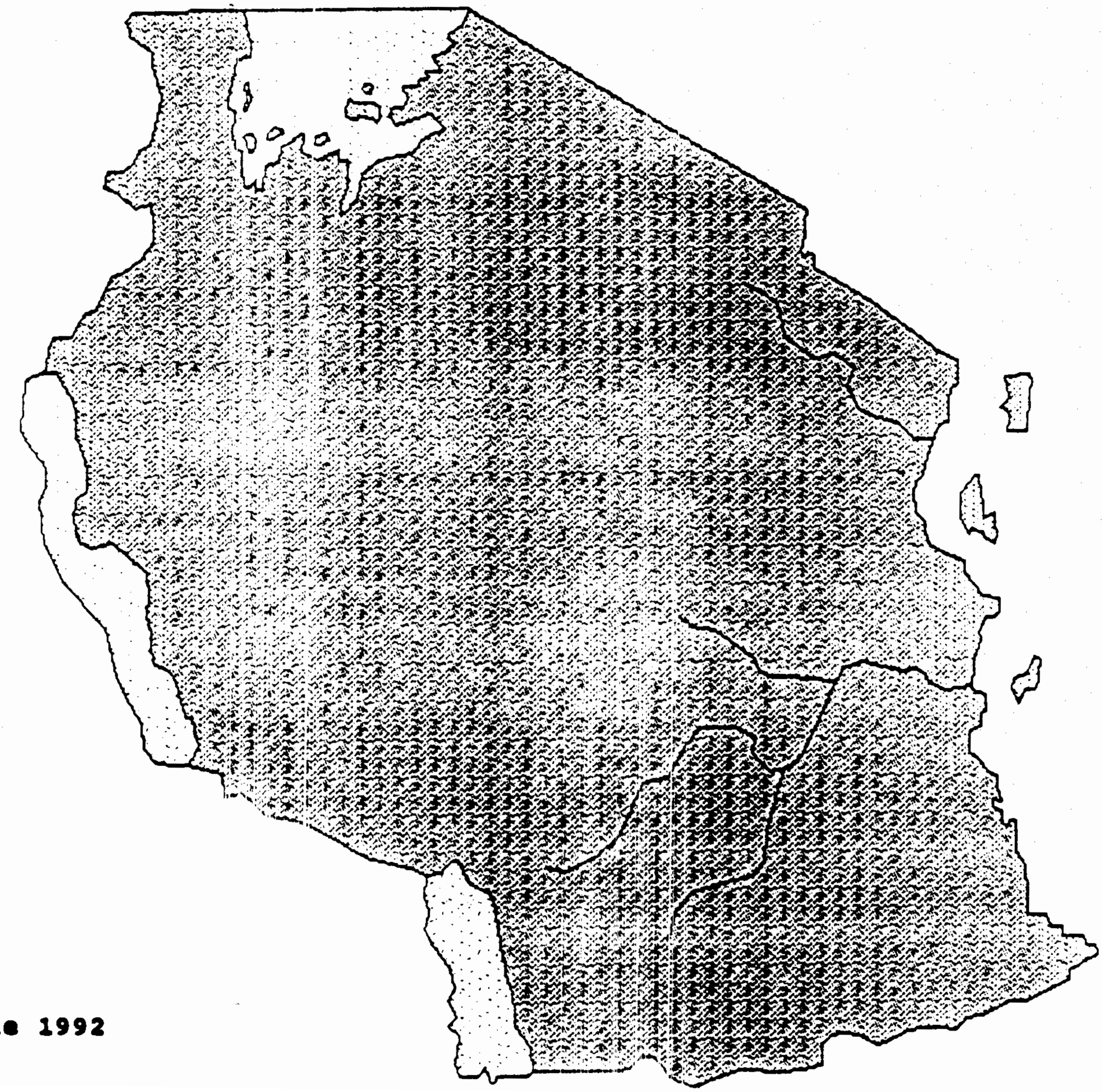
PN-ABL-330

COUNTRY PROGRAM STRATEGIC PLAN

USAID TANZANIA

1992 TO 1997



June 1992

BEST AVAILABLE

Tanzania Country Program Strategic Plan

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ABBREVIATIONS

ADS	African Development Support
AIDS	Acquired Immuno-deficiency Syndrome
AIDSCAP	AIDS Control and Prevention
AIDSCOM	AIDS Communication
AIDSTECH	AIDS Technical Support
AMREF	African Medical Research Foundation
ARI	Acute Respiratory Infection
ATAP	Agricultural Transport Assistance Project
AWF	African Wildlife Foundation
BOT	Bank of Tanzania
CBD	Community-based Distribution
CCM	Chama Cha Mapinduzi
CITES	Convention on International Trade in Endangered Species
CMBT	Christian Medical Board of Tanzania
D & C	Dilation and Curettage
DHS	Demographic and Health Survey
EPI	Expanded Program on Immunization
ERP	Economic Recovery Program
ESAP	Economic and Social Action Program
FED	Financial and Enterprise Development
FP	Family Planning
FPSS	Family Planning Support Services
FPU	Family Planning Unit
FSN	Foreign Service National
FY	Fiscal Year
GDP	Gross Domestic Product
GOT	Government of Tanzania
GTZ	German Technical Assistance Co-operation
HIV	Human Immuno-deficiency Virus
HRDA	Human Resource Development Activity
IBRD	International Bank for Reconstruction and Development
IEC	Information, Education, Communication
IFES	International Foundation for Electoral Systems
ILO	International Labour Organisation
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IPC	Investment Promotion Centre
IRP	Integrated Roads Program
LART	Loans and Advances Realization Trust

MALD	Ministry of Agriculture and Livestock Development
MCH	Maternal and Child Health
MDB	Marketing Development Board
MIS	Management Information System
MOH	Ministry of Health
MMR	Maternal Mortality Rate
NACP	National AIDS Control Program
NFPP	National Family Planning Program
NGO	Non-Governmental Organization
NHC	National Housing Corporation
NMC	National Milling Corporation
NORAD	Norwegian Development Assistance
OE	Operating Expenses
OGL	Open General License
OMB	Office of Management and Budget
OTTU	Organization of Tanzanian Trade Unions
OYB	Operational Year Budget
PAWM	Planning and Assessment of Wildlife Management
PHC	Primary Health Care
REDSO	Regional Economic Development Services Office
SARP	Southern Africa Regional Program
SIDA	Swedish International Development Agency
SIDO	Small Industries Development Organization
STD	Sexually-Transmitted Disease
TACOSODE	Tanzanian Council for Social Development
TAZARA	Tanzania-Zambia Railway Authority
TBA	Traditional Birth Attendant
TFR	Total Fertility Rate
TRC	Tanzania Railways Corporation
TSH	Tanzania Shilling
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations International Childrens' Emergency Fund
USDH	U. S. Direct Hire
USIA	United States Information Agency
VOA	Voice of America
VSC	Voluntary Surgical Contraception
WAMATA	Waliokatika Mapambano na AIDS Tanzania

EXECUTIVE SUMMARY

Tanzania's main accomplishments as an independent nation have been thirty years of stability and the development of a strong sense of national identity; but these have not been accompanied by economic prosperity and well-being for the majority of citizens. The infrastructure, particularly roads, is severely deteriorated, the financial sector is dysfunctional, and population growth has outpaced both the provision of health and educational services and the labor market. Tanzania is also faced with the growing AIDS pandemic which is rapidly creating orphans and threatening the most productive groups in society. Restoring the country to a condition where it can succeed in using the resources at hand to achieve development and growth requires both continued progress in the economic restructuring process begun in the mid-1980s, and the re-establishment of the principles of good governance in the public sector. The present government has shown a willingness to make the economic and political changes necessary to achieve broad-based economic growth.

Tanzania began implementing its Economic Recovery Program (ERP) in 1986, followed by the Economic and Social Action Program (ESAP) in 1989. The pace of reform has quickened, with many of the key policy changes having been announced just in the past year. Current reform objectives include: (a) increasingly flexible exchange rate management; (b) broadening the revenue base, restructuring public expenditure, and improving expenditure control; (c) transforming the institutional structure of the financial sector and liberalizing interest rates; (d) privatization of parastatals and civil service reform; (e) continued liberalization of food crop, export crop, and agricultural input marketing. Tanzania's performance within this broad and rapidly-expanding program has been encouraging. Per capita GDP is growing in real terms for the first time in years, and the annual rate of inflation has declined from 32% in 1986 to 20% in 1992. Between 1986 and 1991, real GDP growth averaged 4% per annum, as against virtual stagnation during the early 1980s and only about 1.3% average growth in the three years immediately preceding the ERP.

Because agriculture accounts for over 60% of GDP, agricultural performance had tremendous influence on the favorable GDP upturn. It is estimated that growth in agricultural output during the past five years averaged 5% annually; this commendable growth is expected to be sustained. Critical factors related to this improved output were increases in producer prices to about 70% of world prices, the devaluation of the shilling, improved supply of incentive goods for the farmer, and generally favorable weather conditions.

Although the aggregate level of economic activity has increased in recent years, these figures represent only recorded GDP. The parallel economy is estimated to be equivalent to 30% or more of official GDP. This implies that economic growth may be even higher than official statistics indicate; as informal activities are brought back within the law through continued liberalizations, annual real GDP growth of 5% to 6% over the next five years should be seen.

The same political leadership which accepted the structural reform of the economy has now initiated a process leading to a multi-party system. Having agreed to this process, the ruling party plans to remain in power by winning the local elections in 1993 and the national elections in 1995. Yet to be seen is whether the people will accede to this plan, or endorse another party. Organized opposition is at this time generally weak and lacking in any defined agenda other than to wrest power from the CCM. The opening of the political system has begun; how it will evolve cannot be predicted, but the performance to date is very encouraging.

The USAID program is designed to assist Tanzania in achieving the goals of the Economic Recovery Program and Economic and Social Action Program. To consolidate and further the gains of the ERP and ESAP, USAID/Tanzania is focusing its efforts on creating an enabling environment for economic growth based on private initiative, and reducing the rate of population increase which would otherwise erode gains in per capita income and employment.

Infrastructure, particularly the transport sector, has been identified as one of the major constraints to development. USAID will continue its support to the rural roads program, with an emphasis on creating sustainable management and maintenance systems and strengthening the role of private enterprise in the sector. A new program, Financial and Enterprise Development, designed to increase employment and income growth, will also be implemented. The program will help establish a sound and diverse financial sector capable of meeting the challenges of moving to a market economy, and help mobilize a private sector response to the opportunities created by the gathering pace of liberalization.

USAID will also continue its support to Tanzania's efforts at reducing its population growth rate--a key to realizing sustainable, broad-based economic growth. Support to the national AIDS control effort will continue and will expand to develop the capacity of local NGOs to assist in all dimensions of this rapidly-spreading disease.

I. ENVIRONMENT FOR GROWTH

A. The Economic Recovery Program and Future

Tanzania has made solid progress in economic policy reform within the framework of the 1986 Economic Recovery Program (ERP) and subsequently the 1989 Economic and Social Action Program (ESAP).

The reforms have stimulated economic production and reversed a decade-long trend in per capita income decline. Overall economic growth is expected to continue in the next decade.

Macroeconomic Overview: Solid Gains Since 1986

The objectives of Tanzania's 1986 ERP, supported by the IMF and the World Bank, were to achieve a positive rate of growth in per capita GDP, to lower the rate of inflation, and to restore a sustainable balance of payments position. Key policy changes included:

- flexibly-set market-based consumer and producer prices;
- exchange rate and interest rate adjustments;
- reduction of the fiscal deficit and the rate of growth of domestic credit.

This basic program was continued and augmented in 1987/88, again with IMF and World Bank support, to address:

- rehabilitation of transport infrastructure;
- improved processing and marketing of agricultural products and inputs;
- increased efficiency in the financial sector;
- improvements in health and educational services.

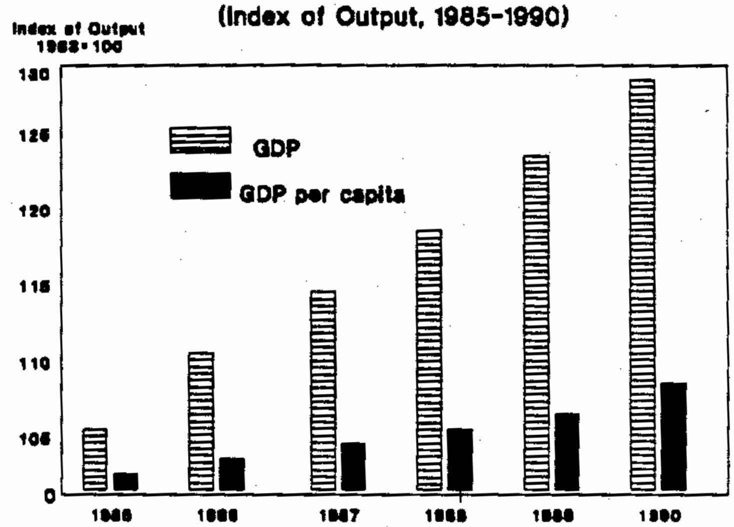
In 1991 the pace of reform increased significantly. Current reform objectives include:

- increasingly flexible exchange rate management;
- a broader revenue base, restructured public expenditure, and improved expenditure control;
- transformation of the institutional structure of the financial sector and liberalized interest rates;
- privatization of parastatals and civil service reform;
- continued liberalization of food crop, export crop, and agricultural input marketing.

Tanzania's performance within this broad and rapidly-expanding reform program has been encouraging; per capita GDP is growing in real terms for the first time in years, and inflation is down substantially. Overall, economic performance is expected to be favorable into the next decade (Table 1, page 7). However, it is expected that the economy will still remain weak and in some areas troublesome.

Economic Growth

FIGURE 1: GDP TRENDS IN TANZANIA
(Index of Output, 1985-1990)



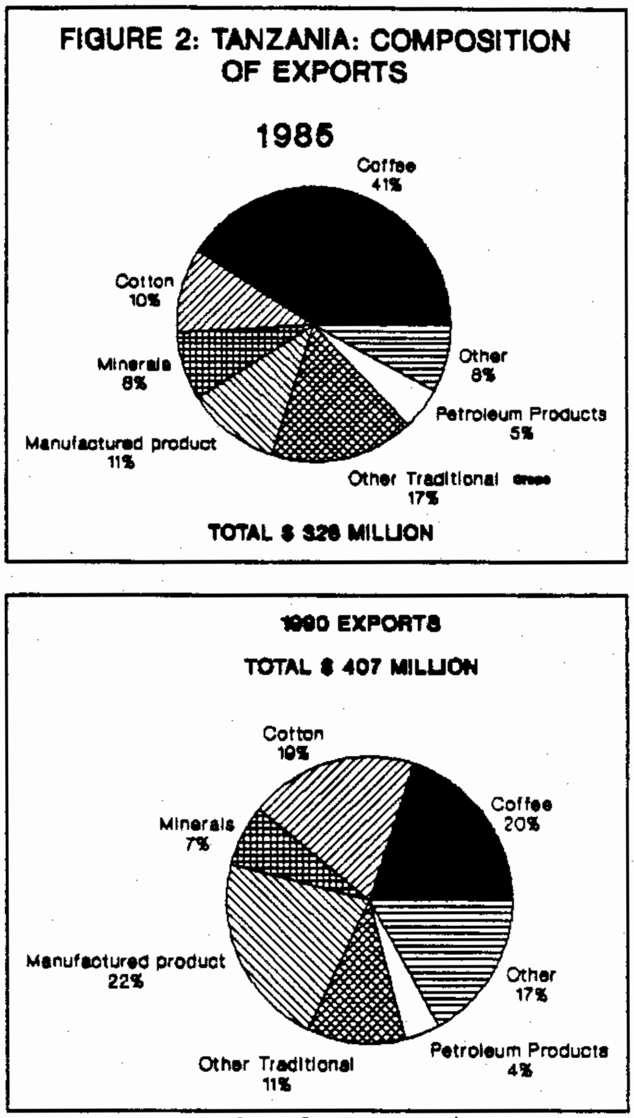
Over the five-year period since 1986, real GDP growth averaged 4% per annum, as against virtual stagnation during the early 1980s and only about 1.3% average growth in the three years immediately preceding the ERP (Fig. 1).

Because agriculture accounts for over 60% of GDP (World Bank 1991), this sector's performance has tremendous influence on the favorable GDP up-turn. It is estimated that growth in agricultural output during the past five years averaged 5% annually and this commendable growth is expected to be sustained. Factors critical to this improved output were increases in producer prices to about 70% of world prices, the devaluation of the shilling, improved supply situation of incentive goods for the farmer, and favorable weather conditions.

Although the aggregate level of economic activity has increased in recent years, these figures represent only recorded GDP. The parallel economy may be equivalent to 30% or more of official GDP (Maliyamkono and Bagachwa 1990). This implies that economic growth may be even higher than official statistics indicate; as informal activities are brought back within the law and into the view of statisticians through continued liberalizations annual real GDP growth should be 5 to 6% over the next five years.

External Sector

A major achievement of the ERP has been the exchange rate devaluation, without which the system of rationing foreign exchange could not have been reformed. The premium paid in the parallel market for foreign exchange has declined from over 800% in 1985 to 30% in 1992. It is anticipated that by mid-1994 the exchange rate will achieve equilibrium. Several mechanisms provide increasingly free access to foreign exchange: since 1984 the "own-funds" import scheme has provided import licenses freely to importers not requesting foreign exchange from the Bank of Tanzania; an Open General License (OGL) system was introduced in 1988 and significantly expanded in 1990; the 1982 export retention scheme, expanded in 1986, authorizes exporters to retain 50% of their foreign exchange earnings (and 100% retention is now being considered); a duty drawback scheme allows exporters to recover the duty on their imported input; and private foreign exchange bureaus began operation in April 1992.



Source: Bank of Tanzania

Tanzanian exports became more diversified during the ERP (Fig. 2). Total exports rose by over 24% between 1985 and 1990 from $328 million to $407 million. While the traditional exports of coffee, sisal, and cashew stagnated, non-traditional exports, such as sisal twine, rope, yarn, blended tea, tanned leather, cotton and oil seeds became increasingly important. In 1990, the combined exports of non-traditional goods, petroleum products, diamonds, gold, and other minerals brought in $220 million of foreign exchange or 50% of Tanzania's export earnings. These improvements in exports can be attributed to incentives provided through trade liberalization and improved tariff and exchange rate structures; further improvements are expected from current reforms in the marketing structure and the financial sector.

Tanzania is highly dependent on imports. Imports have increased in recent years as a result of import liberalization and donor commodity support. In 1990, the value of total imports was three times export earnings. The composition of imports has been changing in favor of intermediate goods. Between 1987 and 1990, the share of capital goods in total imports fell from about 50% to 36%, while that of intermediate goods rose from 32% to 42%. Most of Tanzania's imports are from major industrialized countries (63%), and Asia (32%).

The balance of payments since 1986 has benefitted both from increased export earnings and from tremendous donor support which resulted in capital inflows in excess of $200 million per year. However, Tanzania's debts from the pre-ERP era resulted in substantial capital outflows during the first two years of ERP. The debt relief accorded to Tanzania during the ERP period eased the debt service obligations (which average $300 million per year) in the short term with favorable impact on both the services account and the capital account. However, the debt at the end of 1989 was still over $5 billion with an unsustainable debt service to export earnings ratio of about 85%, meaning that Tanzania will continue to face a precarious balance of payments situation over the next decade or so.

Foreign exchange reserves improved slightly during the ERP, and at June 1991 reached $152 million, the equivalent of five weeks of import cover. This level is still very low, however,and indicates that foreign exchange is still very scarce in the official channels.

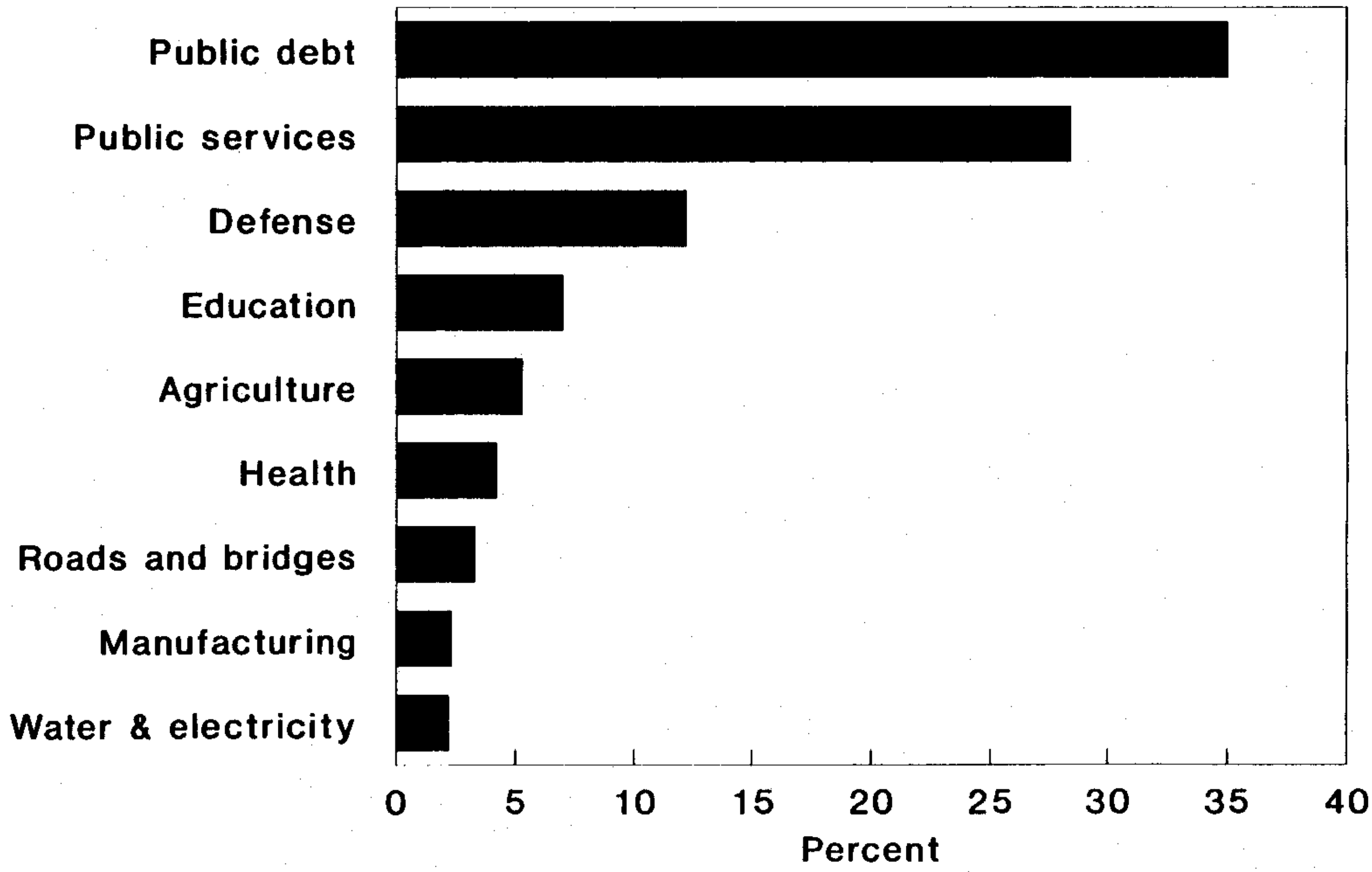
Budget

From 1985/86 to 1989/90 the budget deficit declined from 7.9% to 5.4% of GDP. The role of the domestic banking system in financing the deficit is now minimal. During the ERP period the tax system was greatly simplified. The number of customs tariff rates, the maximum rates, and the number of exemptions have all been reduced. The sales tax base was broadened and the number of taxes reduced. User charges for government services were introduced in health and education, and steps have been taken to improve collection. These changes are expected to improve the revenue base to a target level of 23-24% of GDP over the next few years. Expenditure control has been markedly less successful, leading to substantial unbudgeted and supplementary expenditures. A Presidential Tax Commission has just completed work on a major overhaul of the tax system, and many of the recommendations are expected to be incorporated into the June 1992 budget speech.

Monetary and Credit Policies

Domestic credit growth has consistently exceeded program targets, and broad money has grown an average of 33% per year as against targets averaging 14%. The main cause has been the extension of

Figure 3: Government Expenditure
(sector % share, 1986-90 average)



Source: Tanzania Budget Estimates

credit to insolvent agricultural marketing institutions. Credit to parastatals has, however, been sharply curtailed as part of the financial sector reform program. Other aspects of financial reform have gone well. Interest rates, substantially negative for years in real terms, have been liberalized within an overall ceiling of 31%, which is above the current rate of inflation (20%), and which is subject to periodic readjustment. The loan portfolios of the commercial banks have been classified (with USAID assistance), with the aim of transferring bad loans to the newly instituted Loans and Advances Realization Trust (LART), managed by the Treasury. The LART will either recover the money owed, or liquidate the assets of the defaulter. In the course of time this will result in a substantial liquidation of defaulter's assets and the closure of many insolvent parastatals. Private banks have been legalized; several local groups are maneuvering to arrange the necessary financing, and two well-known international banks intend to begin operating in Tanzania during 1992. All government financial institutions are being appraised in preparation for drastic restructuring of finances, staffing, and operations. It is envisaged that Tanzania will have a functional, competitive financial sector by 1997.

Investment

The macroeconomic and structural adjustment policies are intended to facilitate continued steady growth through the encouragement of greater domestic saving as well as continued promotion of investment in the economy. Supported in particular by increasing private sector investment, gross domestic investment in proportion to total output is expected to remain at, or exceed, the present level of about 20%. The rate of domestic saving, on the other hand, is expected to rise substantially above its current low level over the medium term, in response to the financial liberalization and maintenance of positive real interest rates. The greater mobilization of domestic resources from nonbank sources will contribute to the financing of public as well as private investment. The encouragement of greater foreign direct investment in connection with the activities of the Investment Promotion Center will reduce Tanzania's dependence on external assistance.

Employment, Wages and Prices

In 1986, the economically active population was estimated at 9.5 million. About 700,000 people, approximately 7% of this labor force, are in formal wage employment (ILO 1991). The public sector accounts for 70% of formal wage employment, with 490,000 employees (GOT 1991).

The index of real wages has fallen drastically, from 100 in the base year 1969 to about 16 in 1990. Reforms are underway to

Table 1: Tanzania: Key Macroeconomic Indicators

	ACTUAL		PROJECTED	
	1986	1991	1995	2000
GDP Growth rate	3.0	4.5	5.4	6.0
GDY Growth rate 1/	4.4	4.5	5.3	6.0
GDY/Capita growth rate	1.1	1.4	2.3	3.0
Consumption/capita growth rate	2.0	0.5	1.0	2.1
Debt service (in US $m) 2/	69.0	380.0	698.0	523.0
Debt service/XCS 2/	16.0	49.4	56.2	37.3
Debt service/GDP 2/	1.4	11.5	15.4	9.8
Gross investment/GDP	15.9	19.5	20.1	22.0
Domestic saving/GDP 3/	2.5	-10.1	2.1	4.0
National savings/GDP 3/	6.2	-8.5	0.3	0.7
Public investment/GDP	6.5	6.7	6.8	6.7
Private investment/GDP	9.4	9.2	9.4	9.5
Ratio of pub/pvt investment	69.1	72.8	72.3	72.6
Govt. revenue/GDP	15.1	21.3	23.4	24.0
Govt. expenditures/GDP	23.0	26.7	27.7	27.5
Deficit(-) surplus(+)/GDP	-7.9	-5.4	-4.3	-3.5
Exports growth rate 4/	-4.8	10.5	7.6	7.8
Exports/GDP 3/	8.8	22.7	26.8	29.3
Imports growth rate 4/	6.1	2.5	3.6	4.0
Imports/GDP 3/	23.3	46.9	43.7	42.7
Current account (in US$m.)5/	-479	-884	-925	-970
Current account/GDP 3/	-9.7	-26.8	-18.5	-15.7
GDP (Current US$ m)	4929	3301	4519	5332
Exchange Rate Tshs/US$ 1.00 6/	32.7	169.5	320	380
Domestic Inflation Rate	32.4	24.0	14.5	10.0

Notes:
1/ GDY = GDP adjusted for changes in terms of trade.
GD figures include the Second Economy contribution.
2/ 1986 - 1991 figures are actual debt service payments, while for 1995 & 2000 scheduled payment estimates after debt relief are shown. The debt service ratio payments in relation to recorded exports of goods.
3/ Ratios are calculated in current terms. The large swings in the ratios of recorded exports, recorded imports, current account deficit and national savings to GDP in the period 1986 - 1991 are primarily related to the adjustment in the exchange rate. In earlier the overvaluation of the Tanzania shilling caused external flows to be undervalued in local currency terms. Similarly, the US dollar value of GDP has been overvalued in the past, when converted at the official exchange rate.
4/ Export and import growth rates are in volume terms, and relate to goods. They show growth for recorded exports and imports only. Export rates include a partial reclassification from unrecorded exports.
5/ For 1986 and 1991 current account deficit is based on actual interest payments made, while for 1995 & 2000 data are based on scheduled payments.
6/ Yearly average. From 1995 to 2000, assumed projection based on differential inflation, assuming constant real effective exchange rate.
Note: Growth rates are expressed in constant terms, ratios to GDP in current terms.
Source: Central Bank of Tanzania and mission estimates.

monetize benefits and raise salaries in real terms while reducing the size of the public payroll. Most Tanzanians are employed in private, informal sector commercial and agricultural activities. With anticipated greater economic activity nationwide, total employment will rise by an average of 5% per annum in the coming years. Currently, formal sector employment growth is below the population (and work force) growth rate of about 3%.

The reduction of inflation was among the major objectives of monetary policy during the ERP. Import liberalization, augmented by the OGL scheme, and the export retention scheme, were instrumental in improving the supply of consumer goods. Inflation fell from 32% in 1986 to 24% in 1991 and a further decline to about 14% is projected by 1995. Reduced inflation has been instrumental in improving the quality of life for many Tanzanians.

Public Management

Management of the public sector remains weak in respect to strategy implementation, budgeting, financial management, and civil service performance. Nevertheless some genuine progress has been made: 16,000 ghost workers have been removed from the public payroll; several dozen parastatal corporations have been wholly or partially privatized; other major money-losing parastatals have streamlined their operations and reduced their staff. Improvements in salaries are expected to be complemented by measures to improve productivity and management of the civil service, including the introduction of regular performance evaluations of civil servants and an effective system governing dismissal for poor performance, compensation for good performance and enhancement of career development through training. It is anticipated that Tanzania will have an efficient civil service system in place by the year 1992.

Privatization is generally expected to proceed slowly to accommodate political vulnerabilities, while widespread petty corruption in the civil service is apparently on the increase. A planned World Bank credit to strengthen public management, which is expected to become effective in 1992 and specifically address parastatal and civil service reform, may lead to improvement in these difficult areas.

B. Governance and Democracy

Despite being one of the largest recipients of donor assistance on a per capita basis since its independence, Tanzania remains one of the poorest countries in the world. Much development assistance has been ineffective because of an ideology and a political system which though espousing high ideals proved inadequate to the task of implementing them. The Government assumed responsibility for the management of the entire economy. The single political party, since 1976 known as Chama Cha Mapinduzi (CCM), compounded inefficiency in the management of resources. Almost inevitably this monolithic approach gave rise to corruption.

Today Tanzanians are more socially, economically, and politically disadvantaged than at independence, but the system has provided thirty years of stability and a strong sense of national identity. Restoring the country's ability to use the resources at hand to achieve development and growth requires the establishment of good governance. This can be done by introducing a more open political system which is accountable to the people and by reversing many of the decisions based on ideology and shortsightedness which undermined achievement of development. To their credit, Tanzanians appear willing to do this.

The major fallacy of Tanzania's performance from independence to today can be characterized as its 'colonialist' approach to government. In effect an elite minority took upon itself management of the affairs of the majority. Elitism, combined with a socialist ideology, effectively undermined the country's capacity for sustained growth. Ineffectiveness and corruption made government an obstacle to overcome. Central management of every aspect of the economy and society turned into a barrier rather than an incentive to growth, and crowded out or suppressed other possible actors. When coupled with a philosophy that individual achievement leading to economic advantage is wrong, centralization stifled private initiative, rendered the citizenry passive, and deadened the economy. Such economic initiative as has survived has been diverted to the parallel economy.

The same elite minority responsible for this state of affairs realizes that it must be corrected. Whether from idealism or for self-preservation, action has been taken. Economic reforms were begun in the mid-80s; since then the government's role has been realigned towards regulation and guidance rather than management and implementation. Financial sector reform and parastatal divestment are key steps, as is reform of the civil service through workforce reduction, training, management, and improved terms of service. Efforts to improve performance in health and education are also underway.

Institutional reform is also needed; institutions must become responsive to the public by delivering services, outperforming or acceding to private sources, and adhering to standards. They must also be accountable to the public. Among the institutions which require early attention is the judicial system. Political influence and corruption combined with weak capabilities have robbed Tanzania of a fair and effective legal system. Citizens need to have recourse to such a system to settle legitimate disputes and ensure that criminal behavior is controlled. The government in turn needs to accede to the authority of the law over its actions.

Tanzania has not engaged in flagrant and extensive abuse of human rights, unlike many other countries where one-party or dictatorial regimes have held sway. Human rights abuses can be most effectively addressed by reform and strengthening of the judicial system. Interference in civil rights has been more widely practiced, but by more subtle means such as political control of information and the intrusive role of the ruling party. There is both government and donor interest in addressing institutional performance in all areas of public administration.

Through prescience or pressure, the same leadership which undertook the structural reform of the economy has also initiated a process leading to a more open, pluralistic political system. A Presidential Commission traveled throughout the country for a year to assess the attitude of the population, and examined political systems abroad. The Commission's recommendations were largely approved at a national convention in February 1992. Constitutional changes and gradual withdrawal of the CCM from its dominant position will be followed by the formation and registration of other political parties, although organized opposition is still weak and lacks an explicit agenda.

Although it has implemented this democratic reform process, the ruling party does not necessarily accept that it will not continue to be in power. It plans to contest and expects to win local elections scheduled for 1993 and national/presidential elections in 1995. It is possible that the CCM itself could give rise to new parties. The opening of the political system has begun. How it will evolve cannot be predicted but the performance to date is very encouraging.

Limited access to information remains a barrier to the realization of this new political freedom. Domestic radio is controlled by the state-owned broadcasting system. There is no television on the mainland. Printed materials are expensive and/or scarce, and until recently newspapers have been monopolized by the state and/or party. In the past year, however, a number of new publications have emerged which are beginning to express critical viewpoints and test the limits of free speech.

Limited access to information also has implications for Tanzanian knowledge and understanding of how the business and political worlds operate. This lack of knowledge is a constraint on local capacity to deal successfully with many of the new initiatives. Another legacy of the past is weak citizen empowerment. Existing citizen associations are primarily extensions of the party or political structure, and political as well as economic conformity was encouraged. There has been little incentive to form local organizations which could carry out such community-based projects as development of educational facilities, or which could influence government actions. The concept of citizen advocacy or empowerment appears to be absent from most people's perception of their role in society.

With the recent changes in the political and economic climate, business groups and NGOs have become more active. The Tanzanian Chamber of Commerce for Industry and Agriculture and the Confederation of Tanzanian Industries are two new organizations which are now striving to present the voice of the business community. The youth, labor and women's organizations within CCM are establishing some independence. Such groups will also produce new leaders who can now enter the political system. This together with an increasingly responsible and more accessible media and a political/government system answerable to the people for its actions will better ensure Tanzania's future development.

C. Financial Sector

Almost every aspect of Tanzania's financial sector is currently state controlled. The market plays virtually no role except in the informal sector. Monetary and credit policies and targets are determined in the government's annual Finance and Credit Plan, which indicates the distribution of credit classified by economic activity and borrower, with explicit allocations made for the Central Government, public enterprises and the rest of the economy. Over 90% of available credit is absorbed by the government and public enterprises. Misallocation of credit has been affected by:

- limited competition in the mobilization and allocation of resources;
- lax rescheduling practices and failure to recognize non-performing loans as losses by the financial institutions;
- institutional weaknesses resulting in failure to provide even rudimentary banking services at a minimally acceptable level;
- administrative allocation of foreign exchange;
- loss of confidence by the general public in financial institutions, leading to a flourishing informal financial market;
- low real interest rates.

The deterioration of economic conditions over the past decade and the controls imposed on the sector have combined to contribute to the practical insolvency of Tanzania's financial institutions.

The banks have serious arrears in more than half their portfolios. In addition, their portfolio losses are not properly recognized, their capital bases have been considerably eroded, and their external liabilities have experienced huge increases since the exchange rate adjustments began in 1986. The largest bank, the National Bank of Commerce, with more than 200 branches, has a virtual monopoly on the mobilization and allocation of short-term funds, and is also facing serious financial problems, due to the accumulation of large overdrafts held by parastatals.

During the early 1980s the government began to realize that financial institutions needed reform. Substantive actions include:

- government commitment to an effective, efficient, independent and competitive banking system;
- enactment of a Banking and Financial Institutions Act allowing for the introduction of private banks and vesting the Central Bank (BOT) with strengthened supervisory and regulatory powers;
- establishment of a Loans and Advances Realization Trust designed to provide expeditious machinery for the recovery or liquidation of overdue debt of financial institutions.

Substantial progress has been made, with USAID assistance, in strengthening the supervision department of BOT. This is especially important given the enhanced role and independence of BOT in banking supervision and the authorization of private banks. BOT is constrained by a lack of trained personnel. Equally important will be the review of the BOT Act to ensure that BOT does not mix development functions with central banking functions and to ensure that it plays a role in indirect macroeconomic management of the economy rather than direct microeconomic control.

The lack of an organized capital and money market and the absence of a stock exchange limit the flexibility, profitability and services of existing and future financial institutions. The BOT will explore the feasibility of such institutions in the medium term.

The framework for a competitive, market-oriented financial sector being established in Tanzania is expected to improve economy-wide resource allocation and foster sustained growth. In particular, an independent banking system will allow the application of a monetary policy to support Tanzania's fiscal objectives consistent with macroeconomic stability. This is important because a movement towards a market-based system will help improve resource allocation for both the public and private sectors as well as creating a more transparent system of financing. Increased competition, especially from new private institutions, will help improve the quality of banking services and lower the costs of financial intermediation. Similarly, improved services and better supervision by the BOT will help build public confidence and, over time, bring more financial savings into the formal financial system. Equally important, the reform of the financial sector will complement reforms being undertaken in the productive sectors in agriculture, industry and transport and contribute to a faster pace of economic growth.

D. Education and Health

Tanzania has made impressive gains in reducing illiteracy and improving health status indicators, through a major expansion of education and health services. However, there has been a decline in recent years.

Education

Tanzania achieved one of the highest purported rates of primary school enrollment in sub-Saharan Africa--96%--during the 1970s. The official literacy rate is over 90% but the new Minister of Education has stated publicly that the figures on enrollments and literacy were often incorrect (Sarokin 1992). In recent years there has been a downward trend in both school enrollments and the quality of education. The policy of "Universal Primary Education" adopted in the 1970s has eroded quality by overly rapid expansion. Despite the emphasis on primary education the percentage of the 7-13 year age group in school dropped from 96% to 78% between 1979 and 1988. Government spending on education declined from 13.3% of the budget in 1972 to 7% in 1990.

The emphasis on primary education came partly at the expense of secondary education, which can now accommodate only 3% of the 14-17 year age group. Only 5% of primary school graduates can find places in secondary school, and the quality of the education in these institutions is poor, hampering employment prospects for high-school graduates. Employers often find it preferable to hire untrained workers and give them on-the-job training.

The infrastructure for education is also deficient. About 70% of the nation's primary schools are in poor repair. Desks, textbooks and other supplies are lacking. In addition to a rapidly growing population and reduced share of budget expenditures, education has also been victimized by the inefficiencies of the parastatals. Schools have had to rely on parastatals for textbooks, supplies and furniture which have not been delivered.

Government expenditures on education have increased since the ERP and teachers' salaries were increased by 50% in 1990, but remain inadequate; the increased government spending has not kept pace with population growth. Responsibility for paying primary school teachers' salaries and some other recurrent expenses has been devolved to local government councils.

The Government has encouraged the development of private secondary schools in recent years, and they now provide education to more students than the Government schools (World Bank 1991). The financing for the schools comes from District Education Trust Funds. The full cost is borne by the communities from school fees and taxes on crops. At present there is no coherent national plan for financing education. The World Bank, NORAD, and SIDA are funding a $37 million education planning and rehabilitation project which is designed to assist the GOT with its long-term restructuring effort. Seven other donors are providing assistance to the education sector as well (World Bank 1990).

Health

Between 1968 and 1988, health indicators such as infant and maternal mortality rates, and life expectancy at birth, improved substantially in Tanzania. These gains came from an expansion of water and sanitation services and the establishment of 3,000 health clinics in urban and rural areas as well as over 1,800 village health posts; over 90% of Tanzanians live within 5-10 kms. of a health facility. Health care services are provided by an extensive GOT network of hospitals, health care centers, and dispensaries at the central, regional, district and village levels. Tanzanians also receive health services from NGOs, particularly religious organizations; private sector and parastatal firms; and private practitioners, nurses, traditional birth attendants, and traditional healers.

Tanzania has a severe population problem, not because of the current size, but because of the growth rate of over 3% per year. At this rate the current population of 25 million will double by the year 2015. Although the GOT recognizes the necessity for family planning services, the number of facilities offering a full range of services is very low.

In addition to the usual range of infectious and parasitic diseases, AIDS poses an acute problem for development. HIV infection rates are increasing rapidly; in 1991, 1.4% to 5.3% of the population were believed to be infected, an estimated 800,000 people. By 1993, AIDS is expected to be the leading cause of death in adults and children, with more than three times as many people dying of AIDS as malaria (World Bank 1991). The number of people with HIV will probably reach 5.8% to 17.4% of the population by the year 2010. Because of the nature of the epidemic and the groups it affects, AIDS will have far-reaching implications for Tanzania over the next several decades. Health and social services will be severely taxed as demands for treatment of opportunistic infections and full-blown AIDS increase. The total number of orphans is not known, but one study estimates the total number in six northern regions at 155,000 to 210,000 (World Bank 1991). As the ranks of working-age adults decrease, the work force will become younger and less skilled and experienced. By 2010 GDP could be 12% to 20% lower than without the AIDS epidemic (World Bank 1991).

The National AIDS Control Program (NACP) has had limited effectiveness. Although awareness of AIDS is high, adoption of practices to reduce transmission, such as use of condoms and monogamous sexual relationships, is low. Access to services for the prompt identification and treatment of sexually-transmitted diseases (STDs) is lacking; health care workers often are untrained in STD diagnosis and do not have the drugs to treat them.

While Tanzania has been successful in making major strides in education and health, these accomplishments have proven to be unsustainable under present economic conditions and the impact of high population growth rates. Under current economic constraints, health and education spending will be remain limited into the next century. Given these circumstances, the impact of population growth rates on the government's ability to provide health and educational services is even greater than would otherwise be the case.

E. Conclusion

Tanzania has made solid progress under the Economic Recovery Program. Continued progress and future growth will require a major shift in the roles of the public and private sectors. In addition to the more obvious need to reduce the size and the control of the public sector and to encourage the growth of the private sector, the way both sides conduct business will also have to change. To be effective, the process will need to be collaborative, including not only the current principal actors in both sectors, but new players as well. The environment for these changes is improving rapidly. The Government is showing ever-increasing signs that it is following through on the announced reforms. The investment climate has improved, and both foreign and local investors are reacting positively. The Government is encouraging more private involvement in the health and education sectors, demonstrating a realization that non-governmental solutions to serious social development problems are feasible. The political environment is changing rapidly and the press is ever more pugnacious in its treatment of current and past leaders and their policies. The role of USAID and other donors is to support and encourage these positive changes.

II. CONSTRAINTS AND OPPORTUNITIES FOR SOCIAL, POLITICAL, AND ECONOMIC DEVELOPMENT IN TANZANIA

Although the constraints to further economic, social, and political development in Tanzania are formidable, there are now new opportunities to build on the base of macroeconomic stability and to continue to shift economic roles from the public sector to private entrepreneurs. There is a genuine receptiveness on the part of many Tanzanians both in and out of government to changing the system. In our view, changes in the system as a whole are required--and economic reforms are integral to improvements in health and education and to a more broadly participatory political environment. A viable private sector will give the government the revenues with which to provide basic health and education services and increase employment opportunities. The sharing of the "economic stake" more broadly will underlie, and complement, efforts to share political power.

A. Transportation

Overview. Transport is critical to the development of the Tanzanian economy. Typically, its role is that of a catalyst to development, often as a requisite for other economic activities. In Tanzania, serious deterioration has occurred in transport infrastructure, institutions and capabilities. The absence of appropriate transport facilities has highlighted the sector's importance, particularly in the delivery of agricultural inputs to rural areas and the movement of produce to domestic and overseas markets. Tanzania is also an important provider of transit transport services to several land-locked countries of East and Southern Africa. The economic cost of Tanzania's deteriorated transport sector has been estimated at $200 million per year. It is also estimated that Tanzania could gross $75 million per year in foreign exchange from the provision of transit transport services, double the current amount (USAID 1992c:6).

In the context of macro-economic reform, the transport sector is being re-vitalized with the aim of transforming it into an efficient provider of services. If the transformation is successful, the transport sector would no longer drain the recurrent budget, but make net contributions to government revenue and earn significant amounts of foreign exchange from transit traffic.

The largest donor investment is being made in the roads sector. Eleven regions have been selected for assistance on the basis of their agricultural and export potential. Significant programs are also taking place in ports and railways (both TRC and TAZARA) and in providing external funds for road vehicles and spare parts. Parallel institution building activities, including technical assistance and training components, seek to ensure that the transport sector can fulfill the role desired of it, avoiding past errors in policies and management that led to the deterioration of Tanzania's transport system.

1. Roads and Road Transport

Opportunities. Both the Tanzanian government and the donor community are committed to the rehabilitation of the road network. The total commitment is nearly $1 billion. The focus is building the institutional capacity for the maintenance of roads while restoring the main network through a large rehabilitation program. A Road Fund established through a levy on petrol and diesel will eventually cover all recurrent and development expenditure. The program also focuses on implementation of a national construction industry development strategy to expand the capacity of private contractors to undertake building and civil works and their maintenance. Contracting authority for building and maintenance is delegated to the Regional level. Tendering and procurement procedures are also scheduled for revision. New strategies are also being put into place for road maintenance financing, reasonable compensation packages for Ministry of Works personnel, and collection of appropriate road user fees from transit traffic.

