separated the policies, ownership and operations of monopolistic activities from regulation. The main purposes of market regulation are to ensure that (i) new entrants are properly licensed, based on objective safety and operational standards; (ii) compliance with such standards is monitored regularly; and (iii) changes in price structures are made with due consideration for public and commercial interests.

135. Table V.2 includes information on institutional arrangements for market regulation in each sector. Progress in establishing such agencies has been quite uneven. While in some sectors an independent regulatory agency has yet to be created (e.g., the railway sector) and the equivalent function is carried out by the line ministry, in several sectors (e.g., telecommunications and civil aviation), agencies and pertinent laws are in place that should in principle allow an independent regulation. Most regulatory institutions—with the exception of some agencies in the transport and electricity sectors —were established after the inception of the privatization program.

Table V.2. Tanzania: Regulatory Agencies

Sector	Name of agencies	Year of establishment	Tasks
I. Telecommunications	Tanzania Communications Commission (TCC)	1994	Issuance of licenses. Regulation of the establishment, installation, use, maintenance, development, construction, promotion, hiring and selling of telecommunication systems and services. Regulation of radio communications and postal services.
II. Radio transmission	Tanzania Broadcasting Commission (TBC)	1993	Issuance of broadcasting licenses and allocation of frequencies.
III. Civil aviation	Tanzania Civil Aviation Authority (TCAA)	1999	Provision of air navigation services. Ensuring of flight safety and economic regulation by developing and ensuring compliance with safety standards and airworthiness requirements.
IV. Railways 1/	No independent regulatory body.		Setting of tariffs by Ministry of Transportation and Telecommunications. Implementation of safety regulations by Chief Inspector of Railway Safety in the Ministry of Transport and Telecommunications.
V. Roads 1/	Central Transport Licensing Authority (CTLA)	1973	Issuance of interregional (CTLA) or intraregional (RTLA) licenses to commercial road vehicles. Promotion of road safety through vehicle inspection.
	Regional Transport Licensing Authority (RTLA)	1973	Regulation of fares.
VI. Maritime transportation 1/	Ministry of Transportation and Telecommunications	1967	Safety regulation of shipping.
	Tanzanian Fishing Corporation (TAFICO)	Since 1999	Private company. Authorized by Ministry of Transport and Telecommunications to certify and classify ships.
	Tanzania Central Freight Bureau	Since 2000	Monitoring of shipping lines to foster fair competition and quality of service; promotion of dispute resolution.
VII. Water sector 2/	Water boards appointed by Ministry of Water and Livestock Development	1997	Reviewing of applications and granting of licenses for water utilization; and for water discharges. Establishment of national standards on water quality and monitoring of compliance with standards.
VIII. Electricity sector 2/	Water Principle Office	1973	Issuance of water utilization licenses to hydro-generators.
	Ministry of Energy and Minerals	1973	Setting of tariffs and monitoring of safety. No independent regulation of safety and economic aspects.
IX. All sectors	Fair Competition Commission	1996	Enforcement of antitrust regulation.
	Bureau of Standards	1975	Establishment of safety standards for domestic connections and appliances.

1/ All regulatory agencies in this sector will be subsumed at the beginning of 2003 under a new multisector agency in charge of the transportation sector (SUMATRA).

2/ All regulatory agencies in this sector will be subsumed at the beginning of 2003 under a new multisector agency in charge of the water and electricity sector (EWURA).

136. In addition to the sectoral agencies, two institutions have functions that transcend specific sectors: the Bureau of Standards and the Fair Competition Commission. The Bureau of Standards' mission is to develop and promote standardization and quality assurance in industry and commerce. To this end, it establishes quality standards and provides for the testing of commodities to determine whether such commodities comply with the quality provisions. The Fair Competition Commission's task is to investigate restrictive business practices in the economy, in particular, the misuse of monopoly power of firms and unnecessary concentrations of economic power through mergers and acquisitions.

137. While on paper the regulatory framework appears reasonably well developed, a recent report by an independent consulting firm for the PSRC suggests that in practice regulation is often performed in only a rudimentary fashion. In the road transportation sector, no effective control of the entry into the market of interregional and intraregional transportation exists. Similarly, while compliance with safety standards by the railways and electricity and water companies is being monitored, environmental standards are not controlled. Also, while the Bureau of Standards has established quality standards for consumer products and services, its capacity to monitor these standards has been limited. The Tanzania Civil Aviation Authority is considered to have been effective in enforcing safety standards and investigating accidents, but it has yet to develop mechanisms for an economic regulation of the market for civil aviation.

138. In order to overcome the deficiencies of the present regulatory framework, a World Bank supported program is assisting the Tanzanian authorities in establishing two new multisectoral agencies: (i) the Energy and Water Utilities Regulatory Authority (EWURA); and (ii) the Surface and Marine Transport Regulatory Authority (SUMATRA). Laws establishing these two agencies were approved by parliament in 2001 but are being reviewed, with a view to strengthening the independence of the regulatory agencies from interventions by the line ministries. Examples of provisions that might conflict with the independence of the regulatory process include the right of the Minister of Industry and Commerce to give directions to the agency on issues unrelated to the discharge of the regulatory function, and his influence in determining financial rewards or penalties for agency staff. In addition, the laws currently do not foresee full-time leadership at the two agencies and envisage cumbersome processes for making decisions and hearing appeals. The new agencies are expected to become functional by the beginning of 2003.[56] Plans also exist to form a Mass Communications Regulatory Authority that would regulate telecommunications, electronic broadcasting, postal services, and the allocation and management of the range of radio frequencies.

C. Progress of the Privatization Process and Remaining Agenda

139. Since 1992, the government of Tanzania has made substantial progress with the privatization program, although the current privatization of large strategic enterprises is proceeding more slowly than anticipated. At the end of June 2002, 258 units had been

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[56] EWURA would initially cover only the water sector, since the mandate to regulate also the electricity sector requires an amendment to the Electricity Ordinance Act.

divested, of which 49 had been placed under LART's receivership for the purpose of liquidation. This means that the privatization of two-thirds of all units slated for divestiture had been completed by end-June 2002. These enterprises account, however, for only a small portion of total employment, as large strategic enterprises, such as the electricity utility TANESCO, the water utility DAWASA, and the railways remain state owned.

140. The methods of divestiture included share or asset sale (including joint ventures); lease; liquidation or closure; performance or management contracts; restructuring and receivership. Table V.3 shows the distribution by divestiture method in every year since 1992. While during the initial years liquidations by the PSRC or through LART were the most common method, sales of shares or assets became the dominant divestiture method in subsequent years. Liquidations were more prevalent in the initial stage of the privatization program, because, as a number of companies had virtually ceased operations in the early 1990s, closure was the only option.

Table V.3. Tanzania: Parastatal Divestiture by Type of Divestiture, 1992-2001/02 1/
(Number of units)

	1992	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/ 2000	2000/01	20001/02	Total
Sale of shares or assets	5	10	11	20	25	30	24	29	11	7	172
Liquidation by PSRC	0	2	2	2	8	6	0	0	0	0	20
Closure	0	2	1	3	1	0	0	0	0	2	9
Lease	0	2	1	0	1	0	1	1	0	0	6
Performance and management contracts	0	0	0	0	0	0	0	0	1	1	2
Total	5	16	15	25	35	36	25	30	12	10	209
Enterprises placed under LART	0	11	9	0	0	14	0	0	10	5	49
Noncore assets 2/	0	0	0	0	0	9	7	8	59	107	190
Memorandum item : Uncompleted divestitures											160
Of which: companies											106

Source: PSRC, Annual Reports.

1/ Fiscal year runs from July to June.
2/ This category includes assets such as buildings, pieces of land, and tractors.

141. Several transactions should be highlighted that used less common methods of divestiture:

- Two agencies were restructured: the Tanzania Tobacco Board was transformed into an administrative unit, and the Tanzania Central Freight Bureau was turned into a regulatory agency.

- In 1998, the government sold 26 percent of the shares of Tanzania Breweries Ltd. through the newly established Dar es Salaam Stock Exchange. This was the only privatization carried out entirely through the stock market, notwithstanding the PSRC's intention stated at end-1998, to privatize six more companies through the stock market. In 2000, a cigarette company was partially privatized through the stock exchange.

- In three cases, debt-swap operations were carried out: the privatization of two hotels and of one farm involved a debt swap with the debt of other countries (China and Libya).

- One company was denationalized and returned to the previous owner in 1993. This form of divestiture was used to a limited extent, as nationalizations that had taken place at the beginning of the 1960s had often been accompanied by the payment of appropriate compensations to the former owners.

142.   Data on the sectoral distribution of divested companies indicate that most divested companies were in the industry and trade sectors, followed by the agriculture and tourism sectors. More than 60 percent of divested companies were sold to local investors, with the balance sold to foreign investors and turned into joint ventures.

143.   While most privatizations involved small and medium-sized companies, divestitures since 1999 have focused increasingly on large strategic enterprises. Three transactions stand out: a lease of the Tanzania Harbor Authority's (THA) container terminal to an Asian investor; the sale of the National Bank of Commerce (NBC) to a South African Bank; and divestiture of 35 percent of the equity in the telecommunications company (TTCL) to a Dutch-German conglomerate. The current efforts to privatize strategic enterprises are encountering difficulties, however. Table V.4 summarizes the status of the privatization of each of these companies and notes the remaining problems.

Table V. 4. Tanzania: Status of Preparation for the Privatization of Large, Government-Owned Monopolies

Company	Status
Air Tanzania	Selection of bidder expected in October 2002. Transitional management team took over in February 2002.Expressions of interest have been received from eight bidders, who have all been prequalified. Only one bid has been submitted.
Tanzania Railway Corporation (TRC)	Four, possibly five, companies have been prequalified. Bids will be received in December 2002 and winning bidder is expected to be selected in February 2003. Major controversy over treatment of an estimated 1,800 workers who are likely to be retrenched.
Dar es Salaam Water and Sanitation Authority (DAWASA)	Three firms prequalified. Only one bid received at deadline for submission of bids. Concerns include the treatment of an estimated 1,400 employees likely to be retrenched as well as guarantees for the payment of utility bills by government agencies. Selection of winning bidder anticipated for October 2002, and handover to the private operator expected by March 2003.
Tanzania Harbor Authority (excluding the already concessioned container terminal) (THA)	Privatization consultants hired in late 2001. Strategy to be approved in 2002. Privatization anticipated for mid-2004.
Tanzania Electric Supply Company Ltd. (TANESCO)	Management team commenced work in May 2002. Finalization of restructuring planned for 2004.
National Shipping Agencies Corp. (NASACO)	Following liberalization of entry into sector, several international conference lines have begun operations. NASACO has become redundant and is expected to be liquidated soon.
Tanzanian-Italian Petroleum Refinery (TIPER)	Initially divested to TPCD and an international investor. Closed in 1999 due to lack of profitability.
Tanzanian Petroleum Development Corp. (TPDC)	Has been restructured to focus on oil exploration activities only. No plans for privatization, as there are no confirmed deposits yet and the company is not considered marketable at the moment.
Financial sector	
National Insurance Corporation	No government decision on privatization strategy yet. Submission of bids expected for September 2003. Transaction planned to be completed in March 2004.
Tanzania Investment Bank	No specific plans.
National Microfinance Bank	Management team and privatization consultants are in place. Identification of preferred bidders planned for early 2003.
Tanzania Postal Bank	No specific plans.

Source: Parastatal Sector Reform Commission.

144.   What was the impact of privatization? A study by an independent auditing firm for the PSRC compares indicators for companies before and after privatization, based on the

results of a survey at the end of 1998. The study concludes that (i) after privatization
companies show an increase in net cash flow to the treasury[57], (ii) there is a decline in
employment after privatization; and (iii) privatized companies are more productive and
invest more.

145.   Useful evidence on the positive impact of privatization can also be found in
the improvements of operations of several recently divested companies: in the case of the
brewery and tobacco company, the quantity and quality of goods sold has increased markedly
leading to higher export sales and tax returns. The private investor in the
telecommunications company (TTCL) has launched a large-scale investment program in both
the fixed and the mobile phone networks, which should substantially enhance the reliability
and accessibility of the telecommunication services. Also, the efficiency of the harbor
terminal, a crucial element in Tanzania's transportation infrastructure, has improved
significantly, as measured by the turnaround time and the overall volume handled by the
facility.[58]

D. Problematic Issues Affecting Privatization

146.   Although progress has been made, the privatization experience so far points to the
presence of several factors that have been complicating or delaying the completion of the
divestiture agenda, in particular with respect to large enterprises.

Retrenchment costs

147.   The treatment of workers who will be retrenched in the process of privatization has
been the cause of significant resistance to the divestiture of parastatals and is likely to
become more prominent in the ongoing privatization of large parastatals (see Box V.1 on
TANESCO). While the official policy established by the government in 1973 foresees that
retrenched workers should receive only statutory benefits (one month salary plus annual
leave and relocation to home town), in practice substantial exgratia payments ranging from
US$8,000 to US$14,000 have been made by large companies.[59] In contrast, retrenched

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[57] Net cash flow represents taxes paid by privatized firms or profits transferred to the treasury
from partially privatized companies or companies in concession agreements. The strong
increase in these transfers to the treasury may have been biased by the good results of one
company (the brewery).

[58] Prior to privatization the terminal handled 108,000 containers; this figure has now risen to
149,000 containers. Similarly, the average dwelling time in the port has declined from 26
days before privatization to currently about 11 days.

[59] A case in point is the National Bank of Commerce where retrenchment costs of up to
US$13,500 were paid per worker.

workers of companies that were liquidated are entitled, according to the bankruptcy law to only T Sh 4000 (currently about US$4); however, the budget has frequently intervened in these cases to realign the benefits of these workers with those of other retrenched workers.[60]

148.   This ad hoc system has led to widely varying retrenchment payments, that do not reflect economic and social costs and have stirred up social unrest and opposition by some labor unions and parliamentarians. Furthermore, the payment of retrenchment costs at the upper end of this spectrum would lead to a heavy and potentially unsustainable fiscal burden. The uncertainties surrounding the policy of retrenchment payments are also reflected in the estimates of contingent liabilities due to retrenchment costs, which range from T Sh 43 billion to over T Sh 80 billion.

