

PRIORITY SOCIAL ACTION PROGRAMME
A SUMMARY

1. The commitment to provision of basic social services for the population as a whole has been a consistent feature of Tanzanian Government policy since the 1960s. Targets for universal primary education, rural health care and universal access to clean water have been at the forefront of the planning process from the start. However, the economic difficulties which have confronted all sectors and regions of Tanzania for more than a decade, have been undermining earlier achievements in the social sectors. The urgent need to reverse this decline, as well as the need to address possible dislocations arising from the economic reforms, is the broad justification for the Priority Social Action Programme (PSAP). This programme is an integral part of the Economic Recovery Program, Phase II, i.e. the Economic and Social Action Programme.

2. The Government's response to the economic crisis has been to embark on a process of structural adjustment since the early 1980s. This process has been accelerated during the Economic Recovery Programme 1986/7 to 1989. During the ERP, substantial progress has been made in terms of macro-economic objectives, with output increasing at an average annual rate of 3.9 percent per year during 1986 to 1988, faster than the rate of growth of population. The implications of this economic success for the standards of living of the mass of the population are not straightforward, however, partly because of unevenness in sectoral performance, partly because the economic recovery has required a focus on productive sectors in resource allocation, and partly because of the potentially unfavorable short term impacts of ERP. Central to the economic recovery is a decline in employment in some sectors, in order to shift resources into more productive and profitable sectors. Therefore the ERP has had widely varying effects, depending on the sources of peoples incomes and the speed with which they can respond to the new economic environment.

3. Although the aims of ERP in the social sectors have been to maintain the commitment to provide for the basic needs of the population, to rehabilitate social and physical infrastructure and reactivate existing capacity, resources have not been adequate to achieve these objectives. Therefore, the social services have continued to perform poorly and to deteriorate. Because of the essential contribution of social services to productivity growth in the medium and long term, it is clear that economic recovery will not succeed without a strategy for revitalizing these services. This is the rationale for the PSAP, which aims to rehabilitate and enhance basic welfare services, both because of their importance in themselves and because of their essential contribution to productivity growth in the medium and long term. PSAP is not a replacement of government activities in the social sectors, but is intended to consolidate and extend them. However, PSAP is not simply a programme to increase resources for the social sectors; it is also a programme for restructuring the systems of delivery, finance and management of social services to ensure greater efficiency in the use of resources, a wider coverage and their sustainability in the longer term. Thus the PSAP is designed to be an integral part of the continuing process of economic recovery, indeed, the next phase of economic adjustment will

explicitly integrate the economic and social sectors in the form of an Economic and Social Action Programme.

4. The context of the PSAP is, therefore, the need to address with urgency the problems of content and coverage of social services, and to ensure that economic growth results in benefits for low income groups. To address these concerns, immediate actions are proposed in the areas of health, education, water supply, food security, incomes and employment. The measures are designed to provide for improvements and for the organizational reforms which will ensure that these improvements are consolidated and extended.

THE STRATEGY FOR PRIORITY ACTION IN THE SOCIAL SECTORS

5. It is recognized that constraints on the central government budget will continue to limit allocations to the social sectors, and that any commitment to social development must be based on a realistic assessment of likely resource availability. Furthermore, the problem facing the social sectors are only partly a result of the economic crisis which has confronted Tanzania since the 1970s. Central to the PSAP is an acknowledgment that lessons must be learned from past experience in order to secure sustainable financing arrangements, an incentive structure and management systems which enable the full utilization of existing capacity, and maintenance procedures which conserve the capital stock, as well as a renewed focus on targeting vulnerable groups.

6. Because the PSAP aims to achieve both an immediate improvement in resource availability and to undertake necessary institutional restructuring, the time horizon for the programme is three years. The reorganization of delivery systems, management and financing arrangements is a complex matter, which in many cases must be done through sequential stages. It will require time to develop the community participation stressed by the PSAP, thus the programme requires a three-year period before effective results can realistically be achieved.

7. The strategy involves an analysis of the economic requirements of each of the social sectors, in terms of capital investments and recurrent requirements, the latter comprising labor, training, material inputs and maintenance. The emphasis of the strategy is on rehabilitation and management of existing facilities, training, retraining and incentives, mechanisms of distribution of recurrent inputs, and maintenance procedures. Methods of financing these requirements are also examined, in the light of severe government budget limitations, and the strategy proposes that the financing of social sectors in the medium and longer term will require a combination of budgetary shifts, user charges and community contributions. Strategies to increase local tax revenues are also under consideration, together with the feasibility of insurance schemes. The precise combination of methods of financing social services will need to be reviewed and adjusted on a continuing basis. The PSAP itself highlights the issues which need to be taken into account in constructing a sustainable financial system.

8. In the short term, additional donor financing of both local and foreign exchange costs of reviving the social sectors will be necessary. The Government is aware of the issue of sustainability, which has implications for the design of programmes. In particular, programme design must involve greater awareness of the recurrent costs associated with projects to which donors provide capital support, and further consideration of the role of donors on the recurrent side. This is of vital importance in the context of the PSAP, since constraints are appearing increasingly in the form of the TShilling budget, in addition to shortages of imports.

9. Donor support to PSAP should take into account Tanzania's continuing foreign exchange constraints. This means that PSAP should, as far as possible, be financed by donors on a grant basis.

10. The PSAP addresses issues of management, accountability and implementation capacity as part of its concern with the longer run sustainability of the social programmes. The government is embarking on a restructuring of public expenditure. In addition, decentralization is proposed to facilitate community monitoring and control, and the programme addresses the training needs which these community level structures will require. It is recognized that these developments will take time, and that it is unlikely that they will be fully operational throughout the country within the period of the PSAP. One of the PSAP objectives is to undertake pilot testing and the initial phases of implementation. Further issues of management and organization concern the central provision of certain services, such as drugs, textbooks and national food stocks. The PSAP includes recommendations for improvement in these areas along with its proposals for decentralization. The issue of implementation capacity is also addressed, in terms of the need for a review of implementation bottlenecks, action to redress them, and the training implications of improved implementation.

11. In the context of limited resources, it is clear that targeting, i.e. the design of policies to ensure that benefits are focused upon the most vulnerable groups in the population and the poorest regions of the country, is an urgent necessity. The identification of such vulnerable groups is a major priority in the formulation of a policy-oriented research programme. The outcome of this research will form the basis of improved targeted interventions in the future.

A SUMMARY OF THE PRIORITY SOCIAL ACTION PROGRAMME

12. The Priority Social Action Programme contains practical options to fulfill the following objectives: to mobilize resources to prevent further deterioration of the social sectors, and restore performance in the short run; to move towards a more sustainable social service delivery system in the medium term; and to ensure an improved system of food security, by enhancing food availability and by increasing levels of employment. More specifically the objectives are:

- (1) to make institutional and management reforms which can improve the delivery of social services by creating an

enabling environment for improved efficiency, accountability and mobilization of community support, and hence sustainability;

- (ii) to restore an adequate supply of and effective demand for basic instructional materials in schools and to improve the learning environment;
- (iii) to restore an adequate supply of essential drugs and health care equipment in order to safeguard standards of provision of universal basic health services;
- (iv) to rehabilitate and improve maintenance of existing water facilities in order to provide improved access to safe water;
- (v) to improve the distribution of food from surplus to deficit areas so as to reduce the wide marketing margins between producer and consumer prices for staple foodstuffs;
- (vi) to accelerate the creation of employment and income generating activities in small-scale manufacturing and services;
- (vii) to support community-based public work schemes to create employment opportunities for low income people and improve their access to food and other essential goods and services, with preference being given to women;
- (viii) to provide a nutritional "safety-net" if necessary for families who are unable to earn enough to buy adequate food.

13. The selection of projects making up the PSAP portfolio follows from these objectives. The overall criterion guiding the choice was the commitment to safeguard Tanzania's long standing basic needs objectives.

14. The financing requirements for PSAP are summarized in Table 1. The total cost of the entire three-year program is \$314.65 million. Of this total, \$179.69 million is expected to be provided through projects and programs already in the pipeline, for which donors have previously indicated their anticipated level of financial support. That leaves an unfunded gap of \$134.96 million, which is the sum now being requested from donors. In addition, donors are requested to reconfirm commitments already made and speed up disbursements.

15. Estimates for the outer years are necessarily less firm than for the first year. These figures will be updated on a yearly basis.

16. Further details are discussed in the following sections, sector by sector. For each sector, background reports have also been prepared which

carry detailed analysis of the policy issues involved. These are available on request.

TABLE 1
PRIORITY SOCIAL ACTION PROGRAM (1989/90-1991/92)
SUMMARY OF FINANCING REQUIREMENTS
(US\$ MILLIONS)

TOTAL REQUIREMENTS	1989/1990	1990/1991	1991/1992	TOTAL
Education	22.84	21.95	15.55	60.34
Health	45.50	50.00	57.50	153.00
Water Supply	24.00	24.80	29.80	78.20
Food Security	5.54	5.54	5.73	16.81
Employment Programs	2.03	2.13	2.14	6.30
Total	99.91	104.22	110.52	314.65
EXTERNAL SUPPORT				
ALREADY IDENTIFIED				
Education	10.59	10.59	10.59	31.79
Health	28.00	33.70	36.60	98.30
Water Supply	17.20	17.20	17.20	51.60
Food Security	0.00	0.00	0.00	0.00
Employment Programs	0.00	0.00	0.00	0.00
Total	53.79	61.49	64.39	179.69
UNFUNDED GAP -- PSAP REQUEST				
Education	12.24	11.35	4.98	28.55
Health	19.50	16.30	20.90	56.70
Water Supply	8.78	7.36	12.06	28.60
Food Security	5.54	5.54	5.73	16.81
Employment Programs	2.03	2.13	2.14	6.30
Total	46.09	42.68	46.09	134.96

PROJECTS IN EDUCATION

17. The objective of priority interventions in the educational sector is to ensure a smooth transition from a centrally funded school system to one that will be mainly funded by the local community. In this transitional period, within the framework of the proposed PSAP interventions, the institutional details of the new system will be developed and refined. Efficiency and cost-effectiveness will be fundamental principles of the new system. Institutions such as Tanzania Elimu Supplies (TES) will be expected to run commercially. Given the magnitude of work involved in school material production and distribution, this activity will be opened up for other bodies and institutions to permit broader participation.

PRIMARY EDUCATION

18. For Primary Education the main objectives that require immediate action are:

- (1) production and distribution of textbooks;

- (ii) the absence of effective demand for books and other school materials which would require an increase in the Government's subvention to Districts from the present TShs.200/pupil to TShs.450/pupil;
- (iii) improvement of the distribution of school materials at district level first by removing the TES monopoly over textbook distribution and secondly by providing support for district level transport;
- (iv) improvement of the learning environment by supporting the rehabilitation of badly rundown schools;
- (v) increasing parent and community involvement in schools by reviving Parents Committees and establishing the Community Managed Primary School System in pilot areas;
- (vi) transport for school inspectors.

SECONDARY EDUCATION

19. Secondary education is seriously under-funded and is in great need of immediate support in the form of textbooks, teaching materials and laboratory equipment and supplies. Since Tanzania is nearly at the bottom of the African league in secondary education enrolment rates (only 6 per cent in 1987), and in view of the demonstrated ability of parents to build and run private secondary schools, it is proposed to support this effort on a priority basis by establishing a Fund in Support of Community Financed Secondary Schools.

OTHER

20. School Transport. The reforms currently being made have significantly reduced the Government's capacity to provide adequate transport services to the student population. While the number of students has been increasing yearly, the urban public transport system, which itself has been facing serious capacity problems, has been unable to transport students to and from school at the required times. Coupled with the rapidly increasing transport costs, including fares, the level of hardship for many students has increased and the absenteeism rate has soared. This applies to students at all levels, from primary to university. An important activity in PSAP will be to provide adequate and reliable transport to students. To accomplish this, special buses will be obtained and set aside for the sole purpose of transporting students.