Constraints. The principal constraints impeding the efficiency of the road network at present include:

- the extensive deterioration of the existing infrastructure;
- inadequate funds for maintenance;
- inadequate managerial and technical capabilities in the Ministry of Works;
- inconsistent policies;
- unmotivated and undercompensated labor force;
- weak enforcement of weight rules for goods traffic;
- under-collection of tariffs and road user fees.

Donor and host country support. The major thrust in the multi-donor supported Integrated Roads Program (IRP) is to develop a sustainable system for rehabilitation and maintenance. Such a system will include organizational changes, revenue raising, use of private sector contractors and developing the necessary data to prioritize road rehabilitation activities. Fifteen donors, including USAID, are involved in this $980 million effort.

The donor community and GOT will be examining some more general transport sector issues as well. Two of the most salient relate to government tariffs and foreign exchange liberalization. Over the past five years Government bodies have largely moved away from setting tariffs. However, to further enhance competition in the sector, all official setting of rates should cease. At the same time, more efficient foreign exchange allocation methods should be sought. The current OGL system leads to risk-free and disproportionate rent accruals for selected parastatals and private sector firms.

The first Mission activity in the road transport area was the $12 million Transport Sector Policy Reform program. The funds were made available for the import of trucks and spare parts upon the attainment of reforms in three areas; the use of private sector contractors for rural road rehabilitation and maintenance, change of the responsibility for certain key rural roads from regional and district governments back to the Ministry of Works and increased GOT expenditures for rehabilitation and maintenance.

In 1988 the transport sector program was expanded with the Agricultural Transport Assistance Program. Program conditionality centers around increased use of private sector contractors and further increases in budgets for rural road rehabilitation and maintenance, and has thus far been successful.

Including the original transport sector program about $44 million has been obligated to finance imports of trucks, construction equipment, spare parts, tires and lubricants. Nearly all the imports have been by the private sector. A series of seven road contracts have been awarded, six to private sector firms and one to a parastatal. An evaluation of one of the roads rehabilitated in Shinyanga region has shown increased economic activity and lower transport cost along the route of the road. The rehabilitation was key to the transport of a bumper crop of cotton this past year.

2. Ports

Opportunities. Important improvements have taken place in port facilities and management since 1985, including a new container terminal with associated handling equipment, a grain terminal with a silo, and rehabilitation of cranes, pavements and sheds. Container handling is now considered superior to Mombasa and tariffs are competitive. All port users acknowledge that positive changes have taken place, providing a base for consolidation and continued improvement and institution-building.

Constraints. A number of constraints continue to affect efficient port operations. Among these are:

- inadequate staff training;
- poor information management;
- poor co-ordination among port authorities;
- a continuing parastatal monopoly of the shipping agency business;
- an unmotivated and undercompensated workforce;
- inadequate service marketing in hinterland countries.

Donor and host country support. A $370 million multi-donor effort, implemented since 1985, has brought substantial improvement to port facilities and activities. In the current phase of the project the emphasis is on improving productivity through incentive schemes, staff reductions and training while increasing the capability of the port to handle the larger volumes of containers that are expected. A Port Development Study is also scheduled and includes the examination of privatization of appropriate functions to encourage efficiency. USAID has not participated in this effort, but improved port facilities have clear linkages to other transport sector activities which are Mission priorities.

3. Railroads

Opportunities. Two different railways, Tanzania Railways Corporation (TRC) and Tanzania Zambia Railway Authority (TAZARA), are involved in this sector. On the basis of a memorandum of understanding signed between the Ministry of Communications and Transport and TRC in 1991, TRC is expected to be financially profitable, with specified returns on the capital that it employs. Donor assistance is passed on to it either in the form of loans or as equity capital and is therefore not free. Its Board has powers to approve tariffs, set staffing levels and remuneration packages (with the proviso that it should be capable of paying for this by itself) and provide only those services that it considers commercially viable.

The outlook for TAZARA is less positive. The railway has never performed satisfactorily and does not operate on a commercial basis. Its market share of the traffic, especially in Zambia, has been declining over the past five years. Nonetheless, USAID's 1992 Transport Sector Assessment concludes that there is an economic justification for TAZARA on the basis of avoided road construction and transportation costs which would otherwise be incurred.

Constraints. A transportation sector assessment conducted in April 1992 on behalf of USAID identified a number of constraints affecting operations in the railway sector. Among them:

- lack of co-ordination between TAZARA and Zambia Railways;
- bloated and unmotivated labor force;
- lack of operational co-ordination at the port;
- inconsistent government policies;
- inadequate control over transit traffic;
- poor condition of infrastructure (TRC).

Donor and host country support. A total of $530 million has been allocated by donors to two-long term projects; $300 million for the IBRD-led, multi-donor Railways Restructuring Project to begin this year, and $230 million for TAZARA's ten year development plan, initiated in 1986. The two railways also involve substantial government investment, valued at close to $1 billion.

In 1987 USAID signed a $46 million Southern Africa Regional Program financed project with the Tanzania-Zambia Railway Authority. The project includes the provision of 17 diesel electric locomotives, spare parts for 12 existing locomotives, training, technical assistance and the rehabilitation of the main repair workshop.

The TAZARA project was successful in terms of delivering the diesel electric locomotives and spare parts. The new locomotives form the heart of the TAZARA Railroad. The project purpose has been partially achieved, in that TAZARA has expanded its carrying capacity. However while operation efficiency has improved in terms of transit times for freight, TAZARA has not been able to respond to the new realities of the transport situation in Eastern and Southern Africa. Trucking competition is fierce and political changes in South Africa have resulted in growing interest in South African ports. The economic down turn in some countries and slow growth in others has resulted in stagnant levels of freight that is being hauled regionally. TAZARA has seen its freight decline over the last couple of years from about 1.1 million to 0.9 million tons. USAID and other donors have been negotiating with TAZARA about the need to commercialize and run its operation more efficiently with less staff. TAZARA, while agreeing with the approach, has yet to implement appropriate steps.

A full year's delay in the implementation of policy changes at TRC has led some donors to doubt the sincerity of the reforms. Such delays will probably be inevitable in Tanzanian parastatals, not only because of vested interest recalcitrance, but also due to the total change in attitudes and work culture that is involved in this restructuring. For instance, initiative and a commercial orientation are now expected from every level of a work-force that has been educated and trained and has worked hitherto in a less demanding environment.

B. Agriculture

Overview. Agriculture is now and will continue to be the key to Tanzanian economic growth; it has a 60% share of GDP, generates 85% of export earnings, and employs 90% of the population. However, employment growth in agriculture was only 2.5% per year between 1978 and 1988. Agriculture will not provide expanded employment and income-generating opportunities unless the environment for growth is created. Smallholders, those cultivating 2 ha or less, account for an estimated 80% of food crop and 75% of export crop production. Tanzanian agriculture is characterized by ecological diversity; there are at least four agro-climatic zones, seven rainfall patterns and six major production-consumption systems (Sarris and van den Brink 1991). Over half of the total land area is suitable for agriculture, but only a small portion of this is currently cultivated. Almost one-third of the arable land is used as grazing for 25 million head of livestock.

The principal food crops in Tanzania are maize, cassava, millet, sorghum, rice and bananas. Farmers also grow a wide variety of legumes, fruits, and vegetables. Total national production is normally sufficient to satisfy domestic food requirements; with the variety of weather and cropping patterns, Tanzania has never experienced a nation-wide famine. Food security at the individual household level is another matter. Four to six percent of the under-five population is estimated to be severely malnourished and approximately half are below 80% weight-for-age (UNICEF 1990). Malnutrition is related to frequency of feeding, child spacing, work load and nutritional status of the mother, infectious and parasitic disease, food transport and distribution, and household income.

The private sector has always figured prominently in agriculture. Even after 25 years of socialism in Tanzania, two-thirds of all formally-registered, large-scale agricultural enterprises are private, employing an average of 55 people per enterprise. Among these enterprises are cattle ranches, coffee, sisal and tea estates, processing factories, seed farms, and growers of fresh-cut flowers exported to overseas markets. Scope for expansion, particularly in non-traditional exports, if not limitless, is certainly great. However, employment on these larger agricultural enterprises has grown slowly, and prospects for future employment generation are limited in the absence of a more congenial economic environment.

Export earnings from agriculture fell from a peak of $426 million in 1977 to $184 million in 1985. Since then there has been some recovery with revenues averaging about $225 million per year between 1986 and 1991 (World Bank 1991). Traditional export crops, in order of magnitude by volume, include coffee, cotton, sisal, cashew nuts, tea, tobacco, pyrethrum, and cloves. "Nontraditional" export crops encompass everything else, most importantly horticultural crops, spices, legumes, oil seeds, cocoa, kapok and betelnuts. Earnings from nontraditional exports rose from $4.1 million in 1984/85 to $8.6 million in 1987/88 (GOT 1989). However, these official numbers do not reflect the total variety or volume of nontraditional exports which would most certainly be much higher if more accurate and complete records were available.

Meat exporting used to be a thriving business but collapsed when Tanganyika Packers was nationalized in 1974. Since then almost

Table 2.

TANZANIA: PRINCIPAL CASH AND FOOD CROPS

Traditional Cash Crops	Actual Average total production 1986-90 ('000 tons)	Average Annual Rate of Growth	Projected Average total Production 1992-2000 ('000 tons)	Average Annual Rate of Growth (%)
Coffee	49.1	4.2	52.0	6.0
Cotton (Lint)	55.9	1.0	63.0	12.0
Tea	16.3	7.3	17.0	4.0
Cashew nuts	19.8	9.0	21.0	6.0
Tobacco	11.0	1.8	11.0	2.0
Sisal	32.5	3.4	33.0	3.0
Food Crops				
Maize	2480.0	3.9	2580.0	4.0
Rice	434.6	0.1	445.0	2.0
Wheat	87.0	5.4	92.0	6.0
Non-traditional Crops				
Oil seeds*	81.5	12.0	110.0	13.0
Pulses	15.9	9.8	17.0	7.0
Horticultural Crops	1.7	6.0	1.8	8.0

Source: Board of External Trade; Economic Research Bureau, Tanzania Economics Trends, Vol 3 No. 4; Bank of Tanzania, Economic Bulletin for the quarter ended December 31, 1990.

* Excludes cotton seed cake

Table 3.

YEAR	CHRONOLOGY OF REFORMS
1983:	Cooperatives officially reinstated. Pan-territorial pricing partially liberalized.
1984:	Private traders allowed to sell incentive goods in rural areas. Limit on transport of food grain raised from 50 kg. to 500 kg.
1985:	Coops begin purchasing from village primary societies. Own-fund import scheme instituted.
1986:	Individuals allowed to retain up to 50% of foreign exchange from export earnings. GOT commits to increasing producer prices by 5% in real terms.
1987:	Minor export crops deconfined. All restrictions on interregional food trade removed. Prices on sorghum, millet and cassava decontrolled. Private sector input distribution legitimized.
1988:	Maize marketing deconfined at regional level. Private grain milling legitimized.
1989:	Maize and rice trading totally deconfined. Private traders allowed to market all food crops.
1990	GOT prohibits NMC from undertaking non-profitable operations. Maize consumer price decontrolled. Traditional export crop marketing partially deconfined. Private seed companies licensed.
1991:	Cooperative Act makes membership voluntary.
1992:	Price controls reduced from over 3,000 items in 1985 to just three in 1992. Some coffee, tea and sisal estates privatized.

all cattle exports have walked across various borders and little of the revenue generated is reflected in official statistics. Export of skin and hides amounted to little over $1.1 million in 1989. The Marketing Development Bureau estimated potential export revenues from skins and hides at 1989 prices of $9.9 million (MDB 1989).

It is possible to view post-independence developments in the agricultural sector as government's failed attempts to "capture the peasantry" (cf. Hyden 1980). This effort to control agricultural production and especially marketing goes well back into the colonial era. Agriculture did not begin to decline until the mid-1970s, when a rapid downward spiral produced the economic crisis of the early 1980s. A series of reforms was then introduced to reverse the trend, as shown in Table 3.

Opportunities. Since only 7% of the arable area is presently under cultivation, there is enormous potential for the expansion of agriculture in Tanzania. Some of the policy reforms noted in Table 3 above have had important ramifications as well. Exchange rate adjustments since 1985 have reversed shilling appreciation, and offered a production incentive to export crop producers, especially non-traditional crop producers.

The own-funds import scheme coupled with a gradual reduction of import restrictions and price controls increased consumer goods in the rural areas, offering farmers a further incentive to produce surplus for cash. Restrictions on the inter-regional movement of grain were gradually removed beginning in 1984. By 1987 all restrictions had been eliminated and private grain traders began to purchase openly from farmers; however full and open trading in grain was not officially sanctioned until 1989. Pricing policy also changed. Rather than a set producer price for a crop, the official price became a floor price paid by cooperatives to producers with prices at other levels of the marketing channel freely negotiated. By 1991 these had become "indicative" prices to guide farmers in negotiating sales. Most recently, reforms have begun to break the monopoly of government marketing boards and cooperatives on export crops. The marketing boards for cotton and coffee are being restructured to supply services as agents and providers of marketing information on a fee basis. Private traders are now licensed to buy and sell cashew nuts through either auction or tendering. Private cotton ginneries are now allowed to buy, gin and sell through a tender system (World Bank 1991).

The impact of reforms in grain trading has been dramatic. The open market in Dar es Salaam rose from an estimated 6% share in 1980 to a 52% share in 1988. Sales volumes increased seven-fold during this same period. Government sales correspondingly fell from 229,000 tons in 1988 to 114,000 tons in 1990 to virtually nil in 1991. Furthermore, a new class of traders has emerged, offering short-term financing for crop purchases and acting as brokers in buying and selling transactions for a fee.

Traditional export crop production rose from 136,000 tons in 1986 to 193,000 tons in 1991. Non-traditional exports earnings, which are openly marketed, have more than doubled since 1988.

Constraints. Key constraints to further agricultural development in Tanzania, demonstrating in particular the linkages between agriculture, infrastructure, and population, include the following:

- deteriorated roads and inadequate transport infrastructure which impede crop marketing and the supply of inputs;
- poor or inadequate marketing information networks;
- inadequate banking services and credit facilities;
- non-functional regulatory mechanisms;
- time constraints experienced by women, who are the principal source of agricultural as well as domestic labor;
- contradictory and confusing land policies and land-use planning;
- population growth rates which exceed the rate at which agricultural production is expanding.

Donor and host country support. According to the Planning Commission, 20 donors have funded agricultural activities valued at $680 million from 1987/88 to 1991/92, and agriculture ranked second in funding after transport and communications. Among the activities supported are rural roads rehabilitation, enhancement of food security, dairy production, post-harvest storage technology, crop research, agricultural mechanization, plant protection, and agricultural extension. The GOT is also committed to increased agricultural production, both food and commercial, as a cornerstone of its development policy.

Many NGOs also have agricultural activities. For example, Lutheran World Relief is involved in village oil production; Heifer Project International is up-grading breeding stock and extension; and Techno-Serve is working with small-scale dairy marketing for women's cooperatives, and investigating farmer credit.

USAID/Tanzania is currently funding one bilateral agricultural activity, Tuskegee-Sokoine University of Agriculture Linkages, a training and extension project for faculty, students and farmers. The Mission does not plan any bilateral follow-on activities in agriculture.

C. Natural Resources

Overview. Forests, woodlands and mangrove forests make up about half of Tanzania's land surface. About 15% of the total land area of the country has been gazetted as forest reserve. Forested areas have a potential sustained annual yield of 24.3 million cubic meters of solid wood. However, current annual off-take is estimated to be 27 million cubic meters. Deforestation may be in the range of 300,000 to 400,000 hectares per year (Forestry Action Plan 1989). This rate of deforestation has resulted in the degradation of approximately one-third of the total land area and is attributable to rapid population growth, unsustainable agricultural practices, overgrazing, uncontrolled lumbering and charcoal production, and extensive burning to eradicate tsetse fly.

In addition, 25% of Tanzania's land is designated as national parks and game reserves, with the largest concentrations of wildlife in the world. The 1989-93 five year plan aimed to increase the number of tourists from 80,000 to 150,000 and triple revenues from $14 to $42 million. In 1990, 153,000 tourists visited Tanzania, generating $65 million in gross receipts (Economist 1991-1992). Tanzania has greatly stepped up its anti-poaching campaign and led the fight to impose a total ban on ivory trade at the 1989 Convention on International Trade in Endangered Species (CITES). These measures have essentially eliminated elephant poaching in Tanzania. The illicit price for ivory on the world market has dropped an estimated 75% (cf. Tanzania Daily News, 15 February 1992).

<u>Opportunities</u>. The Wildlife Department has proposed new projects which include village wildlife utilization, game ranching, manpower development, national parks and reserves rehabilitation, and support for anti-poaching activities.

Community participation and private sector involvement offer great potential in enhancing development in natural resources. Although the number of NGOs operating in natural resources is not known, they encompass international and local, sectarian and non-sectarian, general development to specific targets, and national coverage to regional or district coverage. While they vary in scope, they share many common problems such as lack of continuity in financing, and lack of managerial expertise. Private entrepreneurs, both international and local, are already involved in tourism, sport hunting, lumbering, game ranching and honey production. Potential for expansion is enormous. For example, Tanzania produced 5400 tons of honey and 360 tons of beeswax in 1988 of which 20 tons of honey and 324 tons of beeswax were exported, earning $800,000. It is estimated that potential production could exceed 130,000 tons of honey and 9,000 tons of beeswax.

<u>Constraints</u>. Key barriers to the effective utilization and conservation of the natural resource base include:

- confusing and contradictory land ownership and land use policies and regulations;
- poaching and illegal hunting;
- encroachment by farmers, herders, and foresters into protected areas;
- for the private sector, burdensome regulation and registration requirements and limited sources of

financing and credit.

Donor and host country support. In 1989, there were 29 activities in the natural resources sector involving 12 donors with a funding level of $39.2 million. The twenty-year Tanzania Forestry Action Plan contained an additional 91 projects with proposed funding of $644.8 million of which $168.8 million would come from government, $134 million from the private sector, and $342 million from donors. Programming areas included planning, management, training, research and monitoring in forestry, wildlife, ecosystems, beekeeping, and community and NGO participation. To date, 22 donors (including six international and local NGOs) are either funding or have expressed interest in 70 of the 91 projects.

USAID's current activity is a $2.5 million grant to the African Wildlife Foundation for implementation of the Planning and Assessment for Wildlife Management Project (PAWM). The purpose of this project is to improve planning, execution and evaluation of wildlife management activities within the Wildlife Department in order to foster sustainable economic activities such as tourism, tourist hunting, local hunting, game ranching, and other economic activities.

The more prominent NGOs are the African Wildlife Foundation, World Wide Fund for Nature, International Union for Conservation of Nature, and the Wildlife Conservation Society of Tanzania.

D. Industry and Commerce

Overview. Tanzania ranks among the least industrialized of the low income countries. At the time of independence in 1961, there were only about 380 manufacturing establishment with 10 or more employees, employing a total of about 22,000 persons and contributing about 3.5% to the gross domestic product (GDP) (Rweyemamu 1973). Small-scale industrial production and much of the retail trade were concentrated in Asian hands. Beer and sugar were produced mainly by foreign firms, but the supply did not meet the domestic demand. Only two export-oriented industries existed: meat processing and canning, and wattle extract production.

Industrial and commercial policy up to 1967 encouraged private, investors to develop import substitution industries such as sugar, beer, cigarettes, shoes, cement, fertilizers, tires and oil refining. Industrial growth during this period was impressive, at 10% per year (Skarstein 1986). However, the Arusha Declaration in 1967 led to the nationalization of large commercial and manufacturing plants and increased public control, regulation and ownership of the economy through a large parastatal system. With full implementation of these policies, manufacturing GDP declined by about 7% per annum between 1979 and 1986. With the implementation of the ERP in 1986, the industrial sector rebounded somewhat and grew by 5% per annum between 1986 and 1990.

Industrial employment grew steadily from 28,000 in 1965 to about 106,000 in 1985. Subsequently, employment in this sector has stabilized at 1.5% of the labor force. Wholesale and retail trade employment increased by 4% per year between 1978 and 1988, from 34,300 to 49,400. According to Bureau of Statistics data, the number of formal-sector small-scale firms established in Dar es Salaam between 1986 and 1990 was 2500 - about three times the total number of similar firms that were established in the almost twenty-year period from 1967 to 1985 and are still in business.

A World Bank industrial survey of 118 private and parastatal firms in 1989 showed that the recovery of output was related to firm ownership. While over two-thirds of private firms increased production during the ERP, only half of public enterprises managed to do so, with the remainder experiencing a decline. According to the Bureau of Statistics the private sector has contributed from 54% to 75% of Tanzania's monetary GDP since independence. Consistent with the exchange and trade reform process during the period, exporting firms fared better than non-exporters and were more efficient users of foreign exchange. In 1990 value added by the private sector was over 65% in enterprises dealing with chemicals, metal, paper products, pottery, glass, textiles, wood, food, beverages, and mining.

Opportunities. Opportunities for industrial development and more competitive trade have been created by policies initiated under the ERP which have encouraged greater efficiency in import-substituting industries and expansion of exports. Policies and procedures related to import and export need further improvement, however.

In January 1992, the government approved legislation for restructuring the parastatals. The entire parastatal sector has been classified into potential divestment, retentions and liquidations. Non-commercial parastatals have been reclassified as government departments that would be financed through the government budget. Implementation of this parastatal restructuring is now given top priority. Parastatals have been warned to commercialize and have begun to implement this directive. The Treasury has dramatically reduced subsidies to parastatals and financial institutions have been authorized to deny credit to uncreditworthy public and private enterprises. Sixteen parastatals have been fully divested in the past two years.

It is difficult to be definitive about the economic performance of small formal-sector enterprises, as little has been written on the subject, but a GOT report (1980) suggests that these enterprises have high output to investment ratios, and generate substantial employment. They would thus seem to possess considerable development potential.

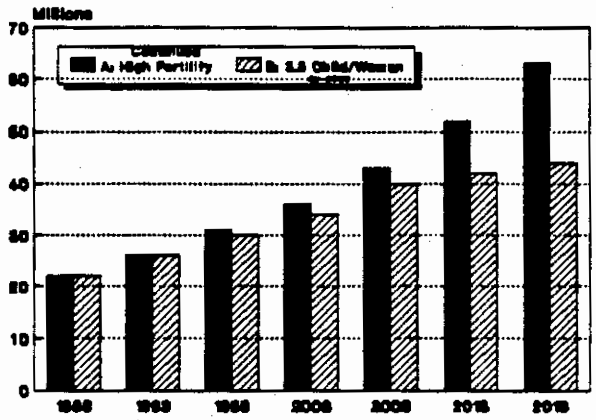
Constraints. Despite the notable economic and political reforms which have affected operations in the industrial and commercial sector, considerable obstacles still remain to be overcome. Among them:

- preferential access to credit, inputs and imports retained by some parastatals;
- monopoly positions still retained by some parastatal firms;
- shortages of appropriately-trained and skilled managerial and technical staff;
- decayed and/or inadequate transport and utilities infrastructures;
- cumbersome and restrictive licensing requirements for small-scale industries;
- bureaucratic barriers which continue to discourage exporters.

Donor and host country support. In the past most donor assistance in industry and trade has been in the form of direct project assistance to specific government-owned enterprises. Evaluations by the World Bank and other donor agencies show weak project effectiveness and impact. Nonetheless, since 1982 the average yearly donor assistance to industry has been $60 million. The World Bank through its various Adjustment Program Credits supports GOT efforts to improve private and public sector access to credit (through the OGL); the liberalization of agricultural marketing; the reform of the financial sector; assistance to the Loans and Advances Realization Trust (LART) to speed up parastatal restructuring. The Bank also supports the infrastructure rehabilitation program for the roads and the restructuring of industrial enterprises. The forthcoming Bank public sector reform program for Tanzania aims inter alia at the reform and privatization of the parastatal sector.

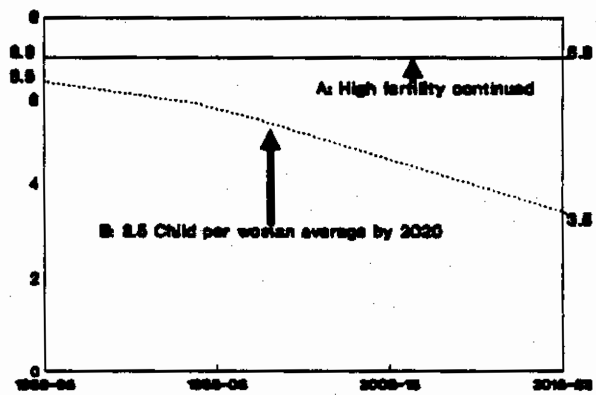
E. Population and Health

FIGURE 4: TOTAL POPULATION



Overview. The population of Tanzania has grown from 7.7 million in 1948 to an estimated 25.2 million in 1991. The growth rate is estimated at over 3% per year, with a concomitant doubling time of just over 20 years. Population growth rates have increased since independence due to continuing high fertility and rapidly declining mortality. Women have an average of 7 births during their reproductive lives, one of the highest TFRs in the world.

FIGURE 5: TOTAL FERTILITY RATE



High fertility and declining death rates yield a very young population; approximately 54% are aged under 15 years, implying continued high population growth rates and high dependency ratios.

Although the infant mortality rate (IMR) has fallen since independence, the present IMR of 105/1000 is still among the highest in the world. Increased immunization coverage may contribute to further decreases in the IMR. However, other trends--the spread of HIV, vulnerability to malnutrition and other health problems--will exert opposite effects on the IMR (cf. World Bank 1991).

As with the IMR, maternal mortality has declined since independence, but at about 200/100,000 remains high compared to many countries and has remained fairly stable since 1975. High maternal mortality implies poor maternal health with concomitant effects on women's economic productivity, an important, albeit undervalued, part of the Tanzanian rural economy. A related factor in women's health is the high rate of abortion. In hospitals many ob-gyn procedures are dilation and curettage (D&C) to end pregnancies. According to one study, 15% of maternal deaths occur in the first trimester of pregnancy, many of them from sepsis after abortion (UNICEF 1990).

Undernutrition, particularly among the at-risk groups of infants, young children and pregnant and lactating women, are serious problems and complicating factors in other diseases, increasing mortality rates for malaria, measles and complications from childbirth. An expanded program on immunization (EPI) has decreased incidence of some important childhood diseases (measles, whooping cough, poliomyelitis, tetanus). More recent sentinel reporting shows the most prevalent diseases as malaria, acute respiratory diseases, diarrheal diseases, eye diseases, intestinal worms and gonorrhea (World Bank :44). Malaria, which accounts for 30% of outpatient attendance, and 15% of admitted cases, affects children seriously. Malaria in pregnant women predisposes delivery of premature and low birth weight infants. These diseases also have an important impact on adult health and productivity; and they are not amenable to easy prevention and permanent cures.

HIV infection rates are increasing rapidly. They are highest among the 15-45 year age group and infants, and are increasing among adolescents. Sexually-transmitted diseases (STDs) are an important cofactor in HIV transmission; STDs are among the ten most common causes of outpatient attendance in Tanzania.

Because of the nature of the epidemic and the groups it affects, AIDS will have far-reaching implications for Tanzania over the next several decades. Health and other services will be severely taxed as demands for treatment of opportunistic infections and full-blown AIDS increase. As the ranks of working-age adults decrease, the work force will become younger and less skilled and experienced.

With increasing urbanization and the breakdown of traditional structures and practices, traditional birth spacing practices, such as post-partum abstinence and long periods of breast-feeding, are disappearing. Although the GOT recognizes that family planning services should be integrated into all MCH care, the percentage of health clinics offering quality, full-range family planning services is still low.

While availability and utilization of family-planning services is inadequate, latent demand appears high. The DHS pretest results indicate that women desire five children, two less than they bear on the average. A significant proportion--25%--wants no more children. Approval of family planning among women surveyed was 77% but husbands' approval was lower, at 42%.

Opportunities. The GOT has supported family planning since the early 1970s. In 1974, the MOH mandated the integration of child spacing advice and services into all MCH services. Demonstrating renewed commitment to family planning, the GOT prepared a five year program of activities for the period 1989-1993, documented in a Plan of Operations for the National Family Planning Program (NFPP). The NFPP identifies strengths and weaknesses of the health care system, and sets forth objectives to improve FP service delivery. It proposes a community-based approach to distribution (CBD), integration of FP with PHC, better counselling, social advocacy and mobilization and intersectoral cooperation.

NGOs, although they provide 40% of the health care in Tanzania, are underutilized. The major coordinating body in the NGO sector is the Christian Medical Board of Tanzania (CMBT); there is, however, no formal agreement covering the distribution of roles, rights and duties between government and the NGOs. CMBT has recommended that each NGO hospital be given responsibility for supervision of rural health centers and dispensaries within its catchment area.

Further, there is an increasingly active private sector. Physicians provide some private services, but often are hampered by lack of capital with which to establish their own clinics, as well as lack of training and equipment. Traditional birth attendants (TBAs) and traditional healers, have long been an important part of the health care scene in Tanzania. Payment is often in kind and dependent upon the client's ability to pay. Private retail outlets and distribution networks could be utilized to increase access to important commodities, e.g., condoms and pills.

Workplace-based family planning can also help supplement government efforts. Private company or parastatal enterprises often provide extensive health, MCH and sometimes family planning services to their own employees and people from surrounding areas. Integration of family planning into these service sites should be utilized to expand access, relieve the overburdened government system, and reduce costs.

Although less effective than desired, the NACP has put a national AIDS program into effect and in its 1991 Review Report recognizes four essential elements of the second medium term plan for AIDS control: decentralization of IEC interventions; community-based mobilization; acceleration of condom promotion; targeting of prevention efforts (especially to youth before they become sexually active).

Several projects have already begun to deal with high risk groups through peer education and counseling, and on-site distribution of condoms. NGOs have been identified as implementors of such programs, with strong links to the industrial sector or to transport workers. Initial results are promising, with evidence of greater use of condoms among counselled people.

In the initial years of the NACP, a wide range of IEC activities and interventions were undertaken by a diverse range of organizations at the central, regional and district levels. However, community participation remained low. Now, with Tanzanians more interested in the AIDS problem, and almost daily reporting about the subject, opportunities have arisen for more vigorous IEC efforts. Distribution of condoms at non-clinic sites, such as hotels, bars and guesthouses has been successful, demonstrating the potential for other channels of distribution such as social marketing.

Constraints. Although the government of Tanzania and the donor community have made serious commitments to the support and expansion of health care services in Tanzania, problems affecting the implementation of successful health-care programs still remain. Among them:

- disproportionate allocations of financial resources to hospitals, and declining per capita health expenditures;
- lack of supervision and motivation in the personnel system;
- shortages of equipment, supplies, and IEC materials, especially for family planning;
- concentration on curative strategies over prevention;
- over-reliance on static facilities and a failure to exploit community-based services, NGOs, and workplace delivery.

Donor and host country support. Since independence, both GOT and donors have been committed to health sector development in Tanzania. During the 1970s donors (the Nordic countries in particular) contributed to expanding coverage of the health system, while the 1980s were devoted to providing the necessary drugs and other inputs, to insure the continued functioning of the existing system. Assistance has been targeted to primary health care and maternal and child health, through such strategies as expanded immunization coverage, nutritional surveillance and food security, personnel training, and policy and planning support. More recently, government concern and donor inputs have focused on population issues and HIV/STD education and prevention strategies, domains in which USAID has made important contributions. In the five-year period 1987-1992, donor contributions to the health sector in Tanzania totalled $138 million.

III. STRATEGY AND LOGICAL FRAMEWORK

A. Program Goal

The Mission's goal can be succinctly stated as Tanzania's attainment of "Real Growth and Improved Human Welfare". Achieving this is seen as requiring a major realignment of the roles of the public and private sectors. A partnership based on participation, accountability, and mutual trust is needed to take advantage of the strengths of the respective sectors. Government should provide the legal framework and necessary public services which permit efficient performance by the private sector in producing goods and services for economic and social development. To help promote this USAID has identified seven key principles which are integrated to the maximum extent in each of its strategic objectives. These are listed below and referred to in the subsequent presentation of each objective.

A. Build adequate physical infrastructure.

B. Modernize the financial sector and services.

C. Promote good governance.

D. Strengthen the capacity of private and public social service providers.

E. Improve human resources capacity.

F. Expand private sector access to effective support services.

G. Use AID resources to leverage other resources.

B. Strategic Objectives

The Mission has structured its program to achieve "Real Growth and Improved Human Welfare" around three strategic objectives:

- **Improved socio-economic well-being in five selected regions**
- **Increased employment and income growth**
- **Health-enhancing changes in reproductive behavior**

Most key pieces of the national reform agenda affecting these strategic objectives are now in place. The principal challenge is to implement these changes, thus delivering the projected tangible benefits of the reform program. The AID program focuses on this implementation and on identifying and refining second-generation policy issues.

C. Relationship of the Strategic Objectives

The three strategic objectives do not, of course, represent all that must be attained to achieve broad-based, market-oriented economic growth. However, they are objectives that are essential to achievement of the goal, represent high priorities of the GOT, and are in the manageable interest of the Mission.

The three strategic objectives are complementary in that they are directed at creating broad-based, sustainable economic growth. Economic growth in Tanzania has historically come from the private sector, despite the planned state economy. However, it will require a much-improved enabling environment to spur the growth required to improve and sustain critical health and educational services. The deteriorated state of the infrastructure, identified as a major constraint to growth and development in all sectors, is being addressed through our assistance to the transportation sector in the first strategic objective.

Our second strategic objective more directly addresses the policy and institutional constraints which have inhibited the growth of the private sector and thus of productive employment. To increase investment, both foreign and domestic, in the private sector requires a viable financial sector. The assistance in restructuring the financial sector will have the direct effect of increasing the confidence needed in banks for them to capture the savings needed to provide credit and other needed financial services for a modern private sector. Direct support provided to businesses and business groups is designed to make them competitive and to give them a voice in the policy process, another key ingredient for broad-based economic growth.

Family planning improves maternal and child health, an imperative consideration in a country where women are responsible for so much of the productive activity and where the health infrastructure is so terribly overburdened. Also, sustained growth will not be possible without a reduction in the rate of population increase. In addition to eroding gains in per capita income and overwhelming health and educational services, unchecked population growth cannot be sustained by Tanzania's natural resource base. Finally, Tanzania is one of the countries most hard hit by AIDS. The age group most seriously affected is also the most productive part of the workforce, and this has grave implications for economic growth. Further, the social consequences are potentially catastrophic. HIV preventive measures must be greatly expanded and special programs to address the needs of the victims established.

The selection of the objectives required the consideration of and rejection of alternatives. Why not agriculture? For the foreseeable future, agriculture must play the major role in the economy. There is great potential in the fast-growing nontraditional exports and from adding value to agricultural products before export. While economic gains could be achieved by concentrating in these areas, the underlying infrastructure, financial services, and regulatory environment constraints addressed by our program would still remain.

The agriculture sector has been deeply affected by ERP-inspired reforms, but the full impact of those reforms is not yet known. This creates an uncertain context in which to intervene. Moreover, the pertinent institutions in the sector, from the Ministry to the co-operatives, are in disarray and largely dysfunctional. There is no public organizational structure with which the Mission could collaborate with confidence. Finally, donor activity is most intense in the agriculture sector; adding an additional donor would not be appropriate at this time. The World Bank, in conjunction with the GOT, will be preparing an agriculture sector memorandum next year, providing a new framework for action. The Mission will review that memorandum for possible linkages to our program.

Natural resources is another area of great promise. Tanzania's potential earnings from tourism should equal those of Kenya, which are in excess of $500 million annually and which are Kenya's single largest source of foreign exchange. But again, the constraints to investment in this sector are much the same as in other sectors. USAID will continue to focus its involvement in natural resources on activities, implemented through NGOs such as the African Wildlife Foundation, which enhance GOT capacity to analyze and adopt appropriate wildlife management policies.

The dilapidated state of the educational system is another constraint to long-term economic growth. GOT resources allocated to this sector have continued to drop in the national budget since independence. The World Bank, NORAD and SIDA are contributing much-needed educational planning assistance, and some donors are providing direct support to school operations. The long-term solution to education sector financing is an adequate revenue base to support the system. The revenues have not been available because the commercial parastatals did not produce revenue. Further, any direct USAID involvement in basic education, agriculture, or natural resources management would require additional staff and capacity beyond current Mission means.

D. Strategic Objective Number 1: Improved Socio-economic Well-Being in Five Assisted Regions.

More than 80% of Tanzania's population lives in rural areas and derives its livelihood, directly or indirectly, from agriculture. The agriculture sector accounts for over 60% of GDP, 90% of employment and 85% of foreign exchange earnings.

Over 70% of all Tanzanian freight moves by road. A well-maintained road network is therefore essential for economic growth and access to basic services. Ample evidence confirms that the lack of maintained roads severely impedes marketing of both export and domestic crops, the distribution of agricultural inputs, and other goods. Yet despite the recognition of the fundamental importance of adequate transport systems, the country's utter neglect of its once efficient infrastructure now poses a serious constraint to economic growth. In 1988, the World Bank estimated that the direct economic costs of the poor performance of the transport sector exceeded $200 million. The state of the roads alone resulted in higher vehicle operating costs of about $150 million per year. The deteriorated state of the road systems also impedes access to educational and medical facilities.

Our first Strategic Objective applies to the regions of Shinyanga, Kilimanjaro, Mwanza, Iringa, and Ruvuma. The USAID strategy for improving socio-economic impact in these regions centers on employing the private sector to build adequate infrastructure, shifting the role of government and improving its management in the transport sector, and leveraging non-AID resources in support of this approach.

Local currency resources have been concentrated on core rural roads within the five regions judged by government and donors to be of highest priority to Tanzania's economic recovery. The rehabilitation of some 1500 km of roads is under design and construction. A recent evaluation and impact assessment of one of these roads indicates that approximately 70% of the benefits of road rehabilitation are derived from increased agricultural production. The study reported that road improvements have stimulated private sector commerce, benefitted private sector truck and bus operators, and had a positive impact on cotton production--all of which is private, smallholder production. The study also reaffirmed the internal rate of return of these roads to be about 30%.

The results of this study validate early hypotheses concerning the pertinence of the transport sector to economic growth. Conditionality requiring AID-supported road work to be implemented under contract with local private companies has spawned a new industry and created jobs. The private contracting industry has replaced government force account road work and converted skeptics who maintained that the prior absence of private road construction companies indicated lack of interest and capacity. Requiring associated works to be completed by smaller, indigenous companies has prompted the establishment of many new firms.

The emergence of the private sector has freed government to redirect its resources from implementation to road maintenance management, monitoring and revenue generation. In this regard the program has succeeded in fostering sound administrative practices. First, the foreign exchange dedicated to commodity imports under AID programs is being allocated on a competitive rather than an administrative basis. Second, roads have been selected on the basis of sound socio-economic, not political, criteria. Third, the introduction of a clear tendering and award procedure has brought needed transparency to the contracting process. Finally, the government has implemented a road-user fee fund to finance future maintenance. The impact of these changes extends well beyond the five target regions and affects the entire nation positively.

Persistent dialogue with other donors based on the success of this model has directly influenced their resource allocation decisions. Both Sweden and the Netherlands are now utilizing similar approaches in contracting their road construction programs with the local private sector.

The principal strategy for achieving this strategic objective--private sector road rehabilitation and introduction of sustainable road maintenance systems--may not be enough. Through FY 1991 AID has committed $44 million to transport sector-related commodity imports and technical assistance and the equivalent of $40 million of local currency to road rehabilitation and maintenance. While progress to date has been encouraging it is not clear that the volume of roads under contract is sufficient to produce widespread socio-economic impact in the five regions. Furthermore, other activities may be needed to ensure that the full potential created by these roads is realized.

A comprehensive 1989 baseline survey has positioned the Mission to monitor the impact of the roads. A recent transport sector study cited policy and implementation interventions which would complement and enhance the value of the roads. An evaluation of the impact of dollar-financed commodities is in preparation. With its analytical agenda in place by early next year, the Mission will reconsider its strategy, examining further actions to be taken in these regions including, possibly, increasing the volume of roads to be rehabilitated, or expanding dollar and local currency use for rural infrastructure or telecommunications-related activities.

Indicators for Strategic Objective No. 1:

- Value/volume of crops, livestock, farm inputs hauled:

Baseline	8,300 MT/Yr.	Tsh 204 million
1995	11,000 MT/Yr.	Tsh 300 million

- Housing conditions (roofing, flooring, etc.)

Baseline	33% metal roofs		
1995	55%	"	"

- Number of businesses operating in the regions

Baseline	82
1995	110

- Access to schools and medical facilities

Target 1.1 Sustainable road rehabilitation and maintenance system established and operating.

To achieve the target will require that transportation continues to be a GOT policy and budgetary priority. Donor cooperation and coordination is of paramount importance because there are 16 donors involved in the sector. Donor involvement in the road sector is expected to surpass $1 billion over the next five years. Most donor funding is being coordinated through the Integrated Roads Program (IRP), which includes a $180 million IDA loan. USAID will continue its policy dialogue with both the Ministry of Works and other donors to press for a better application of donor resources in support of sustainability. The World Bank and the GOT have reached agreement on the road maintenance strategy and physical and budget targets that are reviewed annually. A sustainability plan was developed during 1991 which calls for the GOT to assume an increasing share of recurrent costs of the regional roads programs to 100% by 1995/96.

A USAID-funded Transport Sector Assessment, just completed, identified additional policy and regulatory constraints to be addressed. These include: weak enforcement of weight rules, under-collection of user fees, price controls on freight rates, and local government restrictions on grain movement.

Indicators for Target 1.1:

- Increased GOT funding for routine & periodic maintenance

Baseline	Nil
1995	$2,180,000

- Operating budget by source

Baseline -	GOT	Nil
	Donors	$3 million
1995	GOT	$2.2 million
	Donors	$1.9 million

- Improvement in road conditions

Baseline	Poor 60%, Fair 30%, Good 10%
1995	Poor 40%, Fair 26%, Good 34%

E. Strategic Objective Number 2: Increased Employment and Income Growth.

Tanzania's bulging and inefficient public sector has drained public finances and contributed little to the sustained economic growth needed to assure the population of basic services and productive employment. Over the past decade Tanzania's parastatals consumed between 29% and 42% of the development budget; yet pre-tax net transfers to government have remained consistently negative.

Strong state participation in the productive sectors has retarded formal private sector growth and driven much productive enterprise into the parallel economy. Policy decisions, regulations and legislation affecting the economic well-being of the society have, for the most part, been promulgated without the participation of those most affected. Further, there has been little accountability, legal or political, for the consequences of policies. Despite this poor enabling environment, however, the private sector has still managed to contribute between half and three-quarters of GDP since Tanzania's independence. Capital investment in the private sector has also routinely outpaced the public sector. The parastatals, despite massive government subsidies, employ only about 5% of the total labor force. However, as a wage employer, the public sector, including the commercial parastatals have dominated formal sector employment with a 70% share. Real wages in the public sector declined by an average of over 50% from 1981 to 1987.

The labor force is growing at over 3% per year while overall productive employment is projected to increase about 2%. The urban labor force has increased at nearly 7% per year. The informal sector is estimated to have provided up to 60% of the employment in the urban areas. The percentage of the labor force engaged in full-time, non-farm employment in the rural areas is estimated at only 10%, while about 30% of farm households are engaged in some form of non-farm employment; on-farm employment remained nearly constant from 1978 to 1988. Thus, the potential for increasing non-farm employment in rural areas is great. The constraints to employment and income growth in both urban and rural areas are very much the same, as are the recommended solutions. For example, a 1985 survey conducted by the ILO of informal sector entrepreneurs showed that 65% said that lack of inputs was a major constraint. By 1989 inputs were cited as a constraint by only 16%, a clear indication of the impact of the OGL and "own-funds" import scheme implemented under the ERP. There is ample evidence that the private sector, formal and informal, has responded to policy changes.

Sustained real economic growth requires expansion of productive employment opportunities. AID experience indicates that the adoption of a supportive policy framework and the withdrawal of government from the commanding heights of the economy are critical, but not always sufficient, to draw the formal private sector forward rapidly and broadly. Direct business support services such as access to information, technical know-how and capital are critical to overcoming years of isolation and improving competitive position. Ironically, Tanzania's informal sector has flourished in the last decade, despite the past harshly anti-business environment. In addition, estimates are that parallel sector activities equal as much as 30% of officially-reported GDP.

The Mission strategy starts from the view that the evolving enabling environment in Tanzania creates promising potential for both formal and informal sector growth and that provision of direct support services as well as a deepening of financial sector reform will accelerate the exploitation of these opportunities.

Indicators for Strategic Objective No. 2 are:

- Employment levels rise 4-5% annually
- Per capita income increases 2-3% annually

Target 2.1. Private sector support environment improved.

Tanzania has made considerable progress in creating a suitable environment for private sector-led growth. The elements of the unfinished agenda include: fine-tuning of macroeconomic policies, creating a facilitative regulatory environment, completing improvements in infrastructure, establishing appropriate and timely financial services, providing business services and capital, and reducing the rates of population growth and HIV infection. Significant levels of assistance are being provided in all the above mentioned areas by USAID and other donors.

AID strategy for increasing employment and incomes includes: (1) modernizing financial sector services; (2) promoting good governance; (3) expanding private sector access to effective support services; and (4) building adequate infrastructure. The strategy will introduce innovative new structures to Tanzania, such as venture capital, a private investment trust, and a modern business services office.

The policy agenda will consolidate and expand upon financial sector reforms initiated by the World Bank and IMF. Policy adjustments for the financial sector aimed at increasing efficiency include: promulgation of a full range of prudential regulations, and licensing private banks and other new financial institutions, thus moving towards a fully market-based foreign exchange regime. Direct support to the financial sector institutions includes: helping the Bank of Tanzania fulfill its role as a regulatory bank and supervisory institution; assisting the Bank with a wide range of financial expertise; and helping to develop new financing mechanisms.

The private sector support activity will help strengthen local chambers of commerce and other membership organizations by assisting them to become forceful advocates for their interests; providing direct assistance to enterprises to solve technical, marketing, financial or management problems; enhancing the role of the private sector in public policy debate and formulation; and improving the standard of media financial and economic reporting. Some of the policy issues that have already been identified by business organizations in the regulatory area include: review of the "Companies Ordinance" and related legislation pertaining to the establishment of companies and their operations; automatic renewal of business licenses by local authorities without tax or other clearances; elimination of party approvals in the licensing process; and drafting of legislation on intellectual property rights.