149.   To address this issue, the PSRC commissioned in 1999 a study to review retrenchment policy. The study recommended a scheme under which the severance package paid to an individual worker, above the statutory minimum, would be based on the probable losses that the worker would face due to retrenchment. Those workers more likely to have difficulty finding other work would be paid a proportionately larger sum (e.g., older, less-well-educated staff) than those who would likely find employment quite rapidly. This new policy was rejected by the government. Accordingly, the latest PSRC report continues to state that the government's policy for retrenchment benefits is to pay statutory benefits, with exceptions made for companies in stronger financial positions.

Box V.1. Retrenchments: The TANESCO Experience

The importance of agreements on the retrenchment of workers became particularly evident in the context of a management contract for the electricity utility, TANESCO, in May 2002. Arguing that the management contract represented a de facto change in ownership, workers prevented the members of the new management team from entering their offices, pending an agreement on a generous retrenchment package with the government that would have cost the equivalent of more than 1 percent of GDP. Although the management team eventually took over the management of the company, no agreement between the government and the workers on a retrenchment package has so far been reached. Meanwhile, under the new management, the financial performance of the company seems to have improved.

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[60] The 2002/03 budget allocates about T Sh 13 billion (about 1.3 percent of GDP) for retrenchment payments. Given that several large-scale privatizations during 2002/03 are proceeding, this amount exceeds significantly the historical average.

Parastatal debt

150.   Debt obligations can negatively affect the privatization of parastatals when the precise amount and status of the debt are uncertain; in this situation, the investor does not know the cost of servicing the liability when formulating his estimate of the future profitability of the company. In Tanzania, many parastatals carry large debt obligations on their balance sheets: in a recent stocktaking of parastatal debt, the PSRC estimated the volume and composition of debt with fiscal implications at end-June 2001 as follows :

Table V.5. Tanzania Parastatal Debt at June 2001
(in billions of Tanzania Shillings)

	Commercial Loans	Trade/Supplier Credits	Other Staff Dues	Utility Bills	Other	Total
Guaranteed by government	7.5	57.3	2.0	0.9	29	96.7
Based on balance sheet of parastatals (PSRC)	27.1	67.3	5.2	8.8	0	108.4
Total	34.6	124.6	7.2	9.7	29	205.1

151.   The recently approved National Debt Strategy suggests an approach that focuses on systematically identifying debt that is uncertain and reducing such debt on a selective basis. This approach is supposed to replace the previous piecemeal case-by-case approach of dealing with company debt, which involved the partial transfer of enterprise liabilities to the government. In practice, however, no systematic effort has yet been made to review and reduce debt obligations.[61]

152.   Another issue that has been delaying privatizations is investors' uncertainty about payments from government agencies. Investors are concerned that, for political reasons, the interruption of services to certain government agencies (such as the military, prisons etc.) will not be possible thus opening the possibilities that these agencies will not meet their payment obligations. These concerns, although prominent in the ongoing negotiations of the DAWASA concession, were mitigated somewhat when TANESCO's new management was able to cut off services to politically sensitive agencies that were running arrears.

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[61] Of particular interest with respect to the treatment of parastatal debt is the case of the National Bank of Commerce, which, at the time of privatization, had substantially negative capital. In order to meet the minimum capital adequacy requirement, the NBC required an injection of T Sh 34.6 bn (0.5 percent of GDP). This capital adequacy requirement was met by issuing government bonds in the amount of T Sh 28.5 billion and through a commitment by the government to inject T Sh 6 bn following the recovery of loans that had been provisioned for at the time of privatization.

Investment climate

153.   Privatizations have also been held up by lack of interest on the part of investors. In spite of Tanzania's progress in implementing market-based reforms, investor interest has been hampered by Tanzania's poor infrastructure, the inadequate skill structure of the labor force, uncertain property rights (stemming partly from an ineffective judicial system), and bureaucratic and administrative obstacles to private sector activity, including in the area of tax administration. These problems have been compounded by occasionally voiced views that companies should remain Tanzanian owned, a situation that has discouraged foreign investors.

154.   Importantly, several initiatives that have recently been launched aim at improving the investment climate. These include the creation of the Tanzania National Business Council as a forum for exchange between the government and the local business community, the International Investors' Roundtable, which brings together chief executives of large multinational corporations investing in Africa and senior government officials, and the "Business Environment Strengthening for Tanzania" (BEST) initiative, which is a program developed by bilateral donors, the government, and the private sector to improve the business regulatory environment (in particular as regards licensing, property rights, and land ownership and promotion).

E. Conclusions

32.   Tanzania's progress on the privatization front is evident: two-thirds of the companies slated for privatization have been divested, including a few strategic enterprises. A 1999 study by an independent consulting firm showed that privatization had generally had a positive impact on the efficiency of companies. Furthermore, the recent approval of laws establishing new multisectoral regulatory agencies is an important step toward a modern regulatory framework. Nonetheless, Tanzania's privatization program will be put to the test by the ongoing divestiture of large transportation and utility companies. An important factor in this regard will be the improvement of the investment climate. The recent launching of an investors' roundtable, where investors and the government convene at the highest level to discuss investors' concerns, could be an important step toward addressing such issues more effectively. Furthermore, the establishment and implementation of an affordable and equitable policy on the retrenchment of employees and the coherent treatment of parastatal debt will be essential to maintain public support for the privatization process until its conclusion.

Table 1. Tanzania: Gross Domestic Product at Constant 1992 Prices, 1995–2001 1/

	1995	1996	1997	1998	1999	2000	2001 Prov.
	(In millions of Tanzania shillings, unless otherwise indicated)						
Agriculture, forestry, fishing, and hunting	381,140	398,117	403,948	413,200	433,311	450,181	479,538
Manufacturing	106,750	111,894	117,489	126,887	131,491	137,809	144,647
Mining and quarrying	18,768	20,579	24,097	30,699	33,488	38,144	43,293
Electricity and water	21,578	23,977	24,514	25,870	26,874	28,454	29,297
Construction	38,706	42,353	46,588	52,179	57,256	62,409	66,825
Trade, hotels, and restaurants	210,813	218,105	229,134	239,830	254,114	270,567	288,718
Transportation and communications	70,833	71,597	75,099	79,755	84,403	89,515	95,154
Public administration	93,177	94,068	96,499	98,866	101,129	104,465	107,695
Financial and business services	77,343	75,994	84,743	91,250	94,580	98,353	100,646
Other services	16,589	17,404	18,508	19,248	21,078	22,102	23,292
Imputed bank service charge	-65,090	-58,581	-72,327	-78,547	-81,229	-82,359	-84,337
Total monetary GDP	970,605	1,015,507	1,048,292	1,099,230	1,156,497	1,219,640	1,294,768
Agriculture, forestry, fishing, and hunting	301,198	310,624	322,150	326,749	337,199	346,332	360,625
Construction	12,277	12,515	12,753	13,008	13,608	14,409	15,129
Owner–occupied dwellings	61,167	63,064	65,019	66,840	69,988	73,938	77,265
Total nonmonetary GDP	374,642	386,203	399,922	406,597	420,795	434,679	453,019
Total GDP (at factor cost)	1,345,247	1,401,710	1,448,214	1,505,827	1,577,292	1,654,319	1,747,787
Net taxes	113,152	122,964	130,210	131,133	117,451	126,847	133,600
Total GDP (at market prices)	1,458,400	1,524,675	1,578,424	1,636,960	1,694,743	1,781,166	1,881,387
	(In percent of GDP at factor cost)						
Agriculture, forestry, fishing, and hunting	28.3	28.4	27.9	25.2	25.6	25.3	25.5
Manufacturing	7.9	8.0	8.1	7.8	7.8	7.7	7.7
Mining and quarrying	1.4	1.5	1.7	1.9	2.0	2.1	2.3
Electricity and water	1.6	1.7	1.7	1.6	1.6	1.6	1.6
Construction	2.9	3.0	3.2	3.2	3.4	3.5	3.6
Trade, hotels, and restaurants	15.7	15.6	15.8	14.7	15.0	15.2	15.3
Transportation and communications	5.3	5.1	5.2	4.9	5.0	5.0	5.1
Public administration	5.2	4.9	4.9	6.0	6.0	5.9	5.7
Financial and business services	5.7	5.4	5.9	5.6	5.6	5.5	5.3
Other services	3.0	3.0	3.1	1.2	1.2	1.2	1.2
Imputed bank service charge	-4.8	-4.2	-5.0	-4.8	-4.8	-4.6	-4.5
Total monetary GDP	72.2	72.4	72.4	75.2	75.2	75.6	75.9
Total nonmonetary GDP	27.8	27.6	27.6	24.8	24.8	24.4	24.1
Total GDP (at factor cost)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(Annual change in percent)						
Agriculture, forestry, fishing, and hunting	6.6	4.5	1.5	2.3	4.9	3.9	6.5
Manufacturing	1.6	4.8	5.0	8.0	3.6	4.8	5.0
Mining and quarrying	11.7	9.6	17.1	27.4	9.1	13.9	13.5
Electricity and water	6.1	11.1	2.2	5.5	3.9	5.9	3.0
Construction	-18.9	9.4	10.0	12.0	9.7	9.0	7.1
Trade, hotels, and restaurants	3.5	3.5	5.0	4.7	6.0	6.5	6.7
Transportation and communications	5.9	1.1	4.9	6.2	5.8	6.1	6.3
Public administration	-6.3	0.0	2.0	2.5	2.3	3.3	3.1
Financial and business services	-1.4	-1.7	11.5	7.7	3.6	4.0	2.3
Other services	4.2	4.2	5.1	4.0	9.5	4.9	5.4
Imputed bank service charge	-5.4	-10.0	23.5	8.6	3.4	1.4	2.4
Total monetary GDP	3.2	4.6	3.2	4.9	5.2	5.5	6.2
Total nonmonetary GDP	4.5	3.1	3.6	4.0	4.7	4.9	5.6
Total GDP (at factor cost)	3.6	4.2	3.3	4.0	4.7	4.9	5.6
Total GDP (at market price)	3.6	4.5	3.5	3.7	3.5	5.1	5.6

Source: Tanzanian authorities.

1/ The data reflect recent revisions to the national accounts by the Bureau of Statistics.

Table 2. Tanzania: Gross Domestic Product at Current Prices, 1995–2001 1/

	1995	1996	1997	1998	1999	2000	2001 Prov.
			(In billions of Tanzania shillings)				
Agriculture, forestry, fishing, and hunting	746,186	931,724	1,085,698	1,257,556	1,500,572	1,689,608	1,917,642
Manufacturing	200,525	254,326	295,272	380,901	434,544	499,726	564,689
Mining and quarrying	35,190	38,511	53,515	74,386	85,792	99,519	119,422
Electricity and water	60,347	65,800	74,599	79,832	101,302	112,753	124,789
Construction	83,177	99,871	149,824	209,754	253,447	282,150	324,591
Trade, hotels, and restaurants	417,626	493,572	562,760	635,305	740,181	823,025	926,870
Transportation and communications	159,771	193,946	219,393	244,492	294,180	328,259	361,558
Public administration	223,259	262,585	407,737	515,474	593,971	645,432	707,452
Financial and business services	170,263	209,392	248,646	318,338	345,071	382,970	421,511
Other services	32,142	38,291	43,996	49,305	55,582	63,919	73,875
Imputed bank service charge	-113,187	-136,957	-132,890	-141,009	-144,756	-151,359	-157,785
Total monetary GDP	2,015,299	2,451,061	3,008,550	3,624,334	4,259,886	4,776,002	5,384,614
Agriculture, forestry, fishing, and hunting	572,274	726,551	918,065	1,036,991	1,193,802	1,330,302	1,483,306
Construction	26,252	32,377	38,299	45,576	52,413	61,205	68,550
Owner–occupied dwellings	182,817	242,570	321,854	418,410	471,601	537,625	654,295
Total nonmonetary GDP	781,343	1,001,498	1,278,218	1,500,977	1,717,816	1,929,132	2,206,151
Total GDP (at factor cost)	2,796,642	3,452,559	4,286,768	5,125,311	5,977,702	6,705,134	7,590,765
Net taxes	223,859	315,083	421,859	446,330	455,212	561,999	595,719
Total GDP (at market prices)	3,020,501	3,767,642	4,708,627	5,571,641	6,432,914	7,267,133	8,186,484
			(In percent of GDP at factor cost)				
Agriculture, forestry, fishing, and hunting	24.7	24.7	23.1	22.6	23.3	23.2	23.4
Manufacturing	6.6	6.8	6.3	6.8	6.8	6.9	6.9
Mining and quarrying	1.2	1.0	1.1	1.3	1.3	1.4	1.5
Electricity and water	2.0	1.7	1.6	1.4	1.6	1.6	1.5
Construction	2.8	2.7	3.2	3.8	3.9	3.9	4.0
Trade, hotels, and restaurants	13.8	13.1	12.0	11.4	11.5	11.3	11.3
Transportation and communications	5.3	5.1	4.7	4.4	4.6	4.5	4.4
Public administration	7.4	7.0	8.7	9.3	9.2	8.9	8.6
Financial and business services	5.6	5.6	5.3	5.7	5.4	5.3	5.1
Other services	1.1	1.0	0.9	0.9	0.9	0.9	0.9
Imputed bank service charge	-3.7	-3.6	-2.8	-2.5	-2.3	-2.1	-1.9
Total monetary GDP	74.1	73.4	72.9	73.1	73.3	73.5	73.1
Total nonmonetary GDP	25.9	26.6	27.1	26.9	26.7	26.5	26.9
Total GDP (at factor cost)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
			(Annual change in percent)				
Agriculture, forestry, fishing, and hunting	40.77	24.9	16.5	15.8	19.3	12.6	13.5
Manufacturing	27.36	26.8	16.1	29.0	14.1	15.0	13.0
Mining and quarrying	34.47	9.4	39.0	39.0	15.3	16.0	20.0
Electricity and water	53.54	9.0	13.4	7.0	26.9	11.3	10.7
Construction	5.65	20.1	50.0	40.0	20.8	11.3	15.0
Trade, hotels, and restaurants	30.94	18.2	14.0	12.9	16.5	11.2	12.6
Transportation and communications	21.34	21.4	13.1	11.4	20.3	11.6	10.1
Public administration	21.77	17.6	55.3	26.4	15.2	8.7	9.6
Financial and business services	11.02	23.0	18.7	28.0	8.4	11.0	10.1
Other services	31.35	19.1	14.9	12.1	12.7	15.0	15.6
Imputed bank service charge	-3.84	21.0	-3.0	6.1	2.7	4.6	4.2
Total monetary GDP	32.35	21.6	22.7	20.5	17.5	12.1	12.7
Total nonmonetary GDP	31.59	23.5	24.2	19.6	16.6	12.2	13.2
Total GDP (at factor cost)	31.39	24.7	25.0	18.3	15.5	13.0	12.7

Source: Tanzanian authorities.