21. Books. Although the requirements for textbooks and other teaching materials have been shown for primary and secondary schools, serious shortages have occurred at the university and other institutions of higher learning. The current book supply program cannot cope with the high demand of these institutions and the public at large. In order to improve this situation, a special allocation for books, which will be placed at the

bookstores of these institutions as well as in general libraries, is requested under the PSAP.

22. Table 2 below provides a summary of PSAP projects in the education sector, the amounts of donor supports already secured and the gap for which further donor support will be required. The Government is requesting an additional US\$28.55 million. The bulk (69 percent) will go to meeting urgent requirements in primary schools, even though considerable support has already been secured for textbooks and the rehabilitation of primary schools.

TABLE 2
PRIORITY SOCIAL ACTION PROGRAMME: EDUCATION
(US\$ MILLIONS)

	1989/1990	1990/1991	1991/1992	TOTAL
TOTAL REQUIREMENTS	22.83	21.95	15.55	60.32
PRIMARY EDUCATION	14.05	13.16	11.87	39.08
Textbooks	3.49	3.46	3.48	10.38
Exercise books and materials	4.76	3.33	2.30	10.39
Distribution Support to Districts	0.42	0.98	0.72	2.12
Rehab. of primary schools	3.83	3.83	3.83	11.49
Strengthen community participation	0.58	0.58	0.56	1.70
Transport of school inspectors	1.00	1.00	1.00	3.00
SECONDARY EDUCATION	6.78	2.00	2.00	10.74
Textbooks	2.57	2.57	0.47	5.61
Laboratory Equipment/supplies	2.21	2.21	0.71	5.13
Support to community schools	2.00	2.00	2.00	6.00
OTHER	2.00	2.00	0.50	4.50
School transport	1.00	1.00	0.00	2.00
Books	1.00	1.00	0.50	2.50
EXTERNAL SUPPORT ALREADY IDENTIFIED	10.60	10.60	10.60	21.80
PRIMARY EDUCATION	7.41	7.41	7.41	22.23
Textbooks (BIDA)	3.45	3.48	3.50	10.48
Exercise books and materials	0.00	0.00	0.00	0.00
Distribution Support to Districts	0.12	0.12	0.12	0.36
Rehab. of primary schools	3.83	3.83	3.83	11.46
Strengthen community participation	0.00	0.00	0.00	0.00
Transport of school inspectors	0.00	0.00	0.00	0.00
SECONDARY EDUCATION	3.18	3.18	3.18	9.54
Textbooks	0.47	0.47	0.47	1.41
Laboratory Equipment/supplies	0.71	0.71	0.71	2.13
Support to community schools	2.00	2.00	2.00	6.00
OTHER	0.00	0.00	0.00	0.00
School transport	0.00	0.00	0.00	0.00
Books	0.00	0.00	0.00	0.00
UNFUNDED GAP PSAP REQUEST	12.24	11.35	4.90	29.55
PRIMARY EDUCATION	6.64	5.75	4.46	16.85
Textbooks	0.00	0.00	0.00	0.00
Exercise books and materials	4.76	3.33	2.30	10.39
Distribution Support to Districts	0.30	0.86	0.60	1.76
Rehab. of primary schools	0.00	0.00	0.00	0.00
Strengthen community participation	0.58	0.58	0.56	1.70
Transport of school inspectors	1.00	1.00	1.00	3.00
SECONDARY EDUCATION	3.60	3.60	0.00	7.20
Textbooks	2.10	2.10	0.00	4.20
Laboratory Equipment/supplies	1.50	1.50	0.00	3.00
Support to community schools	0.00	0.00	0.00	0.00
OTHER	2.00	2.00	0.50	4.50
School transport	1.00	1.00	0.00	2.00
Books	1.00	1.00	0.50	2.50

23. Other urgent issues are also being addressed by the Government such as the need for better salaries for teachers and the rehabilitation of public secondary schools.

24. The Tertiary Education Sector has not been fully covered by the PSAP. In addition, there are a number of ongoing and planned activities in Education which will be addressed outside the PSAP.

PROJECTS IN HEALTH

25. Like the other social services health is constrained primarily by inadequate financing, poor management and inadequate staff compensation which has eroded worker morale, performance and productivity. Various programmes are underway to alleviate these problems in the medium term. Specifically a comprehensive master plan for an improved medical supply is being worked out. Also, the Government is actively examining the introduction of alternative sources of finance, such as user-fees, community contributions and participation in support of health services.

26. However, in the short term, immediate support is needed to improve the situation because the time lag involved in developing appropriate community based structures to manage and account for the funding of the health sector is bound to be long.

27. Priority action is needed to:

- (i) improve the supply of pharmaceuticals, particularly essential drugs and other basic equipment and supplies by filling the gap left by the donor supported Essential Drug Programme (EDP) which presently covers only RHCs and dispensaries in rural areas;
- (ii) provide referral transport to a small number of Rural Health Centers and district hospitals on a pilot basis in order to enable the referral system to function satisfactorily;
- (iii) establish a credit scheme to enable Primary Cooperative Societies to purchase referral transport for dispensaries in their respective areas and to establish a Health Transport Maintenance Fund at each level, financed by the Secretaries members;
- (iv) strengthen current efforts in AIDS control by establishing a reserve fund from which emerging problems can be studied and remedial action taken immediately to speed up the implementation of the AIDS Control Programme;
- (v) introduce a pilot Health Insurance Scheme in Dar es Salaam in order to test and develop appropriate arrangement to protect those who have been adversely

affected by the withdrawal of parastatal health services to the general public;

- (vi) where feasible extend/develop a two-tier (graded) medical service system in order to raise additional revenue by charging the relatively well-off for higher grade services in order to support a basic health service that remains free for all;
- (vii) in addition, in order to reverse the deterioration of health facilities, it is proposed to embark on a rehabilitation programme, involving community participation to the maximum extent possible. The programme would also involve the establishment of a decentralized maintenance system within the health sector;
- (viii) in order to improve resource management within the health sector, it is proposed to embark on a training programme for health managers, in management skills and information systems.

28. The project portfolio for the emergency action programme in health is summarized in Table 3 below. Over the 3 years it will require approximately US\$30 million p.a., totalling US\$91.20 million for the whole period. The bulk (81%) is for the supply of drugs.

PROJECTS IN WATER SUPPLY

29. The Government has long given priority to supplying both urban and rural populations with improved water services and a number of projects funded by donors are underway to meet this objective. Most donor support is directed at the development of new systems or the expansion of existing systems. Some donors also assist with rehabilitation and maintenance work on existing systems. Overall, however, rehabilitation and maintenance efforts for existing systems has lagged behind investments in new systems resulting in the deterioration of water services for much of the urban and rural population. Resources are required to rehabilitate existing pumping facilities and deliver systems, and improve maintenance capabilities. The priority program for water will focus on these rehabilitation and maintenance requirements and as such will complement existing water supply development programmes thereby ensuring better management and increased efficiency in the deliver of water services. The PSAP will provide support in three areas: rehabilitation of existing urban and rural systems, strengthening of maintenance capabilities; and training and institution building.

30. Much of the rehabilitation efforts will aim at halting the deterioration of the Dar es Salaam system which serves the largest urban population in the country. Priority will also be given to the rehabilitation of pumps and ancillary equipment in existing rural systems. Maintenance

TABLE 3
PRIORITY SOCIAL ACTION PROGRAMME: HEALTH
(US\$ MILLIONS)

	1989/1990	1990/1991	1991/1992	TOTAL
TOTAL REQUIREMENTS	46.60	50.00	57.50	153.00
Drugs	26.00	27.50	29.00	82.50
Equipment/Supplies	8.00	7.00	5.00	21.00
Em. Ref. Transp.	2.40	2.40	2.40	7.20
AIDS Control	1.00	1.00	1.00	3.00
Health Finan. Schemes	0.40	0.40	0.40	1.20
Health Fac. Rehab.	2.00	4.00	7.00	13.00
Health Mgmt. Trng.	0.70	0.70	0.70	2.10
Village BEN Init.	3.00	7.00	11.00	23.00
EXTERNAL SUPPORT ALREADY IDENTIFIED	26.00	33.20	36.60	96.30
Drugs	18.30	22.00	22.60	62.80
Equipment/Supplies	6.00	2.10	2.40	5.50
Em. Ref. Transp.	0.00	0.00	0.00	0.00
AIDS Control	1.00	1.00	1.00	3.00
Health Finan. Schemes	0.30	0.20	0.10	0.60
Health Fac. Rehab.	1.20	2.40	3.20	6.80
Health Mgmt. Trng.	0.60	0.70	0.60	1.80
Village BEN Init.	3.70	5.30	6.80	15.80
UNFUNDED GAP PSAP REQUEST	19.50	16.30	20.90	56.70
Drugs	7.70	6.50	6.60	19.70
Equipment/Supplies	7.00	4.90	3.60	15.50
Em. Ref. Transp.	2.40	2.40	2.40	7.20
AIDS Control	0.00	0.00	0.00	0.00
Health Finan. Schemes	0.10	0.20	0.30	0.60
Health Fac. Rehab.	0.60	1.60	3.80	6.20
Health Mgmt. Trng.	0.20	0.00	0.10	0.30
Village BEN Init.	1.30	1.70	4.20	7.20

capacity will be strengthened for both urban and rural systems through the provision of repair and maintenance kits, leak detection and control equipment, and water purification and testing chemicals. In addition, vehicles, mobile workshops and communication equipment will be provided on a limited basis to improve response time in emergency situations. Training and institutional strengthening will be emphasized to ensure that proper maintenance procedures are developed and implemented. Training will be supported by the Water Training Institute and will focus on the operation and maintenance of water schemes, particularly at the village level. The PSAP will also provide support for improved operation of the National Urban Water Authority (NUWA). A "twinning arrangement" between NUWA and an experienced water supply and sanitation agency abroad will be developed to improve NUWA's technical and managerial capacities, with emphasis on improved maintenance, repair and revenue generation. In addition to the requirements above, completion of on-going development projects expected to generate is the last year of the PSAP additional requirements for maintenance of the new systems.

31. Table 4 provides a breakdown of priority items required by the water sector. The unfunded gap over three years totals US\$26.5 million.

PROJECTS IN FOOD SECURITY

32. As a result of the reforms in food grain pricing and marketing, there are now greatly improved incentives to farmers to produce food for sale. However, marketing infrastructure, including transport, storage information services and credit have not yet been developed sufficiently to ensure that consumers are not adversely affected by unduly large interseason and interregional variations in food grain prices. At present, high urban

TABLE 4
PRIORITY SOCIAL ACTION PROGRAMME: WATER SUPPLY
(US\$ MILLIONS)

	1989/1990	1990/1991	1991/1992	TOTAL
TOTAL REQUIREMENTS	24.00	24.60	29.60	78.20
Rehabilitation	4.60	5.20	5.20	15.00
Maintenance	4.00	4.00	4.00	12.00
Training & Institution Bldg.	0.40	0.40	0.40	1.20
Water Supply Development	15.00	15.00	20.00	50.00
EXTERNAL SUPPORT IDENTIFIED	17.20	17.20	17.20	51.60
Rehabilitation	2.20	2.20	2.20	6.60
Maintenance	-	-	-	-
Training & Institution Bldg.	-	-	-	-
Water Supply Development	15.00	15.00	15.00	45.00
TOTAL UNFUNDED GAP-PSAP REQUEST	6.80	7.40	12.40	26.60
REHABILITATION	2.40	3.00	3.00	8.40
Pumps & Spares	0.40	0.40	0.40	1.20
Water Meters	0.20	0.20	0.20	0.60
Pipe Fittings & ACC.	0.40	0.40	0.40	1.20
Lower Ruvu Pumping Station	1.40	2.00	2.00	5.40
MAINTENANCE	4.00	4.00	4.00	12.00
Chemicals	1.70	1.70	1.70	5.10
MV & Mobile Workshops	0.40	0.40	0.40	1.20
Comm. Equipment	0.40	0.40	0.40	1.20
Leak Detection & Control Devices	1.50	1.50	1.50	4.50
INSTITUTIONAL BUILDING & TRAINING	0.40	0.40	0.40	1.20
Twinning Arrang. for NUWA	0.20	0.20	0.20	0.60
Operation & Maint. Training	0.20	0.20	0.20	0.60
MAINTENANCE REQUIREMENTS FOR RECENTLY DEVELOPED SYSTEMS	-	-	5.00	5.00

food prices coexist with large rural food stocks which cannot be moved to locations close to urban markets. In addition to high transport costs, most traders do not have storage capacity, and during heavy rains have difficulty in moving food from rural areas. The lack of storage facilities for the growing private grain trade sector means that a reasonable level of stocks cannot be held in urban areas. This increases the sharp fluctuations in prices. The situation is worst in Dar es Salaam which is the largest food deficit area.

