

Appendix B
Macro-economy, Government Policies and
Aid Policies of Donors

**THE STUDY
ON
THE NATIONAL IRRIGATION MASTER PLAN
IN
THE UNITED REPUBLIC OF TANZANIA**

MASTER PLAN

APPENDIX B

**MACRO-ECONOMY, GOVERNMENT POLICIES, AND AID POLICIES OF
DONORS**

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APPENDIX B

MACRO-ECONOMY, GOVERNMENT POLICIES, AND AID POLICIES OF DONORS

CHAPTER 1 MACRO-ECONOMIC SITUATION

1.1 Historical Development of Economic Policy after Independence

Tanzania has three presidents up to now since its independence in 1961. Each president had its own distinguishable economic and social development policies, which resulted in either successful or unsuccessful national development. Reviewing policies taken during each term of presidency and their results will surely provide the trail of its macro-economic development.

Tanzania celebrated the 40th independence anniversary on 9 December 2001. Immediately after the independence and under the leadership of the first President Nyerere, the country's economic and social development efforts were channeled through centrally planned and directed, medium- and long-term plans under socialistic scheme, and led to a significant improvement in poverty, education, health and other social services during 1960's and early 1970's.

Arusha Declaration issued in 1967 represented the development vision during this period, which put Ujamaa (community) village as the basis of agricultural production, and prioritized in improving social services. The Nyerere years are regarded to be a successful nation-building period and of general improvements in both living standards and the provision of basic services.¹ But towards the end of 1970's, the country's situation deteriorated rapidly due partly to energy (oil) crisis and continued bad weather conditions, and partly to aggravated political and military conflicts with neighboring countries, such as Uganda, Rwanda, and Burundi. Turning to 1980's, its economic situation worsened; industrial production diminished and transportation system did not function well due to aggravated infrastructure, chronic shortages of goods and services persisted.

Immediately after the election in December 1985, President Mwinyi has set out a process of economic structural adjustment led by IMF in accordance with the agreement between the government and international financiers, and has introduced a three-year Economic Recovery Programme (ERP), which pursued privatisation and liberalisation of its economy as its main thrust. It was deemed

therefore that 1986 is the year of the country's transition from a socialist to a free market economy.² Responding these reforms, macro-economic recovered at an annual growth rate of 4 % over the period of 1986 to 94. But its progress held back by a serious deterioration in macro-economic management, in part due to weakened commitment to reforms during the second term presidency. The worsening macro-economic situation led to deferment of World Bank and IMF programs, which caused an interruption of balance of payment assistance from several donors.³ Early 1990's Tanzania/donor relations were strained. In addition to these economic downturns, numerous social divisions became apparent. Those were seen between Mainland and Zanzibar, Muslims and Christians, indigenous tribes and Asian communities, Zanzibaris of African and of Arab ancestry, and among African ethnic groups. Thus, the term of presidency of Mr. Mwinyi, up to 1995, especially the second term, is characterized by economic downturn and political uncertainty.⁴

President Mkapa elected in the multi-party election in October 1995, took office to represent a break with the past and deepen the structural reforms. The Mkapa government focused on improvement of fiscal performance and institution of structural reforms. These encompass: (i) building administrative capacity for improving development management, (ii) maintaining a stable fiscal stance and using public resources more efficiently, (iii) promoting the private sector by deregulating investments, and divesting parastatals, (iv) providing greater support for primary education and basic health care, and reducing allocations for low priority activities, (v) supporting the development of basic infrastructure, especially to give impetus for rural agricultural development, and (vi) restructuring the financial sector to respond to the needs of the private sector.⁵

Tanzania's structural reforms have advanced steadily under the Mkapa government. Positive achievements on all major indicators and related information collected during this study period, November 2001 through January 2002, show the macro-economic stability would have been achieved. In addition, substantial amount of debt relief has been granted by bilateral donors and multilateral institutions, including IMF and World Bank, after reaching the Decision Point of Enhanced HIPC Initiative on 4 April 2000. (Latest available data at the end of June 2001. Therefore, universal uncertainty and economic setback triggered by the Terrorist Attack in USA on 11 September 2001 are not accounted at the time of

¹ EIU Country Profile 2000

² World Bank CAS June 30, 2000

³ World Bank Report: Tanzania

⁴ EIU Country Profile 2000

⁵ World Bank Report: Tanzania

this reporting.)