1/ The data reflect recent revisions to the national accounts by the Bureau of Statistics.

Table 3. Tanzania: Gross Domestic Product and Expenditure at Constant 1992 Prices, 1995–2001 1/

	1995	1996	1997	1998	1999	2000	2001 Prov.
	(In billions of Tanzania shillings)						
Gross domestic product (at market prices)	1,458,399	1,524,676	1,578,299	1,636,960	1,694,743	1,781,166	1,886,244
Final consumption	1,455,478	1,478,879	1,454,603	1,614,751	1,676,570	1,680,824	1,748,171
Private	1,252,761	1,309,993	1,175,289	1,296,632	1,363,355	1,360,748	1,408,890
Public	202,717	168,886	279,314	318,119	313,215	320,076	339,281
Investment	285,558	278,147	279,314	318,119	313,215	336,590	356,224
Gross fixed capital formation	281,794	274,353	275,489	314,264	309,329	332,587	352,101
Change in inventories	3,764	3,794	3,825	3,855	3,886	4,003	4,123
Net exports 2/	-282,637	-232,350	-155,618	-295,910	-295,042	-236,248	-218,151
Exports 3/	327,606	328,884	247,148	271,487	321915	381,150	449,096
Imports	610,243	561,234	402,766	567,397	616,957	617,398	667,247
	(In percent of GDP)						
Final consumption	97.7	94.9	92.2	98.6	98.9	94.4	92.7
Private	83.8	83.9	74.5	79.2	80.4	76.4	74.7
Public	13.9	11.1	17.7	19.4	18.5	18.0	18.0
Investment	19.6	18.2	17.7	19.2	18.3	18.7	18.7
Gross fixed capital formation	19.3	18.0	17.5	19.2	18.3	18.7	18.7
Change in inventories	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Net exports 2/	-17.3	-13.2	-9.9	-18.1	-17.4	-13.3	-11.6
Exports 3/	24.5	23.6	15.7	16.6	19.0	21.4	23.8
Imports	41.8	36.8	25.5	34.7	36.4	34.7	35.4

Sources: Tanzanian authorities; and Fund staff estimates.

1/ The data reflect recent revisions to the national accounts by the Bureau of Statistics.
2/ Includes goods and nonfactor services.
3/ Includes unrecorded trade and statistical discrepancy.

Table 4. Tanzania: Gross Domestic Product and Expenditure at Current Prices, 1995–2001 1/

	1995	1996	1997	1998	1999	2000	2001 Prov.
	(In millions of Tanzania shillings)						
Gross domestic product							
(at market prices)	3,020,501	3,767,642	4,708,627	5,571,641	6,432,912	7,267,133	8,186,485
Final consumption	2,949,272	3,565,401	4,453,308	5,485,379	6,251,073	6,597,658	7,498,698
Private	2,486,957	3,130,072	4,039,745	5,051,593	5,799,936	6,114,941	6,982,372
Public	462,315	435,329	413,563	433,786	451,137	482,717	516,326
Investment	597,792	627,237	700,803	902,614	999,650	1,281,046	1,391,556
Gross fixed capital formation	591,936	620,597	692,400	892,700	989,338	1,266,678	1,375,895
Change in inventories	5,856	6,640	8,403	9,914	10,312	14,368	15,661
Net exports 2/	-526,563	-424,996	-445,484	-816,352	-817,811	-611,571	-703,769
Exports 3/	727,177	778,522	762,812	748,973	885,942	1,064,773	1,305,574
Imports	1,253,740	1,203,518	1,208,296	1,565,325	1,703,753	1,676,344	2,009,343
	(In percent of GDP)						
Final consumption	97.6	94.6	94.6	98.5	97.2	90.8	91.6
Private	82.3	83.1	85.8	90.7	90.2	84.1	85.3
Public	15.3	11.6	8.8	7.8	7.0	6.6	6.3
Investment	19.8	16.6	15.9	16.2	15.5	17.6	17.0
Gross fixed capital formation	19.6	16.5	15.8	16.0	15.4	17.4	16.8
Change in inventories	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Net exports 2/	-17.4	-11.3	-9.5	-14.7	-12.7	-8.4	-8.6
Exports 3/	24.1	20.7	16.2	13.4	13.8	14.7	15.9
Imports	41.5	31.9	25.7	28.1	26.5	23.1	24.5

Sources: Tanzanian authorities; and Fund staff estimates.

1/ The data reflect recent revisions to the national accounts by the Bureau of Statistics.
2/ Includes goods and nonfactor services.
3/ Includes unrecorded trade and statistical discrepancy.

Table 5. Tanzania: Production of Major Food Crops and Purchases of Principal Exports, 1997/98-2001/02 1/
(In thousands of tons)

	1997/98	1998/99	1999/00	2000/01 Rev.	2001/02 Est.
Food crops					
Production					
Maize	2,685	2,452	2,009	2,579	2,698
Paddy	676	506	508	564	634
Wheat	111	82	33	89	72
Cassava	1,758	1,795	1,781	1,445	1,722
Export crops					
Marketing board purchases					
Coffee	38.0	46.6	47.9	58.0	37.5
Seed cotton	69.9	39.0	35.0	41.4	50.2
Green tea	26.2	21.9	24.8	26.4	24.7
Cashew nuts	93.2	103.3	121.2	122.3	64.4
Tobacco	52.0	38.0	31.8	24.8	27.7
Sisal	19.0	33.0	20.6	20.5	23.5

Source: Tanzanian authorities.

1/ Crop years vary.

Table 6. Tanzania: Production of Selected Manufactured Commodities, 1995–2001

Commodity	Unit	1995	1996	1997	1998	1999	2000	2001
Consumer goods								
Sugar	Metric tons (thousands)	114.0	104.1	116.1	143.0	153.0	135.3	161.6
Cigarettes	Pieces (millions)	3.7	3.7	4.7	3.9	3.4	3.7	3.5
Beer	Liters (millions)	89.3	125.1	148.3	170.7	167.4	183.0	175.7
Soft drinks	Liters (millions)	118.3	118.6	113.5	129.4	139.7	177.4	196.7
Textiles	Square meters (millions)	31.2	37.3	41.7	45.5	49.8	73.6	84.3
Intermediate goods								
Cement	Tons (thousands)	796.3	725.8	621.0	778.0	833.0	833.0	900.0
Rolled steel	Tons (thousands)	1.6	4.8	12.5	9.5	9.5	11.2	16.1
Iron sheets	Tons (thousands)	18.3	6.4	15.2	14.9	23.0	25.0	25.9
Aluminum	Tons (thousands)	1.1	0.4	0.1	0.2	0.2	0.1	0.1
Petroleum products	Tons (thousands)	398.0	336.3	313.0	312.0	287.0	117.0	...
Sisal ropes	Tons (thousands)	17.3	11.2	4.9	4.3	3.3	3.9	4.5
Paints	Liters (millions)	3.2	5.2	4.9	4.9	12.9	7.1	9.0

Source: National Bureau of Statistics (NBS).

Table 7. Tanzania: Gross Capital Formation by Public and Private Sectors, 1995–2001 1/

	1995	1996	1997	1998	1999	2000	2001 Est.
			(In billions of Tanzania shillings)				
Gross fixed capital formation	591936	620597	692400	892701	989339	1266678	1375894
Public sector fixed capital formation	102021	131238	137638	185624	199867	438413	445953
Central government	23727	16313	25860	128079	136547	354638	355538
Public enterprises 2/	78294	114925	111778	57545	63320	83775	90415
Private sector fixed capital formation 3/	489915	489359	554762	707077	789472	828265	929941
Changes in stocks 4/	5856	6640	8403	9914	10312	14368	15661
Total capital formation	597792	627237	700803	902615	999651	1281046	1391555
			(In percent of GDP)				
Gross fixed capital formation	19.6	16.5	14.7	16.0	15.4	17.4	16.8
Public sector fixed capital formation	3.4	3.5	2.9	3.3	3.1	6.0	5.4
Central government	0.8	0.4	0.5	2.3	2.1	4.9	4.3
Public enterprises 2/	2.6	3.1	2.4	1.0	1.0	1.2	1.1
Private sector fixed capital formation 3/	16.2	13.0	11.8	12.7	12.3	11.4	11.4
Changes in stocks 4/	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total capital formation	19.8	16.6	14.9	16.2	15.5	17.6	17.0

Source: Tanzanian authorities.

1/ Fiscal years run from July to June.
2/ Includes nonprofit organizations.
3/ Includes rural noncommercial construction.
4/ Includes only livestock.

Table 8. Tanzania: Analysis of the Savings-Investment Relationship,1995–2001
(At current prices)

	1995	1996	1997	1998	1999	2000	2001 Est.
	(In billions of Tanzania shillings)						
Gross domestic product (at market prices)	3,020,501	3,767,642	4,708,627	5,571,641	6,432,914	7,267,133	8,186,484
Monetary (at factor costs)	2,015,299	2,451,061	3,008,550	3,624,334	4,259,886	4,776,002	5,384,614
Nonmonetary (at factor costs)	781,343	1,001,498	1,278,218	1,500,977	1,717,816	1,929,132	2,206,151
Indirect taxes and subsidies	223,859	315,083	421,859	446,330	455,212	561,999	595,719
Final consumption	2,949,272	3,565,401	4,453,308	5,485,379	6,251,075	6,597,658	7,498,697
Government	462,315	435,329	413,563	433,786	451,137	482,717	516,326
Private	2,486,957	3,130,072	4,039,745	5,051,593	5,799,938	6,114,941	6,982,371
Investment	597,792	627,237	700,803	902,614	999,650	1,281,046	1,391,556
Government	102,021	131,239	137,638	185,624	199,867	438,413	445,953
Private	495,771	495,998	563,165	716,990	799,783	842,633	945,603
Gross fixed capital formation (excluding stocks)	591,936	620,597	692,400	892,700	989,338	1,266,678	1,375,895
Public sector	102,021	131,239	137,638	185,624	199,867	438,413	445,953
Central government	23,727	16,313	25,860	128,079	136,547	354,638	355,538
Public enterprises	75,618	111,555	108,245	28,088	31,878	36,229	40,156
Institutions 1/	2,676	3,371	3,533	29,457	31,442	47,546	50,259
Private sector 2/	489,915	489,358	554,762	707,076	789,471	828,265	929,941
Changes in stocks	5,856	6,640	8,403	9,914	10,312	14,368	15,661
Total capital formation (excluding stocks)	597,792	627,237	700,803	902,614	999,650	1,281,046	1,391,556
Net exports of goods and nonfactor services	-526,563	-424,996	-445,484	-816,352	-817,811	-611,571	-703,769
Exports	727,177	778,522	762,812	748,973	885,942	1,064,773	1,305,574
Imports	1,253,740	1,203,518	1,208,296	1,565,325	1,703,753	1,676,344	2,009,343
Domestic savings	71,229	202,241	255,319	86,262	181,839	669,475	687,787
Government	-48,409	8,724	47,473	49,847	52,339	54,956	57,704
Private	119,638	193,517	207,846	36,415	129,500	614,519	630,083
	(In percent of GDP)						
Final consumption	97.6	94.6	94.6	98.5	97.2	90.8	91.6
Government	15.3	11.6	8.8	7.8	7.0	6.6	6.3
Private	82.3	83.1	85.8	90.7	90.2	84.1	85.3
Investment	19.8	16.6	14.9	16.2	15.5	17.6	17.0
Government	3.4	3.5	2.9	3.3	3.1	6.0	5.4
Private	16.4	13.2	12.0	12.9	12.4	11.6	11.6
Gross fixed capital formation	19.6	16.5	14.7	16.0	15.4	17.4	16.8
Public sector	3.4	3.5	2.9	3.3	3.1	6.0	5.4
Central government	0.8	0.4	0.5	2.3	2.1	4.9	4.3
Public enterprises	2.5	3.0	2.3	0.5	0.5	0.5	0.5
Institutions 1/	0.1	0.1	0.1	0.5	0.5	0.7	0.6
Private sector 2/	16.2	13.0	11.8	12.7	12.3	11.4	11.4
Changes in stocks	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total capital formation	19.8	16.6	14.9	16.2	15.5	17.6	17.0
Domestic savings	2.4	5.4	5.4	1.5	2.8	9.2	8.4
Government	-1.6	0.2	1.0	0.9	0.8	0.8	0.7
Private	4.0	5.1	4.4	0.7	2.0	8.5	7.7
Resource balance	-17.4	-11.3	-9.5	-14.7	-12.7	-8.4	-8.6

Sources: National Bureau of Statistics; and Fund staff estimates.

1/ Includes nonprofit organizations.
2/ Includes rural noncommercial construction.