Import support activity will make funds available to the private sector for the importation of equipment for expanding job creation capacity in manufacturing, agro-processing, and service-related businesses for both domestic and export markets.

The import support activity will generate approximately $40 million in local currency from the sale of the foreign exchange. The local currency will be used to capitalize a trust fund. The objective of the trust will be (a) to invest in the Tanzanian private sector and (b) with earnings and profits, to make grants to local NGOs in support of programs mitigating the effects of AIDS in Tanzania. Local currency from transport sector programs supports the rehabilitation and maintenance of roads which are essential to economic and social development.

USAID will continue to augment its direct program assistance through its policy dialogue, donor co-ordination, and support for small discrete activities which advance the strategic objective. The Mission's private sector advisory committee, which draws its membership from the private sector, will continue to be used to stimulate Mission thinking, identify issues and foster co-operation in finding solutions. Donor co-ordination will continue to play an important role, particularly in the financial sector where AID is collaborating with the World Bank, and in the private sector, where AID has been named the lead donor and in which no other donor is currently active. Funds from central or regionally-supported activities or from PD&S will be used where appropriate to undertake studies or pilot activities. PD&S funding was used to support the BOT's loan classification activity, which contributed directly to the formulation of our strategy. Another activity funded by PD&S was the provision of technical assistance for the Presidential Commission on Tax Reform. Although additional USAID support to tax reform is not currently contemplated, the Commission's recommendations, when implemented, will have important implications for the private sector enabling environment in such areas as transparency of the assessment process and in streamlining the tariff structure.

In sum, our overall approach is to create employment and income generating opportunities by removing policy and institutional constraints to enterprise development and by providing direct support to increasing private companies eager to begin or grow. These constraints weigh most heavily on the small and medium scale sector where most employment growth will be focused. Our project support activities will explicitly target this sector as well.

Indicators for target 2.1 are:

- number of enterprises increases by 5%/year 1992-1997
- private sector contribution to GDP increases from 65% to 75% 1992-1997

F. Strategic Objective Number Three: Health-Enhancing Changes in Reproductive Behavior

Sustainable economic growth will require a reduction in the population growth rate and the implementation of effective AIDS prevention strategies. Presently, the population is growing faster than formal sector employment and the rate of GDP growth is only marginally greater than that of the population. Population increases have already outstripped the government's capacity to provide health and educational services. The AIDS pandemic too will have far-reaching economic effects. It is attacking the most productive age groups in the population, straining a weak health care system, and generating orphans whose maintenance places enormous stress on the social structure.

USAID has identified lower fertility and AIDS prevention as the ways it can contribute to improving the health profile in Tanzania. Lower fertility is linked with two benefits: lower population growth (through lowering of the crude birth rate); and better health for both mothers and infants. Practice of AIDS preventive measures assures that perinatal transmission of AIDS from mothers to the unborn will be reduced; and that the most productive age group--working age adults--will not die prematurely (affecting the quality and quantity of the workforce and further increasing the dependency ratio.)

Regarding the relationship between family planning and AIDS, the following facts should be considered:

- Of the estimated 6.5 million people worldwide infected with HIV, almost two million are women of childbearing age.
- In Tanzania, the male to female ratio of infection is 1:1.
- Pregnant women who are infected have a 25% to 40% chance of passing on the virus to their infants before or during birth.
- It is estimated that, on average, a woman dying of AIDS leaves behind two children; without a mother to provide for them, these children are also more likely to die.

Using barrier methods of contraception during sexual intercourse, especially latex condoms, can help prevent the spread of AIDS. In addition, the use of family planning by women with AIDS can help them avoid pregnancy and thus the risk of bearing an infected child. Family planning reduces the risk of maternal mortality, thereby assuring that women have a greater chance of surviving to take care of their offspring.

The rationale for strategic objective no. 3 can be summed up as follows:

Demand for family planning. Tanzanian women (and some men) are increasingly expressing their desire to control their own fertility through child spacing. DHS results show that most women aged 15 to 29 years "want children later or no more." The ideal family size is about two children less than the TFR. There is a strong desire for permanent and long acting methods of contraception, including sterilization. However, services are almost nonexistent and utilization of modern methods is very low, about 5%.

Family planning and AIDS prevention are MCH interventions. Family planning saves lives. In a country where women have frequent, closely spaced births, many of them to mothers younger than 20 or older than 35, the risks of childbearing are great. The high IMR and MMR reflect a persistent profile of malnourished, depleted mothers who give birth to underweight, sickly infants. Infants born less than two years apart are more susceptible to illness and death. In addition, frequent pregnancies result in abrupt termination of breast-feeding which can lead to malnutrition and dramatically increase the child's risk of death from diarrhea and respiratory infections. Infants born after short intervals are almost twice as likely to die as those born after intervals of two or more years.

By increasing birth intervals and allowing the mother to rest between births, child spacing has a direct effect on her health and improves chances of infant survival. Anemia and other side effects of pregnancy, can reverse themselves. The need for drastic measures such as abortion (and ensuing hemorrhage and possible death) decreases. Breast-feeding has the dual role of temporarily protecting a woman from pregnancy and providing the best nutrition for an infant until s/he is 4 to 6 months old. Methods of family planning can reinforce the benefits of breast-feeding by enabling a mother to delay her next pregnancy until after she has fully weaned her youngest child.

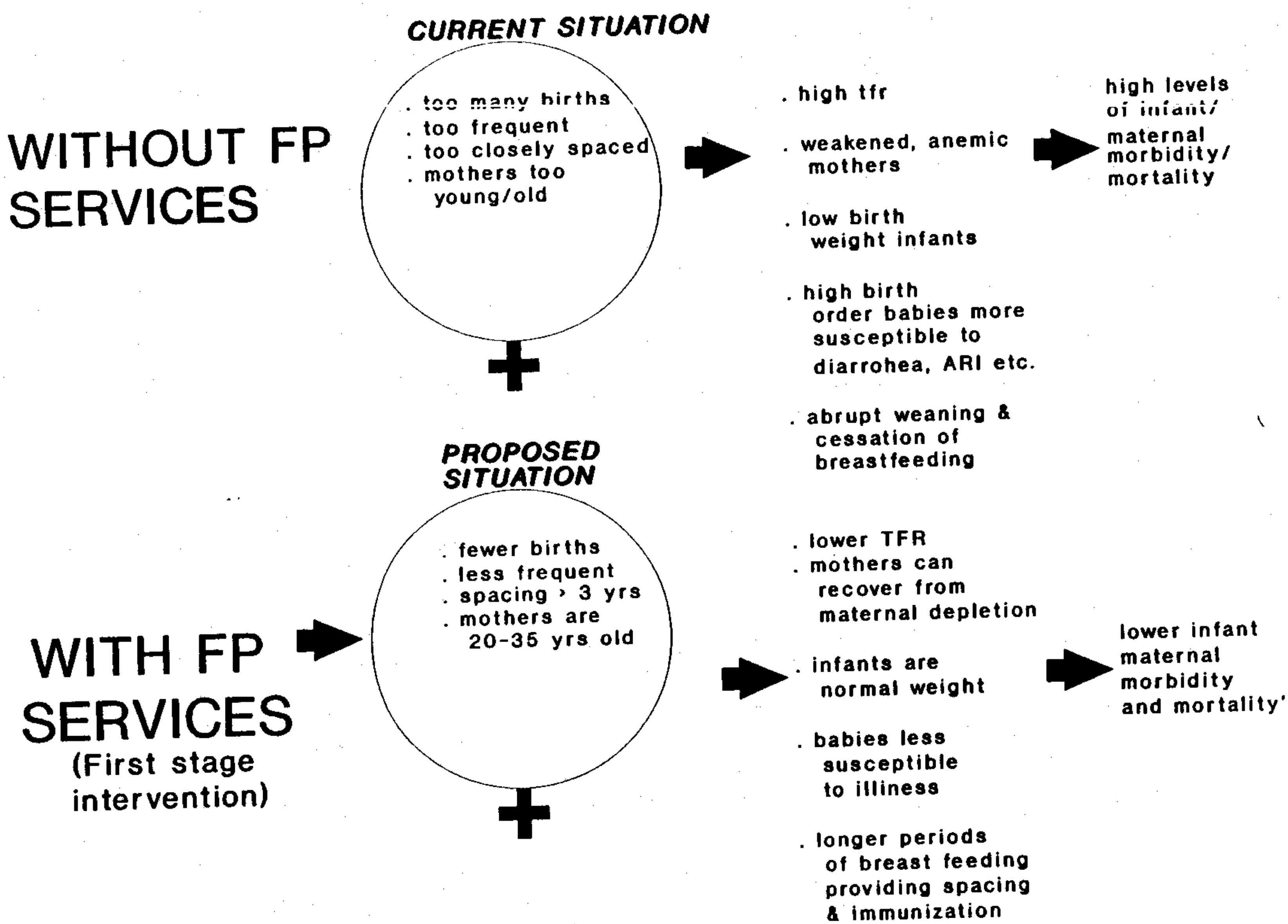
The advent of HIV infection makes it all the more important for mothers to take care of their health. Use of some family planning methods, such as condoms, can reduce the risk of HIV infection. Mothers who are anemic, malnourished and who suffer from an STD, are more susceptible to HIV infection. AIDS prevention measures--use of condoms, monogamy, and STD treatment --are important in preserving the health of mothers so that they in turn can care for their children.

Both family planning and AIDS prevention contribute to good reproductive health care. The need to take action <u>before</u> children are conceived or born will assure that they have a healthy start in life. Proper reproductive health practices such as prenatal care, prevention and treatment of STDs and practice of birth spacing measures assures that mothers are in better health, more resistant to disease including AIDS, and able to care for their families. The high incidence of abortion, a major contributing factor to maternal deaths from asepsis and hemorrhage, can be reduced if legal child spacing services are more widely available to those who need and want them.

AID has extensive expertise in the areas of population and AIDS control. AID has committed itself to these areas in a number of ways. Its population program has for many years been an important part of Agency goals. Specifically, the wide variety of technical assistance and commodity support inputs AID can provide in family planning/population is unmatched by other donors. In Tanzania, other donors have begun to utilize these same co-operating agencies in their own population efforts. Predominant capability in the population area, and the ability to implement programs on the ground make AID support unique. A new effort in HIV prevention, the AIDSCAP program, represents another Agency initiative. By focusing on priority countries, and providing in-depth support, significant resources can be made available.

The needs of the Tanzanian health care system are great, and offer many targets for assistance. However, one of the most critical remains development of the family planning service system. It is the least developed of the MCH service delivery components and one of the most critical given its importance in improving the health status of mothers and children, improving productivity of women and their families, and in reducing fertility and slowing the rate of population growth. Family planning is also closely linked with HIV/AIDS and STD prevention and control in that both services involve promoting changes in sexual and reproductive behavior to improve reproductive health. HIV/AIDS prevention in the medium and long-term is also critical to Tanzania's development, as the impact of the AIDS epidemic will be felt in key productive economic groups. Improving women's health and access to family planning is a high priority of the MOH.

A review of the health sector shows widespread donor interest and support in the areas of primary health care and maternal and child health. At the central level, significant support is being provided to the Ministry of Health's programs in AIDS, nutrition, essential drugs and immunization. GTZ, UNICEF, and Japan are providing support for control of ARI, diarrheal diseases and malaria. UNFPA has been the only donor to provide direct central level support to the unit within the MOH that has been charged with implementing the NFPP--the Family Planning Unit (FPU). Further, direct technical support for developing a national family planning service delivery program, including gathering baseline data, training personnel, developing FP IEC materials,



WITHOUT FP SERVICES
CURRENT SITUATION
. too many births
. too frequent
. too closely spaced
. mothers too young/old
. high tfr
. weakened, anemic mothers
. low birth weight infants
. high birth order babies more susceptible to diarrohea, ARI etc.
. abrupt weaning & cessation of breastfeeding
high levels of infant/ maternal morbidity/ mortality
WITH FP SERVICES
(First stage intervention)
PROPOSED SITUATION
. fewer births
. less frequent
. spacing › 3 yrs
. mothers are 20-35 yrs old
. lower TFR
. mothers can recover from maternal depletion
. infants are normal weight
. babies less susceptible to illiness
. longer periods of breast feeding providing spacing & immunization
lower infant maternal morbidity and mortality'

providing commodities, and periodically collecting data for monitoring and evaluation, has been provided only by UNFPA, but its funds are very limited and inadequate to meet the needs.

Apart from UNFPA, USAID is the only donor well-positioned to support a large-scale program of assistance in family planning. Its network of technical resources, contractors and cooperating agencies gives AID a predominant capability to provide technical assistance and actually implement family planning programs. AID is also well-positioned to meet assistance gaps in the National AIDS Control Program; USAID's pilot efforts are ready for large-scale expansion, and technical resources are readily available.

Indicators for Strategic Objective No. 3 are:

- Contraceptive prevalence rate increases from 7% of couples to 12% of couples by 1997;
- A 10% increase per year in males reporting consistent condom use, 1992-1997.

Target No. 3.1: Increased Client Awareness of and Access to Public and Private Sector Family Planning Services

Both the demand and supply aspects of family planning must be addressed. Demand, which is relatively high, still must be activated through a comprehensive information, education, and communications program to educate and inform both potential and active users or contraception. Better efforts at motivating men to use modern family planning methods must be made.

The purpose of USAID's FPSS Project is to increase contraceptive acceptance and use. The FPSS strategy draws on the considerable infrastructure already in place, and focuses on both government and NGO clinics as future FP service delivery sites. Considerable resources are dedicated to addressing many of the system deficiencies identified in Section II through: training of service providers and supervisors; direct technical assistance to the MCH Family Planning Unit to better manage and implement the national program; setting up a commodity procurement, forecasting and ordering system; preparation of IEC materials; and enhancing coordination among the many government entities working in MCH/FP. Finally, a strong baseline data system (the DHS), as well as installation of a national level MIS to track contraceptive users will support better decision making, resource allocation and monitoring.

While the emphasis of the FPSS is on improving government's management of the NFPP, there is a recognition that the GOT cannot do it alone and that there are other resources out there, mainly the extensive NGO health care system. Among the issues which will receive greater emphasis under the FPSS are: community-based approaches to education and distribution; improved logistics to assure adequate contraceptive supplies at all sites; and, mobilization of NGO and private sector entities. Sustainability of family planning services and the health delivery system as a whole is an issue which warrants much greater attention.

Supply will be improved through improving the quality and quantity of clinic services by ensuring that providers are well trained, by improving the logistics system, and by assuring that all FP methods--including long-term ones such as VSC--are more widely available.

At the policy level, there is still a need to bring major issues to the attention of leaders, and foster development of rational service delivery standards and improving general awareness. Sustainability of the health care system, including greater GOT contributions and development of a fee-for-service system, must be addressed as well as the quality of services. Government procurement and supply of expendables will be studied. Other approaches which would contribute to sustainability include: retail sales of contraceptives, which would, however, require removing restraints that limit sales such as import duties, prescription requirements and price controls, and encouraging brand name advertising; removing remaining restrictions on private providers; improving the quality of MOH services to encourage people to pay fees; better promotion and publicity for family planning; workplace-based FP; and improving overall efficiency.

The indicator for target 3.1 is:

- A 50% increase of couple-years of protection, 1992-1997.

Target No. 3.2: Increase Awareness and Practice of HIV Preventive Measures

Like family planning, there are new needs and opportunities to focus USAID resources more effectively. Because of the effect AIDS will have on working-age adults, peer education in the workplace is even more critical, and should be moved out of the pilot phase. Many workplaces have expressed interest in participating in ongoing peer education projects; others need to be motivated through special programs for management about the threat of AIDS to the work force.

The National AIDS Control Programme recommends that a community based approach be used to mobilize local people and resources in the fight against AIDS. One way is to channel resources through NGOs, which have strong links to local communities, and can complement an increasingly overburdened system. Although the USAID program is mainly implemented through NGOs, a new AIDS program could explicitly bring NGOs to the fore.

Although the needs of orphans and other survivors of AIDS is being addressed by a number of donors and NGOs, the dimensions of the problem are increasing. NGOs have a particular capacity to care for AIDS orphans, and special support to NGOs may be given for this purpose. Similar to the comments on FP, the NACP must broaden its condom distribution channels to include commercial and nontraditional vendors. STD control is an area in need of considerable support. USAID has only lately provided support for the training of pharmacists in STD counseling and treatment. STD components of FP training programs would benefit from efforts made in this area.

To address the necessity of greatly increasing changes in behavior through the promotion of condoms, and, where appropriate, mutually faithful, monogamous relationships, more effectively, USAID plans to design and implement a new AIDS prevention project. The purpose of the project is to develop indigenous NGO capacities to assist in preventing the spread of HIV infection and to respond to the needs of AIDS victims. The project will support NGOs to expand and strengthen; condom distribution outlets, STD prevention, and treatment; behavior change interventions; counseling for HIV victims and those at risk; IEC for policymakers and leaders; and assistance to orphans and other AIDS victims.

Private sector efforts will be enhanced through employment-based IEC and service delivery, and through social marketing to improve condom availability and to give consumers more outlet choices. NGOs will take the lead in training counsellors and peer educators in workplaces with large numbers of young adult male employees, and for high risk groups such as truckers and commercial sex workers. Better use of the media and support for radio and print messages will be implemented.

STDs, which have been identified as an important co-factor in HIV transmission, will receive greater USAID attention. Steps towards management and control of STDs will be taken with training of service providers and establishment of laboratory facilities.

Policymakers will be targeted in order to encourage changes in restrictive importation policies on condoms and other HIV-preventive commodities, and to foster greater awareness of the long-term impacts of AIDS on the economy.

The indicator for target 3.2 is:

- A 10% increase per year in the number of males reporting consistent condom use.

G. Targets of Opportunity

There is only one target of opportunity in the Mission portfolio, the Planning and Assessment of Wildlife Management Project (PAWM). This activity is implemented through a $2.5 million grant to the African Wildlife Foundation. The purposes of the PAWM project are to improve the planning, execution, and evaluation of wildlife management activities within the Wildlife Department in order to foster sustainable economic activities--tourism, tourist hunting, sustainable local hunting, game ranching--within the wildlife subsector. Specific activities under the project include the preparation of national plans, the design of specific game reserve management plans, reliable data collection, evaluation of current activities, and design of pilot projects involving community participation.

The GOT recently increased the Wildlife Division's retained share of the proceeds from tourist hunting from 25% to 75%, thereby increasing the long-term sustainability of the Division's conservation activities. The Mission will consider continued involvement in wildlife conservation activities through small bilateral activities or through centrally-funded and regional projects such as the Biodiversity project.

The Mission will review support for other targets of opportunity within the context of the strategic objectives. One such possible activity is support for a privatization activity with the National Housing Corporation. At the request of NHC, USAID conducted an assessment of NHC operations. One of the recommendations resulting from this assessment was that NHC divest itself of its massive real estate holdings, and become a developer of low-cost housing. Such a divestiture would put urban properties with an estimated value of $380 million onto the market. USAID would be interested in assisting in such an undertaking because of its implications for financial market development. We also see private housing construction taking off with the withdrawal of NHC from the market. This would have major job creation potential.

H. Strategy for Democracy and Governance

For the past two years, and particularly for the past year, the Tanzanian system of governance has been in rapid and dynamic evolution. These changes are as yet very embryonic and their future state or even short-term implications for U.S. policy goals including the promotion of economic development are very difficult to predict. Legislation amending the Tanzanian Constitution, based on the Presidential Commission report (Nyalali Commission) was passed in a special session of the National Legislature in Dodoma. New policy decisions, such as the move to separate the CCM from the military, were also being announced. This highly dynamic situation offers considerable opportunity to promote aspects of democratic governance. It also cautions prudence.

USAID strategies for incorporating democracy and governance issues into its program include the following:

- Focus its efforts and activities on supporting the development of institutional capability in the private sector as a key to the revitalization of Tanzanian civil society. For example, support will be given to membership-based business organizations to give them a voice in policy and legislative matters.

- Retain maximum flexibility in the definition of the private sector, and in the selection of targets of opportunity to support institutional growth in the private sector. USAID will use its training programs, PD&S or central and regional projects to support activities which further good governance.

- Concentrate on developing organizational, policy analytic and representational skills of private sector actors, and on opportunities to enhance the enabling environment (macro-economic policy, legal, organizational, cultural and communication) for private sector development as opportunities arise. Training and technical assistance may be provided to increase the quality and quantity of economic reporting.

Until the evolution of the Tanzanian political system is more developed, the focus on AID's governance activities will be in the non-state sector, supporting and encouraging the promotion of an enabling environment for private sector development in the society. This approach complements perfectly the policy approach of the FED project which will attempt to alter and assure the maintenance of state policies in specific areas such as finance.

A variety of instruments are available to other members of the country team in the implementation of its activities in this area. For its part the U.S. Information Service has a professional staff, the services of USIA and VOA to provide programs and materials, and a modest local program budget. It can use these resources to inform Tanzanians more fully about the concepts of the free press in a competitive political environment, the nature and functioning of the private sector in national development, and the rule of law as it pertains to civic and political rights. Some of these activities will directly complement AID's focus on capacity building in the private sector, and on representational functions.

State can make use of the Democracy and Human Rights Fund (Sec. 116e) to provide all political actors with the opportunities for more interchange and for opportunities to learn from other actors about specific aspects of political liberalization. It can use the new Africa Regional Electoral Assistance Fund specifically to upgrade the skills of political leaders, including the opposition, to promote civic education, and to help organize election observation activities. It may also be able to make use of the IFES facility to assist in election planning, although that facility may run out before election planning commences in Tanzania.

IV. PROGRAM MANAGEMENT

The Program. The program will continue its sectoral focus with the theme of shifting the roles of the public and private sectors. Funding for AID activities in Tanzania will come from the Development Fund for Africa, primarily from bilateral assistance but with probable supplementary assistance from the Southern Africa Regional Program and AID/W sources. It is not intended to provide any food aid. The exception to this will be in the case of dire emergencies brought about by natural disaster. The current major program elements, the rural roads rehabilitation (ATAP) and the family planning projects, will be continued through the planned implementation period. However, straight-lined or reduced OYB funding would likely engender a severe cutback in, or outright elimination of, the transport sector program. Training activities will also proceed at the same level with continual adjustments as a result of the current practice of annual reviews to ensure the training is correctly targeted. More in-country training will also be considered to reach larger numbers. The new Finance and Enterprise Development project will begin implementation this fiscal year.

Design Agenda. The ATAP activity is scheduled to end in 1993. It has recently been amended to expand the eligible items for procurement under the commodity import element such that it would accommodate communications equipment. The Mission foresees the possibility of follow-on activity, to start in FY 94 which might build upon this expansion to have a project which supports more generally infrastructure rehabilitation/expansion.

It is also anticipated that a new private sector activity would be designed for an FY 95 obligation, which would address other key constraints to the growth of private business which become more apparent as the planned FY 92 Finance and Enterprise Development project proceeds.

AID assistance in helping combat the AIDS pandemic has, to date, consisted of buy-ins to the AIDSTECH and AIDSCOM activities. The problem demands more resources. In keeping with the program philosophy of encouraging private initiative to take a greater role in development, a project to promote the expansion of NGO activity to deliver services to AIDS prevention and care of victims will be designed in FY 93. This project is also preparatory to the anticipated ability of the Social Action Trust under the FED project to make grants to NGOs by FY 97, thus providing a sustained indigenous source of support for such NGO efforts.

Monitoring and Evaluation. The Mission has expended considerable effort in developing its monitoring and evaluation system. While routine evaluations are conducted the emphasis has been on stepping-up monitoring activities. The Mission began the process with the establishment of a comprehensive baseline study for the ATAP project. The process has since been augmented with assistance from AID/W and REDSO. The Mission is presently using the African Development Support (ADS) Project for a full-time position to both monitor and to help the Mission establish and refine indicators. In addition to the full-time ADS advisor, the Mission makes extensive use of its FSN economist in evaluations, and would like to expand its use of local resources because of the cost advantage and the development effect of helping strengthen capacities in the disciplines related to monitoring and impact evaluation. Finally--and to help in this latter objective--the Mission will be actively exploring supplementing this effort by contracting with a U.S. institution experienced in such evaluation work.

Program Requirements.

Table 4.

Strategic Objectives	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
# 1	11,600	6,700	9,100	10,200	10,150	10,200	10,150
# 2	12,000	19,800	20,250	18,150	22,200	23,300	25,850
# 3	5,164	6,500	5,800	6,000	6,500	4,500	3,500
Targets & PD&S	1,236	2,000	500	2,000	500	2,000	500
TOTAL	30,000.00	35,000	35,650	36,350	39,350	40,000	40,000

Staffing Requirements. The Mission is planning a major new activity in the private sector for FY 1992 and a new AIDS activity in FY 1993. The Mission will keep USDH staff to a minimum by designing activities to minimize Mission management and include the assignment of long-term contractors. However, a USDH Private Sector Officer and a Program Economist are under consideration for FY 1993 and/or FY 1994. This will increase the USDH from 8 to 10 positions. The Program Economist would be responsible for the monitoring and evaluation activities.

Operating Expense Requirements. The future ability of the Mission to carry out its strategy relates directly to its operating expense resources. Because of the perceptions that this category of funding will continue to be constrained by OMB and Congressional actions to keep worldwide costs down, the Mission is reluctant to plan on any significant OE-funded staff increases. Rather, solutions will be pursued to apply the use of program funds where this is possible within guidelines and regulations to satisfy some of our program management responsibilities.

The Mission however believes that costs usually covered under OE funds will rise inexorably because they are driven factors outside of our control. This is particularly true of the costs of utilities and rents, expected periodic upward adjustment of local salaries, travel costs, and rising prices for replacement furnishings, equipment and vehicles.

USAID/Tanzania, in conjunction with the development of its CPSP has been examining (and will continue to examine and assess) the costs of operating various facilities (rents, utilities and maintenance), communications (telephone, telex, telefax) and personnel necessary for effective management of the Mission's activities.

The Mission is presently faced with serious office space limitations and now finds itself in a very expensive situation (nearly $250,000 per annum) which offers few, if any, possibilities for space expansion. Commercial space in Dar es Salaam is at a premium and costs can only be expected to escalate. The Mission could build office space adequate for present and future needs at a cost of about $2 million which could be amortized in under ten years, and is exploring the possibility of doing this from trust fund generations. This is a viable option which the Mission will pursue. Table 5 on page 60 illustrates the OE requirements under two scenarios.

Residential rental rates are also escalating. During the past year, the Mission has made significant strides in its efforts to improve and expand the pool of suitable owned housing at post. Initiatives in the area must also be sustained, and will require strong Bureau backing and financing.

In the area of communication, the Mission has been examining short-term investments that would yield long-term cost savings and improve management effectiveness. Overseas telephone and fax communications from Dar es Salaam currently are charged at about $8.75 per minute (for faxes one page can take up to a minute and a half). Telex traffic is charged at a similar rate. For about $60,000 the Mission could purchase a satellite system that would give the Mission world-wide communications at U.S. rates (about $1.50 per minute on average) for voice, telex, fax, and data transmission. The resultant savings from installing such a system would recoup the initial outlay within a period of three to five years.

The Mission remains committed to the most effective use of the resources that it has. However, maximum efficiency over the long term will only be realized if the required investments are made.

U.S.A.I.D. TANZANIA PROJECTED O.E. REQUIREMENTS

FISCAL YEAR	STATUS QUO	FOCUS GROWTH
1993	$2,575,000.00	$3,218,750.00
1994	$2,523,500.00	$3,154,375.00
1995	$2,473,030.00	$2,991,287.50
1996	$2,423,569.40	$2,931,461.75
1997	$2,375,098.01	$2,872,832.52
1998	$2,327,596.05	$2,815,375.86

ASSUMPTIONS:

1. Figures are "1992" dollars.

2. FY-93 will be straight lined under status quo, while subsequent years will decline through a combination of straight lining and inflationary losses.

3. Focus Growth figures assume addition of two direct hire American positions and the construction of AID-owned offices which will be completed by the end of FY-94 using trust funds from FEDS. Decreases of are due to presumed straight lining and inflationary losses.

USAID/TANZANIA CPSP
OBJECTIVE TREE

Program Goal
Real growth and improved human welfare

- **Strategic Objective No. 1**
  Improved socio-economic well-being in five assisted regions
  - **Target 1.1**
    Sustainable road rehab. maintenance system established and operating
  - **Sub-target 1.1.1**
    Road rehabilitation and maintenance policies developec and implemented
  - **Sub-target 1.1.2**
    Increasec private sector role in road rehab. and maintenance
  - **Sub-target 1.1.3**
    GOT assumes increasing responsibility to fully fund rcad rehab. and maintenance
- **Strategic Objective No. 2**
  Increased employment and income growth
  - **Target 2.1**
    Private sector support environment improved
    - **Sub-target 2.1.1**
      BOT functions as a central bank
    - **Sub-target 2.1.2**
      Private enterprise support services stengthened
  - **Target of Opportunity**
    Strengthen GOT capacity to manage wildlife resources
- **Strategic Objective No. 3**
  Health enhancing changes in reproductive behavior
  - **Target 3.1**
    Increased client awareness of and access to public and private FP services
    - **Sub-target 3.1.1**
      Improve quality and quantity of information counseling provided to FP clients
    - **Sub-target 3.1.2**
      Improve public and private sector FP service delivery
  - **Target 3.2**
    Increase awarness and practice of HIV preventive measures
    - **Sub-target 3.2.1**
      Increase use of condoms
    - **Sub-target 3.2.2**
      Increase public and private distribution of condoms
    - **Sub-target 3.2.3**
      Reach target audience through IEC efforts

Table 1. - Rural Road Rehabilitation and Maintenance - Baseline and Target Data

LEVEL	INDICATORS	BASELINE	TARGETS
STRATEGIC OBJECTIVE No. 1 Improved socio-economic well being in the five assisted regions (i.e. Mwanza, Shinyanga, Kilimanjaro, Iringa and Ruvuma).	• Value/Volume of crops, livestock and farm inputs hauled • Income proxies: - Housing conditions -- roofing, flooring, etc - Value/Variety of goods in stores - Decrease in vehicle maintenance & operating costs - Increase in road traffic - Decrease in transportation/freight costs - Increase # of passengers • Number of businesses operating in the surveyed areas	8,300 T/Yr TSH 204 M 33% tin roofs TSH 28,000/day; 43 items TSH 78/Km 31 per day TSH 19/Person/Km TSH 9/T/Km 29 person/day 82	11,000 T/Yr '95 TSH 300 M '95 55% tin roofs '95 TSH 37,000/day; 55 TSH 52/Km 50 per day TSH14/Person/Km TSH 7/T/Km 40 person/day 110

LEVEL	INDICATORS	BASELINE	TARGETS
TARGET 1.1 Sustainable road rehabilitation and maintenance system established and operating.	• Increased funding out of GOT revenues for road rehabilitation and maintenance - Routine maintenance - Periodic maintenance • Operating budget by source - GOT revenues - Donors • Improvement in road conditions • Reduction in the average unit cost of construction	 Negligible Negligible Negligible $ 3 million Poor=60%;Fair=30%;Good=10% $ 35,000/Km	 $180,000 by 1995 $2 m by 1995 $ 2.2 m by 1995 $ 1.9 m by 1995 P=40%; F=26%; G=34% by 1995 $ 30,000/Km by 1995
SUB-TARGET 1.1.1 Road rehabilitation and maintenance policies developed and implemented.	• Policies adopted by GOT	No policies	Policies adopted & impl. by 1994
SUB-SUB-TARGET 1.1.1.a Policies on donor coordination developed and implemented	• Uniform contract conditions adopted	Contracts not uniform	Uniform contracts adopted by 1995

LEVEL	INDICATORS	BASELINE	TARGETS
SUB-TARGET 1.1.2 increased private sector role in road rehabilitation and maintenance.	• % of total number of contracts awarded to private sector contractors	30% (1990)	60% by 1995
SUB-TARGET 1.1.3 GOT assumes increasing responsibility to fund road rehabilitation and maintenance.	• Increase in GOT funding as a % of total required funding - Routine maintenance - Periodic maintenance	 20% (1990) 10% "	 100% by 1995 50% by 1995

Strategic Ojective No. 2 Baseline and Target Data

LEVEL	INDICATORS	BASELINE	TARGETS
STRATEGIC OBJECTIVE NO. 2 Increased Employment and Income Growth	• Employment levels rise • Per capita income increases	Employment increase is 2.8%/year Real per capita income increases 1.2%/year	Employment increases 4-5% annually Per capita income increases 2-3% annually (1992-97)
TARGET 2.1 Private Sector Support Environment Improved	• Number of private enterprises increases • Value of output of private enterprises increases	Private enterprises increased by 3.5% per year (1986-1990) 65% of GDP (1987)	Formal private sector enterprises increase by 5% per year (1992-97). 75% of GDP 1997
SUB-TARGET 2.1.1 BOT Functions as Central Bank	• Prudential regulations implemented • Regular bank examinations conducted • Non-central bank functions eliminated • Monetary policy managed effectively • Check clearing system functioning	NIL	Onsite bank examinations reviewed effectively Offsite reporting forms reviewed effectively Appropriate discount rate policy Market-based credit allocation Check clearing reduced from 6 to 1 month

LEVEL	INDICATORS	BASELINE	TARGETS
SUB-TARGET 2.2.1 Private enterprise support services strengthened	• Associations undertake policy studies • Associations schedule seminars to lobby GOT for changes • Businesses have increased access to management and other services • Businesses have increased access to finance	Nil 1-2 per year TBD 10% of credit goes to private sector	2-3 per year 2-3 per year 50-60 businesses receive specialized services each year Credit to private sector increases by 20% per year to 1997

Indicators are are still being refined

Table 3. Health, Population and Nutrition - Baseline and Target Data

LEVEL	INDICATORS	BASELINE	TARGETS
STRATEGIC OBJECTIVE No. 3 Health Enhancing Changes in Reproductive Behavior	• 5% Increase in Contraceptive Prevalence Rate • 10 % increase in Condom use	CPR OF 7% 5% Using Condoms	12% by 1997 15% by 1997
TARGET 3.1 Increase Client Awareness of and Access to Public and Private Sector Family Planning Services	• 50% Increase in Couple Years of Protection (CYP)	TBD TBD 3,000 VSC acceptors 800 norplant acceptors	50% rise in CYP over LOP 100% rise in New Acceptors (LOP) 10 fold increase 4000 norplant acceptors by 1997
SUB-TARGET 3.1.1 Improve the quality and quantity of information and counseling provided to Family Planning clients.	• Increased knowledge of modern FP methods and services	TBD (from DHS)	TBD

LEVEL	INDICATORS	BASELINE	TARGETS
SUB-TARGET 3.1.2 Improve Public and Private Sector Family Planning Service Delivery	• Expand # of sites providing FP services on regualr basis	TBD	Train in 50% of Districts (LOP)
TARGET 3.2. Increase Awareness and Practice of HIV Preventive Measures	• 10% Increase in males reporting consistent condom use	5% using condoms	15% by 1997
SUB-TARGET 3.2.1 Increase Use of Condoms	• 10% increase in males reporting consistent use of condoms	5% using condoms	15% by 1997
SUB-TARGET 3.2.2 Increase Public and Private Distribution of Condoms	• Increase in # condoms distributed by public and private sites	TBD	TBD

LEVEL	INDICATORS	BASELINE	TARGETS
SUB-TARGET 2.2.3 Reach Target Audience Through IEC Efforts	• # of respondents with knowledge of HIV and its prevention increases • # people reporting fewer partners • # people reporting condom use increases	TBD	TBD

Table 4. Planning and Assessment for Wildlife Management - Baseline and Target Data

LEVEL	INDICATORS	BASELINE	TARGET
PURPOSE Strengthen GOT capacity to effectively manage Tanzania's wildlife resources	• Enactment of National Wildlife Plan implemented and working • Increased public and private investment in wildlife sector	NIL 25% Hunting fees reinvested	Plan adopted 1992 75% hunting fees reinvested
TARGET 1 Prepare wildlife management plans at national and local levels	• Increased number of wildlife management plans in existence at national and local levels	NIL	6 plans by 1993
TARGET 2 Improved management information/evaluation system for wildlife management	• MIS system organized and functioning effectively	NIL	Fully operational by 1993

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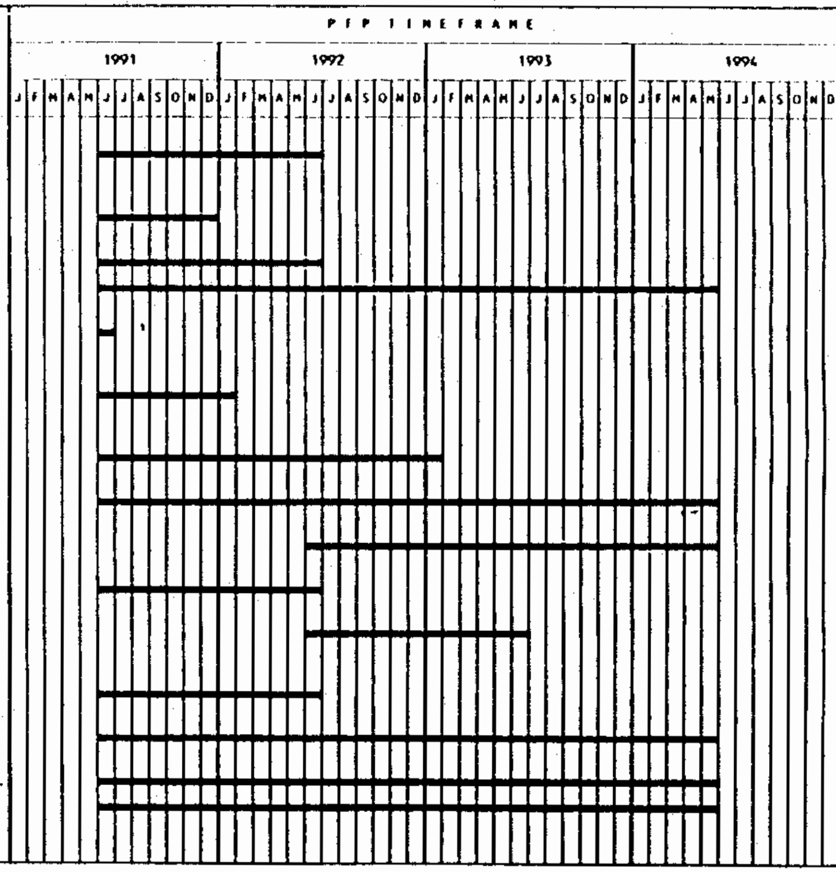
TANZANIA POLICY FRAMEWORK PAPER TRACKING SCHEDULE

SECTOR		OBJECTIVE MEASURES	PROGRESS UPDATE MARCH 1992
1. External Policies a. Exchange rate	1.1	Adjust nominal rate to support liberalization of OGL facility, taking into account terms of trade and other fundamental factors.	Complied. Study completed. New Forex Act passed Jan. 1992
	1.2	Examine options and modalities of licensing foreign exchange bureaus.	Study Completed September 1991. Forex bureaus Approved
	1.3	Licenses foreign exchange bureaus.	Licensing procedures completed.
	1.4	Achieve and maintain an equilibrium exchange rate.	Complied. US 1= Tsh 245 Market rate = Tsh 350-400
b. Trade Policies	1.5	Eliminate the official allocation of foreign exchange for imports except for a limited number of goods.	Complied. All imports subject to pre-shipment inspection
	1.6	Shorten OGL negative list to health/security goods, and a limited number of luxury consumer goods.	Short negative list approved Official allocation eliminated except petroleum
	1.7	Eliminate all quantitative restrictions, except for health and security reasons.	Action began with OGL-Ve list
2. Fiscal Policy a. Budget	2.1	Maintain overall budget deficit at about 6 percent of GDP.	Target achieved so far
	2.2	No net domestic bank financing the overall budget deficit.	Complied so far
b. Revenue mobilization	2.3	Reduce exemptions to the customs tariff by terminating automatic extensions.	Complied
	2.4	Adopt the Tax Commission's recommendations on introducing a single sales tax rate and switching to a tax credit system.	Taxation Report completed, Feb 1992
	2.5	Change all specific excise taxes to ad-valorem basis.	Taxation study under GOT review
	2.6	Continue market-related pricing of foreign-financed commodity imports.	Complied so far
	2.7	Require commercial parastatal to pay dividends.	GOT statement out
	2.8	Require repayment of nonperforming loans assumed by the Government when structuring parastatals and cooperatives.	Not yet. Loans and Advances Realization Trust established



TANZANIA

SECTOR	OBJECTIVE MEASURES	PFP TIMEFRAME (1991–1994)	PROGRESS UPDATE MARCH 1992
c. Expenditure restructuring	2.9 Increase the share in development expenditures as a share of GDP to at least 7 percent.	Jul 1991 – Jul 1994	Largely complied with the 1991/92 budget
	2.10 Progressively raise real per capita spending on health and education.	Jul 1991 – Jul 1994	Largely complied with the 1991/92 budget
	2.11 Continued emphasis on rehabilitation and maintenance.	Jul 1991 – Jul 1994	Largely complied with the 1991/92 budget
	2.12 Complete a review of development projects to eliminate noncore activities and consolidates smaller projects.	Jul 1991 – Apr 1992	Review started in August 1991
	2.13 Identify a core set of larger development projects, as the basis for regular monitoring of physical and financial implementation.	Jul 1991 – Apr 1992	Started with classification of parastatals
	2.14 Make operational a multiyear expenditures program that links annual budgets more closely with the selection and implementation of development projects, especially to assume adequate future financing for recurrent costs.	Jul 1991 – Jul 1994	Started with the 1991/92 budget
	2.15 Establish regional sub-treasuries to help improve commitment accounting and cash control.	Jun 1992 – Jul 1993	Preparation underway
	2.16 Include progressively all aid-financed expenditures in the budget by improving the system for regular donor reporting.	Jul 1991 – Jul 1994	Action began under Swedish pressure. GOT began collecting data from donors for 1992/93 budget
3. <u>Monetary Policy and financial sector</u> a. Monetary policy	3.1 Follow a tight monetary policy.	Jul 1991 – Jul 1994	Slippage to date
b. Interest rate liberalization	3.2 Replace multiple fixed interest rates by a maximum lending rate, while allowing commercial banks to set deposit rate autonomously.	Jul 1991	Complied. Maximum lending rate 31%
	3.3 Apply the same interest rate policy across all commercial financial institutions.	Jul 1991	Complied
	3.4 Eliminate directed credit and preferential interest rates.	Jul 1991	Credit to Cotton Coops continued due to above average supply
	3.5 Formulate a discount policy that would be appropriate in the competitive environment of the Tanzania in financial sector.	Jul 1991 – Dec 1991	Proposal under review
	3.6 Replace maximum lending rate by monetary policy instruments of the Bank of Tanzania.	Jul 1991 – Jul 1994	Policy under preparation

TANZANIA

[illegible]	OBJECTIVE MEASURES	PFP TIMEFRAME (1991 – 1994, J F M A M J J A S O N D)	PROGRESS UPDATE MARCH 1992
c. Financial sector reform	3.7 Allow entry of domestic and foreign private sector banks, including joint venture.		Legislation passed 1991 Private Banks allowed.
	3.8 Complete comprehensive audits and diagnostic studies of existing public financial institution.		Started August 1991. Not yet completed
	3.9 Reduce nonperforming assets to restructure public banking systems by issuing non-negoble government securities.		BOT & USAID examiners started initial review Jan 1992. Work on-going
4. Public Sector Management a. Civil service reform	4.1 Initiate a program of raising salaries and monetizing benefits for selected personnel categories.		Preparations underway
	4.2 Adopt new managemnt guidelines for the civil service.		Not yet started. Civil service reform underway
	4.3 Eliminate all remaining ghost-workers and adopt controls on new hiring.		Some eliminated. Freeze on hire in place.
	4.4 Develop guidelines and targets for staff reductions.		Preparations started for 1992/93 budget
	4.5 Start implementing measures to facilitate voluntary separations as well as involuntary staff reductions.		Not yet started
b. Parastatals reform	4.6 Classify parastatals as commercial or noncommercial.		Complied, Public Corp. Act 1992
	4.7 Budget for activities of noncommercial parastatals that remain in the public sector.		Preparations completed
	4.8 Adopt measures to give commercial parastatals managerial autonomy and accountability.		Modalities completed
	4.9 Establish timetable to phase out most budgetary financing by end 1992/93.		Parastatal reform commission established
	4.10 Eliminate monopoly status and privileged access to foreign exchange and credit.		Started with OGL-ve list
	4.11 Announce the policy statement for improving the performance of all parastatals.		Policy announced Feb 1992
	4.12 Adopt action plans for restructuring/liquidating agricultural parastatals.		Action plans prepared
	4.13 Prepare a timetable for industrial public enterprise restructuring.		Under preparation
	4.14 Implement actions to restructure or divest IPE in six selected subsectors.		Started with Leather, texttiles & edible oil sub-sector. Action plans under GOT review
	4.15 Finalize action plans for restructuring remaining IPE subsectors.		Started with Leather, texttiles & edible oil sub-sector. Action plans under GOT review

TANZANIA

SECTOR	OBJECTIVE MEASURES	PFP TIMEFRAME 1991 1992 1993 1994 (J F M A M J J A S O N D)	PROGRESS UPDATE MARCH 1992
5. Agriculture	5.1 Deconfine domestic marketing of cotton and other major crops in line with the new cooperative policy.		Action started but progress is slow.Cashews deconfined
	5.2 Review export crop pricing policies with a view to setting only indicative producer prices.		Review completed by Market Dev. Bureau
	5.3 Allow the establishment and unfettered operation of private cotton ginning companies.		Not fully achieved . 1st private ginnery established
	5.4 Complete the restructuring of the NMC and the coffee, cotton, and cashewnut marketing board.		Action started ,but a lot need to be done
	5.5 Follow the new cooperatives policy based on voluntary membership, commercial viability, and no direct government influence in management.		Complied todate
	5.6 Continue to raise domestic fertilizer prices annually closer to import parity, with the aim of reducing the subsidy to 20 percent or less by 1994/95 crop season.		Started with the 1991/92 budget.Private firms allowed to import fertilizer
	5.7 Decide disposition of Tanzania Fertilizer Corporation's Tanga factory.		Joint venture has taken place
	5.8 Rent, sell, or liquidate idle cashewnut processing plants.		Action not yet taken.Private traders allowed to buy cashews
6. Industry	6.1 Eliminate all internal distribution controls (deconfinement), except for health, security, and environment reasons, and decontrol prices and rates for all industrial goods and services except those of regulated public monopolies.		Largely complied, except for petroleum products
	6.2 Review corporate laws, business regulations, licensing, zoning and other policies with the aim of reducing and simplifying them.		Under GOT review. New procedures expected April
	6.3 Adopt guidelines to simplify and improve the implementation of the National Investment Act.		Guidelines under preparation Investment Promotion Center establishment 1991 Amendment of enabling laws exepcted by April

TANZANIA

SECTOR	OBJECTIVE MEASURES	PFP TIMEFRAME (1991 / 1992 / 1993 / 1994)	PROGRESS UPDATE March 1992
7. Infrastructure	7.1 Increase use of private contractor to manage equipment and road maintenance.		Started with USAID support 1990
	7.2 Comprehensive revision of procurement regulations for public works.		Started with Intergrated Roads Program contracting, ports, railroads
	7.3 Establish performance agreement with relevant public institutions covering quantified performance targets, obligations, regulations, and practices.		Not yet started. Proposal under review
8. Health	8.1 Prepare implementation guidelines for health planning by District Government.		Guidelines prepared. Seminar for 5 districts started
	8.2 Prepare a detailed reform program for health care financing.		Program prepared
	8.3 Formulate proposals for a new drug procurement and distribution system.		Master plan completed. GOT approval April 1992
	8.4 Progressively raise share of recurrent budget for health to 14 percent by 1994/95.		Action started with 1991/92 budget
9. Education	9.1 Finish formulating a basic strategy statement for primary and secondary education.		Started but not completed
	9.2 Host a donors' conference to increase financial and technical support to improve donor collaboration.		Planned for March 1992
	9.3 Progressively raise the share of recurrent budget for education to 20 percent by 1994/95.		Started with 1991/92 budget
10. Population	10.1 Adopt and promote a national population policy aimed at reducing population growth.		Population policy sent to Cabinet
	10.2 Expand family planning services and contraceptive availability.		Started
11. Environment	11.1 Complete the Environment Action plan.		Preparation started, expected June 1992
	11.2 Start implementing a tropical forest resources management project.		Complied to date
	11.3 Adopt new laws governing land and resource ownership and use.		Presidential Commission reviewing laws

TANZANIA PRIVATE SECTOR ASSESSMENT

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/Tanzania*

Prepared by: *Coopers & Lybrand*
J.E. Austin Associates, Inc.
The Services Group

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Coopers & Lybrand

March 1992

Coopers & Lybrand

TANZANIA PRIVATE SECTOR ASSESSMENT

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for:	*USAID/Tanzania*
Prepared by:	*Robert D. Haslach, J.E. Austin Associates, Inc.* *John C. Ickis, J.E. Austin Associates, Inc.* *Kishore Rao, The Services Group* *Dennis Smyth, Coopers & Lybrand*
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March 1992

TANZANIA PRIVATE SECTOR ASSESSMENT

CHAPTER I
EXECUTIVE SUMMARY

A. AN OVERVIEW

In January and February 1992, a private sector assessment team of four specialists from J.E. Austin Associates, The Services Group and Coopers & Lybrand, Washington, assisted the USAID Mission in Dar es Salaam in its effort to develop a private sector program. The Team focussed on three areas of concern: Financial Sector Reform, Parastatal Reform, and Reform of the Business Environment. Its methodology included synthesis of available data resources, and interviews. The Team was assisted by Coopers & Lybrand, Dar es Salaam.