33. To rectify this situation on a priority basis the following actions are proposed:

- (i) public support for improved market information;

- (ii) the mobilisation of both road and rail transport to bring grain from the surplus areas to Dar es Salaam;
- (iii) the construction of Grain Centres which will be leased out to grain dealers and cooperatives;
- (iv) the expansion of private paddy milling in the Mwanza area;
- (v) credit for grain traders;
- (vi) special interventions in livestock and fish markets.

34. A total of US\$16.45 million is needed to cover the priority interventions in the food sector as summarized in Table 5.

35. Even with adequate food supplies on the market, some low income households may still find it difficult to buy enough food until the Government's policies have had a chance to generate more jobs and raise incomes. Priority actions to create a "safety-net" for these households are discussed in the next section.

TABLE 5
PRIORITY SOCIAL ACTION PROGRAM: FOOD SECURITY
(US\$ MILLIONS)

	1989/1990	1990/1991	1991/1992	TOTAL
UNFUNDED GAP-PSAP REQUEST	5.54	5.54	5.73	16.81
Mob. of Trans. for Grain	2.00	2.00	2.00	6.00
Wagons for TAZARA & TRC	1.88	1.67	1.67	5.00
Livestock Wagons	0.30	0.30	0.40	1.00
Grain Stor. Cent. (DSM)	0.50	0.50	0.50	1.50
Paddy Milling Lk.Reg.	0.3	0.30	0.40	1.00
An.Feed Ind. (DSM)	0.67	0.67	0.66	2.00
Livestock Keepers Assoc.	0.10	0.10	0.10	0.30

PROJECTS FOR INCOMES AND EMPLOYMENT

36. A three-pronged approach will provide the basis for priority actions to ensure that everyone has access to an adequate amount of food. The first set of interventions aims to accelerate the growth of employment and income generation in small-scale manufacturing and services. This provides the main way of stimulating self-sustaining growth processes and ensuring that the benefits of the ERP are distributed as widely as possible. However, the rate at which new jobs can be created may not be sufficient to provide adequate incomes quickly enough to remove the threat of nutritional decline. The second and third elements of the strategy, temporary public works schemes and income transfers, are designed to provide a "safety-net" for those who cannot find new jobs.

37. This approach requires a more precise definition of sources of vulnerability to food insecurity than is possible at present and better ways of identifying families whose nutritional welfare may have been affected by economic stagnation and the short run consequences of the ERP.

38. The intention is to finance training support and credit for small scale industries and services largely from counterpart funds. However, some external finance will be required to provide tools and other artisan-type inputs.

39. Table 6 provides a summary of the costs of the PSAP for incomes and employment projects, which totals US\$4.3 million.

TABLE 6
PRIORITY SOCIAL ACTION PROGRAM: EMPLOYMENT
(US\$ MILLIONS)

	1989/1990	1990/1991	1991/1992	TOTAL
UNFUNDED GAP-PSAP REQUEST	2.03	2.13	2.14	6.30
Sup.to Infor.Ind.& Serv.	1.33	1.33	1.34	4.00
Lab.Int.Rd.Maint. (DSM)	0.30	0.30	0.40	1.00
Tree Plant.Schemes	0.40	0.50	0.40	1.30

40. The requirements for employment generation and the provision of a "safety-net," are likely to be much longer than the PSAP Request in Table 6. However, in view of the limited experience in Tanzania with these type of interventions, it is necessary to begin with a pilot exercise to develop cost-effective approaches that can be repeated on a wider scale.



**THE UNITED REPUBLIC OF TANZANIA
ECONOMIC RECOVERY PROGRAMME II
(ECONOMIC AND SOCIAL ACTION PROGRAMME)**

1989/90 - 1991/92

**REPORT PREPARED BY
THE GOVERNMENT OF TANZANIA
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**DAR ES SALAAM
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THE UNITED REPUBLIC OF TANZANIA
ECONOMIC AND SOCIAL ACTION PROGRAMME

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INTRODUCTION

1. In July 1986, the Government launched a comprehensive three-year Economic Recovery Programme (ERP) in response to economic crisis conditions experienced during the late 1970s and early 1980s. The recovery programme was a continuation of the government effort in the structural adjustment process started in the early part of the 1980s. The basic macroeconomic objectives of the ERP were to revive output, to restore internal and external balance and to reduce domestic inflation.

2. During the Third Consultative Group Meeting of donors in July 1988, the Government presented a comprehensive review of performance of ERP for the first two years of implementation, as well as areas where further action was required. Fiscal year 1988/89 ending in June 1989, was the third and final year of the medium-term Economic Recovery Programme. The Programme involved a mix of policy measures which could be implemented swiftly (e.g. exchange rate adjustment, price and interest rate policies, credit and budgetary controls), others which would take a year or two to build (e.g. mobilization of foreign exchange), and those which could take the full three years or more to implement (e.g. raising the level of domestic savings, infrastructure, and major rehabilitation projects).

3. The Government has implemented a great deal of the policies under the ERP. While it is still early to arrive at a final picture of the overall performance of ERP, there are enough indications that the Programme has, in most respects, been on track. Encouraging progress has been achieved and signals for recovery are now stronger than before. At the end of ERP, the most positive aspect of economic performance has been the recovery in agricultural production, which has contributed significantly to the revival in GDP growth and more importantly, growth in per capita output. The revival in agriculture has come mainly from grain and cotton. Although production of other export crops has not yet recovered to the extent expected, the long trend of decline has been arrested. While favorable weather conditions contributed significantly to the agricultural performance, producer incentives and other reforms played an important role as well. It is, however, unfortunate that the revival in agricultural production has not fully been reflected in the performance of agricultural exports as well as in the easing of urban food prices because of transportation, processing and marketing bottlenecks. In the industrial sector, while many enterprises continue to operate at very low rates of capacity utilization there are considerable signs of revival, as reflected in the fast growth of industrial exports. In turn, this is an initial sign of a breakthrough in export diversification.

4. Another important aspect of economic recovery is the revival in imports. While ERP targets for imports have not quite been achieved, the build-up since 1986 has been encouraging as it has eased the shortage of inputs and incentive goods necessary for the recovery in production. The Government has made considerable progress in restraining its expenditure and improving recurrent revenue collection. As a result of this austere fiscal stance, government reliance on the banking system for deficit financing has been reduced considerably.

5. Despite the positive aspects of economic performance during the past three years, there are areas where the Government has not been successful in achieving progress. The improvement in the budgetary performance has to a large extent depended on revenue corresponding to import support. As production has picked up, the critical nature of bottlenecks in transportation, processing and storage has become more evident. These bottlenecks, accompanied by weaknesses in the marketing system, have in turn placed a great burden on the financial system and, as a result, the Government has been less successful in keeping control over the growth in the money supply. Despite progress made in arresting the decline in exports, the balance of payments situation still remains one of the most difficult areas of economic management. The fiscal stringency, the exchange rate action, and the balance of payment problems, have brought about negative impact on the provision of social services. This is an area which requires increasing attention, because one of the purposes of economic growth is to be better able to satisfy basic human needs. The deterioration in the standard of social services was aggravated by the continued high rate of population growth, currently estimated at about 2.8% per annum.

6. This Economic Recovery Program (ERP) II Economic and Social Action Programme (ESAP) document is divided into five major parts. The first part presents a brief review of implementation of ERP. The second part describes the macroeconomic policies to be pursued while part three presents sectoral programmes. The fourth part presents the Priority Social Action Programme (PSAP) and the fifth part describes growth prospects and external financing requirements.

I. REVIEW OF THE ECONOMIC RECOVERY PROGRAMME 1986/87-1988/89.

Major Objectives

7. The Economic Recovery Programme (ERP), covering a three-year period (1986/87-1988/89) ended June 30, 1989. The Programme was designed to arrest the economic decline which had persisted from the late 1970s and through the first part of the 1980s. The major objectives of the ERP were:

- (i) to increase the output of food and export crops through the introduction of appropriate incentives for production, improvements in marketing structures and an increase in the resources available to agriculture;
- (ii) to rehabilitate the physical infrastructure of the country in support of directly productive activities;
- (iii) to increase capacity utilization in industry through the allocation of scarce foreign exchange to priority sectors and firms; and
- (iv) to restore internal and external balance by pursuing prudent fiscal, monetary and trade policies.

8. Since the adoption of ERP in mid-1986, the Government has implemented a number of far reaching policy reforms. These include the progressive exchange rate and interest rate adjustments, stringent fiscal policies, and liberalization of the trade regime. These policy measures were aimed at facilitating the direction of resources to more productive sectors and at reducing the internal and external imbalances.

Macroeconomic Performance under ERP

9. The ERP aimed at the following targets:

- (i) an average rate of economic growth of 4-5 percent per annum, which will correspond to a positive growth in per capita income of 1-2 percent;
- (ii) a progressive reduction in the rate of inflation, to less than 10 percent by 1988/89 from over 30 percent in 1985;
- (iii) improvement in the external position through reserve increase and faster export growth to pave the way for the restoration of a sustainable balance of payments position in the 1990s;
- (iv) to raise utilization rates in the manufacturing sector from 20-30 percent in 1985 to 60-70 percent by the end of 1989; and
- (v) to raise export earnings by an average of 16 percent per annum over the Programme period.

Gross Domestic Product

10. Over the three-year ERP period total output performance, as measured by Gross Domestic Product (GDP), has been relatively impressive. GDP increased by 3.6% in 1986, 3.9% in 1987 and 4.1% in 1988. This contrasts sharply with an average growth of about 1% during the 1980-1985 period. The revival in GDP growth was accounted for mainly by the impressive performance of the agricultural sector.

External Sector

11. The reforms which were implemented in the external sector helped to stimulate exports particularly those of non-traditional products and, together with increased external support, resulted in improvement of the foreign exchange situation. In spite of this, foreign exchange continues to be a major constraint in economic and social performance. Export earnings rose from US\$316.6 million in 1985/86, to US\$354 million in 1986/87, and US\$362 million in 1987/88. The estimate for 1988/89 is about US\$394 million. The exports performance would have been better had it not been for unstable world market prices and internal structural bottlenecks. As a result, the achievement attained has been below the ERP targets of US\$400 million in 1986/87, US\$419 million in 1987/88 and US\$452 million in 1988/89. Non-traditional exports, including those of manufacturing, have shown a significant increase. However, even with this overall encouraging performance in export earnings, the major part of imports continued to be financed by external sources.

12. The improved performance in export earnings, coupled with donor support, increased substantially the availability of foreign exchange during the ERP period. Consequently, import levels increased from an annual average of US\$900 million during 1982/83-1985/86, to US\$1,145 million in 1986/87, US\$1,185 in 1987/88, and the estimate for 1988/89 is US\$1,270 million. These levels compare reasonably well with the Programme's minimum imports requirements which were estimated at US\$1,205 million for 1986/87, US\$1,235 million for 1987/88, and US\$1,300 million for 1988/89.