Tanzanian completion point was approved by IMF on 21 November 2001, and by World Bank on 27 November 2001. This decision will give the country debt relief for “US\$2,026million in net present value (NPV) terms, calculated to reduce the NPV of Tanzania’s external debt to 150% of average 1996/97 – 1998/99 exports (July – June) as of end-June 1999. This relief represents a reduction of 54 % of the NPV of debt as of end-June 1999.”⁶ It is exactly US\$ 3.0 billion, equivalent to Tsh. 2.7 trillion, in nominal terms covering 20 years.

Tanzania’s major economic events are summarized in the following table:

Major Economic Events since Independence

Year	Development
1961/Dec	Independence from UK on 9 December, 1961 → Creation of the United Republic to be named Tanzania in October 1964
1967	The Arusha Declaration by President Nyerere
1985/Dec	Inauguration of President Mwinyi
1986	Initiation of Economic Recovery Program (ERP)
1987	Resumption of financial assistance by World Bank/IMF and other international donors.
1987	Start of Second Economic Recovery Program (ERP)
FY1993/94	Rolling Plan and Forward Budget (RPF) started. (Three years program for prioritized investment program and budget allocation. → Valid until FY2000/01. Replaced by MTEF from FY2001/02.)
1995/Nov.	(Inauguration of President Mkapa) Formulation of Development Vision started.
1998	The issuance of The Tanzania Development Vision 2025
2000/Aug. - Nov.	PRSP was approved by the government in August 2000, and by IMF/World Bank on 29 November, 2000. PRGF was signed between IMF and the government.
2000/Oct.	Second multiparty election was held. The ruling Chama Cha Mapinduzi (CCM) party won an overwhelming victory and Mr. Mkapa was re-elected.
FY2001/02	Medium-term Expenditure Framework (MTEF) started. (Three-year rolling plan on government expenditure program. MTEF replaced RPF.)
2001/Nov.	Attainment of Completion Point of Enhanced HIPC Initiative (Board Meeting of IMF and World Bank approved the Completion Point.)

1.2 National Development Policies

1.2.1 General

The Mkapa government made its clear commitment to continuing and deepening the structural reforms, and set out to formulate the new national vision in 1995

⁶ IMF and IDA Tanzania Completion Point Document for E-HIPC Initiative, November 8, 2001

and completed it in 1998 in a form of the Tanzania Development Vision 2025. The Tanzania Development Vision lays out the long-term development goals and perspectives. This was quickly followed by the National Poverty Eradication Strategy (NPES), formulated in 1997 to set out to prepare long-term comprehensive national objectives and strategy for poverty eradication efforts till 2010. Then international community joined the government in producing the Tanzania Assistance Strategy (TAS) that covered all the development agenda, and worked out a framework for consultations and dialogue on foreign aid among all development partners in more coordinated way. Thereafter a Medium-term Expenditure Framework (MTEF), three year-term rolling budgetary plan, and a Public Expenditure Review (PER), were elaborated, and then a list of Poverty and Welfare Monitoring Indicators (PMI) was drawn up. The MTEF was prepared as an integral part of the Public Sector Reform to lay out fiscal target and resource allocation of all development projects, reflecting the priorities provided in Poverty Reduction Strategy Paper (PRSP).

The PRSP was prepared and finalized in June 2000 under the initiative of Tanzanian side with assistance of international partners. The PRSP is an integral part of the documents required under Comprehensive Development Framework (CDF) of World Bank and Poverty Reduction and Growth Facility (PRGF) of IMF and the Enhanced HIPC Initiative of World Bank/IMF, focusing mainly on poverty alleviation. The PRSP presents sector-wide development strategy in each sector by duly reflecting the objectives and priorities set in it. In formulation process of the strategy, it should be given the utmost considerations that international resources provided in Official Development Assistance (ODA) should be utilized in the way consistent with Tanzania's development policy objectives and channeled through specific project in the way to ensure effective implementation of each project/program and maximum output toward poverty reduction. Overall development policy framework is summarized in Figure 1.2.1.