Tanzania has for some years been moving from single to multi-party governance, from a centrally directed to a market economy, from parastatal to private enterprises. These changes have long been announced but slow in arriving. Effective implementation remains problematical, as it is not certain that national leadership (including regional and district party cadres, and the civil service) has completely digested and accepted the personal consequences of these changes.

Tanzania's structural adjustment program is on track as is Economic Recovery Programme II. Bilateral donors have understood they can better assist the process of economic growth through stimulation of private sector enterprise than with cash infusions of the Treasury.

B. WHAT TANZANIA NEEDS

Much like the ex-communist countries of East Europe, Tanzania is attempting something without a model: the purposeful redirection from a planned, centrally-directed to a free market economy. It is not clear whether it is oxymoronic to believe that governments can put in place the conditions that entrepreneurs created or seized in times past.

Over the quarter century of its African socialism, Tanzania has lost economic ground. It has become a poorer nation on the basis of constant dollar per capita GNP. Foreign aid has actually increased as a share of total GNP. Crop yields have dropped and production enterprises so declined as to be evidently worthless, even to their managers.

Like the former communist countries of Europe, Tanzania requires Price Reform, Financial Reform, Privatization, Trade Reform, and Institution-building.

<u>Prices</u> in market economies are the allocators of resources and the incentives or disincentives to produce. Tanzania's extensive informal economy has been setting prices (including those for foreign exchange) independent of government for at least a decade.

Financial Reform includes Fiscal Policy, Monetary Control and Banking Supervision. The first two are the foci of World Bank programs. The third is addressed by the Team.

Privatization includes, in addition to eliminating the access of loss-making enterprises to the Treasury, redirecting the attitudes of management and workers. In that they had no direct, personal risk associated with the operation of their enterprises, assets were often depleted in favor of greater immediate pay-outs in the form of wages and perks. Capital investment was inefficient.

Trade Reform for Tanzania requires a mental about face from African socialism and self-sufficiency to acknowledgement of the necessity of links with the world. The net result of Tanzania's ideologies was a cutting off of the Tanzanian market from international buyers and sellers, both in terms of protective tariff barriers, and reliance in substitution industries. Much of the required policy reform focusses on details of trade reform, from the law of contracts and enforcement of contracts, to import and export regulations. The intangible of attitude change is also addressed.

Institution building in the Tanzanian context refers to the public institutions, such as the civil service (courts, customs, record keeping, etc), to the physical infrastructure of communications and services, and to private business associations. As the CCM Party flourished, it tended to supplant or usurp the roles of various institutions. All institutions are deteriorated and will require technical assistance to recover their proper roles.

A World Bank observer notes that "Tanzania's plight in the 1980s had as much to do with a decline in the provision of public services as with the mess policies had made of resource allocation in the production of private goods. Reform of public sector management and expansion of physical and social infrastructure will be essential to success. This can only occur, however, if growth takes off in goods production, which depends in turn upon an enabling environment for the private sector - a tough recipe to fill. Because of poor infrastructure and weaker market institutions, supply responses will sometimes be slower in Africa [than in Asia], but evidence demonstrates that producers do respond when given the proper incentives and the tools to work with. Indeed, Tanzania's urban informal sector is estimated to have tripled in size since the mid-1980s. When markets were (partially) liberalized, rural welfare improved immensely, simply because goods became available again."[1]

C. RECOMMENDATIONS

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1 "The Challenges of Development," Lawrence H. Summers, in, Finance & Development, March 1992, pp6-ff

Tanzania's restructuring needs are so extensive and deep that a single donor cannot physically assume more than a small portion of the burden. The Team recommends that USAID/Tanzania:

- strengthen central bank operations and supervision in preparation for competitive private, commercial banking. Assist in the creation of sound, private commercial financial institutions. These are lacking and their absence creates nearly insurmountable obstacles for any attempts to establish free market enterprises, domestic or foreign in ownership.

- take steps to create a workable check clearing system to put bank(s) on an operating basis and to assist enterprises in their cash management. The level of effort recommended includes a technical project to create an efficient data communications to serve a check clearing system as well as improved BoT supervision.

- support World Bank programs for restructuring of State Owned Enterprises, but do not take an active role. USAID should participate in aspects of, but not assume a leading role in, the restructuring of State Owned Enterprises. The World Bank has already taken the logical first steps for the valuation of the SOE portfolio (see the Haggerty report); enterprise and holding company level management has already started its search for partners (see Chapter III of this report); but it is not clear whether the political conditions necessary for a sound resolution of the issue will be permitted to exist. Outsiders run the risk of being accused of stripping the only valuable assets from the State's portfolio and leaving indigenous Tanzanians with the least viable.

- take the leading role in the restructuring of the office and records of The Registrar of Companies in order to create the basis for accurate information on businesses in Tanzania - both for GOT purposes and for business-to-business relationships, including sales and service, and mergers and acquisitions.

- consider joining with other donors to create a venture capital fund and/or unit trust as a first step toward an indigenous capital market and the creation of a stock market. A model plan has been described in a separate document by USAID/ONI.

D. OBSERVATIONS

<u>1. Ideology is one of the most important forces in Tanzania constraining private sector development in Tanzania</u>.

The Arusha Declaration of 1967, which gave expression to the ideology of socialism and self-reliance, shaped the role of the private sector in Tanzania, First, it extended the role of the state to the "commanding heights" of the economy, including financial services, estate agriculture, commerce, and industry, with the goal of driving the private sector under. The reverse took place. The legacies include an enormous parastatal sector,[2] a deteriorated infrastructure, an insolvent state banking system, weak private sector organizations, an underpaid, undermotivated civil service, and skepticism among potential private investors.

For seven years, the results of Nyerere's experiment in African socialism were positive. The economy was kept strong by rising prices for the country's traditional export crops. There was strong intellectual leadership with a clear vision of the future. Even those most opposed to government policies during this period agree that many government officials were highly qualified. Basic services effectively reached the rural poor. Foreign donors, particularly the Scandinavians, were highly supportive of the Tanzanian development model.

This positive economic and social performance during 1967-74 helps us to understand why it took another eight years of economic disaster before any policy change occurred to reverse the decline. Moreover, the rampant inflation and declining foreign exchange reserves could be attributed by the leadership and by the public to external shocks (oil prices, worsening terms of trade, and a costly war with Uganda) rather than to failed policies and public mismanagement.

As is pointed out in Chapter IV, in his February 18, 1992, keynote address to the CCM National Executive Mr. Nyerere framed the issue in the negative. That is, a sufficient number of independent politicians will be required to vote <u>in favor of capitalism</u> in the National Assembly to provide the necessary two thirds vote to revise the Constitution to eliminate its direct reference to the primacy of CCM economic policies. Culturally and socially, this will be extremely difficult.

<u>2. The government has shown itself to be capable of pragmatic response, at the level of macro policy, to economic problems</u>.

The granting of own-funds import licenses in 1983 was a momentous decision that in effect recognized the failure of the fixed rate exchange policy that greatly overvalued the currency, discouraged exports, and could only be sustained through import licensing, foreign exchange allocation, and price controls.

Import licenses issued through the own-funds scheme had reached a value of $475 million (over one-third of all import licenses issued), peaking out in 1988 at $639 million and declining

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[2] Economist Intelligence Unit, <u>Tanzania: Country Profile, Annual Survey of Political and Economic Background, 1991-92</u> (Business International, Dec. 1991).

to $448 million in 1990 as other import schemes gained in importance.[3]

Policies under the Economic Recovery Programme (ERP) in 1986 further reduced the discretionary allocation of foreign exchange. The currency was allowed to devalue by 80 percent so that the parallel market premium, which had been 9:1 in 1985, settled at 1.5:1 in 1990.[4] A less overvalued currency opened the way for a partial liberalization of imports through the open general license (OGL) granted automatically for certain categories of imports. With World Bank and bilateral donor support, the value of OGL licenses issued has increased from $50 million in 1988 to $310 million in 1990, about a fifth of the value of all import licenses. The OGL was supplemented by other specific import support programs, by the government's allowing retention of a percentage of export earnings, and by an increasing volume of loans, grants, and credit from bilateral and multilateral agencies.

3. <u>As foreign exchange policies were becoming more liberalized, regulations on the implementation of these policies have become more stringent</u>.

When the retention scheme was begun it was held to ten percent of export earnings but the exporter was allowed to retain these in an overseas account in which he or she had check signing powers. The government later moved them into a trustee account in the exporter's name. The retention limit has since gone up to 35-50% (depending on the goods exported) but funds are held in a trust account in the National Bank of Commerce's (NBC) name and it is the NBC that must open the letter of credit. Because of questions and delays by the NBC, exporters such as tour operators cannot obtain timely inputs such as safari vehicles to generate export earnings during the tourist season.[5] Own-funds imports will soon be made more difficult by a new requirement that merchandise be inspected prior to shipment.[6]

4. <u>While policy changes have proceeded rapidly in the areas of foreign exchange, banking, and parastatal reform, there has been far greater resistance to institutional change</u>.

On the positive side, there has been some deconfinement of marketing channels and a drastic reduction, for instance, of National Milling Corporation's monopoly position. Private grain mills have been built and are coming onstream. Wheat estates and

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[3] Data on windows of foreign exchange availability provided by the World Bank Representative in Dar es Salaam, January 24, 1992.

[4] World Bank, <u>Tanzania Economic Report: Towards Sustainable Development in the 1990's</u> (Washington, D.C., June 11, 1991), Vol. I, p. 7.

[5] Interview with businessman, Dar es Salaam.

[6] Announcements appearing in the <u>Daily News</u> (Jan. 30, 1992) and the <u>Business Times</u> (Jan. 31, 1992).

cooperatives are now selling into private channels. On the negative side, five years after the need for divestiture of loss-making parastatals was recognized, only a handful of minor companies have actually been privatized or divested.[7] A year and a half after the Presidential Commission on the Banking Sector submitted its report, there is little evidence of change in commercial banking practices or in the level of service of present institutions.

Resistance to institutional change is to be expected by groups that are adversely affected by these changes:

1. Parastatal managers: liberalization means cheaper imports and greater competition for companies that previously enjoyed monopolies in a highly protected market. The parastatals continue to receive bank credit to offset operating deficits, but the commercial and development banking sector is under increasing pressure from the Bank of Tanzania to transfer non-performing assets to a Loans and Advances Realization Trust (LART), charged with the recovery of overdue debts.[8]

2. Parastatal employees: reform and restructuring of parastatals in the banking, industrial, and commercial sectors will mean retrenchment and loss of jobs. Some schemes have been proposed for training for alternative employment, but these schemes cannot be expected to absorb all redundant workers and managers.

3. Civil servants: deregulation and the reduction of discretionary resource allocation by the bureaucracy means that civil service employees will have fewer opportunities to extract side payments for "lubrication" of the government decision-making process. On the positive side, the more competent will benefit from being part of a more professional, merit-based civil service.

5. There is a potentially powerful coalition of groups that have benefitted from the ERP and that might be mobilized into to support further institutional reform. These include:

1. Exporters of non-traditional products. With a devalued TSh, their products are more competitive in world markets and the prices that they receive are higher when converted into local currency.

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[7] Daniel Ngowi, update of parastatal assessment; interviews with decision makers in parastatal reform; Team research described in Chapter 3

[8] The most complete explanation of the LART mechanism is contained in the "Report and Recommendations of the Presidential Commission of Enquiry into the Monetary and Banking System in Tanzania" (Dar es Salaam, July 19, 1990), Implementation Section, pp. 26-36; see also, Chapter 2 of this report

2. Smallholder farmers. Prices for many domestic food items are decontrolled and channels (at least in theory) deconfined, meaning higher prices at the farm gate.

3. Manufacturers. Greater access to non-discretionary foreign exchange makes it possible to import the capital goods and inventories needed to increase production and utilization of plant capacity.

4. The informal sector. Small producers and traders, previously driven underground by a series of restrictions, are now able to operate more openly.

Finally, more Tanzanians have benefitted from government economic policies under the ERP and from more vigorous private sector activity. As discussed in Chapter IV, the private sector has made the larger contribution to GDP for the last five years. On the other hand, breakdown in rural services is evident in the food shortages in the Dodoma Region and cholera outbreaks in Arusha in January and February. Despite the gains, however, there are significant constraints to continued private sector growth and development. These constraints are particularly evident in three areas: banking and the financial sector; the parastatal sector; and the policy environment.

CHAPTER II
THE FINANCIAL SECTOR

Several significant changes in recent years have provided the foundation for substantial financial sector reform. They have also served to remove the frustration experienced by bankers who were until recently forced to operate as fiscal agents of the Government of Tanzania (GOT). Most important has been the change in Government's attitude regarding how it can create an enabling environment for economic growth and opportunities for its citizens.

The most noticeable indicator of this change is the positive feeling among Treasury, central bank and business leaders that the Government is finally going to allow the financial system to operate on commercial principles and empower those responsible for maintaining its health and efficiency to operate without political or other unnecessary interference. A significant majority of the necessary policies are in place, implementation has begun and this new attitude should provide the momentum for it to continue.

A. INTRODUCTION

There are thirteen legally constituted financial institutions in Tanzania including the central bank, three commercial banks (the largest of which dominates banking activity, controlling over 90% of all deposits), three development finance institutions, and six non-bank financial institutions, nearly all of which are government-owned (ownership and other statistical data on these are presented in Appendices 2-1 and 2-7). There are also nearly 400 savings and credit societies as well as over 200 cooperatives involved in financial intermediation in rural areas.[9]

In addition to the formal financial institutions, there is substantial informal financial sector lending that has developed as a result of the loss of confidence of the general public in the financial institutions' ability to respond promptly and efficiently to urgent needs for capital. Following some brief background information, the main focus of this financial sector review will be the numerous, and often interrelated, barriers to the introduction of private banking. These can be thought of as barriers to an efficient means for the mobilization of savings and allocation of credit. In addition to the regulatory barriers facing prospective and existing participants, this discussion will include the other types of barriers (educational, technological, financial, political and perceptual) which have hindered the development of a sound financial sector in Tanzania.

Following the identification and description of each broad group of barriers are recommended solutions to these barriers, as well as suggestions of ways in which USAID can play a role in the

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[9] Financial Sector Restructuring in Tanzania (The Report and Recommendations of the Presidential Commission of Enquiry into the Monetary and Banking System in Tanzania), July 1990, p.5.

development of an efficient private banking environment in Tanzania. This is followed by a brief discussion of how these findings and recommendations may affect private enterprise development and the economy in general.

B. BACKGROUND INFORMATION ON NEED FOR FINANCIAL SECTOR REFORMS

Beginning with the ideological changes brought about through the Arusha Declaration in 1967, the Tanzanian financial sector has been subjected to a tremendous amount of government and CCM Party interference and control. Since most of the managers of these financial institutions were under the Government's direct control, they were given little if any authority to operate their institutions as independent profit-making entities. Many began to appear more like fiscal agents of the government instead of productive financial intermediaries designed to fuel economic growth.

Excessive Government interference in the financial system took several forms and has had a significantly negative impact on the financial institutions' ability to mobilize resources, provide adequate service to customers, achieve profitability and extend credit to viable borrowers. This interference and other negative impacts resulted in what can be considered the largest barrier to the introduction of an efficient private banking system in Tanzania: loss of public confidence in the financial system (discussed in following section).

The World Bank Financial Sector Adjustment Credit Report categorized the policies which led to the deterioration of the banking system in Tanzania.[10] Briefly, they are as follows:

Government Ownership and Interference: The lack of management autonomy and the GOT's practice of directing credit to specific sectors (parastatals and agricultural cooperative unions) at subsidized interest rates effectively restrained financial institutions from extending credit based on sound commercial principles (borrower's ability to repay; financial condition; use of proceeds; and favorable credit history) and at rates reflecting the risk inherent in each loan.

Deposit Mobilization and Credit Allocation: The large amount of credit directed by these GOT-controlled financial institutions to uncreditworthy industrial, commercial and agricultural parastatals led to an extremely large amount of loans on their books which were not receiving any payments of principal or interest. Many parastatal borrowers would use overdrafts to fund long-term investments or, in some cases, for personal use. Lack of efficient deposit mobilization capabilities, as well as shrinking cash flow streams resulting from non-payment by parastatal borrowers, led to excessive

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[10] World Bank Financial Sector Adjustment Credit (FSAC) Report, October 1991, p.19.

borrowing by the financial institutions from the central bank, Bank of Tanzania (BoT). Uncontrolled access to BoT left the financial institutions with little incentive to improve deposit mobilization capabilities and services.

Regulatory and Supervisory Framework: Since financial institutions were forced to occupy the role of implementing fiscal rather than monetary policy, the GOT (prior to recent developments described below) placed little emphasis on developing prudent banking regulations or practices. Unlike a central bank operating in a sound private banking environment, BoT was given little supervisory authority to establish prudent guidelines or monitor financial system health. For example, most bank supervision was done off-site with poorly designed forms, since there were only one or two examiners to review all commercial bank activity. BoT also did not have the full authority to order commercial banks to stop accruing interest on the many loans to parastatals which were months or years in arrears, thereby compounding the other distortions often found in Tanzanian bank balance sheets.

Specialization and Lack of Competition: Instead of allowing the large number of financial institutions in Tanzania to form a healthy competitive atmosphere, the GOT directed the commercial banks to focus on specific sectors (NBC -retail banking; CRDB - rural banking; PBZ - Zanzibar) while creating other financial institutions which serve specific sectors such as housing and development finance. Combined with the GOT's restrictions on the entry of new participants, over-specialization has left each GOT-owned financial institution with a virtual monopoly in the sector it serves, thereby eliminating the competition necessary to maintain a healthy financial system.

Institutional Weakness and Lack of Enabling Environment: Years of GOT mismanagement has dramatically reduced the productivity of bank employees and the quality of services offered to customers. Financial institutions were given little incentive to train management and staff, modernize, improve salaries, improve credit review and accounting methods, monitor borrower health or actively compete for depositor funds. As a result, many depositors decided to remove their funds from the formal banking system until the efficiency and quality of the services it offers improves considerably. Poor telecommunications, lack of sufficient legal structure (to recover loans, register collateral, etc.) and other factors have further reduced the ability of financial institutions to operate efficiently.

C. RECENT FINANCIAL SECTOR POLICY REFORMS

During the early 1980s, the GOT began to realize that its financial sector policies were resulting in a weakening of the financial system, growing budgetary deficits, increased inflation and the flow of funds from the formal financial sector to rapidly developing informal financial markets. It made some policy changes at the time and, in 1986 (supported by the IMF with an 18-month stand-by arrangement and by the World Bank with a Multi-sector Rehabilitation Credit), introduced a new Economic Recovery Program (ERP).

The ERP's objectives were to "achieve a positive growth rate in per capita income, lower the rate of inflation and restore a sustainable balance of payments position."[11] During this time, a series of other important changes were made (exchange rate adjustments, expansion of "own funds" import scheme, introduction of an Open General License (OGL) system for inputs) which were important complements to the following major policy changes directly related to the financial institutions.

Presidential Commission of Enquiry into the Monetary and Banking System in Tanzania: The Commission was given the mandate to explore the underlying causes of the severely weakened financial system in Tanzania and to identify the measures which must be taken to: 1) restore the financial health of the system and its participants and 2) support the economic reforms associated with the ERP. It began its work in August 1988 and released its report (a copy of which is available at the USAID/Tanzania Mission) on July 19th, 1990.

It is a relatively thorough report and, considering it was prepared at the request of the GOT, is quite open in discussing the misdirected GOT policies and parastatal practices which led to the financial sector's severe problems. The report included evaluations of the financial institutions and has come to serve as the foundation for subsequent reforms related to the financial sector, as well as proposed reforms related to the parastatal enterprises. Although some have questioned why it took two years to produce the report, it appears to have been the necessary amount of time for key individuals in the Ministry of Finance (MOF) and BoT to develop a consensus among other senior GOT officials.

Banking and Financial Institutions Act: Enacted in April 1991 to replace the Banking Ordinance of 1960, the Act allows for the introduction of private banks (both domestic and foreign) and a greatly strengthened supervisory and regulatory role for the BoT. A copy of BFIA is attached as Appendix 2-2.

In accordance with the prudent banking practices called for in BFIA, major regulations relating to: 1) the classification of loans, establishing provisions for losses, and accrual of interest; and 2) guidelines on the licensing of banks and financial institutions were released in October and November of 1991, respectively. Copies of these regulations are attached as Appendix 2-3. Discussions with BoT Supervision officials revealed that two

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[11] Economic Policy Framework Paper for 1991/92-93/94, Prepared by Tanzanian authorities in collaboration with the IMF and the World Bank, p.1.

additional major regulations, concerning capital adequacy and loan concentration and exposure limits will be released by March 1992. Off-site regulatory reporting forms created by these officials, in accordance with BFIA, are attached as Appendix 2-4.

Approval of World Bank Financial Sector Adjustment Program: The World Bank and IMF assistance to the GOT has been the driving force behind much of the positive developments in financial sector policy and implementation. The World Bank's Financial Sector Adjustment Credit was approved in November 1991 and became effective shortly thereafter. The GOT committed itself to major policy changes intended to develop an efficient, competitive and autonomous financial sector. The IMF's ESAF has funded additional important economic changes.

GOT Agrees to Policy Framework Paper: In June 1991, the GOT reached an agreement with the World Bank and IMF on a Policy Framework Paper for 1991 through 1993, whereby the GOT committed to follow a monetary policy consistent with macro-stability. A major policy change resulting was the decision to liberalize interest rates.

Loans and Advances Realisation Trust Act: Enacted in April 1991, LART was created to operate as a recovery mechanism (through collection or liquidation) for overdue debts of financial institutions. Appendix 2-5 contains the LART Act as well as a circular released by BoT which describes LART's operating procedures. The USAID-funded evaluation of NBC's (and eventually other financial institutions) loan portfolio will assist BoT, MOF and LART in determining which non-performing loans must be transferred to LART. This will give MOF an idea of the amount of funds necessary to recapitalize NBC (and the others) once they are ready for restructuring (once contingent liabilities and suspense accounts have been reviewed). The Administrator of LART, Dr. Felician Mujuni, has recently been appointed and the MOF is in the process of appointing a Tribunal and Board of Trustees for LART. The specific types of loans to be assigned to LART has yet to be determined.

Other Recently Announced Policy Changes: Liberalization of interest rates took effect on the 1st of September 1991. Prior to this date the GOT set the rates on deposits (generally below the inflation rate) and lending (at a varying scale, giving preferential rates to "priority" sectors). The maturity, use of proceeds, borrower's credit history or risk inherent in each loan was not considered when the GOT determined lending rates.

In accordance with the interest rate liberalization, bank and financial institution managers have now been given the freedom to set their deposit rates at whatever levels they feel are necessary to attract funds for their lending and other credit operations. The only restriction is that the twelve month deposit rate must be positive in real terms. In accordance with this requirement, the minimum deposit rate is currently set at 21% (this minimum will be reviewed quarterly). These managers were also given the freedom to determine lending rates based on traditional measures of risk, subject to a maximum rate of 31%. This maximum will be reviewed quarterly and is intended to be completely removed in within several years.

Another component of this increased autonomy granted to financial institution managers has been the authority to turn away uncreditworthy borrowers. This is a monumental change from the many years of government directed lending to parastatals, cooperative unions and marketing boards which (in addition to economic developments beyond their control) often mismanaged the funds they borrowed to such an extent that few of their loans from banks were repaid. Senior Treasury officials and bankers have confirmed that this new autonomy has already been tested, with the recent refusal of NBC to lend to several uncreditworthy agricultural cooperative unions. These cooperative unions, according to a senior MOF official, will have to direct any appeal of the bank's decision to the Ministries of Agriculture and Finance, which will not consider any funding until these cooperative unions return to creditworthy status. If this new attitude is maintained, it is indeed a major break from previous policies.

D. BARRIERS TO THE INTRODUCTION OF PRIVATE BANKING

1. Government Policy and Regulations

Barrier #1: Lack of fully-implemented prudent regulations and practices. The major legislation and regulations described in Section C above are extremely encouraging to prospective domestic and foreign bankers because they show a commitment on the part of GOT to make major policy changes. However, due to their memories of nationalization and government interference in the past, these prospective bankers may remain on the sidelines until GOT shows a commitment to advance these policies to the implementation stage and to consistently apply them.

Solution to this barrier: Continued multilateral (for political and financial reform) and bilateral support (financial reform) of GOT efforts to improve the supervisory capacity of the BoT, foster legal reforms and revise the BoT Act and NBC Act. Specifically, enhancement of the capacity of the BoT to efficiently implement the necessary regulations, and properly supervise the banks which will operate under those regulations, is the most sensible way to prove that the most effective means of resource mobilization and credit allocation is under an independent and efficient central bank.

The passage of the Foreign Exchange Act (which is a major attempt to move away from several exchange rates to a market determined rate) in January 1992 provides an opportunity to assist the BoT in the implementation of regulations and guidelines (license requirements, operating procedures, etc.) which are in the process of being developed. BoT's Director of Exchange Control indicated they expect the Act to receive Presidential Assent sometime in March and they have already received notification from more than twenty individuals or groups interested in opening foreign exchange bureaus ("Bureau de Change") allowed under the Act. BoT officials have indicated they need assistance in training new Bureau de Change operators as well as monitoring their activities. The Foreign Exchange Act of 1992 is attached as Appendix 2-6.

USAID role in solution: USAID is already providing assistance to BoT by funding a Price Waterhouse evaluation of NBC's loan portfolio, with a view toward determining which loans should be transferred to LART and the amount which GOT will need to recapitalize NBC, CRDB, PBZ and TIB. Additional USAID support could be used to extend this review, or begin separate reviews, to cover: 1) the loan portfolios of other financial institutions (THB, POSB, NIC, ZIC); 2) other key balance sheet accounts such as contingent liabilities, suspense accounts (ODA is currently funding a Coopers & Lybrand reconciliation of NBC's interbranch suspense account activity), foreign exchange pipeline and related accounts.

USAID could play a vital role in moving some of the major policy changes in BFIA relating to bank supervision (vital to private banking development) closer to full implementation. For example, Mr. S.K. Juma, BoT's Director of Supervision, attended the highly-regarded Federal Reserve/World Bank Washington-based seminar for bank supervisors. He highly values the knowledge and insights gained during the course and he has expressed interest in obtaining funding/sponsorship for some of his staff (recently increased from five to twenty) to be able to attend. A strengthened BoT Suspension Department (soon to be raised to the Directorate level) will be the most effective tool to measure the implementation and application of prudent banking policies and regulations.

Additionally, although the IMF has been funding a technical advisor (for policy matters) to Mr. Juma, this department would benefit from two additional measures of great importance to expanding its institutional capacity. The first would be to bring a Federal Reserve bank supervisor to Tanzania on secondment for at least one year. The Fed would continue to pay his or her salary while USAID could agree to cover living expenses. The second measure which USAID could fund would be the initiation of in-country seminars/workshops led by former or current U.S. bank supervisors. These would be several weeks in duration and would take bank examiners through the intricate steps of thorough bank supervision.

USAID will be able to facilitate the implementation of foreign exchange regulations by providing technical assistance for the training and guidance of the new foreign exchange bureau owner-operators. BoT is planning in-country seminars for which it may need USAID-funded guidance, which could include sponsoring visits to neighboring countries with successful foreign exchange operations.

USAID assistance to LART would accelerate its development so that it is fully functional when the time comes for it to receive non-performing loans transferred from NBC, CRDB, PBZ, TIB and other financial institutions. Since its Administrator was only recently appointed and is so far its only employee, LART would benefit by the provision of one or two USAID-funded technical advisors to hire and train competent staff (this could be coordinated with proposed USAID assistance to BoT's supervision activities) to properly perform LART's role of recovering value from non-performing loans. These advisors may include individuals from the Resolution Trust Corporation (U.S.) or similar recovery agencies from other developed or developing countries.

Barrier #2: Public perception of financial institution services. The Tanzanian banking public does not perceive banks as responsive to their own financial needs. The people have waited in line for hours to access their savings or to inquire about accounting mistakes made by their bank. They have waited for months for a check to clear because of an outdated method to clear checks is used. There is a general perception that bank secrecy is non-existent; depositors assume that the government is always watching them and their affairs. As business managers, they have watched their businesses suffer as they miss another necessary purchase (tour bus, truck, tractor) because NBC often is very slow in processing LC requests or because they require an excessive amount of cash cover. When one asks a worker or shopkeeper why they do a large portion of their business outside the formal financial sector, they simply say they are tired of the poor service and inefficiencies associated with this sector. These people wonder "why the financial institutions cannot be as efficient as the informal financial markets." Some of these same doubts about the financial services market has, and may continue to, frighten prospective bankers from entering Tanzania.

Solution to this barrier: The assistance USAID is already providing in the area of loan portfolio review are the first steps to improving the financial health of the financial institutions but public confidence in these institutions will only increase when service improves. For example, a construction company that needs thirty thousand shillings for petrol to complete a seventy million dollar contract on schedule will be far more concerned about the speed of disbursement than about the rate of interest. Continued multilateral consultation with GOT senior officials will help to ensure that they remain committed to reform. Computer assistance, basic business training and management training (discussed later) will assist the financial institutions in improving their service to customers.

The entry of new private banks will provide the technology transfer, bank management skills and the necessary competitive pressure to induce GOT to assist in the continued development of methods to improve the range and quality of service offered by Tanzanian financial institutions.

USAID role in solution: In addition to the solutions offered for barrier #1, USAID could bring in successful U.S. bankers (i.e., from small, regional or money center banks) to offer customer service training courses and workshops.

Technical assistance can also be provided to develop a relatively untapped business opportunity for financial institutions in Tanzania: lending to microenterprises. If set up properly (i.e., along commercial guidelines similar to those designed by ACCION International, with USAID/PRE/I loan guarantee assistance), it would be an excellent way for USAID to use a relatively small amount of funds to link Tanzanian financial institutions with Tanzanian entrepreneurs and then be able to transfer progressive amounts of the loan risk to the local financial institutions.

Local institutions, including TIB and DJIT, have indicated that their recent efforts to tap this market show many signs of being a profitable, efficient and prudent (ACCION reports a payback rate of 98%) banking service for which there is tremendous demand. NBC and CRDB are also exploring the idea of microenterprise lending and have contacted some donor agencies, as well as the local Entrepreneurs Development Fund, to discuss funding. ODA is studying prospects of developing a Grameen Bank-type of financial institution.

USAID/PRE/I has an excellent relationship with ACCION International (based in Cambridge, MA) and could arrange for a feasibility study regarding the possible application of this method of microenterprise lending in Tanzania. The World Bank financial sector team currently visiting Tanzania has expressed interest in funding assistance for such a study.

Barrier #3: Capital requirements difficult for local groups to meet. The Banking Act, BFIA, established a paid-in capital requirement of one billion shillings (US$4.3 million) for new commercial banking entrants and TSh 500 million (US$2.2 million) for new non-bank financial institutions (allowing existing local banks two years before they must meet these requirements). The capital requirement could make it difficult for any local group to be able to set up a private bank.

While the thought of lowering the requirement comes to mind, in that it would indeed make it easier for an indigenous group to establish a private bank in Tanzania, it carries the risk of undermining the GOT's recent efforts to improve the health, performance and efficiency of the banking sector. Also, given the requirement that core capital must be greater than 6% of total assets, a smaller capitalization requirement would not permit the volume of operations necessary.

Discussions with local business groups in mainland Tanzania and Zanzibar began with the comment that foreign banks will most likely focus initially on export and trade finance types of activities. Therefore, these local business groups are considering joint venture banks, or possibly a 100% local bank, to be formed to serve particular sectors of the economy which do not currently have much access to credit (SMEs) or which have been "crowded-out" of the borrowing market (larger private sector companies) by the parastatal sector's dominance of formal financial sector credit.

Solution to this barrier: Assist local groups in their efforts to locate joint venture partners who will agree to a transfer of needed technology and the offering of management and staff training.

The Diamond Jubilee Investment Trust (Tanzania) Ltd. has indicated they are interested in applying for a license to operate a financial institution in Tanzania. They will decide within the next six months whether they will apply to become a commercial bank or a non-bank financial institution. They could possibly be persuaded to accept a local partner.

There is tremendous demand for small business lending in Tanzania. For this reason, the Tanzania Investment Bank (TIB) has recently shifted some of its focus (the GOT recently said TIB could explore its desire to expand its activities beyond its traditional DFI role) to small and medium-sized business lending since the loans are more manageable and there is more flexibility to work-out any payment problems. TIB is mentioned in this discussion of solutions because it has an extremely qualified staff and could easily expand its range of services to include merchant banking. Since there is currently no capital market in Tanzania, TIB could then play a vital role in developing pools of local investment capital, assisting local business groups develop financing proposals for investment in new local banks and equally important, TIB could take the lead role in the distribution of shares in NBC, CRDB, PBZ, POSB, THB and other local financial institutions (including TIB itself) when the GOT decides to privatize all or part of these institutions.

USAID role in solution: USAID could assist TIB in its attempt to expand its range of services to include merchant banking and lease financing, as well as its desire to shift its lending focus to small and medium-sized enterprises. The current discussions regarding eventual privatization of some local financial institutions could also provide USAID with an opportunity to offer low risk support through USAID/PRE/I's Worldwide Privatization Guarantee Facility. The USAID/Tanzania Mission can coordinate this activity with USAID/PRE/I.

USAID should also study the operations of savings and credit societies in Tanzania. They have relatively good reputations and have been successful by remaining small and providing efficient service to their members. Technical assistance in the form of basic business training and management training could strengthen their links with existing members as well as forming links with local entrepreneurs intending to begin microenterprise operations.

Barrier #4: Inadequate access to foreign exchange. Although there is no specific restriction on the repatriation of earnings by foreign financial institutions, they, like everyone else, must wait in line for allocation of a limited amount of foreign exchange.

Solution to this barrier: The GOT could allow financial institutions better access to foreign exchange through specific mechanisms to be determined.

Barrier #5: Concern that existing local banks will receive preferential treatment over new private banks. New private banks may remain on sidelines until they are convinced that there will be a level playing field. They will need assurance that, as foreigners, or as partners with foreigners, they will not be treated differently from existing banks.

Solution to this barrier: This will require effort on the part of GOT to foster transparency in the banking and other business legislation which may impact the operations of a bank. It must follow that such legislation and regulations are enforced without bias toward any particular group. In addition to the improvements to BoT supervision assistance mentioned earlier, legal advisors may be able to assist the BoT and MOF in developing a legal framework for such issues as bankruptcy, loan recovery and collateral registry. Further assistance could be provided in the implementation of policies related to these and other legal issues.

USAID role in solution: USAID could provide legal assistance to MOF, BoT or other ministries involved in drafting and implementing bank-related legislation. Technical assistance, in the form of funding of U.S.-based and in-country seminars and workshops by U.S. bank supervisors and experienced bankers, would provide useful guidance to the bank regulators whose task it is to enforce all regulations fairly and equitably. The GOT could be informed that attempts on its part to favor local banks over new private institutions will negatively impact the financial sector reforms as well as USAID assistance.

2. Lack of Physical and Financial Infrastructure

Barrier #6: A lack of suitable and available facilities for branch locations: This is seen by representatives of one foreign bank as their greatest barrier to entry. It is also the most formidable competitive advantage of the NBC, which already has a corner on the prime locations in Dar Es Salaam and other major cities.

Solution to this barrier: If the eventual competitive banking environment centers around the need to have access to a broad deposit base, this barrier will surface.

Barrier #7: Absence of communications network and shortage of necessary computer technology. The existing financial institutions in Tanzania currently use manual methods to maintain their records and produce reports and financial statements. This method of bookkeeping prevents these institutions from operating efficiently and is one of the main reasons for the slow and error-ridden service which alienates many of their customers. The absence of computer technology to monitor the use of loan proceeds and the financial condition of borrowers limits a financial institution's ability to control loan arrears.

An additional drawback of their use of manual accounting procedures is the length of time it takes for checks to clear. It is not unusual for many customers to wait for several months before a deposit by check is credited to their accounts. Even worse, businesses often wait months for a payment by check to work its way through the archaic method of clearing, only to discover that the check they received as payment was refused by the paying bank.

There is no computer linkage between bank branches or with the BoT (which has no organized check processing facility) and, to complicate matters further, communication between branches is reduced to reliance on a telephone system which is obsolete, lacking in capacity and functions intermittently.

Solution to this barrier: The best way to improve the communication of data between bank branches, as well as to the BoT, would be to improve the quality of the phone system. As this is nothing close to a short-term or inexpensive solution, it is recommended to explore the feasibility (with other donors) of establishing some form of microwave or VHF cellular system of communication. This solution is discussed in more detail in Chapter IV.

Regarding the inefficient manual accounting, loan monitoring and report generation methods, immediate improvements in the ability to offer fast and efficient service to customers can be made through a coordinated donor effort to provide computer hardware, software and related training. Monumental costs can be avoided by focusing on key branches and departments. For example, departments responsible for lending, accounting, internal auditing, treasury and clearing (checks, LCs, etc.) would show dramatic improvements in the speed and efficiency of their operations. Branches in the major cities and Zanzibar could be linked for communication and clearing purposes.

The BoT should be assisted in establishing regional check clearing centers, similar to the system used by the Federal Reserve Banks, whereby a check drawn on an NBC branch in Mwanza and deposited in a branch in Tanga would not have to make the trip all the way to, and through, the check processing labyrinth of NBC's headquarters in Dar Es Salaam. The computerization of the check clearing process, and key departments and branches of financial institutions, would be instrumental in improving the level of service to the point where it would convince many people to return their savings and business dealings to the formal financial system.

USAID role in solution: USAID could take a lead role in coordinating this effort with multilateral and bilateral donors. It is necessary to coordinate efforts in order to avoid duplication of equipment or different bank departments receiving software or hardware which is not compatible. A steering committee of senior officials from the MOF (Mr. Kipokola, Deputy P.S.) and BoT (Mr. Mgonja, Director of Economic Research & Policy) has been formed to coordinate efforts to computerize financial institutions.

A critical component of an efficient financial system (and one that is very important to prospective private investors and bankers) is the accuracy and reliability of financial statements. USAID could play a role in the eventual privatization of the Tanzania Audit Corporation (TAC), the state-owned entity responsible for auditing all parastatals. Although BFIA authorized financial institutions to choose private auditors instead of TAC, the local accounting firms (including affiliates of Coopers & Lybrand and KPMG) may not currently be ready for this task. SIDA played a role in linking KPMG up as an advisor to TAC, whereby KPMG offers training and other assistance to TAC staff. USAID could assist in bringing private sector discipline to TAC's operations by exploring KPMG's possible interest in acquiring some ownership interest in TAC.

USAID should review the findings of an ODA-funded study, currently underway, of accounting and auditing procedures in Tanzania. The World Bank is quite interested in the outcome of this study as it will provide valuable insight into the evaluation of financial institutions and their value to prospective investors.

Barrier #8: Absence of capital and money markets and related financial instruments. The lack of an organized financial market (comprised of two distinct types of markets: a money market and a capital market) in Tanzania limits the flexibility, profitability and services of existing financial institutions (in short, it limits their ability to operate according to truly commercial principles) and could discourage the entry of new private banks. The absence of a stock exchange is a vital missing link in current efforts to privatize financial institutions and parastatal organizations.

The absence of any type of forward foreign exchange market limits the ability of a borrower to hedge the risk of devaluation during the life of a loan which must be repaid in hard currency. This has a ripple effect since a large devaluation can cause a company earning impressive profits in local currency to default on a bank loan. The bank now has a loan on its books which is non-performing not as a result of the borrower's profitability or financial health, but instead due to his lack of options to hedge his currency risk.

Solution to this barrier: The Minister of Finance, Mr. Steven Kibona, recently announced that "an Act establishing a Capital and Stock Exchange Market would be presented to Parliament to coincide with the envisaged change in the Interim Constitution of the United Republic in April."[12] A Coopers & Lybrand (Toronto) study to explore the feasibility of establishing a stock exchange in Tanzania is being funded by CIDA Incorporated.

The creation of a stock exchange may take some time but there are some relatively short-term steps which could be taken in coordination with the MOF and BoT to assist in the development of a money market. Since Tanzania already has the main instruments normally employed in a money market (short, medium and long-term government securities), the first step should be the creation of a secondary market in Tanzanian government securities, possibly modeled after the Open Market operations conducted by the Federal Reserve. This would provide flexibility to financial institutions wishing to manage their liquidity position more efficiently (since they currently have little alternative but to hold government securities to maturity) as well as offering BoT a tool with which it can manage monetary policy. An IMF-sponsored monetary policy advisor is expected to begin working in the BoT by early March 1992.

Another way to assist banks in managing their liquidity and create another monetary policy management tool for the BoT would be to assist in the creation of an interbank market. While there may currently be too few financial institutions (especially those with excess funds) to follow a model used in developed countries, it is possible to establish an informal network whereby a financial institution with excess deposits (i.e., which cannot be put to immediate use as loans) could contact another local bank directly. The institution with surplus cash would then use the BoT as a central electronic settlement facility so that the physical cash would not have to be delivered from one bank to another. This has worked in other developing countries and its feasibility should be studied here.

While it may be premature to create a forward foreign exchange market in Tanzania, it may be possible to develop some variation of this idea. The World Bank may be interested in this development in connection with its Financial Sector Adjustment Credit. An alternative to this would be for GOT (with donor assistance) to offer businesses some form of foreign currency devaluation insurance.

USAID role in solution: USAID could bring in a U.S. financial market expert(s) with experience in developing money and capital markets in developing countries. While the interbank system discussed above may not be extremely active at first, it will be instrumental in convincing prospective new private banks that the Tanzanian financial market is gaining depth. The liquidity which

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[12] "Holding companies to be 'engines of growth' – Kibona", Business Times, 5 February 1992, page 5.

these new entrants bring to this market will serve to accelerate continued financial market development.

USAID could also play an important role in the success of these new markets by providing technical assistance in the form of the computer and other training discussed below.

Barrier #9: Lack of private banking experience and tradition among Tanzanians. This is a barrier to staffing a foreign private bank because of the high cost of expatriate staff. It is an even greater barrier to establishing an indigenous bank along the lines of the African Bank in South Africa, an idea that appeals to the Tanzanian business chamber. Following years of socialism and government interference in bank operations and management, bank managements have to a large extent become reluctant to make long-term strategic decisions and are often unable to make decisions based on sound commercial principles. Bankers in Tanzania need to develop a competitive banking environment by learning to act in response to market forces rather than government directives.

Solution to this barrier: Management and staff of local banks will gain prudent banking expertise and experience by working with established international banks and participating in their training programs. Local financial institutions need several forms of training, including management training (strategic planning, decision-making, staff motivation methods, personnel management, marketing, new product/service development, regulatory matters, etc.) and the training of staff in accounting, statistics, record keeping, computer operation, internal auditing, lending, customer service, loan monitoring, credit analysis, and other areas critical to efficient financial institution operations.

USAID role in solution: USAID is already providing some assistance to BoT's staff in the evaluation of loan portfolio evaluation. In addition to the USAID assistance to BoT's supervision capacity recommended elsewhere in this report, USAID, in coordination with other donors, can play a major role in initiating training programs which, in addition to improving the efficiency and customer service of financial institutions, will dramatically improve the investment climate in Tanzania. This will facilitate the attraction of private investors necessary for successful financial institution and parastatal privatizations. The assistance can be in the form of in-country seminars and workshops by U.S. accounting firms, bank rating agencies, bank examiners, college faculty and computer training companies.