13. The mounting size of the external debt, including debt service obligations, continues to be a major balance of payment problem. Total debt increased from US\$3.5 billion in 1986 to US\$5 billion as of December 1988, mainly as a result of the capitalization of interest payments due. Similarly, payment arrears increased from US\$434.4 million to US\$800 million during the same period.

14. In 1986 and 1988, Tanzania was able to reschedule her debt through the "Paris Club" and this facilitated release of some resources for operational and development activities during the ERP period. But even with this positive move, the remaining level of repayment obligations is still a major burden on the economy. In addition to rescheduling, some donor governments have already written off part of the debts due from Tanzania and current discussions should aim at further relief. This will need to include: writing off debts and application of concessional interest rates on rescheduled debts.

15. Despite the notable improvement in the availability of imports and the increase in non-traditional exports, the balance of payments disequilibrium continues. The official trade deficit is estimated to have grown about 10.9 percent between 1986/87 and 1988/89. The current account deficit (after taking account of official grants) widened from US\$233.85 million in 1986/87 to estimated deficit of US\$324.4 million in 1988/89, because of deterioration in both merchandise trade and service accounts. However, net medium and long-term capital inflows improved from a negative US\$17 million in 1986/87 to an estimated positive inflow of US\$22.0 million in 1988/89, thanks to debt rescheduling arrangement which reduced the need for repayment of principal debt falling due as well as arrears.

16. The Government, however, realizes that this aspect of the balance of payments situation cannot be considered to be sustainable over the long-run. The servicing of foreign debt, including amortization, while increasing import capacity, will require increasing amounts of foreign exchange resources.

Fiscal Performance

17. The performance of the government Budget has been satisfactory throughout the ERP period. Expenditure control measures and improved budgetary discipline, combined with improved performance in revenue collection, have helped contain the overall deficit and cut down on the level of government borrowing from the banking system. As a result, net bank borrowing was reduced from Shs. 5.6 billion in 1985/86 to net repayment in 1988/89. This performance should, however, not be a reason for complacency in the light of the overall ERP objective of restoring fiscal balance with reduced dependence on import support counterpart funding. In the longer term perspective, the economic crisis which has confronted Tanzania since the early 1980s has had serious and negative impact on the overall development of the social services sector. Due to low levels of recurrent expenditure channeled to the social services sector, the sector has yet to benefit from the recovery process.

18. In addition, domestic sources of revenue could not fully finance recurrent expenditures and the Government, therefore, continues to rely heavily on revenue accruing from import support to bridge the gap between recurrent expenditures and revenues. Efforts to raise revenue will have to be intensified through increased production in order to expand the revenue base and to restore fiscal balance.

Money, Credit and Prices

19. The ERP objectives in this area were to control monetary expansion and reduce inflation. Although credit to the Government has been contained satisfactorily, credit for marketing of agricultural produce has increased much faster than planned. This has been in part due to exceptionally good crops, particularly cotton and grains, and in part due to transportation, processing and marketing bottlenecks, as well as management deficiencies. Credit to the agricultural marketing institutions increased from Shs. 9.5 billion in June 1986, to Shs. 21.4 billion in June 1988 and Shs. 33.2 billion at the end of June, 1989. This large increase

has severely constrained availability of credit to productive sectors. Total credit increased by 29.8% in 1986/87 compared with a target of 12.6% by 55% in 1987/88 which, when compared with a target of 17.0% and the expectations for 1988/89, is an increase of 30% compared with the target of 17.0%. As a result of this rapid credit expansion, money supply increased by 23% in 1986/87, 35% in 1987/88 and 24.0% estimated in 1988/89, thus surpassing the targeted rates of increase of 10% for 1986/87 and 10.5% for 1988/89.

20. As a result of the continued rapid growth in money supply, prices continued to rise at rates much higher than those envisaged under the Programme; thus negating anti-inflationary gains achieved through tight fiscal policies and through increased production of food. The target was to reduce the rate of inflation from above 30% in 1985/86 to 25% in 1986/87, 20% in 1987/88 and 15% by 1988/89. The actual inflation rate as measured by the Consumer Price Index (CPI) was 33.2% in 1986, 28.9% in 1987 and 28.2% in 1988. The latest inflation rate at the end of June 1989 was 28.1%.

SECTORAL PERFORMANCE

Agriculture

21. The agricultural sector which continues to be the mainstay of the economy, showed very positive signs of moving towards recovery. The food situation improved substantially due to particularly big increases in the production of maize, paddy and root crops. The production of cotton more than doubled during this period, and that of other major export crops showed very encouraging signs of commencing an upward trend. At the same time, the production of minor export crops, as well as hides and skins, increased. Overall, the agricultural sector registered an annual growth rate of 5.7% in 1986, 4.4% in 1987, and 4.8% in 1988, compared with an annual average of less than 3% during the 1981/85 period. The impressive performance in agricultural production was mainly due to the favorable weather conditions, improved availability of inputs, better producer prices and marketing arrangements, as well as availability of incentive goods.

Industry and Trade

22. Generally there has been a revival in the performance of the industrial sector. However, most industries continue to operate at low levels of capacity utilization. There have been some improvements in the level of production especially for those industries which have benefitted from import support schemes, thereby being assured of availability of raw materials and spares. However, the improvement in capacity utilization envisaged during the Programme (20-30% to 60-70%) was difficult to achieve, given the magnitude of resources required for recurrent inputs in view of the excessive import dependence of the industrial sector. Other problems include paucity of liquidity, frequent power and water interruptions and management problems. Industries that have shown encouraging signs of recovery during the ERP period include cement, tires and tubes, radios and soft drinks, soap making, corrugated iron sheets, aluminum products, cooking oils, paper products and gunny bags.

23. The Government has continued with its programme to reform the pricing and distribution policies, despite the difficulties in reducing the rate of inflation. Before 1986 more than 400 products were under price control. This was drastically reduced to 23 items by 1987/88 and currently there are only 10 categories of commodities under price control: petroleum products, fertilizer, farm implements, cement, galvanized corrugated iron sheets, beer, sugar, electrical cables, tires and tubes and reinforced steel.

Transport

24. Road and rail are the most important transport modes and are critical to the ERP because of their role in hauling agricultural inputs, produce and other essential goods. The transport sector has been adversely affected by shortage of foreign exchange needed to maintain the equipment stock and the physical infrastructure and supply of recurrent inputs. Increases in the road vehicle fleet and better fuel supplies have eased some bottlenecks, but the poor state of the roads, insufficient operational rolling stock and deterioration in the rail tract still contribute to continuing severe difficulties in the transport system.

25. Long stretches of major trunk roads are impassable during the rainy season. The serious state of road disrepair has drastically reduced the lifetime of transport equipment. The restoration of the trunk road network to an all year round operational state and improvement in the secondary feeder road system have to continue to be priority requirements for sustained economic recovery.

26. Over the last six years there has not been any increase in the distance covered by the railway lines (both TRC and TAZARA). The ageing of the track results in frequent derailments. Shortage of locomotives, wagons, coaches and other rolling stock seriously limits the tonnage and passengers carried for both TRC and TAZARA; and old age of most of the existing equipment results in numerous cancellations and delays.

Other Sectors

27. The other economic sectors, including construction, energy and water showed mixed performance. For construction and energy sectors, there was some improved performance in response to better availability of construction materials such as cement and steel and there was improved supply of petroleum and its products and the electrification programme was stepped up. The national grid has now reached the Lake Zone, which should ease what used to be a binding constraint for many important industrial areas of the country. Less progress has been made in the water sector. The increasing demand for water, particularly in urban areas, has by far out-stripped the available capacity. The water sector will therefore require a special attention in the next programme.

Social Services

28. Overall, the impact of the positive signs of economic recovery have had little impact on the social services mainly due to the continued decline in government resources to finance them. The status of

the health, education and water services deteriorated while the costs have increased. In view of this, special attention will be put on this sector so as to attain a sustainable economic recovery in the future. Accordingly, a special Priority Social Action Programme has been designed specifically to address the areas of health, education, water supply, food security, employment and incomes.

Outstanding Problems

29. Although visible signs of positive achievement have been observed and are encouraging, the implementation of ERP has not been without problems. Economic growth is limited by:

- (i) inadequate domestic savings and investment in physical infrastructure notably transport, marketing and processing. In addition these bottlenecks have greatly reduced producer incentives and farm incomes;
- (ii) the rate of inflation is still high, seriously eroding the already low levels of real wages and salaries, especially in the public sector;
- (iii) the external payments position is vulnerable to adverse developments in the international environment such as the decline in commodity prices, rising import prices, increasingly burdensome debt service obligations, as well as slow recovery of the export sector;
- (iv) weaknesses in the agricultural marketing system and the resultant pressures on a financial system affected by the structural weaknesses;
- (v) the inability to reverse the downward trend in the continuing poor state of social services particularly in education, health, nutrition and other social services which is both an immediate hardship to people and a long-run threat to the whole economy; and
- (vi) youth unemployment has continued to expand.

30. In view of the structural nature of these problems and the prolonged economic crisis dating back to late 1970's and in view of the time required to resolve them, the Government will continue to pursue further reform efforts in the context of a successor programme to ERP. This programme will stress the consolidation of the gains so far achieved, intensification of efforts in areas where positive results have begun to emerge, mitigating adverse effects of some measures affecting the human social dimension and taking further steps to ensure a sustained economic recovery.

II. ECONOMIC RECOVERY PROGRAMME (ERP) II
(THE ECONOMIC AND SOCIAL ACTION PROGRAMME (ESAP))

Major Objectives

31. The ERP II or ESAP is adopted as a successor programme to the ERP aiming at further sustenance and development of the major objectives and policies that were initiated in the ERP. As the Second Union Five Year Plan (1988/889-1992/93) has incorporated objectives of the ERP, the implementation of the ERP II ESAP will follow the general direction for economic and social progress stipulated in this long term plan. ESAP as a successor programme to ERP aims at the continuation of the economic recovery in order to achieve sustained growth in real income and improvement in social welfare. The major objectives of ESAP are the following:

- (a) to increase domestic production of food and exports;
- (b) to restore efficiency in the mobilization and the utilization of domestic resources;
- (c) to rehabilitate the physical infrastructure, in particular transport and communications in support of directly productive activities;
- (d) to restore internal and external balances by pursuing appropriate fiscal, monetary and trade policies;
- (e) to reduce the rate of domestic inflation from about 28 percent in 1988/89 to below 10 percent in 1991/92;
- (f) to revamp the industrial sector;
- (g) to rehabilitate the social services by identifying and designing appropriate strategies and programmes that would enhance peoples participation in the operation and management of these services.

Macroeconomic Policies

32. During the ERP, major progress was made in the implementation of the macroeconomic measures. In this context, the ESAP will continue to consolidate and intensify the measures undertaken during the ERP so as to maintain and improve on the gains already achieved. The major areas where attention will be focused are producer incentives, exchange rate management, fiscal policies, credit and money supply policies, balance of payments and population policies.

33. The performance of the real sector of the economy during the ERP period has generated momentum for further recovery in output and per capita income. Consistent with the medium term framework of economic development, the target of growth in real GDP during the next three years of ESAP is 5 percent per annum. Major contribution to the growth in output is still expected to come from agriculture. The GDP growth target implies that real per capita output will rise by about 2 percent per annum. In

view of the important relationship between population growth and per capita income, the Government will give appropriate attention to population policies.

Producer Prices

34. The agricultural sector will continue to be the leading sector in economic recovery. In this regard, the producer price policy adopted during the ERP period will be continued. With regard to export crops, measures will be undertaken to improve producer prices through a progressive reduction of the marketing costs. This will be done by the reduction in the role of marketing boards and by the introduction of more flexible and competitive marketing systems. In addition, due to the uncertainty of world market prices, appropriate measures will be undertaken to protect the producer wherever feasible. The flexibility already introduced in food crop pricing and marketing will be consolidated and expanded to other crops. At the same time measures initiated during ERP for the improvement of transportation, processing, and storage will be continued. These measures will improve farmers income through reduction of marketing costs and post harvest losses.