Table 9. Tanzania Analysis of the Savings-Investment Relationship, 1995–2001
(At constant 1992 prices)

	1995	1996	1997	1998	1999	2000	2001
	(In millions of Tanzania shillings)						
Gross domestic product (at market prices)	1,458,399	1,524,674	1,578,424	1,636,960	1,694,743	1,781,166	1,881,387
Monetary (at factor costs)	970,605	1,015,507	1,048,292	1,099,230	1,156,497	1,219,640	1,294,768
Nonmonetary (at factor costs)	374,642	386,203	399,922	406,597	420,795	434,679	453,019
Indirect taxes and subsidies	113,152	122,964	130,210	131,133	117,451	126,847	133,600
Final consumption	1,455,478	1,478,877	1,454,728	1,614,751	1,676,570	1,680,824	1,743,314
Government	202,717	168,886	134,711	127,890	123,265	320,076	339,281
Private	1,252,761	1,309,991	1,320,017	1,486,861	1,553,305	1,360,748	1,404,033
Investment	285,558	278,147	279,314	318,119	313,215	336,590	356,224
Government	45,452	55,026	51,698	62,293	59,390	107,454	102,754
Private	240,106	223,121	227,616	255,826	253,825	229,136	253,470
Gross fixed capital formation (excluding stocks)	281,794	274,353	275,489	314,264	309,329	332,587	352,101
Public sector	45,452	55,026	51,698	62,293	59,390	107,454	102,754
Central government	11,295	7,212	10,289	45,089	42,693	86,921	81,921
Public enterprises	32,883	46,324	40,003	6,834	6,866	8,880	9,253
Institutions 1/	1,274	1,490	1,406	10,370	9,831	11,653	11,580
Private sector 2/	236,342	219,327	223,791	251,971	249,939	225,133	249,347
Changes in stocks	3,764	3,794	3,825	3,855	3,886	4,003	4,123
Total capital formation (excluding stocks)	285,558	278,147	279,314	318,119	313,215	336,590	356,224
Net exports of goods and nonfactor services	-282,637	-232,350	-155,618	-295,910	-295,042	-236,248	-218,151
Exports	327,606	328,884	247,148	271,487	321,915	381,150	449,096
Imports	610,243	561,234	402,766	567,397	616,957	617,398	667,247
Domestic savings	2,921	45,797	123,696	22,209	18,173	100,342	138,073
	(In percent of GDP)						
Final consumption	99.8	97.0	92.2	98.6	98.9	94.4	92.7
Government	13.9	11.1	8.5	7.8	7.3	18.0	18.0
Private	85.9	85.9	83.6	90.8	91.7	76.4	74.6
Investment	19.6	18.2	17.7	19.4	18.5	18.9	18.9
Government	3.1	3.6	3.3	3.8	3.5	6.0	5.5
Private	16.5	14.6	14.4	15.6	15.0	12.9	13.5
Gross fixed capital formation	19.3	18.0	17.5	19.2	18.3	18.7	18.7
Public sector	3.1	3.6	3.3	3.8	3.5	6.0	5.5
Central government	0.8	0.5	0.7	2.8	2.5	4.9	4.4
Public enterprises	2.3	3.0	2.5	0.4	0.4	0.5	0.5
Institutions 1/	0.1	0.1	0.1	0.6	0.6	0.7	0.6
Private sector 2/	16.2	14.4	14.2	15.4	14.7	12.6	13.3
Changes in stocks	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Total capital formation	19.6	18.2	17.7	19.4	18.5	18.9	18.9
Domestic savings	0.2	3.0	7.8	1.4	1.1	5.6	7.3
Resource balance	-19.4	-15.2	-9.9	-18.1	-17.4	-13.3	-11.6

Source: Tanzanian authorities.

1/ Includes nonprofit organizations.
2/ Investment deflated by GDP deflator.

Table 10. Tanzania: Average Producer Prices for Selected Export Crops, 1995/96–2001/02 1/
(In Tanzania shillings per kilogram, unless otherwise indicated)

Crop Year	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Arabicca coffee	1,075	577	1,063	1,006	1,404	470	500
Robusta coffee	325	310	326	450	293	200	60
Flue cured tobacco	561	684	714	534	527	603	543
Fire cured tobacco	455	551	472	454	559	555	519
Sisal 3L 2/	876	951	946	919	791	650	650
Sisal UG 2/	722	796	826	803	619	540	540
Raw cashew	262	255	233	345	641	252	300
Seed cotton	207	170	180	185	123	180	175
Green tea	55	55	55	60	60	60	65
Pyrethrum	300	300	320	350	400	410	406
Clove	216	243	299	409	869	1,688	5,024

Source: Ministry of Agriculture.

1/ Crop years vary.
2/ U.S. dollars per ton.

Table 11. Tanzania: Central Government Operations, 1997/98-2001/02 1/

	1997/98	1998/99	1999/00	2000/01	2001/02
	(In billions of Tanzania shillings)				
Total revenue	619.1	689.5	772.5	929.6	1,042.9
Tax revenue	566.1	616.5	691.9	827.8	938.5
Import duties	86.5	87.8	87.7	95.6	88.9
Value-added tax (VAT)	138.2	208.2	223.8	302.0	352.3
Excises	101.3	84.2	88.5	154.8	177.6
Income taxes	149.8	162.9	205.1	194.0	228.4
Other taxes	90.4	73.4	86.9	81.4	91.3
Nontax revenue	53.0	73.0	80.5	101.8	104.5
Total expenditure	808.7	1,021.5	1,292.6	1,338.2	1,556.0
Recurrent expenditure	567.8	657.3	807.6	986.6	1,171.4
Wages and salaries	218.8	220.5	285.3	308.1	342.0
Interest payments	116.0	95.9	127.0	128.1	121.1
Domestic	50.6	38.2	81.4	77.8	64.6
Foreign	65.3	57.7	45.6	50.4	56.5
Goods and services and transfers	233.0	340.9	395.3	550.4	708.3
Clearance of domestic arrears	43.5	46.5	3.7	32.2	59.1
Bank and parastatal recapitalization 2/	0.0	69.8	100.7	9.8	0.0
Development expenditure	197.4	247.9	359.9	286.3	291.3
Domestically financed	24.0	18.8	19.4	35.1	50.2
Foreign financed 3/	173.4	229.1	340.5	251.2	241.1
Expenditure carryover	...	...	20.7	23.4	34.1
Unallocated revenue (+)/expenditure (-) 4/	-1.1	-6.8	-14.3	-2.0	33.5
Overall balance, before grants	-190.7	-338.7	-534.4	-410.7	-479.5
Grants	156.3	240.4	307.3	286.3	385.2
Program	38.3	74.6	94.3	114.0	183.0
Project	118.0	165.8	207.5	123.6	140.2
HIPC grant relief	0.0	0.0	5.5	48.7	62.0
Overall balance, after grants	-34.4	-98.3	-227.1	-124.3	-94.3
Financing	34.4	98.3	227.1	124.3	94.3
Foreign (net)	50.0	27.0	105.4	90.4	118.5
Foreign loans	106.1	98.3	191.2	172.9	187.4
Program	65.8	35.0	58.2	45.3	86.5
Project	40.3	63.3	133.0	127.6	100.9
Amortization	-56.1	-71.3	-85.8	-82.5	-68.9
Domestic (net)	-22.1	-10.0	9.1	-2.5	-22.6
Bank financing	-47.9	-1.9	-27.4	-18.7	-59.2
Nonbank financing	25.8	-8.1	36.5	16.2	36.6
Bank and parastatal recapitalization 2/	0.0	69.8	100.7	9.8	0.0
Amortization of parastatal debt	0.0	0.0	0.0	0.0	-1.6
Privatization proceeds	6.5	11.5	12.0	26.7	0.0
Memorandum items:					
Primary balance (excluding grants and					
foreign-financed development expenditure)	98.6	-13.7	-67.0	-31.3	-117.3
Expenditure on defense and national service	...	88.9	91.7	105.8	112.3

Table 11. Tanzania: Central Government Operations, 1997/98-2001/02 1/ (concluded)

	1997/98	1998/99	1999/00	2000/01	2001/02
	(In percent of GDP, unless otherwise indicated)				
Total revenue	12.0	11.5	11.3	12.0	12.1
Tax revenue	11.0	10.3	10.1	10.7	10.9
Import duties	1.7	1.5	1.3	1.2	1.0
Value-added tax (VAT)	2.7	3.5	3.3	3.9	4.1
Excises	2.0	1.4	1.3	2.0	2.1
Income taxes	2.9	2.7	3.0	2.5	2.7
Other taxes	1.8	1.2	1.3	1.1	1.1
Nontax revenue	1.0	1.2	1.2	1.3	1.2
Total expenditure	15.7	17.0	18.9	17.3	18.1
Recurrent expenditure	11.0	11.0	11.8	12.8	13.6
Wages and salaries	4.3	3.7	4.2	4.0	4.0
Interest payments	2.3	1.6	1.9	1.7	1.4
Domestic	1.0	0.6	1.2	1.0	0.8
Foreign	1.3	1.0	0.7	0.7	0.7
Goods and services and transfers	4.5	5.7	5.8	7.1	8.2
Clearance of domestic arrears	0.8	0.8	0.1	0.4	0.7
Bank and parastatal recapitalization 2/	0.0	1.2	1.5	0.1	0.0
Net lending	0.0	0.0	0.0	0.0	0.0
Development expenditure	3.8	4.1	5.3	3.7	3.4
Domestically financed	0.5	0.3	0.3	0.5	0.6
Foreign financed 3/	3.4	3.8	5.0	3.3	2.8
Expenditure carryover	...	...	0.3	0.3	0.4
Unallocated revenue (+)/expenditure (-) 4/	0.0	-0.1	-0.2	0.0	0.4
Overall balance, before grants	-3.7	-5.6	-7.8	-5.3	-5.6
Grants	3.0	4.0	4.5	3.7	4.5
Program	0.7	1.2	1.4	1.5	2.1
Project	2.3	2.8	3.0	1.6	1.6
HIPC grant relief	0.0	0.0	0.1	0.6	0.7
Overall balance, after grants	-0.7	-1.6	-3.3	-1.6	-1.1
Financing	0.7	1.6	3.3	1.6	1.1
Foreign (net)	1.0	0.5	1.5	1.2	1.4
Foreign loans	2.1	1.6	2.8	2.2	2.2
Program	1.3	0.6	0.8	0.6	1.0
Project	0.8	1.1	1.9	1.7	1.2
Amortization	-1.1	-1.2	-1.3	-1.1	-0.8
Domestic (net)	-0.4	-0.2	0.1	0.0	-0.3
Bank financing	-0.9	0.0	-0.4	-0.2	-0.7
Nonbank financing	0.5	-0.1	0.5	0.2	0.4
Bank and parastatal recapitalization 2/	0.0	1.2	1.5	0.1	0.0
Amortization of parastatal debt	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.1	0.2	0.2	0.3	0.0
Memorandum items:					
Primary balance (excluding grants and foreign-financed development expenditure)	1.9	-0.2	-1.0	-0.4	-1.4
Expenditure on defense and national service	...	1.5	1.3	1.4	1.3
Nominal GDP (market prices, in billions of Tanzania shillings)	5,140	6,002	6,850	7,727	8,613

Sources: Ministry of Finance; and IMF staff estimates.

1/ Fiscal years run from July to June.
2/ Bonds issued to recapitalize government-owned banks and parastatals as well as the conversion into bonds of interest arrears owed to the BoT.
For program-monitoring purposes, such bonds are excluded from domestic financing.
3/ Although foreign-financed development expenditure is included in the voted budget, actual spending is not fully captured in budget execution reports.
4/ Statistical discrepancy between fiscal and monetary data.

Table 12. Tanzania: Summary of Central Government Revenue, 1997/98-2001/02 1/
(In millions of Tanzania shillings)

	1997/98	1998/99	1999/00	2000/01	2001/02
Total revenue	619,104	689,518	772,459	929,624	1,042,945
Tax revenue	566,144	616,477	691,944	827,789	938,478
Import duties	81,751	87,800	87,679	95,632	88,876
Export tax	4,741	0	0	0	0
Value-added tax (VAT)	138,203	208,222	223,758	301,983	352,263
VAT on domestic goods and services	61,758	102,531	112,511	119,840	143,589
VAT on imports	76,445	105,691	111,247	182,143	208,674
VAT on petroleum	11,970	182	725	58,620	60,561
VAT on other imports	64,475	105,509	110,522	123,523	148,113
Excises	101,251	84,194	88,508	154,765	177,614
Excises on domestic G&S	78,785	58,805	66,960	68,999	72,837
Excises on imports	22,466	25,390	21,547	85,766	104,777
Excise on petroleum	10,856	18,483	16,972	82,041	98,810
Excise on other imports	11,610	6,907	4,575	3,725	5,967
Income tax	149,788	162,904	205,076	194,022	228,377
Petroleum windfall tax	11,714	30,358	35,267	6,472	0
Pay-as-you-earn tax	47,821	55,201	73,290	92,744	116,567
Corporate	65,073	48,001	45,497	46,243	57,057
Other income	25,180	29,344	51,022	48,564	54,753
Other taxes	90,412	73,356	86,923	81,387	91,348
Payroll	10,586	11,806	14,714	15,826	17,091
Road toll/fuel levy	36,703	38,395	37,510	43,561	50,137
Others	43,123	23,155	34,700	22,000	24,120
Nontax revenue	52,960	73,041	80,514	101,836	104,467
Parastatal dividends	5,512	15,489	11,732	25,590	17,190
Treasury	7,930	10,103	12,471	18,636	16,219
Ministries and regions	32,948	42,886	46,784	51,442	68,011
Appropriations in aid	446	79	65	110	62
TRA (VAT and Customs Departments)	6,125	4,485	9,463	6,057	2,985
			(In percent of GDP)		
Total revenue	12.0	11.5	11.3	12.0	12.1
Tax revenue	11.0	10.3	10.1	10.7	10.9
Import duties	1.6	1.5	1.3	1.2	1.0
Export tax	0.1	0.0	0.0	0.0	0.0
Value-added tax (VAT)	2.7	3.5	3.3	3.9	4.1
VAT on domestic G&S	1.2	1.7	1.6	1.6	1.7
VAT on imports	1.5	1.8	1.6	2.4	2.4
Excises	2.0	1.4	1.3	2.0	2.1
Excises on domestic G&S	1.5	1.0	1.0	0.9	0.8
Excises on imports	0.4	0.4	0.3	1.1	1.2
Income tax	2.9	2.7	3.0	2.5	2.7
Other taxes	1.8	1.2	1.3	1.1	1.1
Nontax revenue	1.0	1.2	1.2	1.3	1.2
Memorandum item:					
GDP (market prices)	5,140,134	6,002,276	6,850,022	7,726,809	8,612,673

Sources: Ministry of Finance; and Tanzania Revenue Authority (TRA).