1.2.2 Tanzania Development Vision 2025

After the implementation of structural adjustment programs for 15 years since inauguration of Economic Recovery Program in 1986, it has become apparent to the government and its people of Tanzania that the policies have not adequately indicated and accounted for the national long-term development philosophy and direction. To address the need to formulate a new economic and social development vision for the country, the government started the formulation process in 1995 by appointing a team of experts under the Planning Commission. The process was completed in 1998 by the issuance of the Tanzania Development

Vision 2025. The Development Vision envisages that the people will be living by 2025 in a substantially developed society with a high quality of livelihood, having reached to the level of middle-income country where abject poverty will be invisible. The economy will have been transformed from a low productivity agricultural economy to a semi-industrialized one led by modernized and highly productive agricultural as well as industrial and service activities in rural and urban areas. Consistent with this vision, Mainland in 2025 should be a nation imbued with the following five main attributes:

- High quality livelihood,
- Peace, stability and unity,
- Good governance,
- A well educated and learning society, and
- A competitive economy capable of producing sustainable growth and shared benefits.

As being stressed in the Development Vision, “effective realisation of the visions hinges on its implementation”. In this regard, among five attributes, good governance and a strong, competitive economy are two key prerequisites because the level of combination of the two decides the sustainable realisation of the Development Vision.

It is noteworthy that food self-sufficiency and food security are articulated as the top goal of the first attribute, high quality livelihood. The last one is a rationale which under the Development Vision all the subordinate economic, social and industrial policies should be laid down in their respective plans and strategies in global market economy, out of which Mainland cannot expect the fruit of sustainable growth and shared benefits if the country fails to become a owner of competitive economy. The Development Vision articulates the following specific achievements required to become a competitive economy:

- A diversified and semi-industrialized economy with a substantial industrial sector comparable to typical middle-income countries.
- Macro-economic stability manifested by a low inflation economy and basic macro-economic balances.
- A growth rate of 8% per annum or more.
- An adequate level of physical infrastructure needed to cope with the requirements of the Vision in all sectors.
- An active and competitive player in the regional and world markets, with the capacity to articulate and promote national interests and to adjust quickly to regional and global market shifts.

1.2.3 Tanzania Assistance Strategy (TAS)

(1) Background and Scope

Tanzania Assistance Strategy (TAS) is a coherent national development framework for managing external resources to achieve the development strategies as stated in the Vision 2025, the National Poverty Eradication Strategy and the PRSP. TAS initiative dates back to the mid 1990's when Tanzania/donor relations were strained mainly due to serious slippage in revenue collection and rising corruption in Tanzania. Toward 1997, there was solid progress to mitigate the strain and aid money started to flow. Despite significant progress on almost all aspects of macro-economy, aid coordination, democracy and governance, the following problems have been left out to be improved.

- Separate/parallel donor systems/procedures on procurement, recruitment and staff remuneration, accounting, reporting forms, monitoring, and management of projects which consumes limited resources of the country and is often required of more than its capacity.
- Fragmented and uncoordinated project support which reduces efficiency and effectiveness.
- Management and disbursements of resources outside the government system which undermine transparency and accountability.
- Heavy dependency on TA/consultants in executing projects which is very costly.
- Unsynchronised country assistance strategies of donor countries.
- Inadequate capacity on Tanzanian side.

The sub-title of TAS, "A Medium Term Framework for Promoting Local Ownership and Development Partnership" well indicates the background of its formulation. It provides a three-year strategic national framework articulating the following development issues:

- National development agenda
- Policy framework
- Best practices in development cooperation
- Priority areas/interventions
- Framework for monitoring the implementation of TAS

As regards its relationship with the PRSP, while the PRSP provides a medium-term strategy for poverty reduction in the context of the HIPC Initiative, TAS provides a broad strategic national framework within operation of the PRSP. In Chapter 2 National Development Agenda, TAS clarifies the challenges as follows:

“In spite of progress made in recent years in restoring macroeconomic stability, current GDP growth rates (4.5 - 5.0%) are too low to address the problem of poverty. Therefore, sustained high growth underpinned by sustained high growth in agriculture and non-agricultural rural activities is critical for reducing poverty.”