Barrier #10: Concerns About Lack of Creditworthy Borrowers. Most prospective bankers have enough confidence in their knowledge of banking to see the funds currently circulating in the informal financial markets (for reasons described earlier) as potential deposits in their banks. They realize that if GOT continues to implement the financial sector reforms described earlier, including interest rate liberalization, bank supervision and other measures to restore confidence in financial institutions, the general public and businesses will bring their funds back into the formal financial system. However, they also have been able to obtain enough information (reports produced by multilateral and bilateral agencies as well as local and other independent sources) about the poor financial condition of Tanzania's parastatals and cooperative unions to make them concerned about whether Tanzania's market may be too limited in large volume business to justify the investment in fixed assets that would be needed for a serious commercial banking operation.[13]

Solution to this barrier: One option would be the creation of a guarantee mechanism to stimulate investment in venture capital companies and related funds. This option is one of the most promising possibilities since it would attract the types of investors willing to make a long-term commitment to Tanzania and the progress of its financial sector reforms. Traditional venture capital is temporary start-up financing in the form of equity capital or loans, with return linked to profits and with some measure of financial control and has been identified as an alternative to development finance institutions.[14] Since venture capital investors desire liquidity in addition to profits, the network of business contacts in Dar Es Salaam and Zanzibar should be an adequate substitute for the lack of a secondary stock exchange.

Encourage repatriation of capital by Tanzanians through an amnesty scheme. An example of this would be the MOF bearer bonds currently being offered by BoT. They are available in one, two and three year maturities and no questions are asked concerning the former location of the cash brought in to purchase the bonds. They offer a tax-free return and the MOF is hoping it will bring in a lot of the cash currently circulating in the informal financial sector.

Many of the other efforts discussed and proposed solutions recommended in this report will hopefully increase public confidence in the formal financial sector to the extent that the informal financial sector will lose much of its appeal. Combined with improved financial institution health and private sector business development, these changes will serve to convince prospective outside and local investors that there is measurable progress in developing a creditworthy private sector client base. The planned parastatal reforms and privatizations will hopefully result in the expansion of the pool of creditworthy industrial and commercial borrowers in Tanzania.

USAID role in solution: USAID can begin by assisting in the formation of venture capital funds and the necessary location of investors. This can be coordinated with the IFC's Capital Markets Department, which has established these funds in several countries

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13 Interview with representative of international bank, Dar es Salaam, January 22, 1992.

14 Financial Systems and Development, The World Bank, 1990, page 89.

and may be able to develop additional options such as lease financing.

USAID can become directly involved in the development of creditworthy borrowers by expanding the training proposed for financial institutions to include the training of prospective local borrowers in accounting, bookkeeping, business plan development, cash management and other key areas.

E. LIKELY IMPACT ON TANZANIAN ECONOMY AND PRIVATE SECTOR DEVELOPMENT

The technical assistance recommended as solutions to the barriers to the introduction of private banking addresses the several weaknesses which have severely limited private enterprise development in general. All of these recommendations, including: the improvement of public perceptions of banks; the efficient implementation of financial sector reforms; the restoration of business skills; the improvement of the service offered by financial institutions; and others discussed above are designed to create an environment that will enable an efficient financial system to develop. This must happen before local and foreign private sector individuals and entities will be able to fully benefit from the resource mobilization and resource allocation necessary for a private sector economy to survive.

The entry of foreign financial institutions can be expected to accelerate the wide range of reforms and improvements necessary to create a competitive banking environment and, eventually, an efficiently operating private sector economy which can turn to this banking system to fuel its growth. The opening of a reputable foreign private bank in Tanzania can be expected to stimulate savings. To date, five foreign banks have expressed interest in applying for a commercial banking license. Representatives of Standard Chartered Bank were reportedly told that they would be besieged by depositors the day they opened a branch in Dar es Salaam. A private bank would also presumably be more aggressive in making productive loans. The result would be greatly increased financial intermediation, leading to the growth and development of enterprises in the productive sectors of the economy.

If the introduction of private banking and financial sector reforms are allowed to succeed, the winners will be the creditworthy private and public sector entities which will be served by the private sector financial institutions. The losers will be the existing state-owned local financial institutions if they (and the GOT) do not rise to the challenge of competition and take advantage of the enabling environment created by the reforms discussed above.

If the reforms are not given the opportunity to succeed, the informal financial sector will continue to account for at least forty percent of the liquidity in Tanzania.

CHAPTER III
PRIVATIZATION AND THE PARASTATAL SECTOR

A. BACKGROUND ON THE PARASTATAL SECTOR

1. Description/Performance

The parastatal State Owned Enterprise (SOE)[15] sector in Tanzania is one of the largest worldwide. SOEs engage in a wide range of commercial and non-commercial activities, affecting every part of the economy. In 1988, the parastatal sector consisted of 413 enterprises, composed of 339 commercial SOEs, 56 non-commercial SOEs, and 18 holding companies. In aggregate, the Tanzanian SOE sector is a major economic activity, accounting for 24 percent of non-agricultural wage employment, and 13 percent of total value-added.[16] Sectorally, public enterprises have sole control of utilities, a strong presence in the agriculture, mining and manufacturing, but are relatively weak in construction, commerce and transportation.

The overall inefficiency and financial failure of the parastatal sector has been well-documented in numerous studies inside and outside Government; key data are presented in Appendix 3-3.[17] It is useful to briefly summarize major findings:

- <u>the vast majority of SOEs have been consistent money-losers, and the trend is accelerating</u>. In 1988, more than 180 parastatal enterprises (audited by the TAC) reported losses totalling almost TSh 33 billion. In particular, over half of industrial and agricultural SOEs, and three-quarters of all marketing parastatals reported losses. The 1990 TAC annual report indicated that the net surplus (total profits minus total losses) of the SOE sector as a whole deteriorated from a deficit of TSh 11.5 billion in 1987 to a deficit of TSh 14.9 billion in 1989.[18]

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[15] Parastatals have been defined as commercial enterprises (providing goods and services for sale for profit to the public or private sector) in which the GOT owns 51 percent or more of equity, and non-commercial enterprises such as regulatory agencies, marketing boards, cooperative unions, holding and trading companies, and various educational and research institutions. This report concentrates on commercial parastatal enterprises; financial PEs are not included.

[16] World Bank (1988), p.6.

[17] See, for example, Daniel Ngowi, <u>Parastatals in Tanzania: An Assessment</u>, January 1989; H.P.B. Moshi, "Tanzania's Public Enterprises and the Economic Recovery Programme: Is Re- and Privatization the Answer?"; and World Bank, <u>Parastatals in Tanzania: Towards a Reform Program</u>, Report 7100-TA, July 27, 1988. Much of the data presented in this section are drawn from those reports, and annual reports of the TAC.

[18] The TAC profitability figure underestimates total losses since government subsidies are treated as normal operating revenues.

- the low and negative profitability of the SOEs has been financed directly and indirectly by GOT. Direct payments (through subsidies, transfers, grants and subventions), accounted for 8 percent of total expenditures in 1989. Implicit subsidies (through interest-free loans, never re-paid, and credit for bilateral import support programs) worth at least 3 percent of total government revenues in 1990, have been liberally provided. In addition, exemptions from customs duties, sales and corporate taxes have also been provided on an ad hoc basis.

- the contribution made by SOEs to the government budget has been minimal, and is worsening. Dividends paid by the SOEs to the GOT budget have never exceeded 7 percent of total direct subsidies provided to the parastatal sector during any year.

- most holding companies and industrial parastatal enterprises are insolvent. According to the World Bank, total outstanding debt of industrial parastatal holding companies at the end of 1988 was TSh 74 billion, greater than the value of net fixed assets of TSh 54 billion (on a revalued basis). Moreover, over 70 percent of the outstanding debt was in arrears for two years or more. In addition, 95 percent of NBC's total arrears for example, are accounted for by the SOE sector.

- borrowing by industrial and commercial SOEs has "crowded out" the private sector. In 1991, over 79 percent of NBC lending to the agriculture sector went to agricultural SOEs; 58 percent of total credit to the industry sector was claimed by industrial SOEs. Allocation of foreign exchange has similarly been skewed in favor of SOEs.[19]

- despite considerable advantages, parastatal enterprises are more inefficient than private firms. Compared to private enterprises engaged in similar activities, industrial parastatal enterprises are significantly more import dependent, capital intensive and operate at low capacity utilization rates. As a result, SOEs tend to be more inefficient, generate negative value-added, and have contracted significantly over the past five years.[20]

More alarming is recent evidence which indicates that the financial condition of the parastatal sector may actually be far worse than generally realized. In a survey of 72 industrial SOEs undertaken in 1991, it was estimated that the annual net loss of the 350 commercial parastatals may be in excess of TSh 100 billion,

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[19] World Bank (June 11, 1991), p. 95.

[20] World Bank (July 27, 1988), p. 18.

(equivalent to a staggering TSh 2 billion per week) if the effects of inflation and devaluation are included.[21]

B. ANALYSIS OF PARASTATAL POLICY REFORMS AND PRIVATIZATION EFFORTS

Prodded on by the increasingly unsustainable fiscal burden of loss-making SOEs (and increased pressure and assistance from the World Bank and other donors), the Government of Tanzania has been making gradual progress towards reforming the parastatal sector. GOT efforts have proceeded on two levels: defining the formal policy and institutional framework on the one hand, while at same time selectively restructuring, liquidating and privatizing certain enterprises. The analysis below examines the extent to which actions in both areas have been undertaken in accordance with each other.[22]

1. The Evolving Formal Policy and Institutional Framework

Since 1983, the government has introduced a number of general measures liberalizing the parastatal sector overall, and the industrial, agricultural and financial parastatals in particular (Table 3-1). In addition to these measures, broad policy changes implemented under the ERP (e.g., maintenance of a competitive real exchange rate, introduction of the "Own Funds Scheme" and the OGL) have significantly reduced the effective rate of protection for parastatal enterprises, and facilitated competition from private companies and imports. These actions greatly reduced barriers to entry of new firms, and the preferential advantages enjoyed by parastatal enterprises.

However, despite the formal liberalization, the reality has been that concrete reforms have been very slow to materialize, partial in application, or selectively implemented. Many previous steps taken have been reversed or diluted by poor implementation and conflicting objectives. The extent to which GOT has "dragged its feet" in the area of parastatal reform can be seen by contrasting the recommended actions of various analyses, and those actually implemented (Table 3-2).

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[21] Olly Haggerty (November 1991), p. 2. Haggerty notes that accumulated losses of the 72 PEs surveyed (TSh 181 billion at end-1990), accounts for over 94 percent of their accumulated debt (TSh 192 billion), rendering repayment highly unlikely. He also notes that the reported increase in total profits of profitable PEs is actually reversed if adjusted by the GDP deflator.

[22] Privatization as defined in this report are those actions that directly enhance private sector ownership and provision of goods and services. Common privatization methods include: public offering of shares, private sale of shares, new private investment in a parastatal enterprise, sale or transfer of parastatal or government assets, re-organization into autonomous parts, management/employee buy-outs and lease and management contracts.

Several observations can be made about the data presented in Table 3-2. First, the recommendations made by the various studies are remarkably similar, recommending the development of a coherent policy statement articulating reform objectives, identification and classification of SOEs, establishment of a centralized body to implement the program, and development of a monitoring system. Second, there has been some implementation of recommended actions -- particularly those of the Hamad Commission. However, the GOT has not taken action on most recommendations for the better part of one decade:

- a coherent policy framework for privatization/restructuring has not been defined. This is the result not only of conflicts at the highest levels of policy development, but also of an increasing prioritization placed by GOT on financial sector reform.

TABLE 3-1
MAJOR ACTIONS UNDERTAKEN TO LIBERALIZE THE PARASTATAL SECTOR

Measures Affecting the Parastatal Sector Overall

1. Adoption of policy abolishing explicit subsidies to SOEs.
2. Reduction in number of goods subject to price control from over 400 to three basic commodities.
3. Presidential directive issued giving parastatals two years to clean up their accounts and run operations efficiently, or face liquidation.
4. Enaction of National Investment Promotion and Protection Act (1990) to promote private investment in the parastatal sector.
5. Passage of Public Corporations Act (1992), to streamline process of converting SOEs into public corporations, and vest executive authority in the Office of the President.
6. Issuance of Parastatal Sector Reform policy statement (Dec. 1991).
7. Amendment of Parastatal Pensions Scheme Act (1978) in order to raise lump-sum pension payable from TSh 7,200 to TSh 18,000 per annum.

Measures Affecting Agricultural SOEs

1. Deconfinement (demonopolization) of importation and wholesale distribution of food crops.
2. Decontrol of real prices of agricultural commodities; liberalization of agricultural marketing framework.
3. Privatization of selected sisal, tea and coffee estates.
4. Reduction of credit to agricultural marketing parastatals; elimination of credit to the National Milling Corporation.
5. Liberalization of cashew nut marketing and deconfinement of cotton marketing; private cotton ginning.
6. Passage of the Cooperatives Act of 1991.

Measures Affecting Financial SOEs

1. Adoption of positive real interest rates to facilitate improved savings mobilization and resource allocation.
2. Passage of Banking and Financial Institutions Act (1991) allowing for domestic and foreign private participation in banking activities.
3. Enaction of the Loans and Advances Realization Trust Act (1991) to streamline framework for recovery of non-performing debt.
4. Preliminary contact with foreign banks made by BoT.
5. Announcement of introduction of foreign exchange bureaus in the near-term; shifting of import support financing into OGL.
6. Abrogation of policy of "directed credit," thereby allowing banks to operate autonomously.

Measures Affecting Industrial SOEs

1. Effort for privatization of selected leather, edible oil and textile processing parastatals initiated.
2. Transfer of inviable SOEs' assets to LART and liquidation.

TABLE 3-2
PARASTATAL REFORM: GAP BETWEEN RECOMMENDED AND IMPLEMENTED ACTIONS

Group/Mechanism Implementation	Principal Recommendations	Actual
1. Hamad Commission (1983)	- revival of agricultural cooperatives	- implemented
	- replacement of all purpose crop authorities by marketing boards	- implemented
	- liquidation of inviable SOEs, merger of others	- selective implementation
	- removal of members of Parliament from SOE Boards	- implemented in 1985
	- limitation of Boards to 10 members	
	- appointment of technicians, creditors and users to SOE Board of Directors	- selective implementation
2. Presidential Implementation Team (1984)	- autonomy for SOE managers in hiring, pay structure	- some action
	- assessment of each SOE to determine utility	- some action
	- develop coherent set of reform objectives	- statement issued in 1992
	- form new agency for SOE policy reform implementation	- no action
3. Nsekela Commission (1987)	- better procedures for identification of SOE CEOs	- under review
	- creation of new policy making/supervisory body and elimination of SCOPO	- some action
		- civil service salaries increased; some retrenchment of officers
4. World Bank Report (1988)	- clarify goals/expectations through policy statement	- statement issued in 1992
	- classify SOEs into SOE to be maintained, divested, commercial, non-commercial, viable, un-viable	- classification in progress

	- undertake study to increase private competition	- Investment act, but poor implementation of actions
	- eliminate preferential treatment for SOEs through formation of special task force	- guaranteed credit policy abandoned; tougher collections policy
	- remove barriers to SOE activity	- some liberalization
	- set up supervisory body to implement actions, reporting to the Office of the President	- no action taken
	- develop implementation monitoring system	- no action taken
5. O. Haggerty Report (1991)	- Phase 1: develop privatization policy framework; appoint director; categorize enterprises according to viable, nearly viable; potentially viable and non-viable	- some action taken
	- Phase 2: select candidates for privatization; identify individual objectives/constraints & select privatization method	- some firms identified - ad hoc implementation
	- Phase 3: prepare SOE for privatization by deregulating or regulating; valuation; enabling legislation; capital structure	- ad hoc implementation
	- Phase 4: implement the privatization by restructuring the SOE financially and managerially; decide size, form of sale; identify suitable partners and negotiate deal	- no organized action
	- establish a central privatization unit reporting to President and adequate monitoring system	- no action taken

- a permanent body reporting to the highest authority, with sufficient authority to formulate policy guidelines, identify and undertake specific actions has not been established.

- specific guidelines for privatization/restructuring transactions have not been formulated. As a result, selected enterprises have been privatized on a lengthy, case-by-case basis.

The formal policy of GOT towards reform of the parastatal sector has not been in favor of structural change. Initial efforts focused on strengthening GOT supervision and control; later efforts emphasized measures to enhance the operating efficiency of SOEs. However, the underlying and fundamental issue of ownership of enterprises has not yet been examined in a public and straightforward manner. Despite increasing evidence pointing to the futility of SOE restructuring efforts, the GOT has still not adopted a policy of outright privatization of parastatal enterprises. Haggerty's report (supported by the World Bank and ODA) was the first to urge privatization of most SOEs, and outlined a coherent program for planning and implementing a privatization program.

The recent issuance of two long-awaited documents provide the first real indication of the development of an overall policy and institutional framework for parastatal reform and privatization. These are: (a) issuance of the Ministry of Finance Policy Statement on parastatal reform, dated December 31, 1991 (and distributed January 29, 1992); and (b) passage of the Public Corporations Act (1992).[23]

Parastatal Reform Policy Statement. This is the first attempt by GOT to define general objectives of the parastatal reform program. The document:

- articulates priority program objectives: improve the operational efficiency of SOEs; enhance the GOT budget by removing loss-making SOEs; facilitate private sector participation, and allow GOT to concentrate on "its role as provider of basic public services;" and "increase and encourage a wider participation of the people in the running and management of the economy."[24]

- retains certain enterprises (social service institutions and most public utilities) within the public sector (transitionally or otherwise), but to deepen policy reform in these cases, including "elimination of monopoly rights, barriers to entry for competitors, preferential access to credit, foreign exchange and government procurement, and exemptions of tax, duty and other payments."[25]

- outlines a program to determine, on a case-by-case basis, commercial enterprises which "will be available for foreign and local participation, including privatization by means of joint ventures, full or partial sale of shares, leasing and management contracts." However, the GOT will determine "the minimum proportion of the equity shares to be retained on behalf of the people of the country, and the proportion to be divested to local or foreign investors."[26]

- permits shares to be retained within the Treasury or through specialized mechanisms such as investment trusts, and "in due course, as the capital market develops, part or all of the shares ... will be sold, either to the general public, or to the workers and management of enterprises. By these means indigenous Tanzanians will

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[23] It should be noted that the Public Corporations Act has not yet been signed into law by the President. He is expected to do so shortly.

[24] Ministry of Finance, "Parastatal Sector Reform (A Policy Statement)", December 31, 1991, p. 4.

[25] Ministry of Finance (December 31, 1991), p. 5.

[26] Ministry of Finance (December 31, 1991), pp. 7-8.

retain a significant share in privatized enterprises..."[27]

- provides for detailed guidelines to be developed for the sale of SOE assets and shares to "ensure transparency and fair price."

- recognizes that the indebtedness of SOEs are an obstacle to their privatization, and determining "appropriate mechanisms for dealing with debt."

- develops mechanisms to offset the effects of worker lay-offs, including "retraining and severance payments and mechanisms to ensure self-employment."

- establishes the Presidential Parastatal Sector Reform Commission to develop operating policies and implementing procedures, undertake detailed analyses of individual parastatals, and recommend actions to be taken directly to the Cabinet.

Public Corporations Act (1992). The passage of this Act provides for a relatively streamlined mechanism for the conversion of various types of parastatal enterprises into limited liability companies in preparation for their eventual partial sale or divestiture. Under its provisions, the President can summarily transfer any assets or liabilities of existing SOEs into newly established corporations. He has full authority to effect this transfer with or without any liabilities of the old company, and under any arrangement deemed necessary. Such transfers automatically mean the old SOE ceases to exist. The only limitation on action is on employees of the SOEs. In these cases, any employee transferred to the new corporation will enjoy terms and conditions of employment that "are not less favorable than those which were applicable to him immediately before the transfer," including retirement benefits.

The policy statement and the Public Corporations Act provide the first real indication of GOT intent for a program of SOE reform and privatization. Since issuance of the two documents, a number of additional steps have been taken:

- the composition of the Parastatal Reform Commission has been finalized, consisting of Mr Mbowe (Chairman, presently at East African Development Bank); Mr Mdundo (Commissioner of Public Investments); Mr Hatibu Senkoro (Managing Director, TDFL); Dr Alex Khalid (President, Agroconsult); Ms Zakya Ahmed (Economics Secretariat, CCM); and Mr Amboci Lipumba (Economics Advisor, Presidency). The commission would be supported by a Technical Secretariat which will be composed of technical

[27] Ministry of Finance, (December 31, 1991), p. 8.

specialists from SOEs and GOT, as well as experts financed by various donors.

- the classification of SOEs (into commercial and non-commercial enterprises) has been completed, resulting in 260 commercial SOEs, according to the Commissioner of Public Investments;

- holding companies have also been given until March 30, 1992 to identify the capital and other resources necessary to rehabilitate their SOEs, and enhance their operating efficiency and profitability, or face closure.

- holding corporations would be "disbanded if they fail to earn their keep." However, "there will be no more management fees, nor would holding corporations earn any dividends." Instead, the Board of Directors and the Chief Executives of SOEs will be held accountable for the "success or failure of their firms."[28]

It is quite evident that the GOT has made substantial progress in laying the foundation for a program for parastatal reform. Still, there are important policy and institutional deficiencies and ambiguities that are likely to slow implementation. These factors are presented and reviewed later in this chapter.

2. Analysis of Specific Privatization Transactions

The Government of Tanzania has been "privatizing" selected parastatal enterprises since 1984 as part of its efforts to rationalize the parastatal sector overall. Initial efforts were focused on liquidating, "mothballing" and merging selected unviable public enterprises, following the recommendations of the Hamad Commission and the Presidential Implementation Team (Table 3-3). More recently, the GOT has embarked upon a piecemeal privatization approach, starting with selected enterprises in the manufacturing, agriculture and tourism sectors. While the actual mechanics of the privatization process has varied greatly, the process has basically entailed a deliberate, enterprise-by-enterprise approach, as detailed below.

Industry Sector. The approach adopted by the Ministry of Industries and Trade has been to undertake detailed studies of manufacturing sub-sectors,

TABLE 3-3
LIQUIDATED PARASTATAL ENTERPRISES

Company	Reason for Liquidation	[illegible]

[28] Minister of Finance quoted in "Holding companies to be 'engines of growth' -- Kibona" in Business Times, February 5, 1992.

General Food Company 1984	Reorganization/Consolidation
Tanzania Livestock Mktg Co. 1984	Reorganization/Consolidation
Biashara Transport Company 1984	Reorganization/Consolidation
Tanzania Livestock Authority 1984	Reorganization/Consolidation
National Cold Chain Co. 1984	Action by creditors
Domestic Appliances & Bicycles 1985	Reorganization/Consolidation
General Agric. Prods. & Exports 1986	Reorganization/Consolidation
Tanzania Agri. Research Org.	Absorbed by Ministry of Agriculture 1988

including leather (October 1989); edible oils (January 1990); textiles (August 1990); wood and paper (October 1991); and metal and engineering (April 1991), chemicals (currently underway). A study on the building materials sub-sector (funded by the Dutch) is also likely in the near-term. The principal findings and privatization recommendations of the various studies are summarized in Appendix D for reference. The principal findings of the various studies was that the majority of industrial SOEs were unprofitable, highly indebted, and technically insolvent. However, in the case of several enterprises, the assets on the ground, and the technology utilized, had substantial value and market potential. Key privatization/restructuring recommendations include:

<u>Leather</u>. Immediate divestiture of three tanneries to the private sector (with GOT assumption of debt and transfer of assets to a new company); liquidation of the remaining two enterprises. In several cases, where factories are over-designed and have too much capacity for the local market, the consultants recommended down-sizing and other actions to restructure the enterprise prior to sale to private interests.

<u>Textiles</u>. Retention of three enterprises within the public sector due to their semi-monopoly status; liquidation of three firms (sale of assets and absorption of debt); full divestiture of eight to private interests; division of one company into autonomous units and sale to private investors; and joint venture with private partners for three enterprises.

<u>Edible Oils</u>. Creation of four new "regional" companies, composed of the merger of existing enterprises; ensuring operational autonomy for the new enterprises (through private sector majority shareholding); and the hiving-off of non-edible oil activities, and concentration in core areas.

Wood and Paper. Liquidation of one firm; sub-division and sale of another to private interests; and the remainder for full sale to the private sector. The major asset in most cases is adjoining tracts of timber lands for long-term use of the factories.

TABLE 3-4
PRIVATIZED INDUSTRIAL PARASTATAL ENTERPRISES

Company	Business	Nature of Transaction
Blanket Manufacturers Ltd	Textiles	Partial sale (40%) to private interests
Perma Sharp Tanzania Ltd.	Metals	Direct sale by TDFL, after taken over by creditors
Tanga Cement Company	Cement Processing	Management contract with Swiss firm financed by DANIDA
Tanzania Cement Company	Cement Processing	Partial sale (26%) just concluded
Tanzania Sheet Glass	Manufacturing	Full sale
Tanzania Starch Mnf. Co.	Starch Processing	Full sale

Metals and Machinery. Liquidation of four enterprises; partial private sector equity participation in five enterprises; full sale for remaining eight enterprises, after substantial financial and other restructuring.

Despite active efforts to privatize selected industrial parastatals, relatively few transactions have been successfully concluded to date (Table 3-4). However, there are a number of deals underway as shown in Table 3-5. The approach of the Ministry of Industries initially was to allow each sub-sector holding corporation to take the lead in identifying and negotiating with investors. The leather sub-sector was chosen as an initial area of focus, with a public bid held by a inter-ministerial committee. Although bids were received for the Morogoro Shoe Company and the Moshi Tannery, negotiations stalled. The major stumbling block has reportedly been the insistence of the GOT that private investors assume the hard currency debt of the leather tanneries. More recently, there have been substantial disagreements about the value of the SOE assets.

The approach taken by TEXCO has been quite different, and more successful. TEXCO chose to seek equity investment in the Kilimanjaro Textiles Mill (DSM) and the Morogoro Polyester Textile mill. Instead of a public bid, TEXCO independently identified potential joint venture partners (including Daewoo Corp, Unilever, and a Belgian firm). TEXCO was willing to assume the liabilities (including the debt) by selling other assets in its portfolio. Despite active efforts, neither of deals has been closed. In the case of Kiltex, to meet conditions for financing from the IFC and CDC, TEXCO had to conduct three feasibility studies, and revise its proposal several times. The potential investor still demurred due to concerns about political stability.

In the case of Polytex, negotiations with Daewoo stalled because of Daewoo's insistence on paying substantially below the book value of the facility, and its demand to receive adequate quantities of cotton at 30 percent below world prices. The GOT has been reluctant to divest the asset even though Daewoo would operate it at full capacity (only at 15 percent currently), and would be 100 percent export-oriented. As discussed later in this section, negotiations have been unnecessarily lengthy (more than 2 years) because of lack of experience of negotiating with foreign investors, hesitancy to accept a market value for the asset (rather than book value), and a very cumbersome GOT negotiating framework. Political considerations, and lack of defined mechanisms to deal with debt, also hampered negotiations with investors.

TABLE 3-5
INDUSTRIAL SOE PRIVATIZATION EFFORTS UNDERWAY

Public Enterprise	Type of Transaction	Private Investor	Results/Status
Mbeye Cement Co.	majority sale	Daewoo	discussions continuing
Morogoro Ceramic Wares	majority sale	German firm	joint venture discussions underway; investor offering DM600,000 in equity plus debt financing of DM2.6 million
Morogoro Tanneries	majority sale	IPS	discussions underway
Moshi Tanneries	full sale	n/a	discussions underway, difference in asset valuation
Nyanza Glass Works	full sale	n/a	discussions underway
Polytex	majority sale	Daewoo	no action because of Daewoo demand for (a) subsidized cotton and (b) offer of US$30 million when enterprise worth US$70 million
		Belgian firm	no agreement because of concern over outstanding hard currency debt
Kiltex	full sale	Unilever	no sale due to concerns over political stability and disagreements among existing equity holders (CDC, IFC) about product mix and export orientation.
Tanzania Breweries	majority sale	n/a	discussions underway
Tanzania Shoe Co	full sale	Bata	no sale because GOT opposition to write off hard currency debt.

<u>Agriculture</u>. Unlike the industry sector where transactions have been extremely slow to conclude, deals in the agricultural sector and the agro-processing area have been proceeding steadily. Since 1985, as shown in Table 3-6, there have been a number of

private acquisitions of tea, coffee and sisal estates. Representative transactions are detailed below.

In 1984-85, CDC entered into negotiations to acquire the East Usembeze tea estate from the Tanzania Tea Authority, and Kilimanjaro Coffee estates from the Kilimanjaro Cooperative Union. The first deal took CDC five years to conclude, because of disagreements with the high valuation determined by a Kenyan independent valuator, and very slow decision-making on the part of TTA. The final transaction involved the creation of a new company and the purchase of assets by CDC for 6 million pounds; all liabilities were absorbed by the TTA. The other deal, which began earlier, was slowed by resistance from the local dwellers near the coffee estates. After a long period of fruitless negotiations with the cooperative union, CDC launched an investigation which determined that (a) the local people did not want to be represented by the cooperative union; (b) they were not convinced that they were receiving a fair value for their property; (c) were not informed of the nature of the transaction, and were not included in the negotiations; and (d) had not actually received title to the land after it was nationalized many years ago.

TABLE 3-6

PRIVATIZATION IN THE AGRICULTURE SECTOR AND DEALS UNDERWAY

Past Privatization Deals	Transaction/Status
East Usembeze Tea Estate	Sale of assets to Commonwealth Development Corp.
Kagera Sugar Ltd.	Joint venture in new company with Booker Tate, a U.K. company
Kilimanjaro Coffee Estates	Direct sale to Commonwealth Development Corp.
Kimamba Sisal Estates Co.	Several estates sold to Abdul Farhaji
Mifundi Tea Company	Re-privatization by Lonrho
Ngombezi Sisal Estates Co.	Several estates under management contract with Booker Tate (U.K) funded by German Kfw
Ralli Estates	Direct sale to U.K. group
Tanga Planting Company	Management contract with Danish company

Privatization Deals Underway	
Manawa Ginnery	Majority sale (51%) to Cargill
Morogoro Cooking Oil Refinery	Direct sale negotiations with Cargill almost finalized
National Food Corporation	Direct sale negotiations underway
Tanzania Tea Authority	Full sale to Brooke Bond
Tanzania Seed Company	Full sale to Cargill

After the project was re-designed without the union (dealing directly with the primary society), and agreeing to fix the valuation of the property in British pounds, the deal was concluded.

While information is difficult to come by, it is clear that the experience of other investors has been similar to that of the CDC. Lonhro went through extensive negotiations with the Government to re-acquire the Mifundi Tea Company, which was nationalized in 1968. In this particular case, part of the small compensation payment for the nationalization was applied to purchase 75 percent of the equity of the company, but the difficulty and ambiguity of the negotiating process was the same. In another notable case, take-over the Ralli estates was partially financed by a debt/equity conversion (of Tanesco debt held by French financial institutions).

Political concerns about concentration of economic power in the hands of Asian Tanzanians has allegedly delayed the acquisition of the MOPROCO facility by Cargill. It had been reported that the sale of factory to the Rajani group, which controls the majority of private edible oil processing facilities as well as imports of oil, was resisted by GOT. Again, information like this is hard to verify, given the lack of transparency. Still, it is significant that a number of potential sales to foreign private investors appear to be progressing.

TABLE 3-7
OTHER PRIVATIZATION DEALS UNDERWAY

Company	Status of Transaction
Air Tanzania Corporation	Emergency financing measures adopted, including search for equity investment. Probable down-sizing, sale of assets or liquidation.
Board of External Trade	Privatization discussions underway.
Buckreef Gold Mines Co.	Joint venture discussion with Australian firm.
Tanzania Mangnesite Co.	Joint venture discussions underway.
Pugu Kaolin Mines	Joint venture discussion underway.
Tanzania Audit Corp.	Possible investor interest.
Tanzania Coastal Shipping	Possible investor interest.

Tourism Sector. A severe lack of funding to undertake critical rehabilitation of its hotels led Tanzania Tourist Corporation (TTC) to seek external funding in 1985. As part of the funding requirements demanded by creditors, TTC began to negotiate a performance/management contract with Novotel (ACCCOR/France). Negotiations have continued in the form of an inter-ministerial committee, and have resulted in a twelve year performance contract for the management of seven hotels (three hotel companies). The contract is expected to start in March. The contract with Novotel is a flat fee, plus an incentive payment based upon a pre-agreed level of profits being generated. The agreement can be terminated at any time; part of the arrangement includes training.

In addition, a majority share (77 percent) in the New Africa Hotel was acquired by Tadema, a Swiss-registered, local company. This transaction is relatively unique because: (a) the investor agreed to assume the outstanding debt, as well as investing some US$10 million in equity; and (b) the Tanzania Investment Bank agreed to reduce its outstanding loan of TSh 1.4 billion to TSh 600 million.

TTC is currently engaged in discussions with Sheraton and Intercontinental for management of the Kilimanjaro Hotel, as required for the substantial financing that is seeking for complete rehabilitation of the hotel. Potential joint venture partners are being identified for the remaining TTC hotels and the State Travel Service. Lonhro is also pursuing a joint venture in a tourist facility in Zanzibar, but further details are unavailable.

Other Sectors. Although not a clear Government priority, various joint venture agreements have been reached with foreign companies in the mining and transportation sectors (Table 3-7). The Buckreef Gold Mining company has reached agreement with an Australian company; potential joint venture discussions are being finalized for the Pugu Kaolin Mining company and the Uvinza Salt Company. Reportedly, joint venture proposals have been made for the two national shipping companies, and there is active interest in the telecommunications sector. Finally, joint venture negotiations with a number of foreign companies are underway in the wood and paper sector, where the primary attraction is utilization of adjacent timber growing areas.

3. Lessons Learned

It is difficult to generalize about these transactions given the basic lack of information, and the fact that there has been a significant element of "learning by doing" on the part of Government. Still, there are important common themes and elements that provide a guide to the major factors affecting privatization efforts in Tanzania:

privatization deals have taken much longer than originally anticipated. Relatively simple transactions (a small, relatively less indebted company, and an identified private sector investor), have averaged about 2-3 years to conclude; more sensitive or complicated arrangements have taken in excess of five years. In the case of the tourism sector, in particular, talks with potential joint venture partners began in 1985, and have yet to be concluded. In order of importance, the primary contributing factors include: GOT inexperience with privatization in general, and lack of experience in negotiation with investors; lack of technical knowledge about privatization techniques; lack of clear guidelines for the negotiations; perceptions that the investors were typically "demanding too much," and an overly bureaucratic GOT negotiating structure, resulting in as many as fourteen GOT officials negotiating with one investor in a given session.

successful privatization has depended on actions taken by creditors and internal management capability and willingness. In general, when creditors have tried to recover their loans (eg, TDFL with Perma Sharp Corp), GOT was forced into relatively quick action. In the absence of this pressure, transactions have been delayed. Similarly, deals depend on internal management willingness: in the case of NAFCO management, which supported privatization, several transactions occurred. Where the capabilities of the holding company management was weak (as in the leather sector), deals have not been concluded successfully.

there has been a gradual movement towards divestiture. Initial offers by the GOT in the leather sector did not go forward because of GOT insistence on majority control and management control. More recent deals -- such as the efforts to divest the Polytex mill, and the recent divestiture of the New Africa hotel -- have been characterized by GOT willingness to take a minority equity position, or divest holdings altogether.

negotiations have been difficult because of lack of technical know-how and negotiating guidelines. The GOT negotiating process was extremely cumbersome in most cases, involving first the holding company, relevant ministry, Ministry of Finance, Bank of Tanzania, and then the Cabinet itself. Political interference and "second guessing" have plagued the decision-making process, forcing negotiators to frequently "go back to the drawing board." GOT has also never clearly defined its basic objectives to guide the negotiating process. In many transactions, this has resulted in positions having to be over-turned at a later date. The lack of an overall framework forced negotiators to operate on a "deal-by-deal" basis, which in turn resulted in very different outcomes.

political considerations have also played a role in delaying a number of promising transactions. In particular, allegations have been made that the reason why certain deals have taken a long time to conclude is the reluctance to place government assets in the hands of Asians. In the case of

MOPROCO, worries about ethnic economic concentration has delayed deal making, with GOT preferring to try to reach an arrangement with Cargill. In general, foreign joint venture partners have been sought, either because they "have more experience," or because "the local private sector doesn't have the money required."

lack of experience with foreign investors has greatly hampered deal-making. Aside from the technical deficiencies of GOT negotiators, a simple lack of experience of dealing with foreign investors is a major factor in the relative lack of movement. TEXCO revised its original project proposal for the sale of Kiltex mill several times, as it gained more knowledge of investor concerns (such as political stability), assurances required (such as inputs of cotton of a certain quality and price). For example, lack of knowledge of textile operations and arrangements in other countries meant that TEXCO could not verify claims of Daewoo about benefits it was receiving in other countries (Sudan and Ethiopia). Inexperience with the way the foreign investors evaluate risk resulted in TEXCO undertaking three feasibility studies. In the tourism sector, the TTC was hampered by its lack of practical knowledge about the international accommodations industry, and its inexperience in negotiating with multinational companies.

lack of a business orientation has made GOT negotiators very hesitant about concluding deals. It is difficult for government bureaucrats to think like businessmen. In many cases, GOT has been unwilling to accept the offer of an investor, because of the amount of investment already made in an enterprises. Clear evidence of this fact is that in almost all cases, the GOT valuation of an enterprise was much higher than the offer of a private investor. TEXCO makes the point that the US$70 million, state-of-the-art Polytex factory (in book value terms), was worth only US$30 million to Daewoo -- even though they agreed that the factory was worth more from a technical perspective. From a business perspective, the government loses money when the factory is operating only at 15 percent capacity. Daewoo guaranteed operation at full capacity, and a 100 percent export market orientation, but at a lower price, based upon their assessment of market potential.

the lack of concrete mechanisms to deal with parastatal debt has greatly slowed the privatization process. In the case of several potential deals in the leather sector particularly, GOT has been reluctant to write-off the outstanding hard currency debt of enterprises. The lack of some mechanism to facilitate this (such as LART), resulted in many potential deals falling through. In one case, GOT spent eight months negotiating with one creditor to convert debt into an equity holding.

individual transactions are delayed by the extremely bureaucratic GOT decision-making process. A major reason repeatedly cited by private investors and managers of holding corporations, was an overly cumbersome process of decision-making. Each decision would go through the holding company to the overseeing ministry, onwards to a technical working group of mid-level civil servants, and then to an inter-ministerial committee of more senior civil servants, then forwarded to the Inter-ministerial Technical Committee (composed of Permanent Secretaries), back to the relevant ministry, and finally taken by the Minister to the Cabinet for a decision on each and every deal! If sensitive issues are involved, some deals have reportedly been forwarded to the Central Committee of the CCM.

privatization efforts have been focused on poor performers. In general, GOT has tried to divest its interest in enterprises that have been consistent money-losers, and therefore the worst candidates for privatization. Instead, more success is possible with more attractive candidates such as Tanzania Breweries.

C. IMPLEMENTATION OF A PRIVATIZATION PROGRAM: KEY CONSTRAINTS AND POSSIBLE SOLUTIONS

1. Constraints to Privatization

Despite the considerable achievements of the Government of Tanzania in generally creating a conducive policy and institutional framework for privatization, and in actually consummating several transactions, there are important barriers that still deter the process from moving forward. These barriers can be organized in number of areas: a still undeveloped institutional framework, the need for further "deepening" of key policies, technical deficiencies, and important socio-political factors.

Institutional Factors. A major barrier is a still inadequate and poorly defined institutional framework for privatization. First are concerns about the adequacy, composition and effectiveness of the new parastatal reform commission. Second is the anticipated role for holding corporations in the new framework. Major concerns are the following:

Constraint 1: Effectiveness of the new commission remains unknown. The outline of the framework for privatization, and the composition of the Commission in particular, has been received with mixed reviews. Many critics of previous GOT efforts (such as the TATE) believe that the Commission's members are quite competent, and are known for their independent views. On the other hand, the view of one observer from the TCCIA was that the "composition of the commission was stacked against the indigenous businessman," and that the Commission was likely to be ineffective. In contrast, the primary criticism of a manager within one of the leading parastatal holding companies was that the Commission was flawed because it does not include real businessmen or managers, and their was a risk for decisions to be made by economists and bankers. Another major point that was raised is that most of the new commission members are well-meaning technocrats, but will be unable to take decisions on, what are fundamentally political issues. Finally, there are real fears that the Commission may just become a permanent bureaucracy. While mid-level civil servants at the Ministry of Finance claim that the commission will be "time bound" and have a maximum tenure of three years, the Minister of Finance has publicly stated that "there is no time limit to the Parastatal Commission's work."[29]

Constraint 2: **Autonomy and independence of the commission is not assured.** While the composition of the new commission has been defined, its ability to make decisions independently is still unknown. Individuals within the Ministry of Finance feel that the only way to guarantee independence is to have the Commission report directly to the President or the Prime Minister, who "cannot be accused of corruption." If instead recommendations of the commission had to be vetted first by the Interministerial Technical Committee, then the Commission was likely to be ineffective, and decisions "could take months or years." The major point is that the policy- and decision-making process is still to be defined.

Constraint 3: **Lack of sufficient technical support for the commission.** A major reason for the creation of the commission was to unify and centralize privatization efforts and decision-making. Given the large number of SOEs in Tanzania, there is a possibility of over-centralization, leading to further delay. According to the GOT, the commission is to be assisted by a technical secretariat of practitioners and local and international experts, who will actually do the deals. However, there is potential that the Parastatal Commission's effectiveness will depend on the effectiveness of its technical secretariat. A parallel can be drawn to the experience of the IPC, according to a representative of a major multinational company. The ineffectiveness of the IPC is due in large measure to poor personnel and inadequate technical support.

Constraint 4: **The inter-relationship among new and old parastatal regulatory/reform institutions is unclear.** Another complication is that the precise relationship among various institutions (eg, Parastatal Reform Commission, technical secretariat, LART, SCOPO, holding companies, ministries, etc.), and their precise role in planning and implementing the privatization program is ambiguous.

Policy Inadequacies. Rapid parastatal reform and privatization is possible only if the broad policy liberalization undertaken is "deepened" to further reduce barriers to the entry of private

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[29] Minister for Finance Steven Kibona quoted in the Business Times, February 5, 1992, p. 5.

competition, and to create a "level playing field." Specific constraints include:

Constraint 5: Continuing special privileges for parastatal enterprises and barriers to entry of private firms. Although considerable results have been achieved, policy reform needs to be deepened to ensure that public and private firms are operating on a "level playing field." Considerable efforts have to be made in (a) ensuring that remaining monopolies are dismantled; (b) barriers to investment by private firms are minimal; and (c) that critical support legislation, regulations and institutional framework is in place.

Constraint 6: Ambiguity about GOT intent regarding the parastatal sector. Despite the issuance of the policy statement on parastatal reform, and preliminary moves in terms of implementation, significant policy ambiguities exist:

- what is the fate of the holding companies? Are they abolished, or will GOT retain some of them? Will this be done according to some framework of priorities, or will this be determined on a case-by-case basis?

- GOT policy about retaining SOEs "temporarily" needs to be clarified.

- what is the precise time-table to stop continuing implicit and explicit subsidies for the parastatal sector? What steps will GOT take to precisely identify all SOE subsidies and other advantages?

Technical Deficiencies. As demonstrated by the experience of privatization efforts to date, major constraint is in the form of deficiencies in technical skills of valuation and pricing, readying SOEs for privatization, evaluation and negotiation of bids, and so forth.

Constraint 7: Lack of operating guidelines. A major barrier to privatization in Tanzania is the lack of coherent guidelines to prioritize and operationalize the privatization program. Operational of guidelines clearly identifying priority enterprises and sectors for privatization, and defining what steps would be taken to prepare each SOE for privatization, estimating the full costs of the action, and identifying financing resources and techniques, do not exist. The government has announced that three categories of parastatals will remain in the public sector: (1) natural monopolies such as TPRC, TRC, and THA; (2) public utilities such as TANESCO and NUWA; and (3) enterprises "strategic to the nation." However, the criteria for deciding whether a parastatal is to be classified strategic are not clear, and delay on this score is undermining confidence.

Constraint 8: Lack of audit capacity and adequate accounting controls. A major constraint to privatization is the lack of adequate accounting practices and controls, as applied to the parastatal sector. Evidence of this is the current practice of not explicitly showing (and treating) GOT subsidies and other support, and instead, including such flows as operating revenues. Although the percentage of SOEs that received "clean" reports from TAC increased from 41 percent (1985) to 68 percent (1989), major issues are not covered by existing accounting guidelines. Remaining ambiguities about what the precise definition and accounting treatment of a "non-performing loan" and the nature of a government guarantee," and the like, need to be clarified.

Constraint 9: Lack of sufficient mechanisms to handle the debt of parastatal enterprises. Past mismanagement and a 200 percent cumulative depreciation in the value of the Shilling has combined to create a highly indebted SOE sector. The lack of adequate mechanisms to remove the debt from the balance sheets of SOEs inhibits investor interest. This is further complicated by the fact that the majority of debt is hard currency debt. While local debt has been handled in a variety of ways (written off by the GOT, in other cases, local financial institutions accepted equity for debt outstanding), foreign exchange debt has proven more troublesome. In the

This is compounded by the fact that land value is not explicitly part of the deal. In many cases, valuation is high because government imputes value for use of the land and treats it as payment for "goodwill." The lack of adequate valuation techniques, the general lack of various approaches utilized in other countries, and the land valuation issue, pose a constraint to privatization.

Constraint 11: Lack of technical experience in negotiating privatization deals. A constraint that was described earlier, but deserves its own treatment, is the general lack of experience of GOT officials in dealing with foreign investors. Many GOT officials are simply not aware of how an investor evaluates opportunities, assesses risk, and requires assurances. The GOT is also "not used to behaving like an investment bank, and have little or no practical skills in negotiating deals with investors."

Constraint 12: Lack of capital markets. The lack of a capital market is extremely serious deterrent to privatization, especially strategies based upon widespread shareholdings. An organized stock exchange would not only have the advantage of greatly simplifying the valuation of public enterprises, but would do so in a highly transparent manner.