1/ Fiscal years run from July to June.

Table 13. Tanzania: Summary of Central Government Expenditure, 1997/98-2001/02 1/
(In millions of Tanzania shillings)

	1997/98	1998/99	1999/00	2000/01	2001/02
Total expenditure	808,698	1,021,504	1,292,622	1,338,232	1,555,975
Recurrent expenditure	567,809	657,255	807,614	986,579	1,171,442
Wages	218,842	220,478	285,336	308,052	341,982
Interest	115,967	95,900	126,961	128,150	121,125
Domestic	50,621	38,200	81,400	77,788	64,605
Foreign	65,345	57,700	45,561	50,361	56,520
Goods, services, and transfers	233,000	340,877	395,317	550,378	708,335
Consolidated Fund Services (others)	22,579	36,832	55,475	61,657	79,752
Tanzania Revenue Authority/Capital Market Authority	16,661	19,462	21,755	27,048	31,968
Subsidies to electricity company (TANESCO)	0	5,000	10,000	0	11,500
Parastatal wages	27,895	43,862	52,405	52,417	55,186
Other	165,865	235,720	255,682	409,255	529,929
Priority sector spending	64,900	96,225	108,085	168,260	300,985
Other charges	100,965	139,495	147,597	240,996	228,944
Net lending	0	0	0	0	0
Clearance of domestic payments arrears	43,500	46,500	3,700	32,200	59,107
Banks and parastatal recapitalization	0	69,800	100,700	9,800	0
Development expenditure and net lending	197,389	247,949	359,908	286,253	291,325
Local	24,027	18,808	19,429	35,069	50,236
Foreign	173,362	229,142	340,479	251,184	241,090
Project grants	118,039	165,826	207,519	123,630	140,191
Project loans	55,323	63,315	132,960	127,554	100,899
Expenditure carryover	...	...	20,700	23,400	34,100
	(In percent of GDP)				
Total expenditure	15.7	17.0	18.9	17.3	18.1
Recurrent expenditure	11.0	11.0	11.8	12.8	13.6
Wages	4.3	3.7	4.2	4.0	4.0
Interest	2.3	1.6	1.9	1.7	1.4
Domestic	1.0	0.6	1.2	1.0	0.8
Foreign	1.3	1.0	0.7	0.7	0.7
Goods, services, and transfers	4.5	5.7	5.8	7.1	8.2
Clearance of domestic payments arrears	0.8	0.8	0.1	0.4	0.7
Banks and parastatal recapitalization	0.0	1.2	1.5	0.1	0.0
Development expenditure and net lending	3.8	4.1	5.3	3.7	3.4
Local	0.5	0.3	0.3	0.5	0.6
Foreign	3.4	3.8	5.0	3.3	2.8
Expenditure carryover	...	...	0.3	0.3	0.4
Memorandum item:					
GDP (market prices)	5,140,134	6,002,276	6,850,022	7,726,809	8,612,673

Source: Tanzanian authorities.

1/ Fiscal years run from July to June.

Table 14. Tanzania: Budgetary Transfer Payments, 1997/98--2001/02 1/
(In millions of Tanzania shillings, unless otherwise indicated)

	1997/98	1998/99	1999/00	2000/01	2001/02
Total transfer payments	50,926	72,991	73,657	110,214	168,136
Transfers to parastatals	7,000	6,620	1,640	1,665	13,377
Strategic Grain Reserve management	4,000	6,189	999	760	1,877
Financial assistance to parastatals	3,000	431	641	905	11,500
Other domestic transfers	39,502	47,803	66,323	103,005	144,945
Urban and district councils 2/	4,171	4,897	15,404	29,663	56,384
University of Dar es Salaam	6,171	7,491	8,336	12,563	13,013
Sokoine University	2,168	3,543	4,349	7,431	9,874
Other educational institutions	7,311	9,751	13,431	20,353	24,362
Agricultural institutions	240	297	415	695	986
Natural resources	62	190	279	339	2,322
Industrial research and development	...	428	428	923	1,243
Health services	9,760	13,072	13,726	18,054	22,019
Political parties	3,540	2,583	2,680	2,768	2,994
Other 3/	6,079	5,550	7,274	10,216	11,749
Transfers abroad 4/	4,424	18,568	5,695	5,544	9,814
Memorandum items:					
Total transfer payments (in percent of GDP)	1.0	1.0	1.1	1.5	2.0
Of which: transfers to urban and district councils (in percent of other transfers)	10.6	10.2	23.2	28.8	33.5

Source: Tanzanian authorities.

1/ Fiscal years run from July to June.
2/ Excluding salaries and wages for urban and district councils.
3/ Represents government subvention to internal organizations less transfers to educational and agricultural institutions.
4/ For 1998/99, "Transfers abroad" includes payment of outstanding arrears.

Table 15. Tanzania: Central Government Expenditure on Priority Sectors, 1998/99-2001/02 1/
(In billions of Tanzania shillings, unless otherwise indicated)

	1998/99	1999/00	2000/01	2001/02
Total expenditure in priority sectors	290.9	418.6	499.7	761.9
(in percent of GDP)	4.8	6.1	6.5	8.8
(in percent of total expenditure)	32.1	35.8	39.3	52.1
Education 2/	135.2	218.0	254.9	344.9
Health	69.4	81.2	100.7	142.1
Water	9.6	14.5	18.3	32.5
Agriculture (research and extension)	10.5	21.6	19.1	31.9
Lands	3.2	4.2	5.1	8.1
Roads	57.8	70.8	92.5	179.6
Judiciary	5.2	8.3	9.2	18.8
TACAIDS 3/	0.0	0.0	0.0	4.0
Recurrent expenditure in priority sectors	235.8	285.4	351.7	497.6
(in percent of GDP)	3.9	4.2	4.6	5.8
(in percent of total recurrent expenditure)	35.9	35.3	35.6	42.5
Education 2/	117.6	158.9	189.2	282.1
Health	50.7	53.9	70.3	90.9
Water	7.1	5.4	8.1	15.5
Agriculture (research and extension)	8.6	13.7	10.3	17.2
Lands	2.8	3.4	4.2	7.4
Roads	43.9	42.2	60.7	65.7
Judiciary	5.2	7.9	8.8	14.8
TACAIDS 3/	0.0	0.0	0.0	4.0
Development expenditure in priority sectors	55.1	133.2	148.0	264.2
(in percent of GDP)	0.9	1.9	1.9	3.1
(in percent of total development expenditure)	22.2	37.0	51.7	90.7
Education 2/	17.6	59.1	65.7	62.8
Health	18.7	27.3	30.4	51.2
Water	2.6	9.1	10.1	17.0
Agriculture (research and extension)	1.9	7.9	8.7	14.7
Lands	0.4	0.8	0.9	0.7
Roads	13.9	28.6	31.7	113.9
Judiciary	0.0	0.4	0.4	4.0
Memorandum items:				
Total expenditure 4/	905.2	1,167.5	1,272.8	1,462.8
Recurrent expenditure	657.3	807.6	986.6	1,171.4
Development expenditure	247.9	359.9	286.3	291.3
HIPC Initiative debt relief	...	51.6	141.2	116.8
(in percent of GDP)	...	0.8	1.8	1.4
GDP (market prices)	6,002	6,850	7,727	8,613

Sources: Ministry of Finance.

1/ Fiscal years run from July to June.

2/ In the education budget, basket funding (in an amount of T Sh 77 billion) is classified under development expenditure
This amount is classified under recurrent expenditure under the program.

3/ Government agency created in 2001 to coordinate AIDS-related interventions.

4/ Excludes clearance of domestic arrears and recapitalization of banks.

Table 16. Tanzania: Monetary Survey, 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002 Mar.	2002 Jun.
					(In billions of Tanzania shillings; end of period)				
Net foreign assets	166.0	290.9	399.0	467.0	617.4	901.7	1,215.5	1,365.6	1,305.7
Net domestic assets	630.8	571.3	571.9	603.7	643.8	539.4	463.1	421.2	534.1
Net domestic credit	527.1	437.2	422.4	515.9	672.3	655.6	633.1	599.6	672.8
Net claims on government 1/	279.3	295.8	239.5	267.6	360.8	314.9	228.6	157.7	190.8
Credit to other public sector 2/	84.3	24.8	20.7	8.4	9.3	7.4	1.0	0.0	0.0
Credit to the private sector 2/	163.5	116.6	162.3	239.9	302.2	333.3	403.5	441.9	482.0
Other items (net)	103.7	134.1	149.5	87.8	-28.5	-116.2	-170.0	-178.4	-138.7
Broad money (M3)	752.9	818.1	927.1	1,027.0	1,217.5	1,397.8	1,636.7	1,744.9	1,797.9
Currency in circulation	244.3	257.7	287.9	307.8	384.9	392.4	411.6	402.9	429.4
Deposits (in Tanzania shillings)	369.4	427.3	472.5	537.1	587.1	701.3	822.0	864.8	904.1
Demand deposits	184.0	191.6	206.0	237.7	247.7	302.6	354.4	373.1	386.2
Time deposits	91.2	122.4	126.3	134.4	149.2	170.1	208.1	213.5	218.6
Savings deposits	94.2	113.3	140.2	165.0	190.2	228.6	259.5	278.2	299.3
Foreign currency deposits	139.2	133.1	166.7	182.1	245.5	304.1	403.1	477.2	464.4
Medium-term foreign liabilities 3/	43.8	44.1	43.9	43.7	43.6	43.3	41.9	41.9	41.9
Memorandum items:					(In percent, unless otherwise indicated)				
Annual percentage changes in:									
Money (M2)	26.1	11.6	11.0	11.1	15.0	12.5	12.8	18.5	21.3
Broad money (M3)	32.4	8.7	13.3	10.8	18.6	14.8	17.1	22.4	22.1
Net claims on government 1/	54.2	5.9	-19.1	11.8	34.8	-12.7	-27.4	-34.2	-25.1
Credit to other public sector 2/	-16.7	-70.6	-16.6	-59.3	10.6	-20.9	-86.5	-99.6	...
Credit to the private sector 2/	-8.6	-28.7	39.2	47.8	26.0	10.3	21.1	22.8	28.6
Contribution to the annual percentage growth of M3									
Net foreign assets	-10.8	16.6	13.2	7.3	14.6	23.4	22.4	28.7	20.5
Net domestic assets	43.3	-7.9	0.1	3.4	3.8	-8.7	-5.5	-6.3	1.5
Net claims on government	17.3	2.2	-6.9	3.0	9.1	-3.8	-6.2	-5.8	-4.3
Credit to other public sector 2/	-3.0	-7.9	-0.5	-1.3	0.1	-0.2	-0.5	-0.5	-0.2
Credit to the private sector 2/	-2.7	-6.2	5.6	8.4	6.1	2.6	5.0	5.8	7.3
Money multiplier (M3/reserve money)	2.4	2.4	2.5	2.5	2.4	2.5	2.8	3.2	3.1

Source: Bank of Tanzania (BoT).

1/ Includes government bonds issued for the recapitalization of banks.

2/ The decline in 1996 reflects loan write-offs of T Sh 112 billion by government-owned banks. The precise breakdown between private sector and other public sector is not available.

3/ Mainly blocked accounts for old external payments arrears by formerly government-owned banks.

Table 17. Tanzania: Summary Accounts of the Bank of Tanzania, 1995–2002

(In billions of Tanzania shillings, unless otherwise indicated; end of period)

	1995	1996	1997	1998	1999	2000	2001	2002 Mar.	2002 Jun.
Net foreign assets	12.6	112.1	170.2	202.2	318.1	494.9	692.6	763.5	742.6
Net domestic assets	346.1	267.9	238.5	260.3	234.2	104.8	-66.3	-171.3	-127.6
Net credit to the government 1/	124.8	54.8	20.5	-19.8	51.1	-62.8	-37.8	-78.5	-47.1
Credit to banks	5.5	5.5	4.6	5.4	4.2	0.0	0.0	0.0	0.0
Other items (net)	215.8	207.6	213.4	274.7	178.9	167.6	-28.5	-92.8	-80.5
Reserve money	314.9	335.8	364.9	418.7	508.7	556.4	584.4	550.3	573.1
Medium-term foreign liabilities 2/	43.8	44.1	43.9	43.7	43.6	43.3	41.9	41.9	41.9
Memorandum item: Reserve money (annual percentage change)	39.1	6.6	8.7	14.7	21.5	9.4	5.0	5.1	13.1

Source: Bank of Tanzania (BoT).

1/ Includes government bonds issued in November 1999 for payment of interest arrears.

2/ Mainly blocked accounts for old external payments arrears by formerly government-owned banks.

Table 18. Tanzania: Summary Accounts of Domestic Money Banks, 1995–2002
(In billions of Tanzania shillings)

	1995	1996	1997	1998	1999	2000	2001	2002 Mar.	Jun.
Foreign assets (net)	153.4	178.9	228.8	264.8	299.3	406.8	522.9	602.1	563.1
Foreign assets	170.2	181.6	233.6	267.3	301.1	411.0	539.1	629.8	589.8
Foreign liabilities	16.8	2.7	4.8	2.5	1.8	4.2	16.2	27.7	26.7
Domestic assets (net)	355.3	381.5	410.5	454.4	533.4	598.5	524.9	580.3	671.7
Reserves	66.0	72.8	59.7	113.2	123.2	172.1	177.3	159.6	133.6
Domestic credit	402.3	382.3	401.9	535.7	621.2	718.4	670.9	678.0	719.9
Net claims on government	154.4	241.0	219.0	287.4	309.7	377.7	266.4	236.1	237.9
Claims on government	181.1	261.9	247.4	312.7	331.3	403.8	295.7	267.9	267.0
Government deposits	26.6	21.0	28.4	25.3	21.6	26.1	29.3	31.8	29.1
Claims on other public sector	84.3	24.8	20.7	8.4	9.3	7.4	1.0	0.0	0.0
Marketing boards	16.4	1.8	0.8	0.8	0.8	0.0	0.0	0.0	0.0
Cooperatives	37.5	7.4	4.5	5.4	4.6	4.4	0.0	0.0	0.0
Industrial and commercial parastatals	30.4	15.5	15.4	2.3	3.9	3.0	1.0	0.0	0.0
Claims on private sector	163.5	116.6	162.3	239.9	302.2	333.3	403.5	441.9	482.0
Other items (net)	-113.1	-73.6	-51.2	-194.5	-211.0	-291.9	-146.0	-97.7	-48.2
Demand deposits	184.0	191.6	206.0	237.7	247.7	302.6	354.4	373.1	386.2
Time and savings deposits	185.4	235.7	266.5	299.4	339.4	398.7	467.6	491.7	517.9
Foreign currency deposits	139.2	133.1	166.7	182.1	245.5	304.1	403.1	477.2	464.4

Source: Bank of Tanzania (BoT).