TAS is in the process of review and revision. Final Draft was prepared and submitted for review in January 2002.

(2) Framework for Effective Development Cooperation

Based on the recent developments in efficient and effective development cooperation, the TAS outlines the following undertakings by both government and donors:

Undertakings by Government and Donors

No.	Tanzanian Side	Donor Side
1	Sound Financial Management System	To adopt the TAS initiative as a basis for formulating country strategies as appropriate.
2	Effective Public Service	To adopt as far as possible joint actions approach and harmonized rules and procedures to enhance Tanzanian capacity. The initiatives on basket funds on health and the LGRP and the MDF provide a basis for the way forward.
3	Anti Corruption Measures	To adopt the IFMS as the basis for harmonizing rules and procedures on accounting, disbursement and reporting hereby enhancing transparency and accountability on aid.
4	Domestic Resource Mobilisation	To untie aid as far as possible and provide technical assistance for capacity building.
5	Partnership and Empowerment of Local Government and Civil Society Organisations (CSO)	To adopt the MTEF with the view to improve the predictability of resources. As far as possible donor support to be in form of program/budgetary support and less project type support as means for harmonizing donor rules and procedures. To decentralize authority on decision making to the country missions in order to expedite and deepen consultations.

Remarks: LGRP: Local Government Reform Programme
MDF: Multilateral Debt Relief Fund
IFMS: Integrated Financial Management System
(Source: TAS January 1999)

1.2.4 National Poverty Eradication Strategy (NPES) (1997)

Tanzanian economy had staggered from the late 1970s and 1980s, and even up to early 1990s. “The government efforts to address poverty hardly resulted in achievement due to various reasons.” “In 1995 Tanzania joined the World Social Summit and made commitment to eradicate poverty with other nations. Following

this, the government has a new resolve to reduce abject poverty by 50% by the year 2010 and total eradication of abject poverty by 2025, (which became the overall goal of NPES). In order to implement this resolve, the government has formulated the NPES. The objective of the NPES is to provide guidance to all stakeholders to identify, formulate, implement and evaluate their poverty eradication programmes.”⁷

To attain the stated overall goal, the NPES indicates eight (8) specific targets. Economic growth is one of them, but is given the highest priority. In its preface “the NPES emphasizes the importance of economic growth and improvement in social services.” It also stresses that “in the medium (and) long term period the target is to have the economy growing at a rate of 8 – 10% per annum.”

As one of priority areas in “Policies and Strategies for Creating Capacity for Poverty Eradication” in the NPES, the agriculture sector has been given the utmost importance. Admitted in Sub-clause “1.2.5 Causes of Poverty” that insufficient support (by the government) to the agricultural sector” is one of the causes of poverty, it states that “Investment in agriculture should be promoted and enhanced,” in the “Policies for Agricultural Development”.⁸ As regards irrigation, it states that “Encouraging increased investment in small holder irrigation systems” is also part of the “Strategies for Agriculture Development”.

1.2.5 Poverty Reduction Strategy Paper (PRSP)

The PRSP provides a medium-term, five years, strategy to reduce poverty and is part of the Enhanced HIPC Initiative. This strategy means that the government has to cut back on spending but it allows for various poverty-focused extra-budgetary activities and promotes a range of non-financial measures that should make an impact on poverty. The PRSP is one of many government papers which are geared towards poverty reduction; the particular strength of the PRSP are viewed as follow:

- focusing on poverty reduction (i.e. on growth which is shared by everybody);
- gathering together priority development strategies into one coordinated master plan for reducing poverty;
- planning for action in terms of clear targets, activities and indicators;
- taking a hard look at how much the various actions will cost and where

⁷ Preface of NPES

⁸ 2.2.2.3 Agricultural Development, NPES

the money to pay for them might come from.⁹

The PRSP has brought a range of ideas and plans together, which are categorized into the following four groups.