Socio-Political Issues. The final set of constraints revolve around the political will of the Government to move forward to implement a program of privatization.

Constraint 13: Economic concentration by Asians. There is a fear among many indigenous Tanzanians that if parastatal enterprises were put up for sale, the economy would be further dominated by the Asian community which is already heavily involved in trade, plantation crops, and in some productive enterprises. The Asians are perceived as investing little, looking for a fast turnover, extracting large profits, maintaining tight secrecy concerning their operations and "lubricating" the system whenever necessary. Such a stereotype is certainly unfair, but it persists. As a consequence, the indigenous business community has mixed feelings about privatization and is unwilling to take an aggressive position in favor of it. The problem for the GOT is that the private investor group that has the means and the interest in acquiring SOEs, is illegitimate in the eyes of the population at large.

Constraint 14: "The family silver." There is a great fear among GOT of being accused of stripping national assets. There is tremendous resistance among large segments of society to part with the parastatals for anything less than their full asset value. One recent letter to the editor of the Daily News quoted Harold Macmillan's comment about privatizing state-run entities as "akin to selling the family silver." This is complicated by an apparent misunderstanding of what the parastatals are really worth: certainly not the book value and much less the replacement value of the assets, but rather the future cash flow streams discounted at a rate that reflects the risks of doing business in this environment.

Constraint 15: Opposition of the SOE managers and employees. Another obstacle to privatization comes from the people who have the most to lose from it: SOE managers, some civil servants and employees. More precisely, the parastatal sector is the power base of some people; parastatal managers wield a lot of power, and could mobilize employees against government, according to a member of the Parastatal Reform Commission. In this vein, it should be noted that there are allegations (completely unsubstantiatable) that members of the Nkesela Commission was actually extorting from the parastatal enterprises, and found that over 90 percent of the SOEs should be retained within the public sector.

Constraint 16: Political risk of laying-off workers. The existence of large numbers of redundant employees in the parastatal sector, and the need to down-size certain operations before sale is likely to result in substantial lay-offs of workers and managers. Some have estimated that as much as 15 percent of the total labor force would be laid-off. This is further complicated by the fact that there is no social security net, and retirement and severance benefits are guaranteed by law. However, it is unlikely that there will be any organized labor resistance, as there is a relatively weak and unorganized labor sector. Labor suffers from poor management and limited technical abilities to analyze issues and lobby effectively. In addition, labor's views regarding privatization are mixed. According to two papers presented at a recent labor union meeting, privatization was viewed alternately as a scapegoat for poor management (and should therefore be opposed), and as a mechanism that would result in the prospect for more and better employment in the future.

Constraint 17: Attitudinal problem. Another constraint is purely attitudinal. After three decades of socialism and government domination, it is going take a lot for the general population to stop viewing the government as the wealth generator and "big brother" in the country. It will also take some time for people to view private business and commercial activities favorably. SOE managers and workers may find it very difficult to adjust to the new environment, lack of security, and the like. Old habits may also die hard, after operating in a system characterized by corruption and lack of accountability throughout the whole structure, it may be difficult to operate in an environment of the rule of law.

Constraint 18: The need for further liberalization of the political system. The fundamental barrier to change is the political system. To state the self-evident: the government, the civil service and the parastatal enterprises have all been aspects of the CCM. Restructuring cannot go too far if political and career governmental leadership adheres to the socialist principles which are the essence of CCM philosophy. The story of liberalization in Tanzania is the story of tension between the CCM and the government. In 1990-91 when the economy was liberalizing, and the SOEs were expected to be accountable, the CCM actually appointed political commissars within each enterprise. The autonomy of the new Commission, in this view, will only come when a bill is approved in parliament for multi-party democracy, removing the supremacy of the CCM. That measure was endorsed by the CCM NEC (February 18, 1992 in Dar es Salaam) for adoption by the National Assembly in April 1992. According to some observers, the pace of true privatization and parastatal reform depends on the ability of the GOT to differentiate itself from the CCM, which created the present situation.

2. Possible Solutions and the USAID Role

Before discussing possible solutions, it is important to note that privatization is not an end in itself, but part of a broader program of reforms designed to promote a better allocation of resources, encourage competition, foster a supportive environment for entrepreneurial development, and develop the capital market. To a large extent, privatization is not necessarily synonymous with private sector reform and deregulation. A government objective of raising the maximum from the sale of public enterprises, for example, may require tariff protection or direct subsidies. Wherever possible, the recommendations detailed below suggest actions generally supportive of the overall objective of private sector development and economic liberalization; actions suggested for USAID are based on the plans of other donors as well (see Appendix I for details).

Institutional Enhancement Recommendations. It is absolutely critical that the GOT Parastatal Reform Commission be clearly defined and strengthened by implementing the following actions:

Recommendation 1: Provide technical assistance to develop a comprehensive privatization program. Immediate technical assistance is recommended to aid the GOT in implementing the actions outlined in Haggerty's proposal, namely:

1. Categorize enterprises. Review the progress made in categorization of the parastatal enterprises, and group them according to viability, select and prioritize enterprises for alternative courses of action (possible criteria suggested include: the need to stem losses; ability of enterprise to be self-sufficient within a set period; maximization of divestiture proceeds; need for investment for rehabilitation; level of interest from potential joint venture partners; ease of privatization in relation to the condition of the enterprise). Apply these criteria to classify the enterprises (to retain in public sector, joint venture, partial or full

divestiture, liquidation, restructuring, leasing or management contracting).

2. Develop specific guidelines for privatization action. For each of the major categories of enterprise, assistance can then be provided to develop operational guidelines defining basic parameters and minimum standards for each type of potential transaction.

3. Depending on the importance of the enterprise, undertake firm-level actions to prepare the enterprise for privatization. Actions that may be necessary include enterprise preparation (asset rehabilitation, collection of accounts and debts, divesting loss-making activities, debt resolution, efficiency and quality improvements, provision of adequate documentation and titles); regulation or deregulation (if an enterprise is a de facto or natural monopoly); undertake valuation; preparing enabling legislation (if necessary); revising the capital structure.

4. Implement the privatization deal. Depending on the SOE, and the privatization method chosen, implementation would involve developing necessary project proposals, identifying potential partners, negotiating/implementing the deal, and developing and monitoring system.

Recommendation 2: Provide long-term technical assistance to the commission. It is recommended that at least two long-term expatriate advisors be placed in the commission. These individuals should have extensive experience with planning and implementing privatization programs. One person would be principally responsible for devising with GOT the overall policies and framework for the privatization program as a whole, defining and establishing the relationship between the various institutions, and in developing appropriate monitoring and control procedures. The second expert would have a more "hands on" deal-making focus, and would oversee enterprise-specific actions such as restructuring and valuation.

Recommendation 3: Establish a technical assistance fund for short-term technical specialists. This fund would finance short-term technical specialists (local and foreign) that would participate in specific deals, negotiate with investors on behalf of the GOT, identify potential joint venture partners, and the like.

Recommendation 4: Undertake a short-term study to establish the structure and functioning of the commission and the technical secretariat. A study recommending the structure, operating procedures and responsibility, line of communications, funding, relationship with other institutions, etc., should be undertaken. Study should make specific recommendations for the elimination of specific institutions such as holding companies, SCOPO, etc.

Recommended Role for USAID. Discussions with the World Bank, ODA and the Commonwealth Fund for Technical Assistance seem to indicate that the Bank and these other donors are well along the path of implementing many of the recommendations listed above. In particular, it is likely that the ODA will provide the long-term technical specialists listed, and develop operational guidelines, and the like. In this light, it is recommended that USAID provide funding into the short-term technical assistance fund, to fund U.S. consulting and investment banking expertise, in areas of specific competence.

Recommendations to Accelerate Policy Reform. In conjunction with the actions recommended to enhance and deregulate the business climate, the following actions are recommended to remove remaining SOE privileges and facilitate entry of private firms.

> **Recommendation 5: Undertake a study to identify actions to implement the deconfinement measures already announced.** In the agriculture sector, this would include: deconfining the role of export crop marketing boards, allowing private distribution of farm inputs and demonopolizing the Tanzania Fertilizer Company, suspending current budgetary support to non-performing large-scale farms, further the move towards indicative prices for food and export crops, and permitting private seed companies in competition with the Tanzania Seed Company. In the industrial sector, a number of actions need to be taken, including: phase out direct GOT subsidies to SOEs (except that necessary for privatization), removal of monopoly rights for some industrial SOEs, relieve SCOPO of its responsibility of personnel matters, make recommendations for elimination of the holding companies, assist in the development of a time-table to for discontinuation of all direct and indirect subsidies.

> **Recommendation 6: Develop supporting legislation and regulations.** In order for the private sector to be able to compete with parastatal enterprises, undertake effort to develop enabling regulations in several areas: bankruptcy, land acquisition and building construction, labor hiring and other conditions, and other areas.

Recommended Role for USAID. In general, it is recommended that USAID concentrate its efforts more in the area of creating an enabling environment for the development of new private sector activities. To that end, it is recommended that USAID support recommendation 6.

Recommendations to Offset Technical Deficiencies.

> **Recommendation 7: Provide assistance in enhancing accounting standards and practices.** A short-term effort, reviewing the adequacy of SOE accounting standards and control procedures should be undertaken to upgrade them. The analysis should be followed-up with several in-country training exercises for TAC, parastatal enterprise managers, and bank managers.

Recommendation 8: Establish a privatization fund. To facilitate private sector take-over of enterprises, a venture capital fund should be established in Tanzania. The management of fund would be in the hands of a professional firm, overseen by a Board of Directors. The fund would provide equity and long-term loans on a commercial basis to purchase equity in a parastatal enterprise or rehabilitate a privatized enterprise. Other possible applications could be to purchase shares on behalf of a "public trust" for re-sale to the public, or to purchase commercial debt for a debt/equity conversion.

Recommendation 9: Facilitate private bank lending for privatization by using the PRE/I Privatization Guarantee Program facility. Once private banks begin operations in Tanzania, USAID can work with PRE/I to provide a 50 percent guarantee on debt provided by eligible financial institutions to fund the purchase of shares in SOEs, or to facilitate privatization through other means. The facility could be tailored to just funding employee purchases of shares in a privatized company.

Recommendation 10: Convene seminar to discuss privatization valuation approaches and provide technical assistance in valuation techniques. It is recommended that a seminar with international experts be convened to discuss the practical application of earnings-based and asset-based valuation methodologies. Specific attention should be paid to identifying practical methods that can be applied to the valuation of assets in the absence of organized capital market. Technical assistance from professional valuation specialists can be provided through the technical assistance fund (see recommendation 3).

Recommendation 11: Develop options for removing or reducing parastatal debt. In order to facilitate the sale of enterprises, it is recommended that a study be undertaken to develop concrete methods for management of debt. Debt restructuring could include: debt to equity conversions; rescheduling and re-financing of debt; direct buy-back of debt at a discount; allowing a trust fund to service debt (as part of an interim arrangement) for a SOE; direct assumption of the debt by GOT. Particular emphasis should be paid to the viability of setting up a private trust funded by counterpart funds for ESF program to SOEs. The trust can then assume the debt of specific SOEs for a grace period before transferring the debt back to the company.

Recommendation 12: Revise debt/equity conversion program to focus on privatization transactions. Debt equity swaps can be an important tool to attracting foreign investment for privatizing public enterprises. They are an investment incentive as well as a debt management tool. Commercial debt could be bought at a discount and swapped directly for equity in the company. This has the advantage of a non-inflationary impact, and will not burden the government's budget. The current debt swap program in Tanzania would have to be broadened to specify eligible debt, conversion procedures and eligible investments.

Recommended Role for USAID. Clarification of specific technical issues, is the area of focus within privatization activities for USAID. Specifically, it is recommended that USAID sponsor recommendations 8, 9, and 11. Both the World Bank and DEG are planning to set up venture capital funds to finance privatization activities. DEG's approach is different in that they focus on setting up a management consultancy, and have a total capitalization of about US$5 million. As their plans develop, it is recommended that USAID consider contributing to the activity. Other areas -- debt/equity conversion, capital markets development, deal negotiation skills -- are currently planned by different donors. The World Bank is focussing on the debt/equity program; CIDA is already sponsoring a study on capital markets development; and ODA is likely to provide practical assistance with investment negotiations, as mentioned earlier.

Recommendations to Offset Socio-Political Constraints

Recommendation 13: Devise practical methods to avoid concentration of ownership. There are a number of possible methods to try to broaden ownership of SOEs in Tanzania. One approach is to set up a trust to purchase shares in target SOEs. The trust could then lend money to the public to purchase the shares, with the shares as collateral. Another possible approach is to encourage the formation of employee stock ownership plans (ESOPs). Creditor banks could then convert their debt into equity and lend money to the ESOP to purchase the shares. The primary drawback of these approaches is that they (in effect) swap one liability for another, and do not generate a new cash investment which is what is sought. Also spreading share ownership among a large number of small investors can be very risky, unless sufficient effort is spent providing necessary information, analysis and regulation. The purchasers of stock in a SOE may assume that the government is providing an implicit guarantee of their share value, and indeed the government may feel obliged to intervene if the value falls. Broad ownership may not also assure the strong guidance to turn a firm around.

Recommendation 14: Devise a comprehensive public education campaign to offset perceptions of "giving away national assets." It is recommended that a publicity campaign be devised to prepare the public for the privatization program. This program would involve clearly letting the public understand the true costs and benefits, from the national perspective, of various parastatal enterprises, and the advantages and disadvantages of various privatization actions. The experience of other countries, and the results of past deals can be examined. Individual deals can be facilitated by conducting an open valuation of the enterprise, and publicizing the results. Experience has shown that privatization will be debated regardless of whether information is hoarded or released. The challenge is to make the debate an informed one: the public should know more about how much implicit and explicit subsidizing goes on with state ownership, and the costs of foregone activities, and the like.

Recommendation 15: Establish a fund to facilitate the retrenchment of laid-off SOE employees and managers. The fund can finance a number of activities including training courses in entrepreneurship development that will enable SOE employees to survive in the informal sector, and basic contribution to the GOT budget to finance provision of severance packages, retirement benefits, and the like. These approaches have been successfully utilized in reducing worker opposition to privatization in Ghana, Tunisia and Philippines. Severance packages are very important where there is no social safety net, and retraining and re-deployment schemes have a very poor track record.

Recommended Role for USAID. It is strongly recommended that USAID undertake the activities described above. This is a clear need of Government, who simply does not have the resources to re-train and re-deploy redundant SOE workers and managers. Existing courses focus on management and administrative training; there is no practical source of training and expertise in entrepreneurship skills development. These activities also have the greatest potential for contributing to the development of a viable indigenous private sector, which is an important goal.

D. LIKELY IMPACT OF PRIVATIZATION ON THE ECONOMY

The likely impact of a privatization program in Tanzania can be viewed in terms of short-term, static effects, and longer-term, dynamic effects. On the positive side, privatization efforts (including liquidation and divestiture) will greatly reduce the grants, subsidies and other public transfers that have kept money-losing parastatal enterprises alive. New inflows of funds would flow to the GOT budget as the privatization program proceeds, consisting of new private equity and debt, proceeds from divestitures and reductions in subsidies, and increased interest and principal payments from the newly privatized enterprises. Based upon the analysis of about 90 SOEs, Haggerty (1991) estimated that the Government might receive about TSh 22 billion over a five year period in terms of net inflows. Given the large number of loss-making firms, the impact of privatization on the Tanzanian economy is likely to be quite positive, even when long-term, dynamic effects are considered.

The big winners include labor, the private sector in general, and a new breed of manager. There is little doubt that a change in ownership and management will result in great improvements in productivity and efficiency. Even with the currently flawed investment climate, privately owned and operated Tanzanian firms are much more efficient users of labor, capital, foreign exchange and other resources relative to public firms. Similarly, while there will be substantial unemployment in the short-term (perhaps up to 15 percent of the labor force), it is more likely that employment will increase significantly in the longer run -- as resources are used more efficiently, and private sector activities increases. Finally, the new breed of indigenous entrepreneur who is now trapped in the parastatal sector, or engaged in informal activities, is the big beneficiary as new opportunities and resources are made available. Sectorally, big winners are likely to be in the tourism, minerals and light manufacturing activities, which are based on the comparative advantages of the country.

The principal losers include civil servants and parastatal managers -- especially those than have depended on the opportunity to influence decisions through illegal means -- and other bureaucrats, who have built up illegal sources of income and depend on a captive parastatal sector to extend their influence and patronage. Certainly, a loser, if privatization activities accelerate is the CCM, which is likely to be blamed for past policies. As said elsewhere, "the divestiture process necessarily entails public admission that investment resources were wasted."

Finally, sectorally, large-scale, capital-intensive production is likely to be scaled-back as cheaper imports and private sector competition increases.

CHAPTER IV
BUSINESS ENVIRONMENT

A. INTRODUCTION: History

Tanzania's private sector at independence consisted of numerous peasant agrarian smallholders, a few traders along the coast and in the key inland towns, and some large commodity estates controlled largely by European and Asian descended owners. It was not especially developed in terms of industries of transformation. sector. After independence, The Arusha Declaration of 1967 gave expression to an ideology of African socialism and self-reliance, in terms of production, transformation and distribution. Rather than to drive out the new nation's inherited European and Asian-descended private sector, this ideology to confine its opportunity and markets until such a time when the national enterprises would overwhelm and erase it.

If not against their persons, there was, however, violence against the property of Tanzania's non-Blacks. In the wake of (partially compensated) nationalizations or outright seizure of property, the state became the owner, operator and manager of most, if not all, Tanzanian financial services, estate agriculture, commerce, and industry. The uni-party Chama Cha Mapinduzi (CCM) government sought to extend the role of the state it controlled to the "commanding heights" of the economy. The stated goal was to drive the pre-Independence private sector under. The reverse took place.

For seven years, the results of Nyerere's experiment in African socialism were positive. Foreign donors, particularly the Scandinavians, were highly supportive of the Tanzanian development model. Basic services effectively reached the rural poor. The economy was kept strong by rising prices for traditional export commodity crops. A strong intellectual leadership articulated a clear vision of the future. Even those most opposed to government policies during this period agree that many government officials were highly qualified.

An indigenous Tanzanian entrepreneur recalled for the Team that the few educated Black Tanzanians there were at Independence were required for the civil service. With the nationalizations of 1967, additional educated Blacks were absorbed into the Government of Tanzania (GOT) and State Owned Enterprises (SOEs). Equally effective in drawing the Black Tanzanian leadership away from private enterprise was a required five year minimum term of government service after graduation. Asian-Tanzanians were neither required nor encouraged to do government service, but were left to occupy themselves as they saw fit. As may be assumed, this structural differentiation further divided the Black/government from the Asian/business populations of Tanzania.

Participation in and experience with the private sector (other than subsistence agriculture and informal trading) among Black Tanzanians was further restricted by a CCM policy of discouraging Black men from developing a cash base independent of the party-state lest they become political threats. In addition to the political, there was a status issue connected with a decision to enter into business. For a generation, anyone in private business has been presumed to be uneducated (since the educated were assumed to have entered into government service) and has been scorned. An educated son was ashamed to join his father in the family business with the result that what Black-owned businesses there were at independence largely died out for lack of natural hand-over. The lack of hands-on experience in business also meant there was no public or private vision of the potential to develop private business operators from trade into manufacturing and export to achieve the same goals sought by African socialism.

Finally, the private sector suffered by comparison since, for a time, the parastatal system worked. Tanzania's positive economic and social performance during the 1967-74 period helps explain why it took eight years of economic disaster before any policy change occurred to reverse the decline. Moreover, the leadership and public was encouraged by past success, and lack of contact with the rest of the world, to attribute rampant inflation and declining foreign exchange reserves to external shocks (oil prices, worsening terms of trade, and a costly war with Uganda) rather than to failed GOT policies and public mismanagement of the country's wealth.

B. BACKGROUND ON NEED FOR BUSINESS ENVIRONMENT REFORMS

A Tanzanian lawyer (who is also a government official) told the Team that "in 1967 the business atmosphere in Tanzania went into prison. In 1984 it came out of prison with the liberalization of trade. But it is one thing to take the physical body out of prison and another to take the spiritual. As we say, once bitten by a snake you jump in fear at each movement in the grass." He believed the public's confidence level has moved up from 5% to 75%.

Public confidence be what it may, the fact is that Tanzania's youth have inherited little more than a heavily mortgaged and encumbered title to a market of dubious present value. The legacy of a quarter century of economic experimentation includes these obstacles to development:

- a deteriorated and informalized economy;
- weak and ineffective private sector business associations and organizations;
- an enormously burdensome parastatal sector;
- an underpaid, undermotivated civil service, and skepticism among potential private investors.

- a deteriorated infrastructure, the restoration of which will challenge even the joint effort of all donors;

- an insolvent state banking system, and lack of project/investment financing beyond trade financing;

To reverse these conditions will require the reforms of the financial sector as discussed in Chapter II, reforms of the Parastatal sector as discussed in Chapter III, and wide scale revision of the policy and legal framework within which business seeks to operate.

Constraint #1 - Legal and Policy Framework

As may be presumed from the country's initial direction, Tanzania has never had a particular body of law on private sector business. The present code, inherited from East African common law, was taken over at Independence without fundamental revision. The present regulatory environment is the accretion of a series of Acts: the 1967 nationalization of banks, 1970 nationalization of properties (which had a great psychological impact on foreigners and locals), and the 1984 measures on liberalization of trade.

Successful establishment of a competitive, market oriented, business environment in Tanzania is not a foregone conclusion. It is interesting that the present SOE management interviewed by the Team either stated that they were, or appeared to be, awaiting orders to show initiative. This is partly due to successful indoctrination of these people, who owe their position to Party favor, and partly due to their fiscal weakness.

In his keynote address to the CCM National Executive on February 18, 1992, Mr. Nyerere declared that "CCM was formed, and its leaders elected on the basis of its ideological commitment to ujamaa and self-reliance. It has not changed its policies on that aspect. Nor has there been any discussion or complaints by Party members in the country demanding change." Parties advocating capitalism, however, could be voted into Parliament. "If the people favour a party advocating such a fundamental change, and it gains a two-third majority in Parliament, then the constitution could be changed."[30]

Some indigenous Tanzanian and foreign operators are acting in anticipation of a liberalized business environment. Opportunities revealed by economic necessity (such as selling off SOEs draining the Treasury, as discussed in Chapter III, supra), have excited the interest both of established Tanzanian business units (such as the Groups discussed below and in Appendix J) and opportunistic newcomers who had lingered on the sidelines or in the informal economy over the past decade.

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30 DAILY NEWS February 19, 1992 p 3 column 1: "Nyerere: Arusha blue-print stays (for CCM)".

The Tanzanian economy is now in the frontier zone of development. Team members were approached informally by would-be entrepreneurs eager to create linkages and win foreign investment for enthusiastic but poorly analyzed projects in tourism, gemstone mining, and non-traditional agribusiness. Additionally, several established private sector groups have stated that they are now plunging especially into tourism projects in Zanzibar and the Arusha-Moshi region and have arranged partial foreign financing of their projects. Others, such as Lonrho, Brooke Bond and Karimjee, have already made significant investments in agro-estates, especially tea. Cut flowers is an area of increasing interest and investment.

It is also important to state that regulatory and legislative changes, especially to the procedure to establish both Tanzanian and foreign enterprises, are underway. The Investment Promotion Centre has commissioned and received recommendations on "Facilitating The Investment Process In Tanzania"[31] According to Sir George Kahama, the recommendations contained in this report will be implemented by the National Assembly at its April 1992 sitting. Major revisions of the constitution (mid-April 1992), legislation and regulation on such issues as business establishment, taxation, land rights and employer-employee relations will also be required to create <u>sufficient</u> conditions for wide development of private sector business. Additional policy reform will focus on the constitutional and regulatory role of Ministers to issue approvals for business establishment, access to financing, and allocation of property.[32]

While specific policy reform, and revision of the basic legal texts appear necessary, these are closely linked to issues of past national ideology and future political direction. Therefore, USAID should identify opportunities for policy change intervention which neither violate present Constitutional limitations to change nor adopt specific champions in the arena of business associations.

<u>The Mission may wish to consider a technical study of Tanzania's legal code as it relates to private enterprise by a team including specific expertise on international, European Community and domestic business law.</u> Specific texts suggested for review for revision, harmonization, or elimination, include:

Business Licensing Act: No. 25 of 1972
Business Names (Registration) Ordinance Cap 213
Companies Ordinance: Cap. 212, October 1, 1932, Rev.
Companies (Registration of Dividends and Surpluses and Miscellaneous Provisions) Act: No. 22 of 1972

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31 Report Prepared for The Technical Assistance Group, Commonwealth Fund for Technical Co-Operation, by M. Arthanari and J.R. King, 24 May 1991; available from The Investment Promotion Centre, Dar es Salaam.

32 A Land Commission was meeting in January and February 1992 to deal with these issues and intends to issue draft revisions to present legislation by late summer 1992.

Customs Tariff Act: No. 12 of 1976
Dodoma Special Investment Area Act: No. 7 of 1989
Dodoma Special Investment Area (Control Mechanism and Operational Procedures) Regulations 1989
Exchange Control Ordinance: Cap. 294
Exports Control Ordinance: Cap. 297
Factories Ordinance: Cap. 297
Fisheries Act: No. 6 of 1970
Forests Ordinance: Cap. 389
Hire Purchase Act
Hotels Act: No. 22 of 1963: Cap. 521
Immigration Act: No. 8 of 1972
Imports Control Ordinance: Cap 292
Income Tax Act: No 33 of 1973
Law of Contract Part X (Partnerships) Cap.433
National Board of Architects Quantity Surveyors and Building Contractors Act No.35, 1972
National Industries (Licensing and Registration) Act: No. 10 of 1967; amended 1977, 1978, 1982 (Act No. 13)
National Investment (Promotion and Protection) Act: No. 10 of 1990
Sales Tax Act: No. 13 of 1976
Tenancy Act
Tourist Agents (Licensing) Act: No. 2 of 1969
Town and Country Planning Ordinance: Cap. 378

The practical impact of these regulations on the business environment is described in Appendix H, "The Business Regulatory Environment".

In summary, fundamental requirements for the development of a strong private sector in Tanzania include:

- additional infrastructural improvements to roads, airports, telecommunications, electricity, water and sanitary disposal;

- fundamental changes in attitude, both official and public, for private enterprise to take root and flourish;

- access to and knowledge of external markets and basic information on the creation of market linkages to empower the indigenous Tanzanian entrepreneur.

C. RECENT BUSINESS ENVIRONMENT POLICY REFORMS

The government has already shown itself capable of pragmatic response to its economic problems, at the level of macro policy. The granting of own-funds import licenses in 1983 was a momentous decision. By this step the GOT publicly admitted that it knew what all businessmen and most consumers knew: significant domestic wealth had remains outside the formal monetary system. It in effect recognized the failure of its fixed rate exchange policy that had greatly overvalued the currency, discouraged exports, and could only be sustained through import licensing, foreign exchange allocation, and price controls. Consumer goods at long last began to appear on the shelves in the mid-1980's. The availability of these goods in rural areas provided farmers with some incentive to market their produce rather than consuming it.

Import licenses issued through the own-funds scheme had reached a value of $475 million (over one-third of all import licenses issued), peaking out in 1988 at $639 million and declining to $448 million in 1990 as other import schemes gained in importance.[33]

Policies under the Economic Recovery Program (ERP) in 1986 further reduced the discretionary allocation of foreign exchange. The currency was allowed to devalue by 80 percent so that the parallel market premium, which had been 9:1 in 1985, settled at 1.5:1 in 1990.[34] A less overvalued currency opened the way for a partial liberalization of imports through the open general license (OGL) granted automatically for certain categories of imports. With World Bank and bilateral donor support, the value of OGL licenses issued has increased from $50 million in 1988 to $310 million in 1990, about a fifth of the value of all import licenses. The OGL was supplemented by other specific import support programs, by the government's allowing retention of a percentage of export earnings, and by an increasing volume of loans, grants, and credit from bilateral and multilateral agencies.

As foreign exchange policies were becoming more liberalized, regulations on the implementation of these policies have become more stringent. For example, when the retention scheme was begun it was held to ten percent of export earnings but the exporter was allowed to retain these in an overseas account in which he or she had check signing powers. The government later moved them into a trustee account in the exporter's name. The retention limit has since gone up to 35-50% (depending on the goods exported) but funds are held in a trust account in the NBC's name and it is the NBC that must open the letter of credit. Because of questions and delays by the NBC, exporters such as tour operators cannot obtain timely inputs such as safari vehicles to generate export earnings during the tourist season.[35] Own-funds imports will soon be made more difficult by a new requirement that merchandise be inspected prior to shipment.[36]

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[33] Data on windows of foreign exchange availability provided by the World Bank Representative in Dar es Salaam, January 24, 1992.

[34] World Bank, Tanzania Economic Report: Towards Sustainable Development in the 1990's (Washington, D.C., June 11, 1991), Vol. I, p. 7.

[35] Interview with businessman, Dar es Salaam.

[36] Announcements appearing in the Daily News (Jan. 30, 1992) and the Business Times (Jan. 31, 1992).

The private sector is sensitive to government's tweaking of policy reform. Entrepreneurs indicated that they believe rapid action and results are required to take advantage of what may prove only a temporary opening. While policy changes have proceeded rapidly in the areas of foreign exchange, banking, and parastatal reform, there has been far greater resistance to institutional change. On the one hand, there has been some deconfinement of marketing channels and a drastic reduction of The National Milling Corporation's monopoly position. Private grain mills have been built especially in key consumer markets such as Dar es Salaam and the Arusha-Moshi area, and are coming onstream. Wheat estates and cooperatives are now selling into private channels. However, five years after the need for divestiture of loss-making parastatals was recognized, only a handful of minor companies have actually been privatized or divested.[37] A year and a half after the Presidential Commission on the Banking Sector submitted its report, there is little evidence of change in commercial banking practices or in the level of service of present institutions.

The very politization of business over the past quarter century has led to a confusion of effort. Political change shows all signs of absorbing the energies of national political and economic leaders. Policy changes may take a subordinate position in the interests of "national unity" as it remains defined in the Constitution. The present broad panoply of putative private business associations appear to be nascent or crypto political parties whose success in the polls may be a precondition for fundamental revision of the legal and policy environment.

Resistance to institutional change is to be expected by groups that are adversely affected by these changes:

1. Parastatal managers: liberalization means cheaper imports and greater competition for companies that previously enjoyed monopolies in a highly protected market. The parastatals continue to receive bank credit to offset operating deficits, but the commercial and development banking sector is under increasing pressure from the Bank of Tanzania to transfer non-performing assets to a Loans and Advances Realization Trust (LART), charged with the recovery of overdue debts.[38]

2. Parastatal employees: reform and restructuring of parastatals in the banking, industrial, and commercial sectors will mean retrenchment and loss of jobs. Some schemes have been proposed for training for alternative employment, but these schemes cannot be expected to absorb all redundant workers and managers.

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[37] Daniel Ngowi, update of parastatal assessment; interviews with decision makers in parastatal reform; Team research described in Chapter 3

[38] The most complete explanation of the LART mechanism is contained in the "Report and Recommendations of the Presidential Commission of Enquiry into the Monetary and Banking System in Tanzania" (Dar es Salaam, July 19, 1990), Implementation Section, pp. 26-36; see also, Chapter 2 of this report

3. Civil servants: deregulation and the reduction of discretionary resource allocation by the bureaucracy means that civil service employees will have fewer opportunities to extract side payments for "lubrication" of the government decision-making process. On the positive side, the more competent will benefit from being part of a more professional, merit-based civil service.

D. BARRIERS TO INVESTMENT AND ENTREPRENEURSHIP

The adoption of the principle of multi-party rule by the CCM extraordinary National Conference on February 18, 1992, in Dar es Salaam, and especially the blessing of the concept by Father of the Nation, Mwalimu Nyerere, has put in place some necessary conditions for the development of a competitive business environment in Tanzania. The publication of a new pair of independent newspapers, EXPRESS and MWANANCHI[39] is indicative of the degree of freedom now sensed by Tanzanians.

Constraint #2: Attitude toward private enterprise

The attitude of Tanzanians is an issue: their attitude has to be changed for private enterprise to take root. One Black Tanzanian averred that the majority of literate Tanzanians consider state employment on salary to be their only option, since private work is beneath contempt. Moreover, CCM ideology can be considered to have suppressed its own believers, he stated, by urging people 'not to keep chickens, don't be a capitalist.' In fact, there are very few manufacturers or industrialists in Tanzania. The majority of business is trade and commerce. One effect of the increased informality of the Tanzanian economy has been the wholesale complicity of consumers and tradesmen in illegal commerce. It is now to the point that to admit to being a businessman is as much as to admit to being a crook. One example of the inertial power of ideology was discussed in Chapter III in relation to "the family silver."

Thus, several streams have converged in Tanzanian economic history to create the present morass. In the first place was the frequently cited ascendancy of the CCM and the adoption of the 1967 Arusha Declaration and subsequent nationalizations and establishment of SOEs. Their model example was the Indian, in which industrialization and expansion was sought without regard for true efficiencies. While CCM ideology spoke of "African Socialism", the model may have been closer to 17th century European state-licensed monopoly trading companies than to post-1848 European socialism.

While participation shares in the East Indies Company, the VOC, the West Indies Company, and various others, were actively

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[39] Issue 001 of the English language EXPRESS appeared February 20, 1992; the new publications are backed by a member of the Ismaeli community, operating as Media Holdings Ltd, POB 20588, Dar es Salaam, tel. 36167. The weekly BUSINESS TIMES is said to be considering expanding to a daily newspaper, but is limited by the comparative absence of businesses to subscribe and to provide news.

bought and sold on early European stock exchanges (Amsterdam being the best 17th century model), in the case of post-1967 Tanzania, the "shares" in the regional trading companies, the regional transport companies and the various holding companies were traded politically among members of the CCM. As there was no profit incentive based on the risk-taking of personal investment, these CCM preferred shares became senior debentures whose issuers paid out with no regard for the health of the enterprises themselves. Revenue was confused with profits. Corporate and personal accounts were co-mingled. Revenue intended to flow to the Treasury diminished with each set of hands through which it passed. Indeed, it appears that these rights of access to the public revenue stream were intended as compensation for party loyalty in the (increasing) absence of cash compensation from the Treasury. A weak Treasury increased incentive to seek personal compensation as close to the revenue source as possible. In this way, one can speak of national complicity in the economic demise of Tanzania. Only the willingness of some nordic countries to keep refilling the cash reservoir kept the system moving.

The second convergent stream flows from cultural attitudes. Western individualism is not necessarily an African social or cultural assumption. As the Team and other consultants readily observe, it is expected in many African societies that the extended family benefits from the success of one member. Concomitant is a predisposition to consume the fruits of a harvest when there is a surplus rather than to save or reinvest. The parastatals operated from this assumption. The result for an enterprise can be either draining of potential investment funds into immediate consumption, or the increase of overheads resulting from "employment" of family members in the enterprise. What could be an efficient seven-worker enterprise becomes loss-making at twenty. Capital formation is problematic within this cultural context.[40] Private businesses tend to cap their growth at a level of revenue and employment judged to be below the perceptive horizon of both family members and Inland Revenue in an effort to husband resources. Expansion, if any, is horizontal through the formation of additional businesses with their own overhead structures. The constraints of this cultural predisposition on enterprise building are self-evident. The Mission should consider carefully the consequences of directly addressing this issue, or whether it may be better to offer role models and examples of other approaches to business as discussed below.

The **Indigenous** African - Asian issue plays a determinant role in **Tanzania's** business world. The Asian community in Tanzania has displayed cultural behaviors contrary to those of Indigenous Africans: group support of individual initiative, forward planning and savings. The conflict between the two cultural assumptions may

[40] The Entrepreneurs Development Fund DAILY NEWS February 16, 1992, inaugurated by President Mwinyi in August 1990, appears to follow this tradition in an institutional way. Indeed, EDF Trustee Reginald Mengi follows the "extended family" concept in his own businesses. He does not have employees or workers, but rather "members of the IPP Family" who are expected to give efficient labor in return for inclusion in "his family."

be intractable. Therefore the Team suggests USAID adopt, for all funds, programs and projects, a straightforward eligibility standard of historical residence and demonstrated investment commitment to Tanzania rather than a racial one when dealing with Tanzanian business.[41]

A major contribution of USAID to the improvement of the Tanzanian business environment could be a long-term program of information and model transfer through lectures, symposia, conferences and luncheon club meetings. Venues will probably include the various business associations, but should also include a specific "American Business Forum" to be created by the Mission, and which ought to be convened in cities outside Dar es Salaam as well as Tanzania's major economic center.

The goal is to expose Tanzanians to American business people and concepts to which they now have no access due to the country's isolation, e.g., that OECD economies have room for, and are built upon the mobility of, corporate giants, medium sized companies and individual entrepreneurs. One would seek to foster a sense of permission, legitimacy and security for established businesses to grow deeper and taller as well as wider. As this concept may be alien to cultural assumptions, it may usefully be put into the more familiar cultural context of "building the nation with individual bricks rather than monoliths." Recognizing that free enterprise includes the freedom to fail, a key subcontext, that will take on increasing significance as the opening process continues, is that business failure is evidence of an attempt to accomplish something which is technically difficult as well as of mistakes made, and that individual effort is laudable.

E. NATURE OF TANZANIA'S PRIVATE SECTOR

The Tanzanian economy has developed in a familiar two tier structure (establishment and informal) which cuts across the public and private sectors. That is to say, established operators and enterprises act both formal and informally (rent-seeking behaviors, seeking of opportunities for short-term or one-time personal aggrandizement) and informal and illegal operators act in establishmentarian ways in an effort to establish and legitimize their enterprises. On the one hand SOE management has to certain extent operated their firms as personal cash cows, and Tanzanian Asians have exacted rents to recover assets seized by the State or simply to gain revenge. In both cases, revenues derived in these ways necessarily had to be held informally, with the result that liquidity was removed from productive, formal re-investment for business growth, and from the Treasury.

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[41] The Registrar of Companies pointed out that while The Business Registration Act Section 320A for foreign owned businesses and Section 14A for locally owned, give the Registrar absolute discretion to refuse registration, he cannot determine from the body of Tanzanian law whether he is to operate on the basis of citizenship or residence. The same is true with the Exchange Control Ordinance Section 8 Cap 294, which talks about resident and non-resident rather than citizen and non-citizen.

TABLE 4-1: The Share Of Private Sector In Monetary GDP

Year	Total DGP TSh mln	Private Sector GDP TSh mln	Share of Private Sector in total GDP
1968	4,797	3,488	74.3%
1970	5,860	4,080	69.3%
1974	10,205	6,591	64.5%
1978	19,067	12,554	65.8%
1980	23,351	14,797	63.3%
1985	25,075	16,259	54.8%
1986	26,044	16,795	64.5%
1987	27,004	17,553	65.0%

SOURCES: Semboja and Rugumisa (1985) and Bureau of Statistics, in, "The Challenges and Potentials of The New Investment Promotion Policy," M.S.D. Bagachwa, December 2, 1991

Tanzania's private sector now consists of numerous, small formal and established firms and informal firms. Despite the public policy of encouraging and favoring SOEs in an effort to overwhelm and eliminate private (largely Asian) businesses, precisely the opposite has been achieved.[42] In nearly all sectors, private, formal businesses are far more numerous than public in terms of absolute number of firms and revenues, if not in numbers of employees. While the scope of the informal sector is considerable (estimates of its weight in the economy range from 40% to 60%), the terms of reference for this assignment excludes its consideration.

TABLE 4-2: GROSS DOMESTIC PRODUCT, PUBLIC AND PRIVATE ENTERPRISES

(million Tanzanian Shillings)

	1986		1987		1988	
	Public	Private	Public	Private	Public	Private
AGRICULTURE	459	83694	887	117095	1301	177459
MINING	168	306	110	535	216	507
MANUFACTURES	5696	2855	4960	9832	3021	12166
CONSTRUCTION	18	3113	36	6475	45	11763
COMMERCE	1518	17958	7027	18936	12936	28655
TRANSPORT	2164	5633	5526	6058	110199	4060
FINANCE	801	7326	6325	4736	14025	107
SERVICES	7	810	59	817	272	682

SOURCE: Bureau of Statistics

According to sub-contractor Coopers & Lybrand DSM, the private sector accounts for 99.9% of all Commerce enterprises. These are small units employing an average of 11 people per enterprise. The private sector also accounts for 99% of all Construction

[42] Iddi Simba, interviews February 18, 1992, and February 8, 1992.

enterprises; these employ an average of 61 people. 97% of all Transport enterprises are privately owned, and employ an average of 6 people per firm. In Agriculture, 66% of all enterprises are private, and employ an average of 55 people per enterprise. In Mining, 62% of all firms are private, employing an average of 66 people per firm. 59% of Manufacturing firms are private, and employ an average of 220 people per firm.

The private sector is also significant economically. According to one study, the private sector has contributed between 54-75% of Tanzania's monetary GDP since independence.

While the contribution to GDP of Manufacturing, (public and private enterprises aggregated) has actually decreased from TSh 2,811 mln in 1976 to TSh 2,587 mln in 1990 (constant prices), the private sector's contribution within the sector has grown rapidly. The ratio of public to private contribution reversed in favor of the private sector in 1986.

TABLE 4-3: TANZANIAN ENTERPRISES: Public and Private (1990)

SECTOR	Number of Enterprises		Number Employees	
	Private	Public	Private	Public
Agric	316	164	17344	14219
Mining	20	12	1312	4442
Manufact	283	193	62247	79074
Construc	1126	3	68366	7360
Commerce	370000	49	4133000	
Transport	897	29	4975	63810
Other	0	48	0	

SOURCE: Coopers & Lybrand DSM, Bureau of Statistics

RACE RELATIONS AND PRIVATE ENTERPRISE

One issue in the transformation of Tanzania's economy, and especially the transformation of parastatal enterprises to free market companies, is the future role and power of the non-Black Tanzanians. As has been amply described, these parastatal enterprises were created for purpose of empowering the indigenous population to take control of their own economy in opposition to European colonial and Asian entrepreneurs.

Tanzania's economy today consists of some 325 State Owned Enterprises (SOEs) and numerous, small, established formal, and informal firms. In nearly all sectors, the private businesses are far more numerous than the public in absolute number of firms and revenues, if not in numbers of employees. Estimates of the informal sector's weight in the economy range from 40% to 60%. This is to say that, despite the application of public policy to encourage and favor SOEs in an effort to overwhelm and eliminate private (largely Asian) businesses, precisely the opposite has been achieved.[43]

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[43] Iddi Simba, interviews February 18, 1992, and February 8, 1992.

In the present state of affairs, the Black private sector is too small and under capitalized to purchase much of what may be privatized. Moreover, the Black private sector does not have the depth of experience venture capital firms would look for. Finally, the Black management cadre is largely engaged in and familiar with the ethos of SOE rather than private enterprise. This state of affairs has given rise to concern among some Black-Tanzanians (and donors) that, done too quickly, privatization will result in a transfer of ownership from the Black State to private Arabs, Indians and other non-Black foreigners.

As has been discussed in previous Chapters, the very notion of private enterprise has been so compromised by CCM ideology of opposition to "capitalism", and experiential knowledge that private entrepreneurs operate on the margins of society, that it is doubtful whether respected Black Tanzanians even see it as a personal option to put their capital, reputations and personal lives at risk in this market.

The vitality of Tanzania's non-Black private sector is, to some observers, proof positive of its corruption. Tanzanians with whom the Team spoke tended to equate business success with corruption. Successful Asian- and Black-Tanzanian businessmen were widely assumed to have achieved their success by bribery, personal connections and corruption of officials. Few of these observers extended this logic to consider the putative bribe taker's identity and ethics.

Asian-Tanzanians have also admitted to Team members that they have been exacting rents from Black Tanzanians wherever and whenever possible to recover assets seized by the State or simply to gain revenge for wrongs done them. Other Asian-Tanzanians have simply written off lost assets and expressed amazement that the present government would even consider asking them to purchase back run-down properties at unrealistic prices. Still other Asian-Tanzanians, despite the government's track record, have purchased agricultural estates and invested in small processing plant (such as flour mills, printing plants, textiles, etc).

Asian-Tanzanians were neither required nor encouraged to do government service, but were left to occupy themselves in the private sector. One observer remarked that, in all the years of African Socialism, most of the former chambers of commerce and business associations function only as the personal consulting firms of their Executive Secretaries - who had been appointed by the government to these positions upon their retirement from active and direct government service. The only business association which continued to represent the interests of its membership to the government was the so-called "Indian Chamber" in Dar es Salaam, the Dar es Salaam Merchants Chamber. As may be assumed, this structural differentiation further divided the Black/government from the Asian/business populations of Tanzania.

Finally, the Black/Asian Tanzanian issue in the business world plays out along lines of cultural assumptions and behaviors. The

Team observed first that Tanzania's Asian population is relatively small. Rather than the 5 million, the Team finds a maximum of 500,000 "Asian Tanzanians" a more realistic number. In discussions with Asian businessmen it became clear that, as is usually the case in Europe, North America and India, the majority of these people are engaged in small business: retail shops, small factories, small transportation businesses, etc. The Diamond Jubilee Investment Trust (T) Ltd has only recently made several loans of TSh 5 mln; its largest ever loan was TSh 9 mln. This private financial institution describe a low default rate among its borrowers, but also a very management intensive approach to helping its debtors remain credit-worthy. The Team doubts whether the Asian community of Tanzania is sufficiently well capitalized to be in a position to buy Tanzania's "family silver" and seize control of the economy.

Secondly, there are significant cultural differences between the Black and Asian populations of Tanzania. It is evident from their very survival that the Asian citizens of Tanzania have displayed frontier cultural behaviors: group support of individual initiative, forward planning, and saving of surplus. The conflict between their assumptions and that of African socialism (self-sufficiency leading to management self-aggrandizement; cutting of business linkages with outsiders; assumption of the right of personal exploitation of public property; maximization of present value through immediate consumption) may be intractable and certainly give rise to clear animosity.

Thirdly, a policy of positive discrimination to favor non-Asians will effectively eliminate access to the very entrepreneurial skills which, having demonstrably kept their possessors alive during a hostile period, will be needed by the newly privatized Tanzanian enterprises in order to survive in the real world of the transnational economy.