External Sector Policies

35. While the Government has introduced major policy changes for the external sector, Tanzania continues to face large external adjustment difficulties. To address these difficulties, external policies will remain geared towards the achievement of a sustainable increase in exports relative to import requirements. Over the ERP period, an important development in the external trade sector was the gradual evolution of the export-to-import schemes into increasingly comprehensive mechanisms that have improved external trade incentives. The operation of these schemes has provided a stimulus to economic activity including revival in the non-traditional exports, and improved supply of inputs, equipment and incentive goods. These policies, which were supported by exchange rate, fiscal, monetary and other policies, will be consolidated and rationalized during the ESAP period.

36. The Government has made substantial adjustments of the exchange rate. The Government recognizes that the exchange rate has an important role to play in enhancing a shift of resources to productive sectors, in stimulating exports particularly of industrial goods, as well as in encouraging the use of local inputs. However, it also recognized that the potential impact of exchange rate action on increase in exports is of necessity constrained by the existence of structural bottlenecks and the pervasive nature of the foreign exchange market in the Tanzania type economy. Nonetheless, with these uncertainties, the Government will continue to pursue an active exchange rate policy aimed at removing any new over-valuation and assuring that real appreciation does not take place. The Programme for 1989/90-1991/92 will also concentrate on major effort to overcome the country's transportation constraints. Further, export crops in Tanzania continue to be affected by crop-specific problems such as that of inadequate processing capacity and marketing arrangements. Action programmes to deal with these impediments have begun to be implemented and will be intensified during this programme. In addition, export promotion

measures including improvement in export finance, simplification of export procedures, and other export incentive packages will be given special emphasis during the Programme period.

37. In order to improve access to foreign exchange for economic activities consistent with ERP, the Government expanded the Open General License (OGL) facility a number of times and raised the individual ceiling during 1988/89. As an important element in efficient allocation of external resources to support genuine economic activities, the OGL facility will continue to be expanded following appropriate review. Further expansion of the facility will, of necessity, be subject to the availability of resources, due regard being paid to the envisaged enhanced fungibility in aid flows and the targeted improvement in exports.

38. During 1989/90, the Government aims at increasing the export momentum. The following measures are to be taken regarding export promotion:

- (a) the already adopted export promotion measures such as the duty drawback scheme, seed capital scheme, etc. will be enhanced;
- (b) increased efficiency in the marketing system including the establishment of a strong financial management system for Co-operative Unions;
- (c) introduction of an Export Credit Guarantee Scheme;
- (d) review and simplification of export documentation procedures; and
- (e) introduction of a system of export targeting, close monitoring and prompt action programmes.

39. The areas of management of resources will also be strengthened during the 1989/90 period. The intention is to monitor and control the inflow and outflow of resources, especially the foreign exchange earnings. In order to attract foreign exchange, the Government has introduced a system whereby diplomatic missions and other non-citizens are required to pay for basic utilities in foreign exchange, and Tanzania citizens residing abroad are allowed to maintain foreign exchange accounts in the country. Foreign exchange collections from different facilities will be strengthened to ensure increased availability.

The Government Budget

40. During the ERP period, the major goals and objectives of fiscal policy were implemented and progress has been encouraging. These objectives will be continued during ESAP because the problems identified then will take some time to be eliminated. Consolidation of ongoing activities and restrained expansion of new activities will be the guiding principles during this programme. Although the need for external import support still exists, the intention is to significantly reduce the dependency of the budget on this kind of support by the end of this Programme. The aim is to reduce the overall deficit to below 10 percent of GDP by 1991/92. It will be possible to achieve this target by speeding up

the implementation of the Public Expenditure Review (PER) proposals, which began during the 1989/90 budget. Critical in this Programme is the restructuring of government activities so as to reduce progressively government involvement in the activities which can be undertaken by other agencies and the public and to focus on improvement and maintenance of infrastructure and social services. Steps taken to contain expenditure by enforcing control procedures and improving accountability have also been introduced and have already started showing encouraging results. The delivery level for most activities in real terms has declined significantly however, and this situation causes concern. While steps are being taken to rectify this, it is the Government's intention to continue restructuring expenditures so that the responsibility of the Government remains only in critical areas which support the growth process.

41. The Government will continue to strengthen its efforts to address remaining structural weaknesses in the tax system and its administration. The Government will stress the enhancement of the efficiency and yield of the import duty system and sales taxes on imported goods. In this regard, major steps have already been taken to simplify the import tariff structure. The duty exemptions are being reviewed with a view to reducing them, in consultation with donors. Beginning 1988/89, the Government has initiated a simplification of the structure of sales taxes, and has taken further steps to reform personal and company income taxes, with a view to broadening the tax base and enhancing tax collection. With the aim of reducing further the nominal rates of income tax to enhance compliance, the Government will make additional reforms, including implementation of an action programme to strengthen the administration of tax departments. Local Government managements will be strengthened to improve their revenue collection capabilities, so that they take over more activities currently being funded by the Central Government. Moreover, given the fact that budgetary allocation have been minimal in terms of implementing a number of projects, the Government will put greater emphasis on people's own contribution. This will be done through self-help activities and community participation. This measure will significantly reduce the budgetary problem. The complementary foreign exchange problem will however be reduced by an increased assistance from the international community.

42. The Government will continue with its prudent measures to ensure that cost-cutting measures are efficiently implemented. Cost recovery for selected services will be implemented. Expenditure controls will be strengthened. Control on new employment and reduction of staff in foreign missions will be enhanced. An important step will be a review of the remaining subsidies and minimization of Central Government transfers through promotion of joint ventures, and closure or selling of persistently loss-making parastatals.

Wages and Salaries

43. The public sector continues to be the largest employer in Tanzania, accounting for more than 80 percent of total wage employment. The civil service alone constitutes just under half of total public sector employment with the rest being employees of the parastatals. The level of remuneration is low and the real wage and salary levels have declined

rapidly, given the high rate of inflation in recent years. Nominal adjustments have not been able to cope with inflation, given budgetary and other productivity constraints. Improvement of wages, salaries and other conditions of service will receive priority during ESAP.

44. The Salary Review Commission established to review salary structure and make recommendations on appropriate levels and other conditions of service has already submitted its report. Most recommendations including those related to the restructuring of salary levels have been implemented over the last two years. Other recommendations, particularly those relating to maintenance of a small but committed and efficient civil service, are being implemented in phases.

45. A Civil Service Census was undertaken in early 1988, and the full results will be available shortly. In the meantime steps to limit the expansion of the civil service are being taken. These include a freeze on employment in the civil service (except for teachers, health personnel and agriculture extension workers), the waiver of the bonding system for graduates and allowing them to seek employment elsewhere in the economy, and identifying areas capable of absorbing a large number of employees who will be affected by retrenchment or who may fail to obtain employment in the formal sector. The "Redeployment of Human Resources: Possibilities and Programmes" Project is being undertaken, and its result will be implemented during the ESAP period. This project aims at assessing manpower needs, and proposing appropriate reforms in the civil service sector and alternative employment creation and income generation opportunities outside the civil service sector.

Parastatals

46. The role of parastatals in the Tanzania economy is still crucial, particularly at this stage of development. Over the last few years, however, there has been genuine concern over parastatal performance and some steps have been taken to restructure and abolish some of them. The measures will continue and the Government will continue to ensure that commercial parastatals are managed commercially and do not depend on budgetary support. Several studies have been undertaken while others are still ongoing, to establish the measures required for restructuring this sector in general and for specific parastatals in particular. It is expected that the studies and actual restructuring will be finalized during ESAP.

47. As with the civil service, there is strong feeling that the parastatals are overstaffed, particularly the non-commercial ones where efficiency criterion is difficult to determine. In this regard, preparations for a parastatal census are underway and once undertaken, appropriate steps will be taken to reduce possible overstaffing.

Monetary Policy and Financial Sector Reform

48. The central objectives of monetary policy during the next three years will be to sustain the growth of real GDP, to reduce inflation and to strengthen the balance of payments position. These objectives will be achieved through continued restraining of bank credit to the Government,

and the reforms of agricultural marketing and the financial sector to ensure that increased credit expansion is directed towards other sectors of the economy, while restraining the growth in money supply. In this context, a Presidential Commission is currently studying the financial sector and preparing an action programme to revamp the financial sector with the aim of improving the management of monetary policy and enhancing domestic savings and the use of financial resources. This programme will be aided by maintenance of resources. This programme will be aided by maintenance of the positive rates of interest attained during the ERP period. The action programme will include institutional reforms to improve efficiency and diversification of services in the financial system.

Pricing and Distribution Policies

49. The number of products subject to price controls have been reduced to 10 categories of commodities considered essential consumer items. Internal trade has been deconfined except for a few goods whose prices remain under control because of health and security reasons. For those products still under price control, the Government will set prices to avoid subsidies.

Balance of Payments

50. The balance of payments outlook calls for concerted efforts to improve productive capacity so as to build up a sustainable external sector position. The structural and financial policies embodied in ESAP, together with increased foreign assistance on appropriate terms, are expected to sustain the improvement in Tanzania's external position, despite the projected further worsening in the terms of trade. Although the performance of the external sector in the ERP years fell short of targets, the gains realized, particularly in non-traditional exports and a number of agricultural crops, give hope that with further internal reforms and a favorable international environment, exports can be increased. Special efforts are underway to revamp the invisible export sub-sector, including transit trade, tourism and miscellaneous services. With improvements in external sector management, including intensification of export promotion measures, the export sector should be able to finance an increased proportion of imports by the end of ESAP period.

51. During ESAP, the import programmes will place more emphasis on the needs for economic recovery and consolidation. The Government however, recognizes that resource requirements for meeting the recovery needs will still be far in excess of the national capacity to provide them. In this regard, external assistance, especially under concessional terms, will continue to be an essential requirement during ESAP. In this connection, the Government realizes that a successful resolution of debt service obligations is critical for the long-term viability of the programmes for economic recovery. Repayment of non-reschedulable multilateral debt has created a substantial financial burden; the Government will be seeking donor assistance to alleviate this burden. The Government will also be encouraging foreign investment by revising existing guidelines, including those related to the repatriation of profits and dividends. Joint venture arrangements will be encouraged.

Population Development

52. Given the critical role of population-related programmes in overall socio-economic development, the Government has finalized the preparation of a population policy which will be adopted during the ESAP period. The main goals of the national population policy are to reinforce national development, especially human resources development, by putting emphasis on influencing population trends, enhancing population quality, and improving the health and welfare of women and children.

53. More specifically, the population policy will initially concentrate on expanding and strengthening maternal and child health and family planning programmes; facilitating greater participation of women in mainstream economic and development activities; improving programmes for children, youth and the elderly; enhancing the effectiveness of agriculture, food and nutrition programmes; promoting research in the areas of conservation and proper resource utilization; and launching an integrated information, education and communication programme for dissemination and mass mobilization to support this programme.

III. SECTORAL PROGRAMMES

Agriculture

54. The agricultural sector will continue to be the key economic sector during the ESAP period. As was the case during the previous programme, ESAP will continue to aim at increasing agricultural and livestock production, both in quantity and quality, through the improvement of producer incentives. This would be achieved through streamlining and restructuring of the marketing institutions, increased availability of farm inputs and quality seeds, reduction of post harvest losses, as well as the continued availability of incentive goods. Taking into account the impressive performance of the agricultural sector during the ERP period, particularly in the production of grains and cotton, ESAP aims at achieving a rate of agricultural growth of 5.5 percent per annum in real terms, consistent with the Second Five-Year Union Plan.

55. Despite the success achieved in the past three years of the ERP, much still remains to be done in order to debottleneck a number of areas in the agricultural sector. The sector has to be able to provide food to consumers at lower real prices, increase the level of income for producers to cater for their basic needs, create employment in the sector by reducing entry barriers to its activities through the provision of infrastructural supportive services and incentive schemes. Measures already taken in the sector, such as increase in producer prices and substantial involvement of the private sector in the grain trade, have helped to improve the food situation throughout the country.