- Macroeconomic Stability and Structural Reforms
Private Sector Development, Tax Reform, Export Growth, Safety Nets for Valuables, and Good Governance
- Priority Sectors
Education, Health, Water, Agriculture, Roads, and Legal System
- Cross Cutting Programme
HIV/AIDS, Local Government Reform, Rural Development, and Poverty Monitoring and Evaluation
- Emerging Issues and Supplementary Programmes
Gender, Environment, Employment, Urban Poverty, and Child Labor and Out-of-School Children

The PRSP was produced in October 2000 and the first annual PRSP Progress Report was produced in August 2001. This progress report was based on what happened during the financial year, July 2000 – June 2001.

1.2.6 Decentralization Policy

(1) Background

The Government of Tanzania started on reforming its public service in the early 1990s. In the first step, however, its efforts toward the reform were concentrated at the Central Government level. The Government developed a separate decentralization program in 1996, the Local Government Reform Agenda 1996-2000 with a view of empowering the Local Government Authorities (LGAs) and allowing them more autonomy for socio-economic development and services provision. In addition, in 1998, the Government released the Policy Paper on Local Government Reform. The policy framework of the local government reform in Tanzania is made up of these two documents. In order to implement the policy, the Local Government Reform Programme (LGRP) was established and the Action Plan and Budget, July 1999-June 2004 was developed by the Government. It has been updated each year in the form of an annual Action Plan and Budget, approved by the Programme's Common Basket Fund Steering Committee.

⁹ *First Progress Report on Tanzania Without Poverty A Plain Language Guide (January 2002)*

(2) Implementation progress

The phase I of the program implementation began on January 2000 in 38 district councils chosen from among the 114 councils. According to the MTP (*the Medium Term Plan and Budget July 2002-June 2005, Local government Reform Programme*), implementation of the reforms has been delayed from the original plans and furthermore, expectations at that time were unrealistically high and the plans were over-ambitious. These comments imply some modification and/or adjustments of the original plans are necessary. However, it simultaneously points out that some major achievements can be recorded such as the followings:

- There is a clear policy statement on reform, supported by the highest levels of government.
- Legislation to enable the reforms has been enacted.
- Regulations to support the reforms have been passed.
- Information on the reforms has been disseminated to all local authorities and to the public.
- Regional administration has been restructured in line with its new role.
- 38 LGAs have begun the process of restructuring their organizations.
- Work on improving financial management in LGAs and on fiscal decentralization is underway.
- The work of building capacity in LGAs is underway.
- Attitudes towards reform are slowly changing among government officials and members of the public.

(3) Phasing of the reforms

The PSRP (Public Service Reform Programme) shows a series of broad reform phases to 2011 and local government reform should also be seen in this 9-year time frame as follows:

- 2002-2005: The LGPR as set out in the MTP.
- 2005-2008: Local government reform, now mainstreamed in PO-RALG, continues with central government support.
- 2008-2011: Strengthened LGAs themselves continue the reforms.

In the current plan, the concept of phasing of the reforms in LGAs has been fundamentally changed. The MTP envisages a different type of phasing, with all LGAs free to implement reforms, and central support being provided on a demand basis. In terms of fiscal decentralization, only those LGAs that meet agreed criteria will be qualified in the first instance. However, all LGAs will be assisted to meet the criteria, and in many reform activities, in particular in the area of capacity building.

1.2.7 Rural Development Strategy

In Tanzania, development of the rural areas is a key issue for its social and economic development. About 80 % of the population in Tanzania dwells in the rural areas, where poverty is prevailing. In order to improve living standards of the rural people, the Government launched formulation of Rural Development Strategy (RDS) focusing on the following lessons learned from the past rural area development policies and strategies:

- Failure of building up the necessary capacity that was needed to bring about a sustainable development in the rural areas.
- Less benefit to the majority of Tanzania, particularly those living in the rural areas by past macro-economic achievements
- Unsatisfactory performance of the agricultural sector, the economic base of the rural areas.
- Absence of a comprehensive rural development strategy.
- Need for a rolling rural development strategy, which translates the TAV into a medium-term implementation programme.
- Need of emphasizing economic diversification in the rural areas.
- Need of recognizing the inter-relationship between the rural economy and the urban markets.