Therefore the Team suggests that, when dealing with programs and projects impacting Tanzanian business policy, issues and entities, and in order to:

- o put an end to any U.S. Government role in racial issues,
- o recognize successful business track records,
- o and mobilize all of Tanzania's available talent pool for the difficult task of reconstruction,

the Mission adopt a straightforward eligibility standard of historical residence and demonstrated investment commitment to Tanzania rather than race.[44]

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[44] The Registrar of Companies pointed out that while The Business Registration Act Section 320A for foreign owned businesses and Section 14A for locally owned, give the Registrar absolute discretion to refuse registration, he cannot determine from the body of Tanzanian law whether he is to operate on the basis of citizenship or residence. The same is true with the Exchange Control Ordinance Section 8 Cap 294, which talks about resident and non-resident rather than citizen and non-citizen.

F. BASIC STATISTICS AND RECORDS

Constraint #3 - Absence of Accurate Data

As interesting as the data provided by the Bureau of Statistics may be, it must be stated that no complete and accurate picture of Tanzanian business activity is available. It is not possible to disaggregate individual enterprises from sectoral data. This lack of accurate or even available data is the result of GOT past policy which was hostile or indifferent to, and thus completely ignored, the private sector in the expectation that it was not expected to exist for long. Secondarily, it is the result of the lack of a credit market. With only the State lending (albeit via a number of institutions as discussed previously), and then for policy purposes, there was no need for the financial industry to develop accurate, independent sources of financial data on potential customers. The vigorous informal credit market lends on a personal basis and collects in the same way. The country's sole independent, private financial institution, Diamond Jubilee Investment Trust (Tanzania), Ltd (DJIT) had confined itself to a religious community whose members it knew personally. In is an interesting reflection of the sense of opportunity and openness abroad in Tanzania that the DJIT has already opened its membership beyond its base community, both for deposits and loans[45], in anticipation of establishing itself as a private bank.

The only potentially accurate source of company information are the files of The Registrar of Companies, the Registrar of Business Names and The Registrar of Industries. A visit to The Registrar, interviews with personnel in Dar es Salaam and Arusha, and personal inspection of the premises revealed the condition of these records is so abysmal as to be useless. Individual files on companies as may be uncovered are far from accurate or current in their statutory reporting requirements on revenue, taxes paid, etc. Third, not all enterprises are registered. Further discussion of The Registrar may be found below.

Without going into a sectoral analysis, there are indicative data on the efficiencies of private enterprise in Tanzania. As is typical in most economies, the Chemicals sector (oil, chemicals, paints, fertilizers, pharmaceuticals, etc) provides the greatest turnover and value added per employee in absolute terms. More interesting is that the Metals Sector (primary and metal-working) ranks so high. This is an important entry point for start-up businesses, both formal and informal. More efficient still is the Paper and Paper Products Sector, one which Tanzania could easily develop. Finally, as may be predicted from world market conditions,

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[45] DJIT has written to most motor vehicle dealers to solicit financing opportunities and has financed a number of 80% chattel mortgages on light vans for the <u>daladala</u> market. It will expand this lending and move into leasing as soon as the Hire Purchase Act is revised to permit it. Interview with N.E. Kassam, Assistant General Manager, DJIT 18-2-92.

and the fact that the sector does export, the Textiles and Leather sector also recommends itself for further exploitation.

TABLE 4-4: Tanzania Private Sector Enterprises, 1990
(value in current T Shillings)

Turnover/ Employee	ValAdded/ Employee	SECTOR	Value Added/ Turnover
1,120,101	854,247	Chemicals	76.3%
841,215	658,375	Metal Industries	78.3%
684,708	549,182	Paper & Products	80.2%
591,146	426,446	Pottery,Glass,etc	72.1%
332,208	259,919	Textile,Leather	78.2%
247,783	184,264	Wood, & Products	74.4%
263,393	177,975	Food, Bev, Tobac	67.6%
170,812	119,260	Other Mfctring	69.8%
121,800	79,887	Mining,Quarrying	65.6%
506,668	385,371	TOTAL MFCTRING	
492,561	374,174	TOTAL INDUSTRY	

SOURCE: Coopers & Lybrand DSM, Bureau of Statistics

While the agro-business sector is not specifically included in Tanzania's industrial statistics, past data and present reporting indicates steep growth in production of export commodities such as mangoes and other tropical fruits, flowers, etc. Tanzania does not now have a significant fruit and vegetable processing sector, and so most of these goods are exported fresh or unprocessed. This sector should and is receiving considerable private sector attention.

Developing private sector opportunities requires several preconditions. The first is the successful conversion of informal liquidity into formal and its investment and/or lending into private enterprise. Measures already taken by GOT, and recommendations for USAID intervention have already been discussed. Equally interesting is that the availability of formal lending will demand-pull improvements in public rating of enterprise credit-worthiness. Not only does this create opportunity for the establishment of various service firms (credit rating, collection agencies, investment pools) but it will also demand the improvement in public sector record keeping and information provision.

Other measures include:

revision of the law on tenancy
revision of land ownership laws
revision of the leasing and hire purchase regulations
legislation specifically permitting private enterprise
harmonization of laws on business registration

G. FORMATION OF A BUSINESS: PERMITS AND PERMISSIONS

There never has been a particular body of law on private sector business in Tanzania. All is based on a series of Acts: 1967 Nationalization of Banks, 1970 Nationalization of properties, and policy revisions of 1984. The system is extraordinarily old-fashioned. The law defines an industry as any processing entity employing more than 10 people. There is no minimum capitalization requirement, no legal requirement that one half of investment capital be placed in a blocked Tanzanian bank account.

What are the steps to create an enterprise? Business establishment procedure is described in even greater detail in Appendix H.

1. Clearance Of Business Name: this fee-less process in fact should take 48 hours and is intended to prevent pirating of a name already in use or registered in Tanzania or abroad. While Tanzania is not yet a member of trademark convention it may be in 1992; for the present and there is a High Court case on trademarks which has the effect of law.

UNDP has a project for industrial and trademark patents. Papers were sent for action to Treasury in September 1991, but there has been as yet no reply, which is necessary as Treasury has to accept the funds from UNDP for the project. The Registrar claims to receive 30-40 trademark applications per month and process completely 5-10 per month. Most requests are of foreign origin and communications are very difficult.

The Registrar tries to control "private thinking" by his staff on name issues under the "notwithstanding" clause of Section 14A of the Law on Business Names. In any case, there is recourse for an applicant in case of refusal under Section 7 which allows for High Court reversal of decisions by The Registrar to refuse for cause.

One problem with the present system is that a Tanzanian business man who lives upcountry must operate blind. He selects a business name without knowing or having the ability to check in advance whether the name is available. Telecommunications are so bad as to require personal intervention at every step of the process. It may be weeks or months before he comes back to The Registrar to check on his paperwork. The District and Regional Trade Officers cannot do anything but fill in the paperwork.

Only one person actually performs the check for business names. While the Registrar says the clerk processes 10 requests per day, she claims seven. The abysmal condition of the records, manual listing in chronological order of registered business names, and lack of motivation under these conditions means that verifying a request actually may take three weeks before the physical file passes through to the correspondence clerk.

2. Articles, Memoranda and Amendments of Association - the lawyers draw these up and the Registrar feels they are blatant liars to their clients on the amount of time and money the process takes in order to increase billing. The Registrar wants fast turn-around, but the quality of work by Tanzanian lawyers is spotty to bad in

drafting these documents. The Registrar feels himself forced to return the documents for rewrite. This is a great nuisance factor.

3. Required forms:
    Form 1 (from Section 16)
    Form 14 particulars on Directors
    Form 15 Registered office

4. Fees are laid out in Finance Act Section 8 (passed by Parliament)
    Tax on Capital: TSh 10 per TSh 1000 registered capital
    Registration Fee: nominal
    Filing Fee: TSh 500 per document
    Stamp Duty: TSh 150 for the original and TSh 65 per copy

    Kenya requires foreign companies to have local shareholders. Tanzania does not under the constitutional provision of free association.

In addition to the preliminary steps already noted, after the paperwork is processed by the Registrar, it moves to a District Trade Officer for approval, then the sectoral Ministry for approval, and then to a Committee empowered to issue ad hoc judgement on the political suitability of the applicant and the enterprise. If that hurdle is taken, the District Health Officer must issue an approval of the premises. This has proven impractical. There are too many applicants for too few health officers, and no uniformity of enforcement. After the Health Officer, the Land Officer also must give approval for use of the location.

The Registrar believes the present Business License procedures are corruptive. Prior to 1978 an applicant went to Inland Revenue and filled out a form which <u>predicted</u> annual turnover and then got a pre-payment tax. That took 30-60 minutes and even illiterates could do it with the aid of the many "public writers" who hung out at the office. After 1978, the GOT came to the view that the then-increasing shortage of goods was due to "middlemen", and that too many people were licensed in trade and commerce. To exert greater central control the GOT removed the process from the Ministry of Finance, and amended The Business License Act to make it the responsibility of the Ministry of Industry and Trade. The Registrar regards this as unnecessary and harmful to business development, because that Minister now has and exerts absolute right of refusal to business establishment "to protect the economy."

The Registrar recommends scrapping the Business Name Ordinance. Too many people simply register a business name and presume they have a legally registered firm. The capital threshold is too low. It would be better to put the entire process (all steps) under a single new Ordinance, to be developed with the assistance of The Registrar, representatives of the private legal community, and relevant Ministries.

<u>Establishment of Foreign Companies:</u>

At creation it was incorrectly presumed that the IPC would supersede all other bodies. It does not. Before the National Investment (Promotion and Protection) Act, 1970, the only body of law on which the IPC could rest is the Foreign Investment Act of 1962. As noted in interviews with the Team in March 1992 (and publicized in EXPRESS, March 13, 1992), a harmonization of laws impacting on foreign investors is planned for April 1992. "The laws [seven in all] have been overdue for review for about two years because they were specifically mentioned in the 1990 Act that led to the establishment of the IPC. Investors have thus been finding it difficult to get the waivers mentioned [in the Act] because its provisions are not in harmony with the tax laws in operation."[46] Land for foreign-based companies operating in Tanzania is to be given (allocated) by the respective sectoral Ministry, but this also has no basis in law. IPC was supposed to operate via a Committee, but there is no structural relation to the extant Law on Industrial Licensing.

Mr. Kahama may monitor compliance with provisions on capital requirements, and reserved sectors, but cannot actually register a firm. Foreign firms necessarily must follow the sole procedure available as already described, as well as special regulations of Immigration. In addition, Foreign Exchange Ordinance has not been modified and must be.

The Registrar has sent a written proposal that a meeting be held among representatives of Immigration, Taxation, IPC, and The Registrar to work out a solution to the present vicious circle in which foreign companies necessarily find themselves, with all the opportunities and temptations to lubricate the system. The Registrar also feels that the GOT has to streamline and rationalize the process to eliminate the very real present opportunity for local con-men to seize locally invested foreign assets by arranging to have their erstwhile partners declared persona non grata.

The Registrar's Office:

Despite the Registrar's ideas to improve the regulatory environment, it must also be said that the basic records on companies in Tanzania are in such chaos that a necessary condition to the establishment of the basic conditions to do business in Tanzania is to straighten them out. Accurate records will be necessary for GOT revenue collection, financial institution credit-worthiness decision, business-to-business sales, and investment (both in terms of equity purchases and determination of competition and market potential) before one could even consider compiling accurate information on enterprises.[47]

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[46] "Investment Climate: Laws to be amended" by Felix Kaiza: EXPRESS March 13, 1992, p.1

[47] Mrs. Matilda Bella, Regional Trade Officer, Arusha, explained on 17-2-92 that she was unable to obtain any list of companies in her Region from Dar es Salaam. She then carried out a census of doorways to compile the data she requires to fulfill her duties.

The Office's level of effort is considerably greater now than thirty years ago at independence. The primary constraint is the Office's record keeping system. The file cabinets and shelving space available cannot hold the volume of paper generated by the system, even through a significant number of companies neglect to file even the present nominal reports required. Corporate files are stacked on tables and on the floor. Through sheer confusion it happens that a file which has passed through stages one and two of the approval process does not get hand carried to stage three but either remains where it is or is mistakenly replaced at the beginning of the process. This confusion also creates opportunity for clerks purposely to misplace files to induce bribes. In addition, warehousing of records in a Pugu Road facility has resulted in the loss (reason not clear) of old records to scrap paper merchants, so that it may be impossible to reconstruct an accurate history of business formation in Tanzania.

It may also be noted that this Office is also responsible for Trademarks and Tradenames, and for Patents. The latter function is now the responsibility of an Acting Assistant Registrar untrained for this work. The Registrar, a lawyer, is actively working to create legislation on intellectual property to bring Tanzania into compliance with international standards. **USAID may usefully consider providing technical assistance in the drafting of this legislation.**

The Registrar's Office is also the location where projects deemed undesirable can be held up. One informant noted the case of a tourism enterprise held up in this way. Another noted that a request to change a company name has been held up for thirty days. Another noted the either ignorant or willful denial of use of a company name due to alleged close resemblance to an extant name: Bahari Hotel, Fahari Hotel, Bendari Hotel all were considered. Denial of a request is not accompanied by an explanation. Nor are requests for use of a business name published prior to approval or denial to afford timely opportunity for a current holder of that name to file a request to deny.

USAID could consider technical assistance to restructure and bring The Registrar's Office into utility by application of computer technology to its data base. This will first reduce the sheer confusion of paper, free space for more useful pursuits, and permit accurate and timely research for various legitimate business purposes. In addition, the professional and clerical staff may usefully be offered professional seminars and training to aid them in the more efficient performance of their work. At the same time, the text of the Business Names Registration Ordinance should be reviewed and rendered more efficient both in its specifics and in the procedures required to access its protection. Finally, the above changes will reduce the opportunities for rent-seeking behavior and blackmail inherent in the present system. The end result will be the elimination of an important barrier to business establishment and operation, the creation of a useful database of business activity, and improvement in Tanzania's attractiveness as a place to consider conducting business.

In other areas of legal reform:

The land tenure policy is being reviewed and is likely to change to allow private ownership of land.

The Patent Law 1986 and Trade Marks and Brand Names Act 1987 are expected to come into effect in the near future.

The Law Reform Commission is reviewing labor laws regarding areas such as strikes, lock-outs, wages, and hiring and firing which constrain efficient commercial operation.

H. FINANCIAL SERVICES

Constraint #4 - Check Clearing and Cash Management

Closely related to the absence of basic business information (for business and for government) from the office of The Registrar is the structural deficiencies of the financial sector. These issues have been specifically addressed in the chapter on financial markets. While the lack of efficient check clearing makes it very difficult for the banks to operate as efficient businesses, the business community has traditionally paid the cost of the banks' inefficiencies. Their specific impact on the formation, sustainability and expansion of business is addressed here.

The former head accountant of Friendship Textile Mill Ltd recalled that in the 1980s he would accept a check in payment of goods from traditionally reliable customers, despite the knowledge that check clearance was a very lengthy process. Acceptance of checks was obviously necessary from the standpoint of record keeping of orders and customer buying patterns as well as the practical aspect of handling the large sums involved. Acceptance of checks, however, also put the seller in an untenable position. The pattern was this. The next month, on the customer's assurance that he had banked the cash proceeds of the sale of the previous order, the accountant would approve payment by check for the next lot, and so on, month after month. When the first check in a series finally cleared and was presented at the originator's bank branch some four categorically eliminated the possibility that he himself would ever clear a check by telephone. In the first place, the telephone system completely inadequate within the country. Telephone directories are not accurate. The effort to make a successful connection, even when a correct number is known, places an intolerable time burden on him and his staff. In the second place, it was the assistant branch manager's belief that clients of a distant branch make a practice of providing false telephone numbers to allow the clients' confederates to masquerade as the manager of the issuing bank.[49]

In April 1991 the Tanzania National Assembly passed an amendment to Cap. 16 of the Penal Code, which makes the issuing or delivering of a check that will bounce for lack of fund's in the drawer's account a criminal offense. According to the Schedule under the Written Laws (Miscellaneous Amendments) (No. 2) Act, 1991, the drawer shall be liable, on conviction, to imprisonment for a term not exceeding ten years only if he fails to pay the banker or the beneficiary the equivalent amount of money after 30 days notice of dishonor of the check.[50] In its commentary on this revision of the law, "The Accountant" notes that "the monopolistic public banks (are) one source, greedy traders the second source and dishonest bankers/individuals the third... The unpleasant state of affairs has continued despite the protective Cheques Act 1969 which guard banks from losses out of forged or stolen cheques.[51]

The legal framework may be in place, but there are two other foci to assist Tanzania implement a more efficient payments system. Naturally, enforcement and prosecution in the courts must be impartial and rapid. Eliminating the opportunity to kite checks present in the completely inadequate communications, and thus clearing, system will be still more efficient.

Both to assist in the installation of adequate backroom bank operations of the present and future banks in Tanzania, to assist the BoT in a more adequate supervisory role, and to aid enterprises in more efficient cash management, **it is recommended that USAID conduct a feasibility study into the creation of a data network independent of the TP&TC landlines dedicated to inter-branch communications.**

The TP&TC now has 6 Ghz microwave links among a number of key cities centered on Dodoma. As can be seen from the map (attached) there is no true network among secondary cities. Moreover, the Dar

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[49] Malela Rashid, Assistant Branch Manager, NBC Uhuru Branch 17-2-92; see also "No More Fear: Clear Cheques Faster," The Accountant, Vol 4,No1, 1991, p2

[50] "The Accountant", Dar es Salaam, Vol 4, No. 1. 1991, p.6

[51] "The Accountant", Vol 4 No.1 1991, p.2 "No more Fear: Clear Cheques Faster."

es Salaam - Dodoma main link has reached capacity.[52] While there are plans to increase microwave channel capacity, realization is at least three years in the future. Moreover, this technical assistance does not address the key issue of internal linkages among and between all key cities of Tanzania at the moment that other policy reforms will be enacted. Delaying communications infrastructural capacity will create inherent obstacles to successful business expansion.

After discussion with Mr. E.I. Kweka, Head of Frequency Management, TP&TC[53] it is evident that the Tanzanian frequency spectrum in the 230-300 Mhz range is not congested, and would lend itself to a UHF packet radio data network capable of at least 9600 baud capacity. This network could link computers in financial institutions and pass encrypted data. It is envisioned that this capacity would be sufficient for overnight clearance of checks and L/Cs among key cities, and may also serve to consolidate the accounts of major branches in key cities, and serve the Bank of Tanzania's supervision tasks.

USAID may usefully approach the Director General of the TP&TC with a proposal to install this UHF data network in key cities by using present microwave towers as repeater sites. TP&TC would allocate and license the frequencies for fixed service, give permission to install equipment on their microwave towers, and carry out equipment maintenance. This data network would ideally be managed by the Bank of Tanzania[54] as a common carrier nominated by the TP&TC, and be open to any financial institution which may be licensed in Tanzania. The Bank of Tanzania now uses HF and VHF frequencies for internal voice communications and therefore has a responsible official familiar with communications issues. Financial institutions would purchase or lease the transceivers and related apparatus for each location and pay appropriate user fees to support the system. Technical and training requirements, and capital expenditure are limited to relatively inexpensive, off-the-shelf UHF transceivers, packet TNCs and PCs, all of which are manufactured in the United States.[55] USAID's role would be limited to policy change interventions and the creation of a funding instrument to enable the transactions.

I. BUSINESS ASSOCIATIONS

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[52] Discussions with Spanish interests to fund and construct a second channel between Dar es Salaam and Dodoma, with extensions to Pemba and Zanzibar, have been underway for some time.

[53] 20-2-92 on recommendation of Thomas Hettel, CPO, USEMB DSM

[54] World Bank consultants Simon Bell and Chris Barltrop have indicated the World Bank's interest in engaging BoT in this capacity.

[55] Commercial transceivers meeting DOS and DOD standards are typically available from Collins and other vendors. Amateur radio equivalents are typically of Japanese manufacture: Icom, Yaesu and Kenwood. TNCs are manufactured in the US

Constraint #5 - Lack of viable business associations

It must be assumed that all present business associations are nascent. For twenty five years there have been no active business associations in Tanzania, as all efforts were directed to the support of the public sector, while private sector activity was tolerated until the inevitable triumph of the parastatal economy. Private sector business associations were ignored and left to wither rather than being legally disbanded or dissolved. Typically, a retired civil servant would occupy the leadership of a chamber of commerce and use the position as a "contact consultant" able to open doors for access to bureaucrats, carry out registration for clients.

As it became apparent that the private business sector had not withered away, the GOT found it necessary to have a forum through which to address the business community. The Dar es Salaam Chamber of Commerce took on that role of designated window to the private sector. As a result, the head of that body felt himself to be legitimized as "spokesman for the private sector." Then a few years ago the umbrella Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) was called into being for the purpose of grouping all the remaining city chambers of commerce. The city chambers, however, did not want to lose their direct role and fought the change. After some political manoeuvering, the present solution finds the TCCIA as well as the old city specific chambers of commerce, and a of the Confederation of Tanzanian Industries (CTI) which groups public and private industrial enterprises, and the Dar es Salaam Merchants Chamber (known as "the Indian Chamber"). None of these bodies presently provides the range of business services which we understand to be their main purpose. The TCCIA has received UNDP technical assistance, the CTI has purportedly assessed its 150 members a total of TSh 30 mln and plans to hire an Executive Director and staff, while the old city chambers of commerce also remain in place. The only chamber of commerce which is generally knowledged to have provided true member services over the past twenty five years is the Dar es Salaam Merchants Chamber.

Comments on Chamber(s) of Commerce:

Informant A: The Chamber of Commerce, of which he is a member, does not help him either check for credit-worthiness or to collect from debtors.

Informant B: A foreign group of businessmen asked to stop at the Arusha Chamber of Commerce to get data on local companies and business opportunities and (as informant expected) got absolutely nothing. The Chamber has had no function for eight years - except to have officers. He had not heard of the TCCIA operation coming to town. There are no business associations in Arusha, except for the Rotary Club the membership of which is said to consist of Asians and a few leading Black Tanzanians.

Informant C: The Chamber of Commerce is not effective and may also be an obstacle to development.

Tanzanian Business Associations

Architectural Association of Tanzania
Hon. Secretary
Dar es Salaam
17 Feb 92 1830 get together with UK architect

Arusha Chamber of Commerce and Agriculture
POB 141
Arusha
tel 3721
As of 17 February 1992 rated by Regional Trade Officer to be inactive.

Association of Tanzania Employers
Executive Director
Mr. A.T. Maenda
AMI Building, Samora Ave POB 2971
Dar es Salaam
tel 22981, 23152

Computer Association of Tanzania (COMPAT)
W.A. Magambo, secretary
c/o Tanesco HQ
Dar es Salaam
annual meeting to be late April 1992

Confederation of Tanzanian Industry
Iddi Simba
c/o Interfinas
TDFL Bldg
Dar es Salaam
tel 30844

Dar es Salaam Chamber of Commerce
E.C. Mzenda, chairman
POB 41
Dar Es Salaam
tel 23759
tlx 41628

Dar Es Salaam Merchants Chamber
"the Indian Chamber"
POB 12
Dar Es Salaam
tel 22267

Packaging Association of Tanzania (PATA)

Southern Highlands Tobacco Union Ltd
POB 76
Iringa
tel 2177

TAFIA Tanzania Forestry Industries Association

Tanga Chamber of Commerce
POB 311
Tanga
tel 3231

Tanganyika Association of Chamber of Commerce
never dissolved, but inactive
POB 41
Dar Es Salaam
tel 21893

Tanganyika Coffee Growers Association
POB 102
Moshi
tel 2201

Tanganyika Law Society
POB 2148
Dar Es Salaam
tel 21907

Tanganyika Farmers Association Ltd
POB 3010
Arusha
tel 3191
tlx 42141

Tanganyika Native Medicine Association
POB 253
Iringa
tel 2795

Tanganyika Tea Growers Association
POB 2177
Dar Es Salaam
tel 22033

Tanganyika Textile Association

Tanzania Association of Tour Operators
POB 3178
Arusha
tel 3173

Tanzania Association of Worker's Education and Training
Eddi Sanga chairman

Tanzania Chamber of Commerce, Industry and Agriculture
Mr. Donat Mgeta
Honorary Secretary
tel 30556

Tanzania Drivers Association
POB 15120
Dar Es Salaam
tel 21742

Tanzania Translators' Association
nine years old: promotes training of translators & interpreters
wants tech terms in Kiswahili
Dr. Z.S. Mochiwa-chmn
Dr. H.J. Mwansoko - vice chmn
D.L. Masoko - treasurer
C.M. Swabge-secretary
I.A. Katanda - exec comm
O. Kiputiputi - exec comm
S. Yahya-Othman - exec comm
J.T. Kibwana - exec comm

UNDP's Mrs. Soma C. Goonetilleke told the Team that it was not yet clear to her, because of the disorganization and internal wrangling of the Tanzanian business community on the issue of organizational primacy, that UNDP should agree to provide the technical assistance planned for TCCIA at its formation two years ago. She would know more after April 1992.

Under the assumption that business associations are required to aid Tanzanian entrepreneurs and enterprises to gain access to the services they need individually and the policy changes they need collectively, **it is recommended that USAID encourage the establishment of member-supported business associations through a technical assistance fund** to which applications may be made for specific projects or short-term programs on the basis of plans which define needs and goals to be attained. Examples include management and skills-development workshops, reference materials, technical assistance for the creation of membership publications, development of data bases, etc. It is further recommended that no funds be expended to hire, establish and equip administrative staffs, but rather be granted on a matching basis under some formula of cash for level of effort.

J. TANZANIA'S BUSINESS GROUPS

Tanzania's indigenous business community is largely organized in holding companies. These holding companies may be simply central administrative points controlling several (semi-)autonomous operating companies. In other cases, there is direct cross-participation between the companies. Given Tanzania's past indifference to the private sector (which sprung out of the conviction that the private sector would soon wither away under the competition of the public sector) there is little or no available - or accurate - statistical data on the performance of these closely held, limited liability companies.

Three basic models describe these groups: import-substitution manufacturers; import-substitution coupled with commodity exports; and pure export.

Mac Holdings and The IPP Group [See Appendix J for a list of Tanzanian Groups] are examples of the import-substitution model. This model predicts that low-cost local production of inexpensive consumer disposables will generate a revenue stream sufficient to self-fund expansion into increasingly sophisticated enterprise as the Tanzanian economy expands. Whereas Mac Holdings is well established, we will examine the newer IPP Group as an example of indigenous business establishment. IPP began in reaction to the wave of nationalizations as an attempt to create an independent livelihood. with home assembly of ball point pens, and then injection molding of pen bodies, then of thermos flask bodies, then plastic household utensils, then household paper products from low technology waste paper recycling, then soap. From the soap came a franchise to produce Colgate-Palmolive brands. The Northeast regional Coca-Cola franchise was gained in order to increase the revenue stream.

The revenue stream had to be increased because of the need to finance forex-funded capital equipment purchases. And the less favorable the exchange rate, the greater the need for a TShilling revenue flow to cover it. In theory, with excellent timing, very tight financial control and insightful management, this model ought to work. Mengi admits that he has financed expansion through debt. Independent analysis has indicated that the local economy is sufficiently liquid to permit success, and that Mengi's products are well-priced and niche dominant. Several of his operations are performing profitably on operations, but others with higher debt servicing requirements are sucking revenue out of the profitable into the unprofitable.

The main problem with this model of entrepreneurial growth is that it lacks a solid export product to generate the forex required to service internal debt.

D.M. Investments, run by Antony Diallo [see Appendix J] has misjudged the import substitution model by basing its operations on local assembling of imports. D.M. Investments concentrates in metals, engineering and assembly of household hardware and semidurables. Without the necessary second leg of forex generation through exports, D.M. Investments is apparently doomed to collapse under the weight of increasing forex debt without extremely fortuitous and creative access to re-financing. Since the firm does not operate in a GOT priority sector, it is unlikely to be able to access, for instance, DCP money, or OGL.

The second model provides for a mix of local production for the local market to generate TShillings along with low-cost local production or processing for the export market to generate the required forex for capital investment and market development. Several Tanzanian groups fit this model, including IPS, JV, and Sumaria groups. The largest, the IPS Group was the creation of the Ismaeli community in 1945 (with branches in Kenya, Uganda and Tanganyika) is a successful group, but not typical of the Tanzanian situation. First of all it is the creation of a narrowly focussed religious community which has very strong principles of common help for fellow believers, and, it is a local branch of a world-established group (a multinational in practice), with all of the advantages for marketing and capital investment linkages such a situation offers.

That the IPS organization and the Ismaeli's were not regarded as completely inimical to Tanzanian nation-building in the 1960s may be assumed from the fact that there are cross-investments between GOT institutions and Ismaeli institutions (Kilimanjaro Textiles, and other "associated companies" listed below being examples). Another indicator is the fact that the Ismaeli's community-based financial institution, the Diamond Jubilee Investment Trust Ltd, was the sole "foreign bank" not nationalized but treated with a hands-off policy. For these reasons, the IPS Group, while apparently successful, may not be a model for indigenous Tanzanian company building in this model.

The J.V. Group [see Appendix J listing for Juthalal Velji Ltd] lends itself better for this discussion. The JV Group, despite its obvious Indian origin, has committed capital investment and business activities in Tanzania. It has extremely close links with the indigenous Tanzanian community, including intellectual, political and business leadership.

This group's activities are based in TShilling revenue streams (a national PepsiCo franchise) and forex through exports such as textiles and garments, sisal and timber. It also combines key sectoral activities such as freight forwarding and warehousing with vehicle imports and sales, civil engineering for agriculture and industry. This group is reputed to be one of the most solid financially and well organized managerially.

Export oriented groups include the Fidahussein group, which is a branch of a worldwide organization, Rajani industries, and a few other single-unit entities active in extracts, horticultural products, gems and spices. Few indigenous Tanzanian entrepreneurs have penetrated this business segment. Ultimately, the success and health of Tanzania's economy will depend on the simultaneous development of a domestic market and an export market. In the first place, the learning process leading to the successful production of world market quality goods depends on practical experience at home. In the second place, being able to sell on the world market also depends on pricing at prevailing world prices. This implies having access to inputs at world prices. Mechanisms to allow this can include duty draw-backs on the export of imported inputs, bonded warehouse and Export Processing Zones, to name only two.

A significant USAID intervention would be the provision of world marketing expertise and contacts for those Tanzanians who are capable and willing to enter this specialized area. Given the investment requirements to own and operate agricultural estates, timber properties and mines, it may be that the initial effort should be directed to brokers and traders, or, at the most, contract farmers. One efficient mechanism to achieve the initial stages of export expertise is intervention by IESC. The Team recommends a buy-in focussed on the establishment of the preconditions required to bring inexperienced but potential exporters especially of non-traditional agro- and horticultural products.

In addition, the IPC will require adequate statutory authority, a clarified relation with other GOT bodies, technically adequate staff, and expansion of its role into areas now held in theory by the Board of External Trade: international trade fair participation, promotion of exports, fostering of market linkages. The Mission may wish to consider funding a feasibility study into developing export promotion schemes or "point franc." In order for such regimes to be effective, however, other interventions of a more fundamental nature will be required at Customs and Excise and tax authorities.

K. SUMMARY OF SECTORIAL CONSTRAINTS

<u>(1) Leadership Ambivalence</u> - Political awareness of the need for reform is not unanimous and thus commitment is not total. Some Treasury officials want to maintain profitable parastatals as sources of revenue. Certain economic policy reforms are delayed for fear of unrest (due to increased consumer prices, unemployment and loss of covert opportunities), undesirable when there is a simultaneous debate on political reform. This ambivalence stimulates low confidence by foreign and domestic investors that the reforms will be broad based and long term encourages focus on short-term, high-return or risk-free opportunities.

<u>(2) Reform Donor Driven</u> - Market liberalization has been promoted largely by foreign organizations such as the IMF and World Bank. Liberalization may be somewhat resisted until it is considered truly Tanzanian. Conditionalities without domestic commitment may produce averse results. An example is the 1991 Co-operatives Act which tried to separate the activities of the Government from those of the co-operatives.

To date, the level of interference is greater than before the enactment of the Act. Donors are concerned that Government officials have been forced into undertaking reforms which they do not accept and which they are unlikely to maintain once funds are no longer available. To date, the political and civil service leadership has shown a reluctance to take the lead or accept responsibility for managing most parts of the reform process. Some donors state that the restructuring process has not yet begun.

(3) Antipathy for Informality - Government attitudes toward the informal sector must become supportive of the sector which has demonstrated the most potential for growth and ability to absorb workers. The lack of a clear policy and action plan to develop the small and informal sectors constrains further development. Indigenous entrepreneurs, as well as urban youth and women, are found mainly in the informal sector. A policy framework to formalize the informal sector would lead to opportunities for this group to participate more fully in a free market economy.

(4) Ad hominem Application of Law - Lack of clarity in rules, regulations and modus operandi leaves ample opportunity for uneven enforcement of responsibilities and application of benefits. It also permits those so inclined to take advantage of others who are not aware of the rules. The approach to date to improve clarity lacks an overview of the entire process and has resulted in inconsistencies remaining in the regulatory environment. There are numerous examples where change has occurred in one area, such as the liberalization of grain trade, while the pertinent legislation which prohibits private traders operating in this area has not been rescinded.

Disincentives to promoting exports are still found whereby exporters must obtain licenses for such activities. Export crop marketing has still to be liberalized with the consequent autonomy required for private sector entry, particularly where processing is required. The privatization of the agro-processing cells is vital to entry of the private sector in such crops as coffee, tea, tobacco and good grains.

In general, there is concern over the comprehensiveness, timing and sequencing of reforms. While complaints are heard about the slow pace of implementing reform, at the same time there is concern that the implications of accepted reforms have not been thought through carefully.

(5) Exchange Rate and Convertibility - The failure to date to allow the exchange rate to find its equilibrium position ensures that money outside the official system will stay outside. The new Foreign Exchange Act is silent on the sale of foreign exchange which may be dealt with in subsequent guidelines issued by the Bank of Tanzania. It is clear however that access to foreign exchange will still be controlled by the Government.

(6) The Tax and Customs Systems - The present system of applying sales tax at each point of sale discourages other than vertically integrated companies which can avoid numerous sales points and thus achieve a price advantage over competitors, thus creating unfair grounds for competition. Customs administration is complicated by the numerous layers of bureaucracy and the lack of clarity of what exactly is required. This leads to long delays in customs clearance and to substantial storage charges.

(7) Land Tenure - The current land tenure system places constraints on long-term investment in land which is vital to increased agricultural productivity.

(8) Civil Service - Civil service reform may be a prerequisite for ensuring an effective regulatory environment for enabling the development of the private sector. Conditions of public service have left an apathetic and sometime corrupt civil service which, in its regulatory role, hinders the efficiency of business operations through delays and the increased cost ("lubrication") of doing business. Labor laws are viewed as not being conducive to the efficient running of a business given the protected position of the employee and the difficulty in getting rid of unproductive workers. The regulations on employing and giving residential status to foreign labor should also be streamlined to ensure that they are efficient where transfer of technology and training of local manpower is concerned.

(9) Licensing of Business - Contradictions in related laws and regulations still exist for such areas as exchange control, company dividends and the company ordinance. The registration and licensing of businesses in Tanzania is a lengthy and complicated process which has not been addressed within the package to promote investment. Customs duty and sales tax are an essential source of revenue for Government and are equally an essential tool for effective protection of efficient local businesses. Concern has been expressed that the incentive package may be too generous and may lead to subsidies to inefficient enterprises. An initial study to "debureaucratise" the investment process and another to ensure harmonization of rules and regulations is being undertaken. The Investment Promotion Center does not have the power to act as a "one stop" center and is viewed by some as one more layer of the bureaucracy.

CHAPTER V
STRATEGY AND RECOMMENDATIONS

A USAID strategy to assist Tanzania's movement toward a market economy must assume that the present political leadership has decided upon and taken steps to reverse its past quarter century of policy. The first limitation is the leadership. Success will be measured at first in the margins, and will be achieved fully only when a new generation of administrators and entrepreneurs takes control of the leadership of the country.

A second limitation is the present commodity-export base of Tanzania's economy. It is unlikely that Tanzania will quickly move away from the production and export of agricultural commodities (cotton, tea, coffee, fruits) and mineral commodities (ores or semi-finished mineral products). National income will depend directly on the country's ability to differentiate and create demand for specifically high-value, Tanzanian commodities. As the country has been inward looking (self-sufficiency) rather than outward toward potential buyers, exporters will have to develop better links with and understanding of the psychology buyers.

A third limitation is the size of Tanzania's domestic market, both in absolute numbers and in purchasing power. It is inevitable that lower-cost imported finished consumer goods will be attractive to Tanzania's consumers in terms of price, quality and brand-participation (in which the consumption of a world-branded product provides the consumer with intangible benefits of an emotional nature). Production behind a tariff barrier will be an attractive option for donors, national leaders and manufacturers. There are no examples, however, of any country that has created viable and competitive businesses by so doing. The contrary is indicated by comparing the examples of India and the NIC's.

This suggests that the establishment and development of Tanzanian industrialists (here defined as any entrepreneur who seeks to transform raw or semi-finished materials into a consumer product) will depend on extraordinary conditions of: successful deep-pocket, long-term financing of projects in a risk-averse market; early control of a majority domestic market share by a debutante product; successful regional export of sufficient quantities to achieve production and distribution economies of scale; successful identification and closure of international distribution opportunities.

Job creation (both direct and in indirect services) depends on the success of the industrialists.

An intangible in the mix is the nature of race relations in Tanzania. The population pool is too small to permit barriers between sub-groups. Moreover, foreign investors may be loathe to invest in a country whose residents are unable or unwilling to deal with each other. A successful Tanzanian entrepreneur will be one able to mobilize available local expertise and financing behind his project. This suggests that Boards of Directors will be filled out on the basis of the actual contribution of directors to the enterprise and not of race. This suggests that private commercial banks will lend and borrow across racial, ethnic and religious lines.

Developing private sector opportunities requires several preconditions. The first is the successful conversion of informal liquidity into formal and its investment and/or lending into private enterprise. Measures already taken by GOT, and recommendations for USAID intervention have already been discussed. Equally interesting is that the availability of formal lending will demand-pull improvements in public rating of enterprise credit-worthiness. Not only does this create opportunity for the establishment of various service firms (credit rating, collection agencies, investment pools) but it will also demand the improvement in public sector record keeping and information provision.

Other measures include:

revision of the law on tenancy
revision of land ownership laws
revision of the leasing and hire purchase regulations
legislation specifically permitting private enterprise
harmonization of laws on business registration

The Team's strategy recommendations focus on a few manageable projects and programs in the three sectors outline for its consideration: Financial Institutions, Parastatal Reform, and the Business Environment.

Once Tanzania moves into a further stage of industrial development, more complex and sophisticated interventions may be indicated.

A. FINANCIAL SECTOR REFORM: Recommendations

Research, especially that conducted by J.E. Austin Associates in other countries, indicates that about 75% of all business people view lack of financing as their major constraint to business establishment and growth. A closer view of the situation, however, reveals that the same people have not, are unwilling, or are unable to create a bankable business plan. Some business people are informal and thus unwilling to commit salient details to paper. Reform of the regulatory environment may encourage these operators to formalize. Others are established formally but cannot afford the time or cost of developing a business plan. A smaller number already have access to financing but not on the terms or in the quantities they desire.

In all cases, understanding that a bankable business plan is not only a ticket to financing, but also a sound way of analyzing their own enterprise is important to the healthy development of a private sector. While this issue had not surfaced during the Team's research, it will become more important to the degree

Tanzania moves into a market economy. <u>It is recommended that USAID lay plans now for technical assistance to aid entrepreneurs, whether new private sector starts, or parastatal spin-off, with the creation of bankable business plans</u>.

<u>**BARRIERS AND SOLUTIONS**</u>

<u>Barrier #1: Lack of fully-implemented prudent regulations and practices.</u>

The major legislation and regulations described in Chapter II Section C are extremely encouraging to prospective domestic and foreign bankers because they show a commitment on the part of GOT to make major policy changes. However, due to their memories of nationalization and government interference in the past, these prospective bankers may remain on the sidelines until GOT shows a commitment to advance these policies to the implementation stage and to consistently apply them.

<u>Solution to this barrier</u>:

Continued multilateral (for political and financial reform) and bilateral support (financial reform) of GOT efforts to improve the supervisory capacity of the BoT, foster legal reforms and revise the BoT Act and NBC Act. Specifically, enhancement of the capacity of the BoT to efficiently implement the necessary regulations, and properly supervise the banks which will operate under those regulations, is the most sensible way to prove that the most effective means of resource mobilization and credit allocation is under an independent and efficient central bank.

The passage of the Foreign Exchange Act (which is a major attempt to move away from several exchange rates to a market determined rate) in January 1992 provides an opportunity to assist the BoT in the implementation of regulations and guidelines (license requirements, operating procedures, etc.) which are in the process of being developed. BoT's Director of Exchange Control indicated they expect the Act to receive Presidential Assent sometime in March and they have already received notification from more than twenty individuals or groups interested in opening foreign exchange bureaus ("Bureau de Change") allowed under the Act. BoT officials have indicated they need assistance in training new Bureau de Change operators as well as monitoring their activities. The Foreign Exchange Act of 1992 is attached.

<u>Recommended role for USAID</u>:

USAID is already providing assistance to BoT by funding a Price Waterhouse evaluation of NBC's loan portfolio, with a view toward determining which loans should be transferred to LART and the amount which GOT will need to recapitalize NBC, CRDB, PBZ and TIB. Additional USAID support could be used to extend this review, or begin separate reviews, to cover: 1) the loan portfolios of other financial institutions (THB, POSB, NIC, ZIC); 2) other key balance sheet accounts such as contingent liabilities, suspense accounts (ODA is currently funding a Coopers & Lybrand reconciliation of NBC's interbranch suspense account activity), foreign exchange pipeline and related accounts.

USAID could play a vital role in moving some of the major policy changes in BFIA relating to bank supervision (vital to private banking development) closer to full implementation. For example, Mr. S.K. Juma, BoT's Director of Supervision, values the knowledge and insights gained during the highly-regarded Federal Reserve/World Bank Washington-based seminar for bank supervisors. He has expressed interest in obtaining funding/sponsorship for some of his staff (recently increased from five to twenty) to be able to attend. A strengthened BoT Suspension Department (soon to be raised to the Directorate level) will be the most effective tool to measure the implementation and application of prudent banking policies and regulations.

Additionally, although the IMF has been funding a technical adviser (for policy matters) to Mr. Juma, this department would benefit from two additional measures of great importance to expanding its institutional capacity. The first would be to bring a Federal Reserve bank supervisor to Tanzania on secondment for at least one year. The Fed would continue to pay his or her salary while USAID could agree to cover living expenses. The second measure which USAID could fund would be the initiation of in-country seminars/workshops led by former or current U.S. bank supervisors. These would be several weeks in duration and would take bank examiners through the intricate steps of thorough bank supervision.

USAID will be able to facilitate the implementation of foreign exchange regulations by providing technical assistance for the training and guidance of the new foreign exchange bureau owner-operators. BoT is planning in-country seminars for which it may need USAID-funded guidance, which could include sponsoring visits to neighboring countries with successful foreign exchange operations.

USAID assistance to LART would accelerate its development so that it is fully functional when the time comes for it to receive non-performing loans transferred from NBC, CRDB, PBZ, TIB and other financial institutions. Since its Administrator was only recently appointed and is so far its only employee, LART would benefit by the provision of one or two USAID-funded technical advisors to hire and train competent staff (this could be coordinated with proposed USAID assistance to BoT's supervision activities) to properly perform LART's role of recovering value from non-performing loans. These advisors may include individuals from the Resolution Trust Corporation (U.S.) or similar recovery agencies from other developed or developing countries.

Barrier #2: Public perception of financial institution services.

The Tanzanian banking public does not perceive banks as responsive to their own financial needs. people wait in line for hours to access their savings or to inquire about accounting mistakes made by their bank. They wait for months for a check to clear because of an outdated method to clear checks is used. There is a general perception that bank secrecy is non-existent; depositors assume that the government is always watching them and their affairs.

As business managers, they have watched their businesses suffer as they miss another necessary purchase (tour bus, truck, tractor) because NBC often is very slow in processing LC requests or because they require an excessive amount of cash cover. When one asks a worker or shopkeeper why they do a large portion of their business outside the formal financial sector, they simply say they are tired of the poor service and inefficiencies associated with this sector. These people wonder "why the financial institutions cannot be as efficient as the informal financial markets." Some of these same doubts about the financial services market has, and may continue to, frighten prospective bankers from entering Tanzania.

Solution to this barrier:

The assistance USAID is already providing in the area of loan portfolio review are the first steps to improving the financial health of the financial institutions but public confidence in these institutions will only increase when service improves. For example, a construction company that needs thirty thousand shillings for petrol to complete a seventy million dollar contract on schedule will be far more concerned about the speed of disbursement than about the rate of interest. Continued multilateral consultation with GOT senior officials will help to ensure that they remain committed to reform. Computer assistance, basic business training and management training (discussed later) will assist the financial institutions in improving their service to customers.

The entry of new private banks will provide the technology transfer, bank management skills and the necessary competitive pressure to induce GOT to assist in the continued development of methods to improve the range and quality of service offered by Tanzanian financial institutions.

Recommended role for USAID:

USAID could bring in successful U.S. bankers (i.e., from small, regional or money center banks) to offer customer service training courses and workshops.

USAID could provide the linkage between programs successfully designed by ACCION International, with USAID/PRE/I loan guarantee assistance, and potential business opportunity for financial institutions in Tanzania: lending to microenterprises. If set up along commercial guidelines similar, such a program would be an excellent way for USAID to use a relatively small amount of funds to link Tanzanian financial institutions with Tanzanian entrepreneurs and then be able to transfer progressive amounts of the loan risk to the local financial institutions.

Local institutions, including TIB and DJIT, have indicated that their recent efforts to tap this market show many signs of being a profitable, efficient and prudent (ACCION reports a payback rate of 98%) banking service for which there is tremendous demand. NBC and CRDB are also exploring the idea of microenterprise lending and have contacted some donor agencies, as well as the local Entrepreneurs Development Fund, to discuss funding. ODA is studying prospects of developing a Grameen Bank-type of financial institution.

USAID/PRE/I has an excellent relationship with ACCION International (based in Cambridge, MA) and could arrange for a feasibility study regarding the possible application of this method of microenterprise lending in Tanzania. The World Bank financial sector team currently visiting Tanzania has expressed interest in funding assistance for such a study.

<u>Barrier #3: Capital requirements difficult for local groups to meet.</u>

The Banking Act, BFIA, established a paid-in capital requirement of one billion shillings (US$4.3 million) for new commercial banking entrants and TSh 500 million (US$2.2 million) for new non-bank financial institutions (allowing existing local banks two years before they must meet these requirements). The capital requirement could make it difficult for any local group to be able to set up a private bank.