Table 19. Tanzania: Commercial Bank Domestic Lending by Borrowing Sectors, 1995-2002

	Public Adminis- tration	Agricul- tural Production	Mining and Manufac- turing	Building and Cons- truction	Transporta- tion	Tourism	Marketing of Agricultural Produce	Export of Agricultural Produce	Trade in Capital Goods	All Other Trade	Specified Financial Institutions	Other	Total
					(In millions of Tanzania shillings; end of period))								
1995 Mar.	8,286	14,535	53,307	2,576	4,143	2,838	42,068	4,029	137	37,573	569	106,167	276,227
Jun.	8,283	13,691	50,820	2,599	4,517	2,929	41,058	4,044	96	42,298	3,392	96,629	270,356
Sep.	8,708	19,241	50,694	3,907	4,958	2,610	48,238	4,651	213	41,155	678	78,092	263,145
Dec.	12,983	21,086	55,345	3,385	4,774	1,990	51,294	5,131	12	46,873	433	57,525	260,829
1996 Mar.	5,925	11,016	36,841	3,202	6,401	1,422	11,998	2,081	45	30,774	257	64,183	174,145
Jun.	5,927	10,441	38,681	3,112	6,950	968	7,290	3,542	8	27,843	156	29,991	134,906
Sep.	5,957	13,428	36,519	3,195	7,754	870	5,984	3,522	10	25,203	163	38,102	140,706
Dec.	7,796	17,236	37,129	4,317	8,656	1,058	8,820	3,505	8	22,058	224	36,490	147,298
1997 Mar.	6,411	14,132	27,233	4,237	7,295	1,167	4,860	3,033	135	29,942	335	45,670	144,449
Jun.	7,350	11,037	32,961	4,589	9,301	1,780	5,233	2,278	19	24,189	1,749	34,099	134,586
Sep.	7,381	18,548	38,090	5,255	12,323	1,982	5,767	14,738	3	37,323	254	42,881	184,543
Dec.	5,198	13,920	43,703	4,316	15,016	2,608	2,675	3,117	438	43,535	657	49,658	184,840
1998 Mar.	4,931	9,974	49,709	4,415	18,643	2,173	5,024	3,110	0	47,731	828	44,154	190,690
Jun.	7,777	12,218	54,081	5,159	19,773	2,153	3,518	2,961	17	49,115	1,744	42,897	201,412
Sep.	5,642	21,556	62,419	3,999	20,470	1,858	4,996	6,386	10	50,112	2,798	62,411	242,657
Dec.	5,123	18,826	57,914	5,748	22,777	2,315	6,419	1,954	70	65,314	2,788	61,830	251,079
1999 Mar.	9,933	16,514	72,848	5,932	35,025	2,495	5,425	1,957	0	68,469	2,414	54,714	275,724
Jun.	8,387	16,668	81,039	6,682	39,823	2,888	5,503	1,876	0	69,146	2,697	47,880	282,589
Sep.	7,289	19,225	84,910	6,852	36,455	4,541	2,453	2,067	0	81,037	3,062	66,303	314,194
Dec.	6,864	17,739	91,354	6,552	34,322	3,767	2,439	1,948	53	78,648	2,808	65,524	312,020
2000 Mar.	6,793	18,148	87,860	5,992	29,960	3,958	2,260	1,814	71	76,600	2,351	57,793	293,598
Jun.	6,582	19,158	92,532	8,826	29,695	6,070	2,949	2,187	175	83,887	4,062	57,316	313,438
Sep.	7,819	30,980	113,122	9,074	32,587	3,999	1,926	1,040	46	100,700	4,357	25,166	330,817
Dec.	7,319	21,432	106,792	11,444	45,899	3,440	1,336	202	0	89,941	7,169	45,655	340,628
2001 Mar.	7,660	18,499	125,248	12,393	39,305	4,226	1,148	212	0	109,632	5,546	42,669	366,538
Jun.	8,142	27,035	115,981	15,932	34,968	4,255	1,242	0	0	100,601	5,642	64,626	378,423
Sep.	7,234	38,005	129,940	17,945	33,639	5,226	0	0	0	134,717	5,228	31,259	403,192
Dec.	8,406	38,955	135,760	13,923	40,835	7,119	0	0	0	133,939	4,301	21,274	404,512
2002 Mar.	7,433	44,801	110,940	21,795	46,519	10,275	0	0	0	81,388	11,371	107,396	441,918
Jun.	8,278	54,056	77,682	47,175	44,464	11,700	0	0	0	102,422	17,580	118,686	482,041
					(In percent of total; end of period)								
1995 Mar.	3.0	5.3	19.3	0.9	1.5	1.0	15.2	1.5	0.0	13.6	0.2	38.4	100.0
Jun.	3.1	5.1	18.8	1.0	1.7	1.1	15.2	1.5	0.0	15.6	1.3	35.7	100.0
Sep.	3.3	7.3	19.3	1.5	1.9	1.0	18.3	1.8	0.1	15.6	0.3	29.7	100.0
Dec.	5.0	8.1	21.2	1.3	1.8	0.8	19.7	2.0	0.0	18.0	0.2	22.1	100.0
1996 Mar.	3.4	6.3	21.2	1.8	3.7	0.8	6.9	1.2	0.0	17.7	0.1	36.9	100.0
Jun.	4.4	7.7	28.7	2.3	5.2	0.7	5.4	2.6	0.0	20.6	0.1	22.2	100.0
Sep.	4.2	9.5	26.0	2.3	5.5	0.6	4.3	2.5	0.0	17.9	0.1	27.1	100.0
Dec.	5.3	11.7	25.2	2.9	5.9	0.7	6.0	2.4	0.0	15.0	0.2	24.8	100.0
1997 Mar.	4.4	9.8	18.9	2.9	5.1	0.8	3.4	2.1	0.1	20.7	0.2	31.6	100.0
Jun.	5.5	8.2	24.5	3.4	6.9	1.3	3.9	1.7	0.0	18.0	1.3	25.3	100.0
Sep.	4.0	10.1	20.6	2.8	6.7	1.1	3.1	8.0	0.0	20.2	0.1	23.2	100.0
Dec.	2.8	7.5	23.6	2.3	8.1	1.4	1.4	1.7	0.2	23.6	0.4	26.9	100.0
1998 Mar.	2.6	5.2	26.1	2.3	9.8	1.1	2.6	1.6	0.0	25.0	0.4	23.2	100.0
Jun.	3.9	6.1	26.9	2.6	9.8	1.1	1.7	1.5	0.0	24.4	0.9	21.3	100.0
Sep.	2.3	8.9	25.7	1.6	8.4	0.8	2.1	2.6	0.0	20.7	1.2	25.7	100.0
Dec.	2.0	7.5	23.1	2.3	9.1	0.9	2.6	0.8	0.0	26.0	1.1	24.6	100.0
1999 Mar.	3.6	6.0	26.4	2.2	12.7	0.9	2.0	0.7	0.0	24.8	0.9	19.8	100.0
Jun.	3.0	5.9	28.7	2.4	14.1	1.0	1.9	0.7	0.0	24.5	1.0	16.9	100.0
Sep.	2.3	6.1	27.0	2.2	11.6	1.4	0.8	0.7	0.0	25.8	1.0	21.1	100.0
Dec.	2.2	5.7	29.3	2.1	11.0	1.2	0.8	0.6	0.0	25.2	0.9	21.0	100.0
2000 Mar.	2.3	6.2	29.9	2.0	10.2	1.3	0.8	0.6	0.0	26.1	0.8	19.7	100.0
Jun.	2.1	6.1	29.5	2.8	9.5	1.9	0.9	0.7	0.1	26.8	1.3	18.3	100.0
Sep.	2.4	9.4	34.2	2.7	9.9	1.2	0.6	0.3	0.0	30.4	1.3	7.6	100.0
Dec.	2.1	6.3	31.4	3.4	13.5	1.0	0.4	0.1	0.0	26.4	2.1	13.4	100.0
2001 Mar.	2.1	5.0	34.2	3.4	10.7	1.2	0.3	0.1	0.0	29.9	1.5	11.6	100.0
Jun.	2.2	7.1	30.6	4.2	9.2	1.1	0.3	0.0	0.0	26.6	1.5	17.1	100.0
Sep.	1.8	9.4	32.2	4.5	8.3	1.3	0.0	0.0	0.0	33.4	1.3	7.8	100.0
Dec.	2.1	9.6	33.6	3.4	10.1	1.8	0.0	0.0	0.0	33.1	1.1	5.3	100.0
2002 Mar.	1.7	10.1	25.1	4.9	10.5	2.3	0.0	0.0	0.0	18.4	2.6	24.3	100.0
Jun.	1.7	11.2	16.1	9.8	9.2	2.4	0.0	0.0	0.0	21.2	2.6	24.3	100.0

Source: Bank of Tanzania (BoT).

Table 20. Tanzania: Structure of Interest Rates of Financial Institutions, 1995–2001
(In percent; end of period)

	1995	1996	1997	1998	1999	2000	2001
Bank of Tanzania							
Discount rate 1/	45.10	19.00	16.20	17.60	20.20	10.70	8.70
Commercial banks 2/							
Savings deposit rates							
Low	15.00	11.13	7.30	5.00	3.70	3.80	1.80
High	27.00	22.26	12.78	12.00	12.00	10.00	10.00
Time deposit rates							
3-6 month							
Low	17.00	7.75	4.00	5.13	3.00	2.20	1.80
High	32.50	15.00	11.75	12.80	16.40	13.70	9.70
9 month							
Low	22.00	12.50	5.00	5.50	5.31	...	...
High	35.00	18.00	12.50	13.50	14.17	...	...
12 month							
Low	23.00	13.00	6.00	7.50	4.00	3.70	3.30
High	36.00	25.00	13.50	14.10	14.17	13.00	12.00
Short-term lending rates 3/							
Low	31.00	28.00	21.00	15.00	14.50	9.30	9.30
High	46.00	33.00	28.00	30.00	32.00	28.00	28.40
Medium- and long-term lending rates							
Low	31.00	29.00	21.00	20.00	5.00	6.00	5.00
High	38.00	30.00	32.00	22.00	40.00	38.00	30.00

Source: Bank of Tanzania (BoT).

1/ Effective November 1994, the discount rate is set as the average yield on treasury bills plus 5 percentage points.

2/ Before 2000, commercial bank rates are posted rates, which generally are less frequently adjusted than actual rates offered to prime customers. Since 2000, the data represent weighted average rates.

3/ Maximum one year.

Table 21. Tanzania: Balance of Payments, 1997-2001
(In millions of U.S. dollars, unless otherwise indicated)

	1997	1998	1999	2000	2001
Current account					
Including official transfers	-403.5	-870.7	-797.6	-463.7	-503.0
Excluding official transfers	-835.0	-1,298.0	-1,134.2	-856.4	-873.1
Goods and services	-713.2	-1,206.2	-1,051.9	-766.8	-817.3
Trade account	-395.4	-793.6	-825.0	-673.9	-715.7
Exports, f.o.b.	752.6	588.5	543.3	663.3	776.4
Traditional	435.3	356.3	301.2	292.8	231.1
Nontraditional	317.2	232.2	242.1	370.5	545.3
Imports, f.o.b	-1,148.0	-1,382.1	-1,368.2	-1,337.2	-1,492.1
Services (net)	-317.8	-412.5	-227.0	-92.9	-101.6
Credit	482.4	553.0	646.4	666.7	679.5
Debit	-800.2	-965.5	-873.3	-759.7	-781.2
Income (net)	-121.8	-91.8	-82.3	-89.6	-55.7
Credit	43.0	44.4	49.0	50.4	69.2
Debit	-164.8	-136.3	-131.3	-140.0	-124.9
Of which: Interest payments due	-163.9	-124.8	-116.0	-120.8	-117.3
Of which : govt. payments due	-150.3	-102.9	-104.3	-105.1	-97.5
Current transfers	431.5	427.3	336.6	392.7	370.1
Official transfers	433.6	421.0	411.4	430.7	402.4
Of which: program grants	Progr	107.5	130.4	175.6	140.4
HIPC debt relief grants	0.0	0.0	0.0	43.5	70.9
Capital account	270.9	252.4	270.6	330.4	365.2
Of which: Project grants	259.9	235.9	256.4	314.7	342.9
Financial account	105.5	-12.4	606.6	422.8	-29.4
Direct investment	157.8	272.2	516.7	463.4	327.2
Portfolio investment	0.0	20.5	0.7	0.0	0.0
Other investment	-52.3	-305.1	89.2	-40.6	-356.6
Assets	-69.1	-18.5	14.8	-134.0	-76.7
Banks				-134.0	-76.7
Liabilities	16.8	-286.6	74.3	93.4	-280.0
Loans	-14.9	-294.6	60.3	76.8	-303.5
Government drawings	397.5	254.6	338.0	386.7	141.8
Government repayments	-389.8	-571.1	-235.8	-261.3	-395.9
Of which: scheduled amortization	-162.4	-204.3	-151.2	-251.3	-264.5
Banks	0.0	0.7	0.2	-0.9	2.0
Other sectors' drawings	-10.6	43.0	8.3	2.5	6.4
Other sectors' repayments	-12.0	-21.9	-50.4	-50.2	-57.7
Trade credit	11.6	12.9	15.5	12.8	13.0
Currency and deposits	20.2	-4.9	-1.6	3.9	10.5
Errors and omissions	-147.3	176.4	-147.5	-199.4	157.6
Overall balance	-174.5	-454.2	-67.9	90.2	-9.6
Financing	174.5	454.2	67.9	-90.2	9.6
Bank of Tanzania reserve assets (increase, -)	-182.1	20.9	-175.4	-197.4	-186.4
Use of Fund credit	77.4	11.0	51.3	49.4	15.6
Exceptional financing	279.2	422.3	192.0	57.8	180.3
Change in arrears (increase +) 1/	51.9	55.6	107.4	47.8	48.9
Debt rescheduled	227.3	366.7	84.6	10.0	131.4
Memorandum items:					
Gross official reserves (BoT)	623.1	599.0	775.6	974.4	1,156.6
In months of imports of goods and services	3.2	3.2	4.4	5.1	6.1
Current account deficit (as percent of GDP)					
Excluding official transfers	-11.0	-15.5	-13.1	-9.4	-9.3
Including official transfers	-5.3	-10.4	-9.2	-5.1	-5.4
Net aid flows (as percent of GDP) 2/	12.7	7.5	9.2	10.3	8.4
Foreign direct investment (FDI) (as percent of GDP) 3/	2.1	3.3	6.0	5.1	3.5
GDP	7,615.0	8,364.8	8,634.6	9,079.3	9,342.0

Sources: Tanzanian authorities; and Fund staff estimates.