In the RDS which was finalized in December 2001, the proposed cohesive strategy for rural development consists of four strategic interventions: (a) promoting widely shared growth, (b) increasing opportunities and access to services, (c) reducing risks and vulnerability, and (d) good governance. The RDS mentions the strategic approaches by “ Quick Wins”, “Medium-term Win”, and “Long-term Win” for implementing these strategic interventions, taking into consideration the problems and constraints envisaged.

As for irrigation development, the RDS proposes the specific objective in the long-term wins, which is to promote profitable irrigation infrastructure, and also three actions of encouragement of farmers to form the Water Users Associations (WUAs), assistance in the WUAs to access credit, and organization of relevant training modules for members of WUAs.

1.3 Sectoral Development Policies

1.3.1 Agricultural and Livestock Policy, 1997

Macro-economic changes occurred during 1970s and 80s had a profound impact on the agriculture sector, in which already agricultural input and output prices had

been liberalized, subsidies had been removed, and monopolies of cooperatives and marketing boards had been eliminated. Implementation of macro-economic reforms and structural adjustment programmes had also brought about both positive and negative impacts on agriculture sector. It was critical for the country to accelerate the agriculture sector reform and raise agriculture production volume and its productivity.

Facing with these fundamental changes it became clear that it would be difficult for agriculture sector to operate with its old traditions and instruments. Outdated tradition and instruments should be discarded. In order to address these challenging environment in the sector, new policies and strategies was prepared. Until the Agricultural Sector Development Strategy is finalized in 2001, Agricultural and Livestock Policy, 1997 has been the core development guideline for the sector.

1.3.2 Agricultural Sector Development Strategy (ASDS)

(1) Background and Framework of ASDS

The ASDS arose from the Agricultural and Livestock Policy, 1997 and the Cooperatives Development Policy, 1997, and also in response to the requirement of the PRSP. Therefore, the ASDS can be viewed as an integral component of ongoing macro-economic adjustment and structural reforms in Tanzania. The medium-term objectives of its agriculture sector development are determined by the PRSP and the long-term goals by the Tanzania Development Vision 2025. Therefore, the ASDS is a step forward towards laying the foundation for the ways to develop the agriculture sector with a specific objective of food security, hence the national economy at large as well as poverty reduction, especially in rural areas.

The primary objectives of the ASDS is to create an enabling and cooperative environment for improving productivity and profitability of the sector as the basis for improved farm incomes and rural poverty reduction in the medium and long-term. Various innovative and practical actions are included in the ASDS as part of its strategy. Among them a focus on agricultural productivity and profitability comes first. Other actions are: the promotion of private sector/public sector and processor/contract grower partnerships; and the participatory implementation of the strategy through District Agricultural Development Plans (DADPs).

Although preparation of the ASDS started in 1998, reforms and transformation process of agriculture sector had already been initiated even before 1998 by the

government in collaboration with international donors. For example, the Agriculture Sector Management Programme funded by World Bank was started in 1994 (and ended in June 2001) with the aims of capacity building and rationalisation of the Ministry of Agriculture and Food Security. Also, several policies related to agriculture sector have been developed recently with the aim of providing a more favorable environment for the sector growth. In particular, the ASDS is supposed to assist the attainment of the objectives envisaged in the PRSP. The ASDS is also developed as a sector component of the Rural Development Strategy (RDS). One feature of the ASDS is that it proposes further modifications to permit private agribusiness to expand investment in primary production directly or through partnerships with smallholders, input distribution, produce marketing, and agro-processing.

(2) Scope of ASDS

The ASDS will be implemented within the context of several major government reform programmes, including Macro-economic Reform Programmes, the Local Government Reform Programme and the Public Sector Reform Programme. Strategic options available for the ASDS are, therefore, largely constrained by the government's priority objectives, recent policy pronouncements and the on-going reform programmes. Also, the ASDS has its own limitations on time frame, five years, and resources, within which focuses were put on the following issues as areas for government intervention:

- To strengthen the institutional framework for managing agricultural development.
- To create a favorable climate for commercial activities, thus increase private sector participation.
- To clarify the roles of public and private in improving support services, including agricultural research, extension, training, regulation, information and technical services and finance.
- To pay attention to marketing inputs and outputs.
- To find mechanism for mainstreaming planning for agricultural development in other sectors.