56. During this Programme, the government will continue to undertake a periodic review of producer prices, to ensure that they provide the necessary momentum for increasing production. The target would be to increase progressively the share of the export price received by the farmers.

57. With regard to grain marketing, substantial progress has been made in streamlining the operations and roles of the marketing institutions with the view to reducing direct heavy government intervention. The cooperatives are now playing a much bigger role in inter-regional and intra-regional trade, especially for grains. At the same time the removal of restrictions on food movement has enabled private traders to participate actively in the grain trade, although an inadequate marketing infrastructure remains an important constraint. Under these reforms, the NMC operations have been reduced to the level of commercial requirements, external trade, and management on an agency basis, of the Strategic Grain Reserve (SGR) and NMC will be restructured accordingly.

58. The food marketing reforms introduced under ERP will be consolidated in order to build on the improvements already achieved. The main aim is to reduce the economic costs of food distribution and to minimize the financial burden of the food crop marketing activities, within the overriding objective of ensuring national food security. For maize, this will be achieved by redefining the role of licensed traders, the cooperative unions, the Government and the NMC. In particular, and unlike in the past, maize marketing costs associated with food security functions are now for the account of the Government through its Strategic Grain Reserve/Buffer Stock (SGR) arrangement. Net additions to the SGR will be limited to a level that can be financed from the budget. A separate account will be maintained for the SGR/Buffer Stock grain and payments to the Government's managing agent will be limited to the direct cost of handling, storing and transporting the maize. Thus the Government will be the buyer and seller of last resort, managing a price support system which will enhance food security and ensure a certain degree of price stability, at both the producer and consumer levels.

59. Official procurement prices for the SGR are now effectively floor prices providing farmers and primary societies with a guaranteed minimum income from their maize. The procurement of maize has been decontrolled at primary society/cooperative union level and cooperative unions and primary societies, sell maize either to licensed traders or directly to consumers. This implies that in good production years the Government may build up the SGR. In poor crop years the SGR would be drawn upon by selling maize at predetermined prices. These prices will be set within a range that would cover the full cost of operating the SGR over the medium term. Whenever a succession of exceptionally good crops result in unduly high procurement and stocks, the Government will sell maize, either for domestic use or export; in the latter case, exporters will benefit from the existing retention scheme. Any losses that could arise in these circumstances, from differences between the full unit cost of the SGR and the sale price, will be borne by the Government.

60. The problem of food supply to deficit areas especially the urban centers will receive more attention during ESAP. Many people have not really benefited as much as they should from the increase in food production. The major bottleneck is transport from surplus to deficit areas. While surplus areas have stayed stuck with food surpluses they could not market, many areas have at the same time continued to suffer from food deficit, some severe. Urban areas in particular have had to pay premium prices for maize, while grain surplus areas have been losing maize

for lack of storage space, and farmers in the areas have been getting frustrated with the unsalable maize stocks. Thus, as a result, food prices increase at a time they should not, and have contributed substantially to the failure to bring down the rate of inflation and to stabilize the economy for the benefit of all Tanzanians, but more specifically the vulnerable groups.

61. With regard to export crops, similar reforms are underway. These include real increases in producer prices, the relaxation of constraints on private sector involvement in the export of non-traditional crops, and the strengthening of co-operatives. The reforms already introduced have all helped to stimulate production. However, these measures have not adequately reduced the marketing costs.

62. The Government intends to increase the flexibility of export crop marketing and to put greater pressure on marketing margins by:

- (a) reducing the role of the marketing boards to managers of the auction or tender arrangements, exporting agents of the cooperatives, and agents of the Government for the provision of quality control and market intelligence;
- (b) allowing the cooperatives and primary societies to retain the ownership of the crops until they are sold, rather than transfer it to the marketing boards as has been the case;
- (c) giving the cooperatives more autonomy also for procurement, through the establishment of a two-tier pricing system for the traditional export crops (cotton, tobacco, cashew nuts, coffee and tea) in which the producer prices act as minimum or floor prices, and final payments are made independently by each cooperative union to its members, depending on profitability performance; and
- (d) recognizing the role of the private sector in export crop marketing.

63. In addition to these policy reforms, the Programme will emphasize the rehabilitation of processing and storage facilities for grains, sugar and the traditional export crops. Major activities during the programme period will be:

- (i) completing rehabilitation of cotton ginneries and construction of new ones;
- (ii) completing rehabilitation or reconstruction of the BUKOP factory;
- (iii) completing rehabilitation of the TANICA factory;
- (iv) completing rehabilitation of sisal decorticators and installation of new ones;
- (v) completing rehabilitation of the Morogoro and Songea tobacco factories;

- (vi) rehabilitation and construction of new tea factories;
- (vii) implementation of programmes aimed at reducing the use of fuelwood in tobacco curing;
- (viii) rehabilitation and expansion of grain mills;
- (ix) rehabilitation and expansion of storage facilities;
- (x) rehabilitation of sugar factories.

64. With regard to the livestock sector, the programme will focus on implementation of the livestock rehabilitation programmes. The main areas of emphasis would be rehabilitation of animal health services, feed plants, A.I. services, commercial ranches and Kawe Meat Plant. The collection and commercial marketing of hides and skins and the development of large diary farms will be consolidated during the period.

65. With regard to inputs and support services, the emphasis would be on streamlining and improving supply, procurement and delivery of inputs. In order to promote the use of high yield seed varieties, measures will be taken to improve production and marketing of seeds. Diseases and pest control measures will be strengthened together with research and extension service.

66. In order to ensure close follow up in the crop and livestock sectors, the Government will be closely reviewing programmes with a view to restructuring and streamlining the agricultural investment programme.

Transport and Communications

67. During the ERP period, some progress was made in this sector in spite of its large size and extensive spread, given the size of the country. The improved performance was partly in response to increased resources, particularly for railway and road transportation but, more importantly, due to improved fuel supply during the implementation of ERP.

68. In spite of these developments, much more needs to be done in this sector to ensure reliable and timely transportation of goods, particularly agricultural produce. Crops are still stranded in different parts of the country and feeder roads have deteriorated further, particularly during the long rains of 1989.

69. Several measures continue to be taken for the improvement of this sector. The Transport Sector Policy has now been finalized and is being implemented. The organizational aspects are also receiving attention including measures to improve financial performance and the manpower development programme. A special study currently being finalized namely "The Rationalization of Transport Operations for Agricultural Development" is also expected to throw more light into operational problems that currently slow down the performance of this sector.

70. The important programmes which will be implemented during ESAP are those for the railway and roads improvement. In the railway subsector, the implementation of the Emergency Recovery Programme Phase I is nearing completion, while preparation of Phase II will soon be completed and implementation will begin during this program period. For TAZARA, the implementation of the 10 year development program has been under way since August 1988. In these programmes, in addition to the rehabilitation of the infrastructure, the operational efficiency is being enhanced by crash-programmes in manpower development and appropriate adjustment of tariffs.

71. Road transport, accounting for over 60 percent of surface transport, will receive top priority. There are several donor supported programmes aimed at improving the trucking capacity through provision of trucks, spares and strengthening the maintenance capacity. Budgetary allocations have been enhanced, even in the face of the high resource constraints. Some projects have already received donor support and their implementation will be intensified during this period. During the same period, the Integrated Roads Programme (IRP) will also be finalized and its implementation started.

72. The shipping sector has also acquired increasing importance, particularly for delivering urgently needed goods during the recovery period and, equally important, for transit trade with land-locked countries. The latter role has increased in importance especially given the strengthening of the regional groups of SADC and PTA and improved trade between these countries. For these reasons, the ports and shipping development programme will be finalized and the implementation of the subsequent phase undertaken.

73. The transport sector needs a large amount of resources, given the limited range of substitution of its activities, and this calls for efficient use of all available resources. In order to save resources, where people's own efforts can be used, this will be done. An important area in this regard is rural road maintenance where availability of some simple tools and equipment will greatly increase the contribution of the people themselves.

74. Currently, urban transportation has been a long standing problem, especially for Dar-es-Salaam commuters. The main reason has been lack of adequate transportation facilities, particularly buses and spare parts. During the ESAP period, in order to deal with this problem, it is intended that the Government will give priority to ordering new buses and spare parts, and will put in place appropriate incentive schemes for private bus operators. In addition, the Government will urgently explore other alternatives of ferrying passengers in urban areas, including looking into the possibilities of using pickup trucks and rail transport.

75. The Tanzania Posts and Telecommunication Corporation is currently implementing a programme for the improvement of services in the country. The main emphasis is on rehabilitation and maintenance of the existing network. During the ESAP period, the main emphasis will be to improve the quality of service by improving the call success rate; reducing the fault rate to acceptable levels and also reducing congestion and thereby increasing capacity utilization of equipment. Rehabilitation

requirements will focus on the replacement of old equipment including telephone exchanges, the transmission network and underground cables.

Industry

76. During the implementation of ERP, the industrial sector showed some improvement in performance, reversing the declining trend in output performance for the preceding period. Between 1980 and 1986, the industrial sector output declined by an annual average of 4.6 percent. Following the commencement of ERP in mid-1986, significant improvement was recorded in 1987 when output in real terms (1976 prices) increased by 4.2 percent and then rose again by 5.4 percent in 1988. The performance nevertheless indicates that the target of 6 percent for the Second Five Year Plan (1988/89-1992/93) is achievable if the momentum generated in this sector during ERP is sustained.

77. In spite of the output increase during the period of ERP, the performance of this sector is still far from satisfactory. The ERP target of increasing capacity utilization of efficient industries from 20 or 30 percent to 60 or 70 percent has not been achieved. Similarly, other objectives such as increasing availability of incentive goods, increasing supply of intermediate goods, and revenue generation were only partially attained. In the few establishments where enhanced foreign exchange allocation was made or major rehabilitation was undertaken, capacity utilization improved significantly. Such industries include tires and tubes, cement, paper, canvas, farm implements, corrugated iron sheets, soft drinks, aluminum products, soap and detergents as well as radios.

78. The structure of the industrial sector essentially remains the same with heavy dependency on imported inputs. This situation causes concern over the future development of this sector, particularly given the low capacity of the economy to generate foreign exchange. During the period of economic hardships, and also during the implementation of ERP, there has been some achievement in developing local substitutes for imports, for example: leather factories are using tanning paint manufactured locally from wattle; the brewing plants have started using barley from local production; soap manufacturers have increased the utilization of domestically available caustic soda and oil seeds, and General Tire uses some local rubber. These initiatives are in the right direction and they need to be strengthened and expanded during this programme.

79. In the next three years therefore, the measures initiated under ERP will be intensified, including more efficient utilization of foreign exchange. Special emphasis will be placed on:

- (i) industries which make use of locally available raw materials and/or produce for exports;
- (ii) industries which produce basic and essential requirements for the population;
- (iii) establishments which support other sectors and increase capacity utilization in the economy; and

- (iv) small scale enterprises by developing and providing the needed skills, and improving efficiency in the sector.

80. The ongoing studies under IRTAC for restructuring the industrial sector will provide the basis for action in this area. The study in the leather industry has already been completed while those for the textile and agro-processing industries are still continuing and are expected to be completed by the end of December 1989. Implementation of a major restructuring programme for these sectors is expected to start early next year. Similar studies will be undertaken for the remaining sectors, in particular those which support the agricultural and transport sectors, as well as those with high potential for export production, with a view to complete the implementation of the rehabilitation and restructuring of the whole industrial sector. The restructuring of the sector will include consolidation and streamlining of activities, rehabilitation of plant and machinery and, when appropriate, the phasing out of the inefficient activities. Joint ventures and the role of the private sector will also be encouraged.