1/ The arrears are on non-Paris Club official and commerical debt, which is subject to rescheduling.
2/ Net aid flows are defined as grants plus concessional foreign borrowing minus actual debt-service payments.
3/ The significant decline in the FDI ratio in 2001-02 is partly due to data coverage issues.

Table 22. Tanzania: Value, Unit Value, and Volume Indices of Exports and Imports,
and Terms of Trade, 1993/94–2001 1/
(On the basis of U.S. dollar data; 1992/93 = 100)

	1993/ 94	1994/ 95	1995/ 96	1996/ 97	1997/ 98	1998/ 99	1999	2000	2001
Value									
Exports	101.5	123.8	145.3	165.8	127.9	112.9	113.0	133.1	155.8
Imports	108.1	102.6	93.1	94.3	98.2	108.2	110.8	108.1	120.6
Unit value									
Exports	94.5	118.5	110.8	108.0	115.7	105.8	114.8	111.6	103.0
Imports	100.0	100.9	103.5	101.1	94.9	94.0	94.6	94.3	93.6
Volume									
Exports	107.3	104.4	131.2	153.5	110.5	106.7	98.4	119.3	151.3
Imports	108.0	101.7	90.0	93.3	103.4	115.1	117.1	114.6	128.8
Terms of trade	94.5	117.5	107.0	106.8	122.0	112.6	121.3	118.3	108.5

Sources: Tanzanian authorities; and Fund staff estimates.

1/ For 1993/94-1998/99, years run from July to June.

Table 23. Tanzania: Value, Volume, and Unit Values of Principal Exports, 1993–2001

(Value in millions of U.S. dollars; volume in thousands of metric tons; unit values in U.S. dollars per kilogram) 1/

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Coffee									
Value	96.1	115.4	142.6	136.1	119.3	108.7	76.6	83.7	57.1
Volume	58.6	37.0	48.0	61.7	47.3	44.7	39.0	54.5	48.4
Unit value	1,639.9	3,117.8	2,972.7	2,206.4	2,523.2	2,434.6	1,963.8	1,537.3	1,179.1
Cotton									
Value	78.4	105.1	120.2	125.3	130.4	47.6	28.5	38.0	33.7
Volume	61.2	60.0	70.9	81.9	86.3	37.3	26.3	36.8	36.8
Unit value	1,281.6	1,752.0	1,695.6	1,530.5	1,510.9	1,277.0	1,081.8	1,031.3	915.3
Tea									
Value	38.0	39.5	23.4	22.5	31.8	30.4	24.6	32.7	29.0
Volume	19.8	21.7	21.6	22.0	21.6	22.1	21.4	22.6	23.0
Unit value	1,925.6	1,823.7	1,081.5	1,023.5	1,476.6	1,375.6	1,151.7	1,450.0	1,264.4
Tobacco									
Value	17.1	20.6	27.1	49.2	53.6	55.4	43.4	38.4	35.7
Volume	10.6	15.4	17.1	24.9	27.9	26.3	21.4	19.2	18.7
Unit value	1,607.3	1,335.1	1,588.4	1,975.9	1,921.6	2,102.2	2,034.4	1,997.8	1,906.2
Cashew nuts									
Value	23.3	51.2	64.0	97.8	91.1	107.3	100.9	84.4	56.6
Volume	32.2	65.0	75.6	118.4	121.9	164.7	102.0	102.4	95.0
Unit value	724.8	787.1	847.0	826.0	747.1	651.7	988.8	824.5	595.4
Traditional exports (value)	252.9	331.7	377.2	431.0	426.2	349.5	274.1	277.2	212.1
Other principal exports (value)									
Mineral and metals	69.0	30.0	44.9	55.9	51.1	26.4	73.3	178.2	302.2
Of which: gold	...	...	...	...	1.3	3.0	34.8	112.7	254.1
Manufactured goods	52.0	77.0	109.3	122.8	111.3	35.7	30.1	43.4	56.2
Fish and products	...	...	...	...	56.3	74.3	56.7	76.3	96.8
Horticulture	...	...	...	...	5.2	8.6	8.9	9.7	11.0
Other	62.1	75.5	145.2	148.8	93.2	87.2	72.7	62.9	79.2
Nontraditional exports (value)	183.1	182.5	299.4	327.5	317.2	232.1	241.7	370.4	545.3
Grand total (value)	436.0	514.2	676.6	758.4	743.4	581.7	515.7	647.7	757.4

Sources: Tanzanian authorities; and Fund staff estimates.

1/ Unit values are obtained from value and volume figures.

Table 24. Tanzania: Composition of Exports, 1991–2001
(In percent of total exports, f.o.b.)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Traditional exports	51.6	59.9	59.6	65.6	57.1	58.3	58.4	60.5	55.5	44.1	29.8
Coffee	21.8	15.4	22.3	22.5	21.2	18.2	16.0	18.5	14.1	12.6	7.4
Cotton	19.1	25.3	18.2	20.5	17.9	16.8	17.5	8.1	5.2	5.7	4.3
Sisal	1.0	0.3	0.8	1.0	0.9	0.7	1.2	1.2	1.3	0.8	0.9
Tea	5.5	5.8	8.8	7.7	3.5	3.0	4.3	5.2	4.5	4.9	3.7
Tobacco	2.7	7.0	4.0	4.0	4.0	6.6	7.2	9.4	8.0	5.8	4.6
Cashew nuts	1.4	6.1	5.4	10.0	9.5	13.1	12.2	18.2	18.6	12.7	7.3
Cloves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.7	1.5	1.6
Nontraditional exports	48.4	40.1	40.4	34.4	42.9	41.7	41.6	39.5	44.5	55.9	70.2
Minerals	5.8	10.6	16.0	5.8	6.7	7.5	6.9	4.5	13.5	26.9	38.9
Of which: gold							0.2	0.5	6.4	17.0	32.2
Manufactured products	24.9	16.6	12.1	15.0	16.3	16.4	14.9	6.1	5.5	6.5	7.2
Fish products	0.0	0.0	0.0	0.0	0.0	0.0	7.6	12.6	10.5	11.5	12.5
Horticulture	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.5	1.6	1.5	1.4
Other nontraditional exports	17.7	12.9	12.3	13.6	20.0	17.8	11.6	14.8	13.4	9.5	10.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Tanzanian authorities; and Fund staff estimates.

Table 25. Tanzania: Destination of Exports, 1993–2001
(In percent of total)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
European Union (EU)	39.7	35.2	36.0	31.4	30.2	40.9	38.8	54.4	56.1
United Kingdom	7.8	6.0	5.9	5.2	5.0	10.1	17.0	22.0	18.3
Germany	11.9	10.6	10.6	9.5	9.0	8.3	6.4	9.9	5.0
Netherlands	5.1	4.8	6.0	5.6	5.3	7.7	5.6	6.9	6.7
Belgium	2.8	3.3	1.5	1.1	1.1	4.4	3.0	2.8	1.4
Italy	3.4	1.9	1.8	1.7	1.6	1.1	1.2	1.3	1.0
Other EU	8.7	8.6	10.3	8.2	8.1	9.3	5.6	11.4	23.7
United States	2.9	3.1	3.5	3.0	2.8	2.2	3.2	2.3	2.0
Japan	9.2	9.4	9.6	8.4	8.0	7.7	7.9	5.1	8.9
India	8.9	10.2	8.5	9.3	8.9	19.5	20.4	14.8	10.7
China (including Hong Kong SAR)	1.3	4.2	4.0	5.0	4.7	1.2	1.4	1.4	0.1
Singapore	2.0	2.7	2.2	2.0	1.9	1.9	4.5	1.0	0.8
Kenya	1.8	1.9	1.8	1.8	1.7	4.4	3.8	4.8	5.0
Uganda	1.3	1.5	1.3	1.6	1.5	1.1	0.8	1.3	0.7
South Africa	...	...	0.7	0.7	1.1	1.1	1.2	1.8	1.1
Zambia	0.7	0.6	1.5	1.4	1.3	0.6	0.5	0.7	0.7
Zimbabwe	1.5	1.4	1.1	0.9	0.9	2.2	5.5	4.3	0.1
Other	30.6	29.7	29.8	34.5	36.9	17.3	11.8	8.1	13.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Tanzanian authorities.

Table 26. Tanzania: Value of Principal Imports, 1993–2001
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Capital goods	632.9	656.5	554.2	501.0	563.6	764.9	693.2	638.2	739.7
Transport and equipment	262.3	242.3	209.7	202.7	253.1	253.1	231.8	228.5	189.8
Building and construction	103.5	107.5	49.2	42.5	85.1	137.0	121.6	128.8	144.0
Machinery	267.1	306.7	295.3	255.8	225.4	374.8	339.8	280.9	406.0
Intermediate goods	296.2	290.4	608.9	531.0	382.9	303.4	319.6	319.4	440.7
Oil	167.2	149.0	193.8	158.4	173.0	126.8	148.1	142.6	220.7
Fertilizers	11.3	11.7	11.7	23.3	22.6	13.8	10.8	16.8	15.5
Industrial raw materials	117.7	129.7	403.4	349.3	187.3	162.8	160.7	159.9	204.4
Consumer goods	312.2	359.5	377.7	361.8	373.1	520.4	559.9	576.7	531.8
Food and foodstuffs	93.7	127.5	44.2	52.7	97.0	180.9	230.7	183.0	169.4
Other consumer goods	218.5	232.0	333.5	309.1	276.0	339.5	329.2	393.8	362.4
Unclassified imports	224.1	198.6	0.0	15.0	0.0	0.0	0.0	2.6	2.8
Total, c.i.f.	1,465.4	1,505.0	1,540.8	1,408.8	1,319.5	1,588.7	1,572.7	1,536.9	1,715.1
Total, f.o.b.	1,274.9	1,309.4	1,340.5	1,225.7	1,148.0	1,382.1	1,368.2	1,337.1	1,492.1

Sources: Tanzanian authorities; and Fund staff estimates.

Table 27. Tanzania: Composition of Imports, 1993–2001

(In percent of total imports)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Capital goods	43.2	43.6	36.0	35.6	42.7	48.1	44.1	41.5	43.1
Transport and equipment	17.9	16.1	13.6	14.4	19.2	15.9	14.7	14.9	11.1
Building and construction	7.1	7.1	3.2	3.0	6.5	8.6	7.7	8.4	8.4
Machinery	18.2	20.4	19.2	18.2	17.1	23.6	21.6	18.3	23.7
Intermediate goods	20.2	19.3	39.5	37.7	29.0	19.1	20.3	20.8	25.7
Of which : oil imports	11.4	9.9	12.6	11.2	13.1	8.0	9.4	9.3	12.9
Consumer goods	21.3	23.9	24.5	25.7	28.3	32.8	35.6	37.5	31.0
Of which : food imports	6.4	8.5	2.9	3.7	7.4	11.4	14.7	11.9	9.9
Unclassified imports	15.3	13.2	0.0	1.1	0.0	0.0	0.0	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Tanzanian authorities; and Fund staff estimates.

Table 28. Tanzania: Sources of Imports, 1993–2001
(In percent of total)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
European Union (EU)	31.3	27.9	27.2	27.7	27.8	32.7	25.4	22.6	23.1
United Kingdom	10.7	8.4	9.4	9.2	9.3	7.8	7.9	7.0	7.4
Germany	5.1	4.9	3.4	3.2	3.8	4.9	3.8	3.4	3.9
Netherlands	2.4	2.1	2.1	2.4	2.1	6.0	2.3	1.9	1.8
Belgium	2.6	2.7	2.5	2.2	1.9	1.6	1.4	1.0	1.3
Italy	3.6	4.0	3.6	4.6	2.9	4.3	3.0	2.3	2.9
Denmark	1.0	1.0	1.4	1.1	0.7	1.7	1.5	1.5	1.0
Other EU	5.7	4.9	4.7	5.0	7.0	6.4	5.5	5.5	4.8
United States	2.2	3.3	4.3	3.6	4.0	5.2	6.1	3.9	3.8
Japan	7.4	5.5	7.0	5.5	5.6	8.3	11.0	9.3	8.7
India	4.2	4.6	4.6	7.7	5.9	5.7	5.8	5.8	5.1
China (including Hong Kong SAR)	7.7	6.6	7.1	6.4	5.2	3.3	3.8	4.8	4.1
Singapore	2.2	1.6	2.9	2.0	2.9	0.8	0.6	0.4	0.5
Kenya	6.1	7.4	8.9	11.6	7.2	6.7	5.8	6.1	5.6
Uganda	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.4	0.7
South Africa	...	...	6.1	5.2	7.3	8.3	10.5	11.5	11.8
Zambia	0.4	0.5	1.4	1.9	1.9	1.1	0.4	0.2	0.1
Zimbabwe	0.3	1.7	1.2	0.2	0.4	0.9	0.3	0.3	0.2
Other	38.1	41.0	29.3	28.1	31.8	26.7	29.8	34.8	36.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Tanzanian authorities.