(3) Strategy

The ASDS proposed a realistic target for the overall agricultural sector to be 5 percent p.a. in average over the 3-year period 2005/07. Specific measures and related costs for its implementation proposed in the ASDS is summarized in Box 9 of Section 9, as shown below:

Indicative Costs of Implementing the ASDS

Strategic Area (Output)	US\$ million	
1. Strengthening the institutional framework		34.2
1.4 LGAs capacity strengthened	23.2	
2. Creating a favorable environment for commercial activities		9.4
3. Public and private roles in improving supporting services		160.9
3.1 Client-oriented and collaborative agricultural research institutionalized	45.2	
3.2 Demand-driven agricultural extension in place	45.4	
3.5 Animal health and crop protection services improved	27.0	
3.7 Management and utilization of land and water services improved	28.9	
4. Strengthening marketing efficiency for inputs and outputs		42.5
4.3 Increasing access to inputs in rural areas	25.0	
5. Mainstreaming planning for agricultural development in other areas		8.3
Total		255.3

Detailed activities and implementation timetable will be the mission of Agriculture Sector Development Programme (ASDP), a five-year rolling programme that will be revised and updated annually.

1.3.3 Agricultural Sector Development Programme (ASDP)

The ASDS was virtually finalized and authorized in October 2001. In this connection, the lead ministries in the agricultural sector, namely, the Ministry of Agriculture and Food Security (MAFS), Ministry of Cooperatives and Marketing and Ministry of Water and Livestock, decided to prepare the Agricultural Development Programme (ASDP).

The Inter-ministerial Coordination Committee (IMCC), consisting of Permanent Secretaries of the lead and collaborating Ministries and representatives of the private sector, is and authority agency for the ASDP. The Technical Inter-ministerial Committee (TIC) was established to act as the secretariat for the IMCC.

The ASDP is a five-year rolling programme. It will be revised and updated annually. The ASDP will be implemented to realize the objectives of ASDS within the framework of the government's three-year rolling MTEF. It forms the basis on which resources from the government and development partners will be allocated to the agricultural sector, and to implement the priority interventions identified during its preparation as being required in key areas. The government technical team and consultants under supervision of the TIC is in charge of preparation of the ASDP. Formulation of the ASDP has been underway as follow:

- Submission of Inception Report January 2002
- Submission of the ASDP first Draft Report 17th March 2002
- Presentation of the first Draft Report to FOSWAG Task Force 21st March 2002

- Stakeholders Workshop 18th April 2002
 - Submission of the Final Draft Report Not decided.
- (Originally it was scheduled toward end of April, but now it was postponed.)

1.4 Current Economic Situation

1.4.1 Overall Performance Review

Since the third President Mkapa took office in 1995, the government has made considerable progress towards achieving macroeconomic stability.¹⁰ Jumped to 3.6% in 1995 in terms of GDP growth rate from 1.4% in the previous year, it has retained more than 3% up to 2000. It should be noted that, after a sharp decline by 0.9% in 1997 due mainly to severe weather conditions, overall economy has retained steady growth for the last three years of 1998 to 2000, namely 4.0%, 4.7%, 4.9%, respectively, despite continued unfavorable weather conditions, low world prices for most of the country's export products. The annual rate of inflation measured by consumer price index dropped to 7.8% in 1999 from 12.9% in the previous year, and further dropped to 5.9% in June 2000. Also, current account deficit diminished considerably. The following table shows major economic indicators, of which details are given in Table 1.4.1.