While the thought of lowering the requirement comes to mind, in that it would indeed make it easier for an indigenous group to establish a private bank in Tanzania, it carries the risk of undermining the GOT's recent efforts to improve the health, performance and efficiency of the banking sector. Also, given the requirement that core capital must be greater than 6% of total assets, a smaller capitalization requirement would not permit the volume of operations necessary.

Discussions with local business groups in mainland Tanzania and Zanzibar began with the comment that foreign banks will most likely focus initially on export and trade finance types of activities. Therefore, these local business groups are considering joint venture banks, or possibly a 100% local bank, to be formed to serve particular sectors of the economy which do not currently have much access to credit (SMEs) or which have been "crowded-out" of the borrowing market (larger private sector companies) by the parastatal sector's dominance of formal financial sector credit.

<u>Solution to this barrier:</u>

Assist local groups in their efforts to locate joint venture partners who will agree to a transfer of needed technology and the offering of management and staff training.

There is tremendous demand for small business lending in Tanzania. For this reason, the Tanzania Investment Bank (TIB) has recently shifted some of its focus (the GOT recently said TIB could explore its desire to expand its activities beyond its traditional DFI role) to small and medium-sized business lending since the loans are more manageable and there is more flexibility to work-out any payment problems. TIB is mentioned in this discussion of solutions because it has an extremely qualified staff and could easily expand its range of services to include merchant banking. Since there is currently no capital market in Tanzania, TIB could then play a vital role in developing pools of local investment capital, assisting local business groups develop financing proposals for investment in new local banks and equally important, TIB could take the lead role in the distribution of shares in NBC, CRDB, PBZ, POSB, THB and other local financial institutions (including TIB itself) when the GOT decides to privatize all or part of these institutions.

- Recommended role for USAID:

USAID could assist TIB in its attempt to expand its range of services to include merchant banking and lease financing, as well as its desire to shift its lending focus to small and medium-sized enterprises. The current discussions regarding eventual privatization of some local financial institutions could also provide USAID with an opportunity to offer low risk support through USAID/PRE/I's Worldwide Privatization Guarantee Facility. The USAID/Tanzania Mission can coordinate this activity with USAID/PRE/I.

USAID should also study the operations of savings and credit societies in Tanzania. They have relatively good reputations and have been successful by remaining small and providing efficient service to their members. Technical assistance in the form of basic business training and management training could strengthen their links with existing members as well as forming links with local entrepreneurs intending to begin microenterprise operations.

Barrier #5: Concern that existing local banks will receive preferential treatment over new private banks.

New private banks may remain on sidelines until they are convinced that there will be a level playing field. They will need assurance that, as foreigners, or as partners with foreigners, they will not be treated differently from existing banks.

Solution to this barrier:

This will require effort on the part of GOT to foster transparency in the banking and other business legislation which may impact the operations of a bank. It must follow that such legislation and regulations are enforced without bias toward any particular group. In addition to the improvements to BoT supervision assistance mentioned earlier, legal advisors may be able to assist the BoT and MOF in developing a legal framework for such issues as bankruptcy, loan recovery and collateral registry. Further assistance could be provided in the implementation of policies related to these and other legal issues.

Recommended role for USAID:

USAID could provide legal assistance to MOF, BoT or other ministries involved in drafting and implementing bank-related legislation. Technical assistance, in the form of funding of U.S.-based and in-country seminars and workshops by U.S. bank supervisors and experienced bankers, would provide useful guidance to the bank regulators whose task it is to enforce all regulations fairly and equitably. The GOT could be informed that attempts on its part to favor local banks over new private institutions will negatively impact the financial sector reforms as well as USAID assistance.

Barrier #7: Absence of communications network and shortage of necessary computer technology.

The existing financial institutions in Tanzania currently use manual methods to maintain their records and produce reports and financial statements. This method of bookkeeping prevents these institutions from operating efficiently and is one of the main reasons for the slow and error-ridden service which alienates many of their customers. The absence of computer technology to monitor the use of loan proceeds and the financial condition of borrowers limits a financial institution's ability to control loan arrears.

An additional drawback of their use of manual accounting procedures is the length of time it takes for checks to clear. It is not unusual for many customers to wait for several months before a deposit by check is credited to their accounts. Even worse, businesses often wait months for a payment by check to work its way through the archaic method of clearing, only to discover that the check they received as payment was refused by the paying bank.

There is no computer linkage between bank branches or with the BoT (which has no organized check processing facility) and, to complicate matters further, communication between branches is reduced to reliance on a telephone system which is obsolete, lacking in capacity and functions intermittently.

Solution to this barrier:

The best way to improve the communication of data between bank branches, as well as to the BoT, would be to improve the quality of the phone system. As this is nothing close to a short-term or inexpensive solution, it is recommended to explore the feasibility (with other donors) of establishing some form of microwave or VHF cellular system of communication. This solution is discussed in more detail in Chapter IV.

Regarding the inefficient manual accounting, loan monitoring and report generation methods, immediate improvements in the ability to offer fast and efficient service to customers can be made through a coordinated donor effort to provide computer hardware, software and related training. Monumental costs can be avoided by focusing on key branches and departments. For example, departments responsible for lending, accounting, internal auditing, treasury and clearing (checks, LCs, etc.) would show dramatic improvements in the speed and efficiency of their operations. Branches in the major cities and Zanzibar could be linked for communication and clearing purposes.

The BoT should be assisted in establishing regional check clearing centers, similar to the system used by the Federal Reserve Banks, whereby a check drawn on an NBC branch in Mwanza and deposited in a branch in Tanga would not have to make the trip all the way to, and through, the check processing labyrinth of NBC's headquarters in Dar Es Salaam. The computerization of the check clearing process, and key departments and branches of financial institutions, would be instrumental in improving the level of service to the point where it would convince many people to return their savings and business dealings to the formal financial system.

Recommended role for USAID:

USAID could take a lead role in coordinating this effort with multilateral and bilateral donors. It is necessary to coordinate efforts in order to avoid duplication of equipment or different bank departments receiving software or hardware which is not compatible. A steering committee of senior officials from the MOF (Mr. Kipokola, Deputy P.S.) and BoT (Mr. Mgonja, Director of Economic Research & Policy) has been formed to coordinate efforts to computerize financial institutions.

A critical component of an efficient financial system (and one that is very important to prospective private investors and bankers) is the accuracy and reliability of financial statements. USAID could play a role in the eventual privatization of the Tanzania Audit Corporation (TAC), the state-owned entity responsible for auditing all parastatals. Although BFIA authorized financial institutions to choose private auditors instead of TAC, the local accounting firms (including affiliates of Coopers & Lybrand and KPMG) may not currently be ready for this task. SIDA played a role in linking KPMG up as an advisor to TAC, whereby KPMG offers training and other assistance to TAC staff. USAID could assist in bringing private sector discipline to TAC's operations by exploring KPMG's possible interest in acquiring some ownership interest in TAC.

USAID should review the findings of an ODA-funded study, currently underway, of accounting and auditing procedures in Tanzania. The World Bank is quite interested in the outcome of this study as it will provide valuable insight into the evaluation of financial institutions and their value to prospective investors.

Barrier #8: Absence of capital and money markets and related financial instruments.

The lack of an organized financial market (comprised of two distinct types of markets: a money market and a capital market) in Tanzania limits the flexibility, profitability and services of existing financial institutions (in short, it limits their ability to operate according to truly commercial principles) and could discourage the entry of new private banks. The absence of a stock exchange is a vital missing link in current efforts to privatize financial institutions and parastatal organizations.

The absence of any type of forward foreign exchange market limits the ability of a borrower to hedge the risk of devaluation during the life of a loan which must be repaid in hard currency. This has a ripple effect since a large devaluation can cause a company earning impressive profits in local currency to default on a bank loan. The bank now has a loan on its books which is non-performing not as a result of the borrower's profitability or financial health, but instead due to his lack of options to hedge his currency risk.

Solution to this barrier:

The Minister of Finance, Mr. Steven Kibona, recently announced that "an Act establishing a Capital and Stock Exchange Market would be presented to Parliament to coincide with the envisaged change in the Interim Constitution of the United Republic in April."[56] A Coopers & Lybrand (Toronto) study to explore the feasibility of establishing a stock exchange in Tanzania is being funded by CIDA Incorporated.

The creation of a stock exchange may take some time but there are some relatively short-term steps which could be taken in coordination with the MOF and BoT to assist in the development of a money market. Since Tanzania already has the main instruments normally employed in a money market (short, medium and long-term government securities), the first step should be the creation of a secondary market in Tanzanian government securities, possibly modeled after the Open Market operations conducted by the Federal Reserve. This would provide flexibility to financial institutions wishing to manage their liquidity position more efficiently (since they currently have little alternative but to hold government securities to maturity) as well as offering BoT a tool with which it can manage monetary policy. An IMF-sponsored monetary policy advisor is expected to begin working in the BoT by early March 1992.

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[56] "Holding companies to be 'engines of growth' - Kibona", Business Times, 5 February 1992, page 5.

Another way to assist banks in managing their liquidity and create another monetary policy management tool for the BoT would be to assist in the creation of an interbank market. While there may currently be too few financial institutions (especially those with excess funds) to follow a model used in developed countries, it is possible to establish an informal network whereby a financial institution with excess deposits (i.e., which cannot be put to immediate use as loans) could contact another local bank directly. The institution with surplus cash would then use the BoT as a central electronic settlement facility so that the physical cash would not have to be delivered from one bank to another. This has worked in other developing countries and its feasibility should be studied here.

While it may be premature to create a forward foreign exchange market in Tanzania, it may be possible to develop some variation of this idea. The World Bank may be interested in this development in connection with its Financial Sector Adjustment Credit. An alternative to this would be for GOT (with donor assistance) to offer businesses some form of foreign currency devaluation insurance.

Recommended role for USAID:

USAID could bring in a U.S. financial market expert(s) with experience in developing money and capital markets in developing countries. While the interbank system discussed above may not be extremely active at first, it will be instrumental in convincing prospective new private banks that the Tanzanian financial market is gaining depth. The liquidity which these new entrants bring to this market will serve to accelerate continued financial market development.

USAID could also play an important role in the success of these new markets by providing technical assistance in the form of the computer and other training discussed below.

Barrier #9: Lack of private banking experience and tradition among Tanzanians.

High cost of expatriate staff, in the absence of a pool of experienced indigenous bankers, is a barrier to staffing a foreign private bank. It is an even greater barrier to establishing an indigenous bank along the lines of the African Bank in South Africa, an idea that appeals to the Tanzanian business chamber. Bankers in Tanzania need to develop a competitive banking environment by learning to act in response to market forces rather than government directives.

Solution to this barrier:

Management and staff of local banks will gain prudent banking expertise and experience by working with established international banks and participating in their training programs. Local financial institutions need several forms of training, including management training (strategic planning, decision-making, staff motivation methods, personnel management, marketing, new product/service development, regulatory matters, etc.) and the training of staff in accounting, statistics, record keeping, computer operation, internal auditing, lending, customer service, loan monitoring, credit analysis, and other areas critical to efficient financial institution operations.

Recommended role for USAID:

In addition to assistance provided to BoT's staff to improve loan portfolio evaluation, and supervision capacity, recommended elsewhere in this report, in coordination with other donors, USAID can play a major role by initiating training programs which will dramatically improve the efficiency and customer service of financial institutions, and thus the investment climate in Tanzania. The assistance can be in the form of in-country seminars and workshops by U.S. accounting firms, bank rating agencies, bank examiners, college faculty and computer training companies.

Barrier #10: Concerns About Lack of Creditworthy Borrowers.

Most prospective bankers have enough confidence in their knowledge of banking to see the funds currently circulating in the informal financial markets (for reasons described earlier) as potential deposits in their banks. They realize that if GOT continues to implement the financial sector reforms described earlier, including interest rate liberalization, bank supervision and other measures to restore confidence in financial institutions, the general public and businesses will bring their funds back into the formal financial system. However, they also have been able to obtain enough information (reports produced by multilateral and bilateral agencies as well as local and other independent sources) about the poor financial condition of Tanzania's parastatals and cooperative unions to make them concerned about whether Tanzania's market may be too limited in large volume business to justify the investment in fixed assets that would be needed for a serious commercial banking operation.

Solution to this barrier:

One option would be the creation of a guarantee mechanism to stimulate investment in venture capital companies and related funds. This option is one of the most promising possibilities since it would attract the types of investors willing to make a long-term commitment to Tanzania and the progress of its financial sector reforms. Traditional venture capital is temporary start-up financing in the form of equity capital or loans, with return linked to profits and with some measure of financial control and has been identified as an alternative to development finance institutions.[57] Since venture capital investors desire liquidity in addition to profits, the network of business contacts in Dar Es

[57] Financial Systems and Development, The World Bank, 1990, page 89.

Salaam and Zanzibar should be an adequate substitute for the lack of a secondary stock exchange.

Encourage repatriation of capital by Tanzanians through an amnesty scheme. An example of this would be the MOF bearer bonds currently being offered by BoT. They are available in one, two and three year maturities and no questions are asked concerning the former location of the cash brought in to purchase the bonds. They offer a tax-free return and the MOF is hoping it will bring in a lot of the cash currently circulating in the informal financial sector.

Many of the other efforts discussed and proposed solutions recommended in this report will hopefully increase public confidence in the formal financial sector to the extent that the informal financial sector will lose much of its appeal. Combined with improved financial institution health and private sector business development, these changes will serve to convince prospective outside and local investors that there is measurable progress in developing a creditworthy private sector client base. The planned parastatal reforms and privatizations will hopefully result in the expansion of the pool of creditworthy industrial and commercial borrowers in Tanzania.

Recommended role for USAID:

USAID can begin by assisting in the formation of venture capital funds and the necessary location of investors. This can be coordinated with the IFC's Capital Markets Department, which has established these funds in several countries and may be able to develop additional options such as lease financing.

USAID can become directly involved in the development of creditworthy borrowers by expanding the training proposed for financial institutions to include the training of prospective local borrowers in accounting, bookkeeping, business plan development, cash management and other key areas.

B. PRIVATIZATION AND THE PARASTATAL SECTOR - Recommendations

Privatization is not an end in itself. It is part of a broader program to promote a better allocation of resources, encourage competition, foster a supportive environment for entrepreneurial development, and develop the capital market.

Privatization is not necessarily synonymous with private sector reform and deregulation. A government objective of raising the maximum from the sale of public enterprises, for example, may require tariff protection or direct subsidies. Wherever possible, the recommendations detailed below suggest actions generally supportive of the overall objective of private sector development and economic liberalization. As is the case throughout this Chapter, actions suggested for USAID take into account the plans of other donors as described in Appendix I.

Institutional Enhancement Recommendations.

It is absolutely critical that the GOT Parastatal Reform Commission be clearly defined and strengthened by implementing the following actions:

Recommendation 1: Provide technical assistance to develop a comprehensive privatization program.

Immediate technical assistance is recommended to aid the GOT in implementing the actions outlined in Haggerty's proposal to the World Bank, namely:

A. Categorize enterprises. Review the progress made in categorization of the parastatal enterprises, and group them according to viability, select and prioritize enterprises for alternative courses of action (possible criteria suggested include: the need to stem losses; ability of enterprise to be self-sufficient within a set period; maximization of divestiture proceeds; need for investment for rehabilitation; level of interest from potential joint venture partners; ease of privatization in relation to the condition of the enterprise). Apply these criteria to classify the enterprises (to retain in public sector, joint venture, partial or full divestiture, liquidation, restructuring, leasing or management contracting).

B. Develop specific guidelines for privatization action. For each of the major categories of enterprise, assistance can then be provided to develop operational guidelines defining basic parameters and minimum standards for each type of potential transaction.

C. Depending on the importance of the enterprise, undertake firm-level actions to prepare the enterprise for privatization. Actions that may be necessary include enterprise preparation (asset rehabilitation, collection of accounts and debts, divesting loss-making activities, debt resolution, efficiency and quality improvements, provision of adequate documentation and titles); regulation or deregulation (if an enterprise is a de facto or natural monopoly); undertake valuation; preparing enabling legislation (if necessary); revising the capital structure.

D. Implement the privatization deal. Depending on the SOE, and the privatization method chosen, implementation would involve developing necessary project proposals, identifying potential partners, negotiating/implementing the deal, and developing and monitoring system.

Recommendation 2: Provide long-term technical assistance to the commission.

It is recommended that at least two long-term expatriate advisors be placed in the commission. These individuals should have extensive experience with planning and implementing privatization programs. One person would be principally responsible for devising with GOT the overall policies and framework for the privatization program as a whole, defining and establishing the relationship between the various institutions, and in developing appropriate monitoring and control procedures. The second expert would have a more "hands on" deal-making focus, and would oversee enterprise-specific actions such as restructuring and valuation.

Recommendation 3: Establish a technical assistance fund for short-term technical specialists.

This fund would finance short-term technical specialists (local and foreign) that would participate in specific deals, negotiate with investors on behalf of the GOT, identify potential joint venture partners, and the like.

Recommendation 4: Undertake a short-term study to establish the structure and functioning of the commission and the technical secretariat.

<u>A study recommending the structure, operating procedures and responsibility, line of communications, funding, relationship with other institutions, etc., should be undertaken</u>. Study should make specific recommendations for the elimination of specific institutions such as holding companies, SCOPO, etc.

<u>Recommended role for USAID</u>:

Discussions with the World Bank, ODA and the Commonwealth Fund for Technical Assistance seem to indicate that the Bank and these other donors are well along the path of implementing many of the recommendations listed above. In particular, it is likely that the ODA will provide the long-term technical specialists listed, and develop operational guidelines, and the like. In this light, <u>it is recommended that USAID provide funding into the short-term technical assistance fund, to fund U.S. consulting and investment banking expertise, in areas of specific competence</u>.

Recommendations to Accelerate Policy Reform.

In conjunction with the actions recommended to enhance and deregulate the business climate, the following actions are recommended to remove remaining SOE privileges and facilitate entry of private firms.

Recommendation 5: Undertake a study to identify actions to implement announced deconfinement measures.

In the agriculture sector, this would include: deconfining the role of export crop marketing boards, allowing private distribution of farm inputs and demonopolizing the Tanzania Fertilizer Company, suspending current budgetary support to non-performing large-scale farms, further the move towards indicative prices for food and export crops, and permitting private seed companies in competition with the Tanzania Seed Company.

In the industrial sector, a number of actions need to be taken, including: phase out direct GOT subsidies to SOEs (except that necessary for privatization), removal of monopoly rights for some industrial SOEs, relieve SCOPO of its responsibility of personnel matters, make recommendations for elimination of the holding companies, assist in the development of a time-table to for discontinuation of all direct and indirect subsidies.

Recommendation 6: Develop supporting legislation and regulations.

For the private sector to compete with parastatal enterprises, develop enabling regulations in bankruptcy, land acquisition and building construction, labor hiring and other conditions, and other areas.

Recommended role for USAID

USAID should concentrate its efforts on creating an enabling environment for the development of new private sector activities. To that end, it is recommended that USAID support recommendation 6 by funding technical assistance to develop regulation on bankruptcy, land acquisition, building construction, labor and hiring practices.

Recommendations to Offset Technical Deficiencies.

Recommendation 7: Provide assistance in enhancing accounting standards and practices.

A short-term effort, reviewing the adequacy of SOE accounting standards and control procedures should be undertaken to upgrade them. The analysis should be followed-up with several in-country training exercises for TAC, parastatal enterprise managers, and bank managers.

Recommendation 8: Establish a privatization fund.

To facilitate private sector take-over of enterprises, a venture capital fund should be established in Tanzania. The management of fund would be in the hands of a professional firm, overseen by a Board of Directors. The fund would provide equity and long-term loans on a commercial basis to purchase equity in a parastatal enterprise or rehabilitate a privatized enterprise. Other possible applications could be to purchase shares on behalf of a "public trust" for re-sale to the public, or to purchase commercial debt for a debt/equity conversion.

Recommendation 9: Facilitate private bank lending for privatization by using the PRE/I Privatization Guarantee Program facility.

Once private banks begin operations in Tanzania, USAID can work with PRE/I to provide a 50 percent guarantee on debt provided by eligible financial institutions to fund the purchase of shares in SOEs, or to facilitate privatization through other means. The facility could be tailored to just funding employee purchases of shares in a privatized company.

Recommendation 10: Convene seminar to discuss privatization valuation approaches and provide technical assistance in valuation techniques.

It is recommended that a seminar with international experts be convened to discuss the practical application of earnings-based and asset-based valuation methodologies. Specific attention should be paid to identifying practical methods that can be applied to the valuation of assets in the absence of organized capital market. Technical assistance from professional valuation specialists can be provided through the technical assistance fund (see recommendation 3).

Recommendation 11: Develop options for removing or reducing parastatal debt.

In order to facilitate the sale of enterprises, it is recommended that a study be undertaken to develop concrete methods for management of debt. Debt restructuring could include: debt to equity conversions; rescheduling and re-financing of debt; direct buy-back of debt at a discount; allowing a trust fund to service debt (as part of an interim arrangement) for a SOE; direct assumption of the debt by GOT. Particular emphasis should be paid to the viability of setting up a private trust funded by counterpart funds for ESF program to SOEs. The trust can then assume the debt of specific SOEs for a grace period before transferring the debt back to the company.

Recommendation 12: Revise debt/equity conversion program to focus on privatization transactions.

Debt equity swaps can be an important tool to attracting foreign investment for privatizing public enterprises. They are an investment incentive as well as a debt management tool. Commercial debt could be bought at a discount and swapped directly for equity in the company. This has the advantage of a non-inflationary impact, and will not burden the government's budget. The current debt swap program in Tanzania would have to be broadened to specify eligible debt, conversion procedures and eligible investments.

<u>Recommended role for USAID</u>:

Clarification of specific technical issues, is the area of focus within privatization activities for USAID. Specifically, <u>it is recommended that USAID sponsor recommendations 8, 9, and 11</u>. Both the World Bank and DEG are planning to set up venture capital funds to finance privatization activities. DEG's approach is different in that they focus on setting up a management consultancy, and have a total capitalization of about US$5 million. As their plans develop, it is recommended that USAID consider contributing to the activity. Other areas -- debt/equity conversion, capital markets development, deal negotiation skills -- are currently planned by different donors. The World Bank is focussing on the debt/equity program; CIDA is already sponsoring a study on capital markets development; and ODA is likely to provide practical assistance with investment negotiations, as mentioned earlier.

Recommendations to Offset Socio-Political Constraints

Recommendation 13: Devise practical methods to avoid concentration of ownership.

There are a number of possible methods to try to broaden ownership of SOEs in Tanzania. One approach is to set up a trust to purchase shares in target SOEs. The trust could then lend money to the public to purchase the shares, with the shares as collateral. Another possible approach is to encourage the formation of employee stock ownership plans (ESOPs). Creditor banks could then convert their debt into equity and lend money to the ESOP to purchase the shares. The primary drawback of these approaches is that they (in effect) swap one liability for another, and do not generate a new cash investment which is what is sought. Also spreading share ownership among a large number of small investors can be very risky, unless sufficient effort is spent providing necessary information, analysis and regulation. The purchasers of stock in a SOE may assume that the government is providing an implicit guarantee of their share value, and indeed the government may feel obliged to intervene if the value falls. Broad ownership may not also assure the strong guidance to turn a firm around.

Recommendation 14: Devise a comprehensive public education campaign to offset perceptions of "giving away national assets."

It is recommended that a publicity campaign be devised to prepare the public for the privatization program. This program would involve clearly letting the public understand the true costs and benefits, from the national perspective, of various parastatal enterprises, and the advantages and disadvantages of various privatization actions. The experience of other countries, and the results of past deals can be examined. Individual deals can be facilitated by conducting an open valuation of the enterprise, and publicizing the results. Experience has shown that privatization will be debated regardless of whether information is hoarded or released. The challenge is to make the debate an informed one: the public should know more about how much implicit and explicit subsidizing goes on with state ownership, and the costs of foregone activities, and the like.

Recommendation 15: Establish a fund to facilitate the retrenchment of laid-off SOE employees and managers.

The fund can finance a number of activities including training courses in entrepreneurship development that will enable SOE employees to survive in the informal sector, and basic contribution to the GOT budget to finance provision of severance packages, retirement benefits, and the like. These approaches have been successfully utilized in reducing worker opposition to privatization in Ghana, Tunisia and Philippines. Severance packages are very important where there is no social safety net, and retraining and re-deployment schemes have a very poor track record.

Recommended role for USAID:

It is strongly recommended that USAID undertake the activities described under Recommendations 13, 14 and 15. Government simply does not have the resources to re-train and re-deploy redundant SOE workers and managers. Existing courses focus on management and administrative training; there is no practical source of training and expertise in entrepreneurship skills development. These activities also have the greatest potential for contributing to the development of a viable indigenous private sector, which is an important goal.

C. BUSINESS ENVIRONMENT - Recommendations

Constraint #1 - The Policy Framework

Tanzania has never had a particular body of law on private sector business. The present code, inherited from East African common law, was taken over at Independence without fundamental revision. The present regulatory environment is the accretion of a series of Acts: the 1967 nationalization of banks, 1970 nationalization of properties (which had a great psychological impact on foreigners and locals), and the 1984 measures on liberalization of trade.

Regulatory and legislative changes, especially to the procedure to establish both Tanzanian and foreign enterprises, are underway. The Investment Promotion Centre has commissioned and received recommendations on "Facilitating The Investment Process In Tanzania," apparently to be implemented by the National Assembly at its April 1992 sitting.

But, as noted above under Chapter V.B., as a result of a quarter century of contrary practice, major revisions of the constitution (mid-April 1992), legislation and regulation on such issues as business establishment, taxation, land rights and employer-employee relations will also be required to create sufficient conditions for wide development of private sector business.

Additional policy reform needs focus on the constitutional and regulatory role of Ministers to issue approvals for business establishment, access to financing, and allocation of property. As

Mr. Nyerere stated in his keynote address to the CCM National Executive on February 18, 1992: "CCM was formed, and its leaders elected on the basis of its ideological commitment to ujamaa and self-reliance. It has not changed its policies on that aspect. Nor has there been any discussion or complaints by Party members in the country demanding change." Parties advocating capitalism, however, could be voted into Parliament. "If the people favour a party advocating such a fundamental change, and it gains a two-third majority in Parliament, then the constitution could be changed."

Recommended role for USAID:

USAID should consider funding a technical study of Tanzania's legal code as it relates to private enterprise, by a team including specific expertise on international, European Community and domestic business law. Specific texts suggested for review for revision, harmonization, or elimination, are noted in Chapter IV. The end result of this study should be a set of recommendations or even model legislation offering the conditions precedent for Tanzania's private sector to have an opportunity to compete.

USAID should also consider policy interventions at the highest level to encourage leading political figures to speak at least neutrally on the subject of the market economy, and to formalize the numerous informal businesses they are widely assumed to operate. This last intervention relates directly to:

Constraint #2: Attitude toward private enterprise

Being in business in Tanzania now equates with low intellectual and ethical status. Private sources of wealth are viewed with suspicion by the (present) single Party, as well as by regulatory officials, as evidence of improper conduct. There are very few manufacturers or industrialists in Tanzania. The majority of business is trade and commerce. One effect of the increased informality of the Tanzanian economy has been the wholesale complicity of consumers and tradesmen in illegal commerce. It is now to the point that to admit to being a businessman is as much as to admit to being a crook.

Capital formation is problematic within this cultural context. Private businesses tend to cap their growth at a level of revenue and employment judged to be below the perceptive horizon of both self-seeking family members and Inland Revenue in an effort to husband resources. Expansion, if any, is horizontal through the formation of additional businesses with their own overhead structures. The constraints of this cultural predisposition on enterprise building are self-evident.

The Indigenous African - Asian issue plays an important role in the attitude of most Tanzanians toward business. The Asian community in Tanzania has displayed cultural behaviors contrary to those of Indigenous Africans: group support of individual initiative, forward planning and savings. The conflict between the two cultural assumptions may be intractable.

Recommended role for USAID:

First, USAID should adopt and publish a straightforward eligibility standard for access to all its funds, programs and projects of historical residence and demonstrated investment commitment to Tanzania rather than a racial one.

Second, USAID could stimulate the improvement of the spirit cooperation and competition within the Tanzanian business environment through a long-term program of information and model transfer through lectures, symposia, conferences and luncheon club meetings. Venues will probably include the various business associations, but should also include a specific "American Business Forum" to be created by the Mission, and which ought to be convened in such cities as Arusha, Moshi, Dodoma, Mwanza, etc., as well as Tanzania's major economic center of Dar es Salaam.

The goal is to expose Tanzanians to American business people and concepts to which they now have no access due to the country's isolation, e.g., that OECD economies have room for, and are built upon the mobility of, corporate giants, medium sized companies and individual entrepreneurs. Recognizing that free enterprise includes the freedom to fail, a key subcontext, that will take on increasing significance as the opening process continues, is that business failure is evidence of an attempt to accomplish something which is technically difficult as well as of mistakes made, and that individual effort is laudable.

Constraint #3 - Absence of Accurate Data

No complete and accurate picture of Tanzanian business activity is available. It is not possible to disaggregate individual enterprises from sectoral data. This lack of accurate or even available data is the result of GOT past policy which was hostile or indifferent to, and thus completely ignored, the private sector in the expectation that it was not expected to exist for long. Secondarily, it is the result of the lack of a credit market. With only the State lending (albeit via a number of institutions as discussed previously), and then for policy purposes, there was no need for the financial industry to develop accurate, independent sources of financial data on potential customers. The vigorous informal credit market lends on a personal basis and collects in the same way.

The only potentially accurate source of company information are the files of The Registrar of Companies, the Registrar of Business Names and The Registrar of Industries. The condition of these records is so abysmal as to be useless. Perhaps prior to implementation of the Registrar's ideas to improve the regulatory environment, described in Chapter IV, a necessary pre-condition to the establishment of the basic conditions to do business in

Tanzania is to straighten out and make accessible the records as do exist.

Accurate records are necessary for GOT revenue collection, for financial institution credit-worthiness decision, for business-to-business sales, and for investment both in terms of foreign or domestic equity purchases and determination of competition and market potential.

Recommended role for USAID:

USAID could provide technical assistance to restructure and bring The Registrar's Office into utility by application of computer technology to its data base. This will: reduce the sheer confusion of paper; free space for more useful pursuits; permit accurate and timely research for various legitimate business purposes. In addition, the professional and clerical staff should be offered professional seminars and training to aid them in the more efficient performance of their work.

As recommended in two other sections, technical assistance in revision and harmonization of relevant laws is required.

This assistance will:

o reduce the opportunities for rent-seeking behavior and blackmail inherent in the present system;

o eliminate an important barrier to business establishment and operation;

o create a useful database of business activity;

o improve Tanzania's attractiveness as a place where foreigners and Tanzanians will consider conducting business.

Constraint #4 - Check Clearing and Cash Management

Closely related to the absence of basic business information is the structural deficiencies of the financial sector. While the lack of efficient check clearing makes it very difficult for the bank(s) to operate as efficient businesses, the rudimentary business community has actually paid the cost of the banks' inefficiencies. Their specific impact on the formation, sustainability and expansion of business is described in detail in Chapter IV, supra.

In April 1991 the Tanzania National Assembly passed an amendment to Cap. 16 of the Penal Code, which makes the issuing or delivering of a check that will bounce for lack of fund's in the drawer's account a criminal offense, punishable by a maximum of ten years imprisonment if the issuer fails to pay the banker or the beneficiary the equivalent amount of money after 30 days notice of dishonor of the check. In its commentary on this revision of the law, "The Accountant" notes that "the monopolistic public banks (are) one source (of bad checks), greedy traders the second source and dishonest bankers/individuals the third... The unpleasant state of affairs has continued despite the protective Cheques Act 1969 which guard banks from losses out of forged or stolen cheques."

There are two other foci to assist Tanzania implement a more efficient payments system. First: enforcement and prosecution in the courts must be impartial and rapid. The court system will have to be assisted.Second: eliminating the opportunity to kite checks present in the completely inadequate communications, and thus clearing, system will be still more efficient.

Recommended role for USAID:

USAID should assist in the installation of adequate backroom bank operations of the present and future banks in Tanzania; assist the BoT in a more adequate supervisory role; aid enterprises in more efficient cash management, by conducting a feasibility study into the creation of a data network independent of the TP&TC landlines dedicated to inter-branch communications.

One approach to the technical solution is described in Chapter IV.H. The Team selected this approach due to its relatively low cost, rapid implementation potential, and relative ease of access to the technology for Tanzanian bankers.

Constraint #5 - Lack of viable business associations

It must be assumed that all present business associations are nascent. For twenty five years there have been no active business associations in Tanzania, as all efforts were directed to the support of the public sector, while private sector activity was tolerated until the inevitable triumph of the parastatal economy. Private sector business associations were ignored and left to wither rather than being legally disbanded or dissolved.

When the GOT found a need to address itself to Tanzania's private sector, The Dar es Salaam Chamber of Commerce took on the role of designated window to the private sector. As a result, the head of that body felt himself to be legitimized as "spokesman for the private sector." Then a few years ago the umbrella Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) was called into being for the purpose of grouping all the remaining city chambers of commerce. The city chambers, however, did not want to lose their direct role and fought the change. After some political manoeuvering, the present solution finds the TCCIA as well as the old city specific chambers of commerce, and a of the Confederation of Tanzanian Industries (CTI) which groups public and private industrial enterprises, and the Dar es Salaam Merchants Chamber (known as "the Indian Chamber").

None of these bodies presently provides the range of business services which we understand to be their main purpose. Business associations need to be strengthened if the potential private sector is to flourish and provide itself with the services it will require. It is the Team's view that not one of the present potential organizations has emerged as the leading group. The Confederation of Tanzanian Industries appears to have adequate funding but has not articulated a program. The TCCIA has articulated its objective but does not have adequate funding. The only chamber of commerce which is generally knowledged to have provided true member services over the past twenty five years is the Dar es Salaam Merchants Chamber.

Once the law is revised to permit the establishment of political parties in addition to CCM, some of the business associations may transform themselves into parties.

Recommended role for USAID:

The Team recommends that USAID maintain links with all business associations. The Team recommends against USAID direct funding of association start-up and maintenance costs. The Team recommends USAID not champion one association over the other. USAID should rather encourage further development of associations which demonstrate internal support (through membership dues, etc) and a program of services. That encouragement could take the form of assisting linkages with counterpart professional and business associations in the US and elsewhere in order to assist Tanzanian business in the development of international markets.

WOMEN IN DEVELOPMENT

ACTION PLAN
FOR
USAID/TANZANIA

Introduction

"...customary law and traditional values continue to contribute to an environment which perpetuates inequality between men and women in almost all fields of life. Government efforts to raise the status of women have faced resistance. Potentials for fuller involvement and participation of women in national economic development exist. The women's potentials for human resource remains to be developed to facilitate realization of this potential." 1/ "Tanzanian women are known to be oppressed under a web of cultural, religious, economic, and legal forces." 2/ The preceding quotations, the first from a Tanzanian Government publication, the second from an AID officer, provide the context in which the Mission has developed its WID strategy.

USAID/Tanzania's Program Goal is to assist Tanzania to achieve "Real Growth and Improved Human Welfare." The USAID WID Goal is to establish an environment in which women are afforded an equal opportunity to participate in and benefit from the achievements of the Economic Recovery Program (ERP) and the Economic and Social Action Program (ESAP). The strategy for achieving that goal involves two objectives:

1. Overall integration of gender issues into the USAID program;

2. Specific improvements in women's legal rights.

The first objective, while important, is by itself inadequate to achieve the goal. Indeed, it is unlikely that any single donor would have the necessary resources to bring about the required changes. However, twelve other donors in Tanzania also have WID programs, all include the integration of gender into their on-going programs and all have specific WID activities as well. One other donor, NORAD, is also directly involved in promoting women's legal rights.

1/ Situation of Women in Tanzania: Ministry of Community Development Culture, Youth and Sports, 1988 Dar es Salaam.

2/ "Women's Rights in Tanzania," Grist, Lisa-Nicolle

USAID/Kenya, May 25, 1990.
Donor WID programs in Tanzania are active in supporting changes in the economic and legal status of women. But more importantly there is a growing number of local Tanzanian organizations led by competent and dedicated individuals, committed to improving the status of women. The increased activism on the part of women's organizations, and the support of all major donors for WID activities, provides a plausible basis for ensuring that women will be afforded increasing opportunities under ERP and ESAP.

I. WID Objectives in the USAID/Tanzania Program:

- Ensure that 50% of trainees selected under the USAID Scholars Program are women.
- Increase the number of women trainees in other projects that have a training component.
- Clearly identify gender considerations affecting participation in all projects.
- Support government's effort to implement population programs targeted to men, women and children through the Family Planning Support Program.
- Establish systems and procedures to ensure gender issues are incorporated in all USAID/Tanzania on-going and future programs (these may include policy dialogue efforts, policy and research materials, evaluations, and project/program documents).
- Support NGO programs which address women's legal rights and legal literacy.
- Increase USAID/Tanzania staff awareness of gender issues and develop skills for addressing these issues through workshops and meetings.

II. Description of USAID/Tanzania WID Activities:

The USAID/Tanzania program focuses on transportation, private sector development, family planning, and human resource development. Other activities have been incorporated as targets of opportunity.

A. 621-0166 - Agriculture Transport Assistance Program (ATAP).

ATAP is designed to assist the GOT to reduce or eliminate transportation bottlenecks that affect agricultural production and marketing. This will be done through:

i) improved policies affecting the transportation sector;

ii) increasing foreign exchange and local currency resources for maintenance of trucks, rehabilitation and maintenance of rural roads, and development of private sector truck transport and road maintenance.

The initial project design did not incorporate gender issues despite the fact that women play a major role in transportation of food and cash crops from the farms to the home and/or market place. A baseline study of socio-economic impacts of rural roads has been completed. Surveying techniques sought out women's participation in the transport sector. The data obtained are disaggregated by gender. The impact of the rehabilitated roads on women will be assessed to determine how the roads affect women and what follow-up actions might be required. An ADS-funded Rural Economy Advisor is specifically charged with identifying ways to address women's rural transport needs.

B: 621-0175 - Financial and Enterprise Development (FED)

The purpose of this project is to increase productive employment and income growth. The project will help create the enabling environment of private sector growth. USAID's strategy contains four main elements: (a) a policy agenda, which provides a conceptual framework for focusing AID resources on key enabling environment problems; (b) a private sector import financing facility, to be made available in tranches linked to adjustment in economic policy; (c) a financial sector support activity, to deepen and consolidate the achievements of ongoing financial sector reforms; (d) a private sector support activity, to enhance the capacity of specific enterprises as well as the nation's business support organizations; and (e) a local currency trust fund, which will invest counterpart generations in areas important to the future of private sector growth, including health and education. One of the outcomes of the project is expected to be increased credit availability to the private sector both from government and new private banks. Presently the private sector is getting only about 10% of available formal sector credit. The FED project is not, however designed to open special credit windows for specific groups. There are other donors, notably UNICEF and NORAD, that are targeting women for credit programs. Rather the FED project will help create the viable financial sector necessary to sustain credit programs. Through its strengthening of business associations, FED will explore the possibility of targeting women's groups such as the Business Women's Association. To the extent that FED gathers data by businesses or groups of businesses, the data will be disaggregated by gender.

B. 621-0173 - Family Planning Services Support (FPSS).

This is a new program obligated in FY 1990. Activities will be undertaken to target men for family planning information and services, since it has been established that male attitudes play a role in constraining contraceptive acceptance by women. Types of services available will be expanded to appeal to married couples as well as single men and women at the beginning and end of their fertility cycles. The project intends to increase the percentage of family planning acceptors by one percent per year through the seven year life of project.

C. 698-0475 - African Training for Leadership and Advanced Skills (ATLAS) and
698-0463 - Human Resources Development Assistance (HRDA)

These projects support the Mission's strategic objectives and are used to provide Tanzanians with the appropriate skills to sustain the ERP. A strategy of inviting self-nominations in FY 1990 resulted in highly qualified women applying for USAID scholarships. Half of the participants selected from both public and private sectors were women. The Mission's target of 50% female participation will be extended throughout the life of these projects and will also apply to in-country private sector training. However, the total number of applicants varies from year to year, as does the gender mix of qualified applicants. While 1992 selections saw a drop in the overall number of female scholarship winners, eight of the nine lawyers selected were female.

Other donors have adopted USAID's strategy of targeting women for training. Some of those selected for scholarships by USAID are found to have been given support by other donors as well.

D. 698-0474 - HIV/AIDS Prevention in Africa (HAPA) and AIDSCOM.

This program supports the National AIDS Control Program (NACP) by providing financial resources to WHO/GPA. USAID/T also provides condoms, local currency, training and short-term technical assistance directly to NACP. USAID/T will develop a women-focused AIDS educational module on selected themes for broadcast over the radio. Women will also be targeted in a newspaper campaign with AIDSCOM assistance. More women will be encouraged to participate in AIDS conferences, workshops and seminars both in-country and outside the country. AIDSCOM has initiated a project for Women in the Workplace with the Tanzania Union of Workers (JUWATA) Women's Division. The project will start at 6 work sites. Another women and AIDS proposal to be tied to the JUWATA project is in the pipeline. The goal of this activity is to reach non-professional women with accurate IEC about HIV and STDs.

E. 621-0171 - Wildlife Management.

This program funds an African Wildlife Foundation (AWF) initiative to conserve and utilize Tanzania's wildlife resources by strengthening the planning and assessment capabilities of the GOT Wildlife Department so that they can promote and manage sustainable economic development of the wildlife sector. AWF will endeavor to hire at least one woman project specialist. Economic development around protected areas will benefit both men and women.

G. 690-0240 - Regional Transport Development Dar es Salaam Corridor (TAZARA).

This project was designed to expand the capacity and improve the operational efficiency of the Southern

Africa regional transport network. WID issues were not incorporated in the design of the project but women will be targeted for training especially where training is directed towards improving management skills.

H. 621-0521 - Program Development and Support (PD&S).

PD&S funds support a series of broad, program-related activities. These activities include feasibility studies, research and workshops. Existing women's research groups will be targeted for support through research grants which identify WID topics related to the Mission's programmatic areas. USAID will also fund women's legal rights awareness under this program. Women and men will be proportionately selected for participation in AID-sponsored workshops.

I. 621-0174 - Tuskegee - Sokoine University Linkages

This Cooperative Agreement between Tuskegee University and Sokoine University of Agriculture (SUA) will enhance the teaching and research capabilities of SUA. One specific project activity includes both research and course development on improving women's productive role in agriculture.

III. Mission Strategy for Implementation and Monitoring under WID Action Plan.

USAID/Tanzania's plan for implementing and monitoring the WID Action Plan will be a continuous process. The mission has adapted the PPC/WID strategies which fall within three broad areas:

(1) Research and Analysis;
(2) Training;
(3) Direct interventions and Project Adaptation.

1. Research and Analysis:

USAID/T will develop a data bank from baseline studies, the DHS, and other sources, as a basis for design interventions and project adaptations that will incorporate women as full participants and beneficiaries in the development process. Gender issues will be addressed in all USAID/T research and data collection and analysis.

2. Training:

a. USAID/T will continue to ensure that 50% of trainees supported under the HRDA and ATLAS projects are women. In all projects with a training component, training will be used as a catalyst to promote women in managerial and supervisory roles.

b. USAID/Tanzania has strengthened its own staff by providing training that promotes awareness of information about, and skills for, addressing gender issues in the design, implementation and evaluation of programs. Four members of staff have attended the PPC/WID Gender Information Framework (GIF) workshops. Staff members going to the U.S. will be scheduled to attend gender training courses as time and funding permit.

3. <u>Direct Intervention and Program Adaptation</u>:

a. <u>Project Adaptation</u>

Over the long-term, USAID/T will consider development of direct intervention and project adaptations based on data obtained in on-going research and data collection studies. Such programs may address the following areas:

i) credit for rural women;
ii) rural transport specific to women's needs;
iii) opportunities for women entrepreneurs.

USAID's new Financial and Enterprise Development (FED) project will help create the enabling environment necessary for sustainable women's credit projects.

b. <u>Direct Intervention</u>

USAID/T will strengthen existing institutions promoting women's legal rights and their ability to access these rights without fear. This will enhance women's participation in the development process, enhancing accountability of Tanzanian institutions. Potential target institutions will be the newly formed Women Lawyers Association and the SUWATA Legal Aid Scheme.

This Mission is taking a two-track approach to achieving the objective. The first is to support educational activities designed to acquaint women with their rights and the second is to support groups involved in legislative action. USAID has already begun supporting women's legal groups by sponsoring workshops and seminars. Assistance has also been given to a group attempting to change the laws of inheritance. This activity has involved male members of the judiciary and a female member of parliament.

Under Tanzanian law both civil and customary law maybe used to determine the disposition of the deceased's estate. Customary law of some tribes provides that when a man dies, male relatives have first claim to his estate which may include wealth produced solely by the wife. Wills notwithstanding, the application of these laws varies with the individual judge. Such laws severely limit a woman's ability to earn, save, and invest, or otherwise achieve economic parity. Knowledge of these complicated laws is an important step in ensuring that women are afforded equal opportunity under the ESAP.

Educational activities are a priority of those groups dedicated to changing the laws because knowledge of the laws greatly enhances a woman's ability to avoid losing her property. Knowledge of the laws will also help build the support needed to change the laws. Educational activities to be supported are workshops, preparation of written materials and possibly media activities. The Mission will collaborate with the Women, Law and Development program of SUWATA on a workplan for their educational agenda. The Mission will support four workshops on laws-of-inheritance during the next year including two in the workplace through the cooperation of the women's department of JUWATA. Written materials for workplace distribution will be developed and printed. Impact will initially be measured by input-level indicators such as numbers of workshop participants, increases in women's awareness, etc., as we do not expect to see actual changes in the laws for two to three years.

c. <u>Internal Mission Activities</u>

The Mission has established a WID working group to ensure that Mission activities consider gender concerns in the program and in Mission operations. The committee is responsible for reviewing project documentation and unsolicited proposals for gender specific issues. For example, the committee was responsible for the inclusion of women in agriculture courses and research in the Tuskegee University Linkage cooperative agreement.

The Committee is also concerned with gender issues that affect Mission employees. Womens' legal rights, particularly the above mentioned laws of inheritance, are of direct concern to the Mission employees. A workshops to acquaint employees with these laws and other women's rights issues have been conducted in the Mission.