Table 29. Tanzania: Services Account of the Balance of Payments, 1997–2001
(In millions of U.S. dollars)

	1997	1998	1999	2000	2001
Services (net)	-317.8	-412.5	-227.0	-92.9	-101.6
Service receipts	482.4	553.0	646.4	666.7	679.5
Insurance	1.5	16.2	6.7	13.0	14.8
Transportation	59.4	41.8	53.7	56.8	68.4
Of which: freight	42.0	32.6	44.8	40.7	39.7
Travel	339.0	399.0	463.7	376.7	412.8
Communications	23.7	16.9	22.2	26.7	15.2
Construction	0.0	14.1	24.4	22.9	0.0
Financial services	12.3	21.6	25.7	20.6	3.8
Business services	18.5	18.0	21.1	97.2	102.6
Other government services	24.5	21.2	24.7	52.0	61.2
Other services	3.4	4.1	4.2	0.8	0.8
Service payments	800.2	965.5	873.3	759.7	781.2
Insurance	21.2	27.5	30.4	36.7	38.4
Transportation	205.6	224.7	225.1	224.7	245.3
Of which: freight	0.0	185.1	189.3	186.3	200.8
Travel	407.2	509.6	369.7	337.3	327.3
Communications	15.1	9.0	4.8	6.2	10.0
Financial services	0.1	36.8	39.2	17.0	2.3
Business services	55.5	132.0	134.5	41.8	66.3
Other services	4.0	8.5	8.0	7.1	13.6
Other government services	91.5	17.3	61.7	89.0	78.0

Sources: Tanzanian authorities; and Fund staff estimates.

Table 30. Zanzibar: Selected Economic Indicators, 1990–2001

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 Prov.
	(Annual percentage change)											
Real GDP growth	3.4	4.8	3.0	3.3	5.0	5.2	7.1	4.1	0.5	4.5	4.2	4.0
Consumer price index	40.7	26.3	20.0	23.2	22.9	28.9	18.7	12.7	8.0	5.5	6.5	2.9
	(In millions of U.S. dollars)											
Balance of payments												
Exports	16.2	28.2	5.5	5.3	3.5	6.0	5.5	6.0	18.5	20.6	15.5	16.1
Imports	28.7	25.0	67.3	46.0	56.3	92.1	43.4	48.0	92.2	121.1	104.4	68.0
	(In millions of Tanzania shillings)											
Government finance 1/												
Total revenue (including grants)	10,878.9	6,948.9	9,021.9	12,534.9	13,617.0	19,147.0	19,808.0	37,286.0	37,691.9	62,632.5	38,669.0	50,192.9
Of which: recurrent	4,059.9	6,948.9	8,250.9	8,376.9	13,101.0	19,067.0	17,155.0	37,286.0	40,088.0	47,510.0	45,883.0	42,395.9
Total expenditure	-11,652.5	-19,314.0	-24,361.0	-21,312.0	-27,268.0	-13,893.0	-19,833.0	-38,394.0	38,205.8	63,066.1	(43,291.0)	(47,354.0)

Source: Zanzibar authorities.

1/ Fiscal years run from July to June.

Table 31. Zanzibar: Social and Demographic Indicators, 1999-2000

	1999	2000 Prov.
Population characteristics		
Total population (thousands)	880.0	886.0
Population under age 15 (thousands)	398.0	432.0
Birth rate (per 1,000)	49.0	49.0
Life expectancy (years)	48.0	48.0
Population growth (percent)	3.0	3.0
Health, food, and nutrition		
Infant mortality (per 1,000)	83.0	83.0
Persons per physician	16000.0	13115.0
Education		
Literacy rate (in percent of population)	70.0	65.0
Primary enrollment (in percent of total children of primary school age)	85.0	86.0
Secondary enrollment (in percent of total children of secondary school age)	14.0	21.0

Source: Zanzibar authorities.

Tax	Nature of Tax	Exemptions and Deductions	Rates	

1.

Taxes on net income and profits

1.1 Taxes on individuals (Income Tax Act, 1973)	The tax is on the global income of all residents and on the Tanzania-source income of nonresidents. Partnership income is based on the remuneration payable to the partner and on the partner's share of the local partnership income. Returns and assessment are separate for spouse. Employment income includes wages and salaries, leave and sick pay, fees, commissions, entertainment allowance, severance pay, employer-paid life insurance premiums to other than the approved pension fund, and benefits in kind, unless exempted. Individuals are also chargeable in respect of gains or profits from business, dividends, interest, rents, and premiums paid for the use or occupation of property.	Exemptions: Diplomatic and consular agents of foreign governments; foreign-source payments to technical assistance officials and employees; disability pensions; education grants to public employees; bank interest up to T Sh 150,000; and any person or income exempted by the Minister for Finance. Relief: Premium to any insurance company in respect of a life policy equal to 5 percent of monthly salary.	Monthly taxable income 0 - 50,000 50,000 - 180,000 180,000 - 360,000 360,000 - 540,000 Above 540,000	Rates payable Nil 18.5 percent over 50,000 24,050+ 20 percent over 180,000 60,050 + 25 percent over 360,000 105,050 + 30 percent over 540,000

	Tax on income of an individual of gross turnover of less than 20,000,000 shillings per annum.		Turnover 0 - 7,000,000 7,000,000 - 14,000,000 14,000,00 -20,000,000	Rates payable 50,000 165,000 385,000

Withholding rates (in percent)

Residents	
Transport (except taxpayers with identification number (TIN)	4
Interest(including interest on treasury bills)	15
Dividends	10
Goods and services (except taxpayers with identification number (TIN)	2
Insurance	7.5
Rent	15
Nonresidents	
Interest	15
Dividends	10
Royalties, fees	10
Rents: aircraft	0
other	20
Pension, annually	15

Taxes withheld at source can be offset against taxes charged in assessments raised on resident taxpayers, whereas such taxes are final charges in respect of nonresident taxpayers and on dividends income. Similar treatment (i.e., final charges) given for withholding on rent, dividends, and interest for residents.

1.2 Corporation tax	The tax is on the global income of resident corporations and on the Tanzania-source income of nonresident corporations. Income includes gains or profits from business, dividends and interest, royalties, rents, and premiums paid for the use or occupation of property. Interests income is included in other company business incomes and taxed at a rate of 30 percent. Any amount withheld at source is considered as advance tax paid.	Exemptions: Income certified as exempt by the Minister for Finance; approved pension fund; dividends income received by a resident corporation holding 75 percent or more of the shares of the paying corporation; and ecclesiastical, charitable, and education institutions.	Category of taxpayer Residents Nonresidents	Rate (in percent) 30 30

Tax	Nature of Tax	Exemptions and Deductions	Rates
		Deductions: Ordinary and necessary expenses; research expenses; research and development expenditures; declining balance depreciation of all commercial buildings; hotels and nonhotels at 5 percent; and machinery at 12.5- 37.5 percent. Investment allowance of 20 percent on specified construction and machinery losses sustained in one year can be carried forward and offset against tax claimed in the subsequent year indefinitely. Fifty percent capital expensing is allowed in first year, except for expenditure relating to buildings. Capital allowances were changed as of July 1, 2002 to replace 100 percent capital expensing for all investors, which, however remains applicable to mining companies.	
2. Payroll or manpower taxes			
2.1 Skills and development levy (enacted July 2000/01)	The tax is on the gross wage bill of employers with four or more employees. Gross wage bill includes wages, salaries, leave pay, sick pay, fees, commissions, bonuses, gratuities, and any other subsistence, traveling, and entertainment allowance paid by the employer. Employer-provided housing is valued as under Income Tax Act, Section 5, Subsection 3. The tax is not deducted from employee's pay.	Government: Also the Minister of Finance may, by order in the gazette, exempt an employer from all or any of the provisions.	6 percent of gross wage bill
3. Taxes on property			
3.1 Motor vehicle transfer tax	The tax is payable by the transferee on acquiring a vehicle from the transferor.	Minister for Finance may approve exemptions.	50,000
3.2 Capital gains tax	The tax is levied on income obtained from sale of a premise or sale of any financial asset.	Exemptions apply on shares issued by a company listed under the Dar es Salaam Stock Exchange.	10 percent
4. Domestic taxes on goods and services			
4.1 Value-added tax (VAT) (VAT Act, 1997)	The tax is levied on domestically manufactured products, and on such services as telephone, electricity, and food charges in designated hotels and restaurants.	Statutory exemptions apply on religious, diplomatic, educational institutions, etc. Exports of goods and services are zero rated. Some supplies are also zero rated. Claims on input tax are allowed on zero-rated supplies. Exempted items do not claim refunds. However, starting in January 2003, a treasury voucher system will be applied to nonreligious NGOs and imports of motor vehicles by eligible civil servants.	20 percent
4.2 Excise tax	The tax is levied on luxury manufactured products, beer, wines and spirits, cigarettes, petroleum products, motorcars (including station wagons) of a cylinder capacity exceeding 2000cc, and soft drinks. A new excise on this use of mobile phones (at 5 percent rate) was introduced as of July 1, 2002.	Minister for Finance may approve exemptions and statutory exemptions may apply.	Specific rates are levied on all excisable items, except on motor cars, which are subject to a 10 percent ad valorem rate.

Table 32. Tanzania: Summary of the Tax System, as of July 1, 2002
(In Tanzania shillings, unless otherwise indictaed)

Tax	Nature of Tax	Exemptions and Deductions	Rates	

4.3 Taxes to use goods or
   perform activities

4.3.1 Business licenses	These annual fees on specified businesses and professions include commission, clearing, and forwarding, and shipping agents; banking, insurance, air transport, and manufacturing operations; tourist hotels, exporters, importers, and wholesale traders; building contractors, provisions of postal and railway services; specified professions; and regional trading companies, cooperatives, and district development corporations.	The rates are specific and can vary according to whether the operation is a principal or a subsidiary. (See examples below.)		

	Principal	Subsidiary
Clearing and forwarding agent		
Local	400,000	200,000
Foreign	US$2,000	US$1,000
Banking		
Local banks	1,000,000	600,000
Foreign banks	US$10,000	US$6,000
Bureau de change		
Local	600,000	400,000
Foreign	US$3,000	US$2,000
Tourist hotels		
Foreign owned	US$2,000	US$1,000
Nontourist hotels		
With liquor license	100,000 + 1,500 per room	100,000+ 200 per room
Without liquor license	80,000+200 per room	80,000+200 per room
Lodging house	100,000 + 2,000 per room	100,000 + 2,000 per room
Insurance		
Local insurer	300,000	200,000
Foreign insurer	US$3,000	US$1,500
Insurance agent	200,000	
Transport		
By Railway		
Local	400,000	200,000
Foreign	US$3,000	US$1,500
By Air		
Local	400,000	200,000
Foreign	US$3,000	US$1,500
Broker		
Trade broker	400,000	200,000
Postal services	100,000 - 300,000	50,000 - 200,000
Telecommunications services		
Internet service provider foreign	US$5,000	US$2,000
Telecommunications services including internet, fax, e-mail, phones	300,000	200,000
Cellular phone operation		
Local	600,000	200,000
Foreign	US$10,000	US$5,000

4.3.2 Motor vehicle	These consist of registration tax, road tolls, foreign motor vehicle permits, and foreign commercial vehicle licenses.	Transit licenses	US$6 on vehicles of up to three axles per 100 kilometers. US$60 applied on foreign motor vehicle permit.
		Registration	The rate is 95,000.
		Driving licenses	5,000 to 10,000
4.3.3 Road tolls	The tax is levied on consumption of gas oil (diesel) and motor spirit (premium and regular).	Specific rate	90 per liter

Table 32. Tanzania: Summary of the Tax System, as of July 1, 2002
(In Tanzania shillings, unless otherwise indicated)

Tax	Nature of Tax	Exemptions and Deductions	Rates	
5. Taxes on international transactions				
5.1 Import duties	Levied on the c.i.f. value of imports.	Statutory exemptions apply, for example, diplomatic corps, foreign government projects; and religious, educational, and charitable institutions. Minister for Finance may approve exemptions.	The tariff schedule is basically ad valorem for all items. There are four rate bands: 0, 10, 15, and 25 percent. A suspended duty of 20 percent is applicable on some imports from the East African Community. Sugar from any country is levied a suspended duty at 20 percent, corrugated iron sheet and flat-rolled product of with exceeding 600 mm at 10 percent, and jute bags at T Sh 200.	(In percent) Agricultural inputs & implements, Capital goods and raw materials 0 Semiprocessed inputs 10 Fully processed inputs 15 Consumer goods 25
5.2 Excise duty	Levied on the c.i.f. value of certain items imported, including import duty on the products.	Minister for Finance may approve exemptions.	There is one ad valorem rate. Specific rates are levied on alcoholic beverages, spirits, soft drinks, tobacco, and petroleum products.	10 percent is applied to saloon and station wagon motor vehicles with engine capacity exceeding 2000cc.
5.3 VAT	The tax on imported products is based on the c.i.f. value of products, including import duty and excise duty (if any) on the products.	Relief applied to diplomatic missions, agreed technical aid, travelers' personal effects, and the President of the United Republic of Tanzania. Exemptions apply to unprocessed food and livestock supplies, health supplies, aviation fuel, education supplies, transport services, etc. Exempted items do not claim refunds. VAT on capital goods imported by a person registered with VAT shall be deferred		20 percent
6 Other taxes				
6.1 Stamp duty	This is a duty levied on receipts. It is paid either by affixing a stamp to receipt or by paying on return in accordance with a "composition agreement." The receipt-based stamp duty is not applicable to VAT-registered traders.		With no composition agreement: stamp duty rate of 4 percent. With composition agreement: 1.2 percent. Petroleum products: 0.24 percent.	
6.2 Port charges				
Airport	Applied to resident and nonresident passengers.	Transit passengers and infants.	T Sh 5,000 per domestic US$30 per foreign trip	
Port	Applied to resident and nonresident passengers.	Transit passengers and infants.	T Sh 500 per trip	

Source: Tanzania Revenue Authority.