81. Progress already made in industrial exports will be consolidated, especially given the uncertain nature of world commodity prices. The 1988/89 industrial exports which earned the nation US\$93 million, compared to US\$75 million in 1987/88, is a good indicator of the potential of this sector in the nation's quest for balance of payment improvement.

Mining

82. Tanzania is endowed with a rich variety of mineral deposits such as gold, gemstones, coal, ammonia, uranium, gypsum, kaolin, phosphates, salt, etc. of which diamonds are the leading foreign exchange earner. However, the future of diamonds production is not bright, given the apparent decline in ore grade quality and plant availability due to aging, as well as the need for substantial investment, especially in rehabilitation, to increase through-put to compensate for the decline in ore grade deposits and the high cost of extraction in the major Mwadui mine. Nonetheless, the unexploited potential of other minerals provides options for enhanced foreign exchange earnings by this sector in the coming years.

83. In spite of the potential noted above, the sector has steadily recorded a declining trend in performance throughout the ERP Period. In 1988 alone, the decline recorded was 7.2%. As a result, the share of this sector in GDP has remained below 1% over the last ten years. Despite the poor performance of this sector, the Government has undertaken a number of measures aimed at reversing the continuous decline of this sector. These measure include substantial investments made in the recently commissioned Kiwira Coal Mine, enhanced exploitation of Minjingu phosphates, and improved production of salt following rehabilitation of the Uvinza Salt Works. For gold, although the large known deposits of Buckreef, Kahama, Buhemba and Chunya may come on stream only slowly for large production, the small scale but fairly spread private and cooperative activity in gold should be able to yield substantial foreign exchange, if

proper incentive and marketing arrangements are made. Other activities which will receive more attention will be the creation of an appropriate environment for broader participation in this sector, and the encouraging of foreign investment. Petroleum exploration and development will be continued, and special studies will be conducted on soils for agricultural and water resources development.

84. As noted earlier, in order to realize the additional foreign exchange earnings in the mining sector, more resources will be required for organizing and supporting the small scale activities, while providing a structure of marketing and export incentives that will discourage illegal trade. In addition, joint venture will be welcome along with encouraging properly licensed private mineral exploiters to complement government efforts. During the next years, the Minerals Development Policy will be revised to allow amendments on the Mining Act of 1979 and provide concrete guidelines for the development of the sector. In view of the potential danger of environmental destruction and pollution which can be brought about by mining activities the Government will take appropriate measures to minimize these effects.

Energy

85. The role of the energy sector in the economy will continue to receive special attention in this programme. The performance of this sector during the ERP period was satisfactory and achievements made in the sector were in part attributed to the consolidation process which the energy sector was undergoing. Progress made in generation and distribution of electricity and in supply of petroleum products, helped to smooth the production processes as well as services delivery.

86. Although the hydro-electricity production programmes began well before the ERP period, significant progress in electricity utilization occurred during the ERP period, whereby at least 14 major towns have been connected to the National Grid. The coverage now includes most major towns in southern, central and northern Tanzania, where power problems constituted a major constraint for industrial production and domestic use. As regards petroleum products, better availability of foreign exchange, and special procurement arrangements, coupled with moderate crude oil prices eased the supply constraint.

87. Notwithstanding the above achievements, this sector continues to face a major structural problem which must be addressed during this programme. The major sources of energy continue to be fuel wood and other wood-based products, contributing about 91% of total energy used, while petroleum products contribute 7%, electricity 1.6% and coal 0.6%. The danger of environmental degradation and desertification is great given the technologies available, the costs of altering this pattern, and the rapidly increasing population.

88. During the ESAP period a number of measures will be undertaken to lessen the process of degradation and desertification. These will include:

- (a) increased afforestation programmes;

- (b) development of other alternative sources of energy biogas, solar, crop residues, etc.
- (c) improve and disseminate charcoal production kilns; and to improve and promote the use of more efficient charcoal stove in households and institutions;
- (d) expand coal utilization technologies for industrial, institutional and household use; and
- (e) disseminate energy efficiency uses, particularly energy conservation in industry such as tobacco curing, fish smoking, salt drying, etc.

89. In undertaking the energy conservation measures enumerated above, in addition to relying on locally based research organizations and other institutions, overseas based institutions and other agencies which have made progress in these areas will be called upon for assistance. Special arrangements to ensure steady and adequate supply of petroleum products will continue to be sought and improved upon as appropriate.

90. In the area of electricity, efforts will continue on expanding production and on spreading the use of National Grid electricity to major consuming centers such as tea plantations, factories and other establishments. Plans to extend electricity use to the rural areas near the Grid system will be finalized during ESAP period.

IV. PRIORITY SOCIAL ACTIONS

91. In view of the importance of human capital for economic growth and the continued commitment of Tanzania to basic needs provision, the Government will, as an integral part of ESAP, emphasize social sectors and give special priority to the redeployment of people into more economically productive activities. The Government recognizes that the task of reversing the deteriorating situation in the social sectors is a particularly enormous one, requiring institutional and management reforms as well as large quantities of additional resources. The improvements to be introduced during the ESAP period will be the first phase of a longer term programme. But the current social services delivery is grossly inadequate, partly because of being under funded. In the coming budgets the Government will therefore be allocating additional resources to the social sectors and exploring ways and means of increasing beneficiary contributions. The Government is also requesting donors to help accelerate ongoing projects in these sectors, and to find ways and means of channeling additional resources to priority social actions.

Education

92. The most serious and fundamental issue in education is its deteriorating quality as evidenced by the extremely poor performance in basic subjects in both primary and secondary schools. There is a multitude of factors that have led to this situation, the most important being: lack of adequate inputs particularly textbooks, teaching aids and materials as

well as teachers; a poor learning environment (i.e poor accommodation and equipment; and poor motivation, and often incompetence, on the side of teachers). These problems stem in part from inadequate resources and in part from unsatisfactory policy, institutional and financial arrangements. The diversity and complexity of the problems and issues necessitate a multifaceted and comprehensive action programme, extending over several years, to bring about major improvements in primary and secondary education. Under ESAP the following priority actions will be taken to arrest and reverse the main problems.

Improving the availability of instructional materials

93. At present textbook and exercise book ratios in both primary and secondary schools are very unsatisfactory and far below the standards set by the Ministry of Education. To address this situation the Government intends to reform the curricula to make more efficient use of the available time. At the same time a major effort will be made to expand production and distribution of textbooks and materials and thereby ensure that minimum standards are met as soon as possible. In the case of textbooks, adequate resources for paper and printing are already being provided, but immediate action is required to enhance the effective demand for instructional materials. To this end parental contributions will be increased. The Central Government, with additional external assistance, will increase subventions to districts for the purchase of instructional materials.

Improving the Distribution of School Materials

94. The problems in the distribution system that have resulted in the piling up of textbooks in warehouses while many children are doing without, stems partly from inadequate resources but also from inefficiencies in the distribution system itself. The Government therefore intends to deconfine the distribution of textbooks and to allow licensed suppliers to participate alongside the existing institutions in supplying school material to regions and districts.

Improving the Learning Environment

95. The state of many school buildings and basic furniture and desks is as appalling as that of textbooks and stationery availability. The primary responsibility for building and maintaining schools and providing furniture will continue to lie with districts and local communities, but the central government will endeavor to enhance the pace of rehabilitation by: modifying existing building design standards to optimize use of locally available materials and technology; helping train core school maintenance and rehabilitation teams in each district; and providing some additional financial resources to complement resources raised at the local level.

Enhancing the Primary to Secondary Promotion Rate

96. At present Tanzania is nearly at the lower end of African countries in secondary school education enrollment ratios -- only 3% of the age group get places in public schools and when the private sector is included, the promotion rate is about 6%. Because of the heavy expense of

public secondary education the only realistic option for a fast expansion in secondary school places is by maximizing voluntary self-help efforts. However, self-help schools too are having difficulties in maintaining standards because of shortages of materials. The Government therefore intends to establish a grant in aid fund to support community financed secondary schools. Preference in the allocation of these funds will be given to poorer districts.

Health

97. At all levels, the health system in Tanzania is now under severe strain. There are shortages of essential drugs and consumables such as bandages and syringes. Facilities are in a state of disrepair, and at all levels lack of vehicles in good running condition limit the effective distribution of the few supplies available. Health workers -- like everybody else -- are inadequately remunerated, leading to poor retention of qualified medical personnel in public service. Those who have remained are also obliged to devote some of their time to supplementary income generating activities. Even more so than in education, there is an urgent need to address the financial resources problems (both external and domestic) as well as the policy, institutional and management problems that have led to a crisis situation. During ESAP emphasis will be placed on addressing the following issues in particular.

Improving the Availability of Pharmaceutical and Other Medical Supplies

98. With the introduction of the own fund imports scheme and more recently the OGL system, the availability of drugs and other medical supplies in the private sector has improved slightly. Domestic pharmaceutical manufacturers will also benefit from the OGL scheme. However a severe lack of domestic resources coupled with the rising prices of drugs and other supplies, resulting from devaluation, means that public health facilities are still in a desperate situation. Rural health centers and dispensaries are fortunate in being able to receive drugs through the essential drugs programme (EDP). But this still leaves the need for drugs and other supplies for village health posts, district hospitals, urban dispensaries/health centers, and referral and consultant hospitals. In addition there are vital needs for equipment, especially for maternal departments where maternal death rates and still-births have increased, in part because of lack of basic equipment.

Improving the Distribution System

99. The selection, procurement and distribution of drugs and medical supplies in Tanzania is handled by four main agencies: Central Medical Stores (CMS), National Pharmaceutical Company (NAPCO), non-governmental hospitals/-agencies, and UNICEF/DANIDA through the EDP. CMS handles nearly 70% of all drug and medical supplies in the country but is constrained by a severely understaffed, under trained and unskilled international trading section, hence its excessive reliance on the few costly suppliers represented in Tanzania; lack of effective quality control, inadequate and poorly maintained physical facilities for pharmaceutical storages; and an ineffective inventory management system. To address these problems the Government is reviewing the organizational

structure and management of the CMS and, at the same time, will be allowing other licensed suppliers to participate alongside CMS in supplying drugs and other medical supplies to hospitals and dispensaries.

Repair of Health Facilities

100. The task of repairing the existing health infrastructure will extend way beyond the ESAP period, but there are certain facilities that require immediate attention. In organizing this rehabilitation work, maximum use will be made of community participation. However, in urban areas in particular, and for more major facilities, additional financial resources will also be required.

Transport for Health Institutions

101. The vehicle situation for health institutions is also far from satisfactory and is one of the major bottlenecks limiting the proper functioning of the referral system, thus leading to unnecessary and avoidable deaths. Transport for patients and for health personnel (to supervise and advise on the implementation of health programmes) is therefore urgently required.

102. However, the domestic resource constraint could severely limit the ability of public sector institutions. In the medium and longer term, the Government intends to address this problem by a combination of user charges, special charges for higher quality wards and possibly some form of health insurance.

Water Supply

103. For a variety of reasons including shortage of essential spares, shortage of fuel, broken down machinery needing complete rehabilitation, management problems and shortage of manpower at all levels, the actual performance of water sector has been much below the physical availability of potable water facilities. In rural areas it is frequently the case that there is not any degree of reliability, while in urban areas dry taps are a common phenomenon. The Government recognizes the critical importance of clean water for the health and general well being of the population and is determined to reverse the deteriorating situation in this sector. In rural areas, the Government is well advanced, through projects such as Health through Sanitation and Water (HESAWA), in persuading villagers to manage and maintain water facilities from their own contributions, but some initial technical and financial assistance from the Government is essential. In urban areas the technical and financial resources needs are much greater although, here too, the Government is committed to cost recovery.

Food Security

104. Over the past three years, food production and availability has improved dramatically and the Government has built up a strategic grain reserve (SGR) to guard against any natural disasters in the future. The urban population however has continued to suffer from large fluctuations in food prices, which result not from the underlying food situation but from

transport and marketing inefficiencies. In particular, private traders are reluctant to invest in large storage facilities because of continued uncertainties about their position and transport in the rainy season is extremely difficult because of the state of roads infrastructure. The result is high urban prices, while stocks pile up and even get spoiled in rural areas.

105. To address this situation the Government will be encouraging the railways to move much more maize and rice to urban areas, in part by providing them with additional wagons for the purpose. It will also adopt a systematic price stabilization policy which will involve releasing SGR price buffer stock to traders at times of relatively high prices. In addition, grain storage facilities will be constructed and leased to those who can utilize them effectively and efficiently.

Employment and Incomes

106. As part of the programme of priority social actions, the Government will be introducing short term measures to create employment opportunities for the urban unemployed and underemployed, thus enabling them to have access to income and food. Labour intensive road and environmental rehabilitation projects will be launched in various cities and municipalities. Those projects, which will involve rehabilitation of feeder roads in urban areas and planting of trees alongside roads and in selected green belts around the urban areas, will be managed by local communities and non-governmental organizations. Workers may be paid less than the minimum wage to ensure that only those really in need participate in such projects, and to keep the costs to the government at a manageable level.

107. The major restructuring in the Government and, more generally, in the public sector that will take place over the next three years will also involve both substantial increases in real wages in the public service and some reductions in the number of public employees. In this context the Government has already carried out a headcount of the civil service and will shortly be undertaking an assessment of civil service manpower needs, as a basis for future budget restructuring and staff reductions. A headcount in the parastatal sector will also be carried out later this year.

108. To facilitate retrenchment in both the government and the parastatal sector, the Government has already initiated action oriented studies of employment opportunities in the agricultural and informal sectors. Retraining programmes are being developed. Financial compensation packages are also being prepared for civil servants who may be redeployed and resettled elsewhere in the economy.

V. GROWTH PROSPECTS AND EXTERNAL FINANCING REQUIREMENTS

Growth Prospects

109. The preceding sections have outlined the macro-economic and social framework needed to achieve an annual rate of growth of GDP of 5

percent over the medium-term. This growth target will be achieved provided the Government intensifies its efforts made during implementation of ERP and if the international environment improves, including increased net external transfers. The main features of the macroeconomic scenario consistent with the economic development targets of the programme are:

- (i) On per capita basis, income is projected to increase by around 2.0 percent per annum and consumption at close to 1.0 percent. This will represent a major improvement compared with the earlier years when consumption levels declined. The target to raise consumption levels is essential if economic recovery is to be translated into higher levels of welfare for the population.
- (ii) The projected increase in imports over the Programme period should be consistent with the targeted rate of GDP growth. The Government's adjustment strategy in the next three years is to emphasize the shift of relative prices toward exportables to ensure that exports growth finances an increasing proportion of imports. The measures already underway, and those outlined in this programme, are expected to generate significant improvements in efficiency, stemming from the reallocation of resources between and within the sectors. The implementation of the action programmes to rehabilitate and restructure the industrial sector should also lead to the realization of substantial import saving through improved efficiency in the use of imported inputs and through the development of import-substituting activities, as well as through the pick-up in manufactured exports.

110. Nevertheless, the success of this adjustment strategy will continue to depend, for some time to come, not only on maintaining the current level of aid disbursements in real terms, but also on an increase in net official transfers and debt relief. The Government recognizes that the ESAP projections will critically depend on the pace of economic reform, aided by external assistance. The most important factors that will determine the outcome of the Programme targets will vary from year-to-year because of events over which the Government has no control, e.g. weather, international commodity prices for exports, and import prices of particularly intermediate goods--notably oil. Other factors are the speed with which the Government will succeed in correcting structural constraints, such as crop processing and marketing bottlenecks, and the high cost of transport due to a deteriorated road system and a weak operating performance of the railway system.

111. The Government is concerned that rehabilitation of the country's road network is likely to take not less than a decade and therefore needs careful targeting. Considering that roads carry nearly 70 percent of domestic goods and people, improvement of their efficiency is a crucial condition for the success of the structural reform and economic and social development. The financial requirement for such improvement is substantial and will need increased donor assistance. Given this serious situation the Government has prepared a national transport policy (NTP) and

an integrated road rehabilitation programme, implementation of which begins this year.

External Adjustment and Financing Requirement

112. For many years, Tanzania is likely to continue facing large external imbalances. Although official exports are expected to grow faster than before, they will do so from a low base, at which they only cover about one third of imports. Traditional exports are subject to fluctuating commodity prices. In the immediate future, the outlook of prices is unpredictable owing to the collapse of the ICO agreements on coffee export quotas. This is a very serious blow to the economic recovery process since coffee exports account for about 30 percent of the total export earnings. The export potential of cotton will remain constrained by the insufficient ginning capacity but more importantly transportation difficulties, while tobacco is constrained by transportation, processing, quality and post-harvest losses. However, it is expected that, except for transportation, the difficulties facing cotton will be greatly reduced by the end of the 1989/90 crop season, and exports of all traditional commodities will benefit from improved incentives and marketing arrangements and from the gradual reduction in transport bottlenecks. Nevertheless, the future of traditional exports will to a large extent depend on the world market behaviour.

113. Because of this, non-traditional exports, both agricultural and manufactured goods, will have to play an increasing role in generating the growth in export earnings. Both of these categories of exports have already begun to show dynamism during the ERP period. It is therefore important that the policy environment facing them is made more favourable.

114. Export volume is projected to increase at an annual average rate of a little over 10 percent between 1989 and 1992. The main thrust of this export projection will come from a substantial increase in non-traditional exports, exceeding 20 percent per annum in value and reflecting, in the main, increased production arising from the stimulus provided by the change in relative prices. Maintenance of appropriate exchange rate, coupled with better export management and recording should also help in redirected unrecorded exports into official channels. The projected increase in total exports also depends on an improved programme of inputs, enhanced export promotion measures and better marketing arrangements.

115. During the Programme period, the current account deficit of the balance of payments (excluding Government transfers) is likely to remain roughly unchanged. Estimated at US\$841 million in 1988/89, the deficit is expected to average US\$890 during 1989/90-92. However, as a percentage of merchandise export, the current account deficit will decline from 213 percent in 1988/89 to 164 percent in 1991/92. Although more rapid progress towards a sustainable balance of payments position would be preferred, it would not be tenable to have a sharper contraction without adverse effects on output growth and per capita income. Further, given the Government intention to increase the level of reserves, the financing gap, including debt arrears will remain large (see Table 1).

116. Based on the existing commitments, grants from all sources are projected at a little over US\$500 million per year. This figure takes account of the commitments announced at the last Consultative Group Meeting. Medium and Long-Term loan inflows (MLT) are estimated at US\$290 million in 1989/90 and will increase to about US\$330 million by 1990/91. The largest source of MLT loans will continue to be the World Bank. Net IMF disbursements under the third year SAF arrangement is estimated at US\$9 million in 1989/90 (having taken account of repurchase obligations of US\$15 million). Thereafter, disbursements will be based on future arrangements, most probably Enhanced Structural Adjustment Facility (ESAF). Including the target to build up reserves, to at least two months equivalent of imports by 1991/92, and the target of not allowing any new external arrears, a financing gap of about US\$7 million emerges in 1989/90, rising to 45 million in 1991/92.

VI. MINIMUM IMPORT REQUIREMENTS (ESAP)

117. Like the ERP, the programme would need a given minimum import level to continue investment and rehabilitation in priority areas as well as meeting recurrent inputs during the programme period. The main criteria for foreign resource allocation and selection of priority activities will continue to be as follows:

- (i) rehabilitation of critical areas of the economy which did not get adequate resources during the ERP;
- (ii) continuation of providing key recurrent inputs and other products in order to increase productive efficiency, and the availability of basic consumer goods;
- (iii) speeding up of completion of ongoing investment projects where relatively small additional resources would enable the project to become operational; and
- (iv) providing adequate resources for improvement of social services, especially health, education and the food security system.

118. The projected minimum foreign exchange requirements during the three year ESAP period by main categories, namely Investment/Rehabilitation and Recurrent needs, are given in Table 2, and the sectoral distribution in Table 3. During the ESAP period, 40 percent is projected to go to Investment and Rehabilitation, while 60 percent is projected to go to recurrent purposes.

Table 1

TANZANIA - Balance of Payments

	1988/89	1989/90	1990/91	1991/92
	=====	=====	=====	=====
Exports	394	420	480	559
Imports	1277	1330	1421	1510
Net Services	-191	-100	-150	-150
Resource Balance	-1074	-1077	-1099	-1107
MLT Amortization	180	107	101	157
Reserves - Arrears	178	60	47	51
Required Financing	1432	1325	1307	1315
	=====	=====	=====	=====
Private Transfers	233	221	208	191
Grants	517	523	523	529
MLT - World Bank	132	224	264	259
MLT - Other	69	66	69	71
Net Suppliers Credits	-2	-1	-1	4
Net IMF	44	9	-28	-14
Other Capital Flows	-65	-17	3	6
Total Capital Flows	928	1025	1037	1030
	=====	=====	=====	=====
GAP	-504	-300	-209	-277
Eligible for Rescheduling 1/	504	293	244	232
Financing Gap (after rescheduling)	0	-7	-26	-45
	=====	=====	=====	=====
Memo item:				
Current account deficit	-841	-857	-891	-915

Footnote:

1/ Includes debt already rescheduled.

Table 2: Minimum Import Requirements
(1989/90-1991-92)
(Million US\$)

Category	ERP Performance						ESAP Projections		
	1988/87		1987/88		1988/89		1989/90	1990/91	1991/92
	Projections	Actual	Projections	Actual	Projections	Actual	Projections	Projections	Projections
Inv./Reh	448.2	412.0	417.5	511.0	407.5	582.4	580.0	570.0	580.0
Recurrent	782.6	733.0	812.7	874.0	892.9	895.0	770.0	851.0	950.0
Total	1205.8	1145.0	1230.2	1230.2	1300.4	1277.4	1330.0	1421.0	1510.0

Source: (i) ERP Document 1986.
(ii) Annual Plan 1989/90.
(iii) Ministry of Finance.

Table 3: Tentative Minimum Sectoral Requirements
(US\$ Million)

Sectors/Activities	1989/90		1990/91		1991/92	
	Amount	Share	Amount	Share	Amount	Share
Investment/Rehabilitation:	560.0	42.1%	570.0	40.1%	560.0	37.1%
- Agriculture	41.2	3.1%	114.2	8.0%	98.8	6.5%
- Transport & Communications	113.0	8.5%	89.8	6.3%	83.6	5.5%
- Energy and Water	92.5	6.9%	86.5	6.1%	85.5	5.6%
- Manufacturing	83.0	6.2%	95.2	6.7%	97.4	6.4%
- Mining	35.1	2.6%	42.2	2.9%	54.7	3.6%
- Construction	18.0	1.4%	19.3	1.3%	19.3	1.3%
- Community Services	45.1	3.4%	42.2	2.9%	41.2	2.7%
- Others	132.1	9.9%	80.6	5.6%	79.5	5.3%
Recurrent:	770.0	57.9%	854.0	59.9%	930.0	62.0%
- Food Imports	24.8	1.8%	20.1	1.4%	18.5	1.2%
- Agriculture	115.2	8.6%	110.5	7.0%	112.2	7.4%
- Transport & Communications	96.3	7.2%	90.9	6.4%	100.3	6.6%
- Energy and Water	215.5	16.2%	225.5	15.9%	257.4	16.9%
- Manufacturing	128.7	9.4%	128.4	9.0%	132.8	8.7%
- Mining	22.4	1.7%	23.3	1.6%	25.9	1.7%
- Construction	43.9	3.3%	38.2	2.6%	33.2	2.2%
- Community Services	57.5	4.3%	10.9	4.9%	72.1	5.4%
- Others	70.7	5.3%	143.2	10.0%	197.6	13.0%
GRAND TOTAL	1330.0	100.0%	1421.0	100.0%	1510.0	100.0%

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