Major Economic Indicators

Description	1996	1997	1998	1999	2000
GDP at constant prices (Tsh. bn)	1,401.7	1,448.2	1,505.8	1,577.3	1,654.4
Real GDP growth (%)	4.2	3.3	4.0	4.7	4.9
Per capita GDP at factor cost (Tsh)	122,205	147,026	170,733	193,440	n.a.
(US\$)	210	240	256	259	n.a.
Consumer price inflation (av, %)	21.0	16.1	12.9	7.7	5.9
Population (m)	28.3	29.1	30.0	30.9	31.9
Exports of goods fob (US\$ m)	764.1	715.3	589.5	539.9	661.4
Imports of goods fob (US\$ m)	1,213.1	1,164.5	1,365.3	1,416.0	1,334.5
Current account balance (US\$ m)	-510.8	-629.8	-956.4	-807.1	-370.7
Foreign exchange reserves excl. gold (US\$ m)	440.1	622.1	599.2	775.5	974.2
Total external debt (US\$ bn)	7.4	7.1	7.6	8.0	7.4
Debt service ratio, paid (%)	19.1	13.2	20.8	15.6	18.8
Exchange rate (av) Tsh/US\$	580.0	612.1	664.7	744.8	800.4

August 10, 2001 Tsh 892/US\$

(Source: EIU Country Report August 2001; Economic Survey 2000 Planning Commission; Bank of Tanzania Economic and Operational Report FY1999)

It seems plausible that from now on the government will commit themselves to create a more favorable macro-economic climate, led by a poverty reduction and growth facility (PRGF) of IMF and the IMF-World Bank heavily indebted poor

¹⁰ Macroeconomic stability is realised when a economy is growing, there is low inflation, interest rates are stable and the national accounts, such as government budget and external balance of payment, are more or less balanced. ("Tanzania without Poverty" by Ilakikazi Catalyst May 2001)

countries (HIPC) Initiative, and to provide a credible basis for sustainable improvements in the lives of the people.

Fortunately, there are signs that Tanzania will remain a strong favourite partner of international donors, and budgetary and balance of payment support will remain substantial. Under the PRGF and the HIPC Initiative, the international donor society and the government have agreed to setting of macroeconomic growth target of at least 6% per year. But such a high target of 6%, requires to achieve rapid growth and sector reform in agriculture sector.¹¹

1.4.2 Foreign Trade and Balance of Payment

Trade Balance has been in deficit for long time. The deficit in 2001 is likely to increase again after drop in 2000. The value of export in 2001 is expected to increase by 17%, but import is also likely to increase by 12%, thus trade balance deficit is likely to increase by 6%. However, both Current Account and Overall Balance are expected to improve significantly due to increased grants from foreign donors.

Balance of Payment

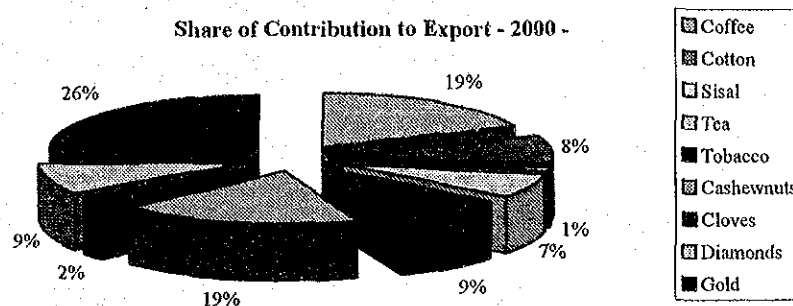
(unit: million US\$)

	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Expected
Good Balance	-657.6	-448.8	-395.4	-777.5	-824.9	-671.7	-713.3
Export (fob)	682.9	763.8	752.6	588.5	543.3	663.2	776.4
Import (cif)	1340.5	1212.6	1148.0	1366.0	1368.2	1334.9	1489.7
Current Account	-646.4	-461.2	-558.6	-993.1	-793.4	-382.0	-413.5
Overall Balance	-382.0	-231.2	-633.4	-646.0	-372.7	-35.5	55.0

(Source: Economic Survey 2001)

The improved performance of trade balance in 2000 was mainly due to increase in exports of non-traditional commodities of minerals, such as gold and diamond, fish and fish products and horticultural products. Although there was remarkable increase in export quantities of certain traditional commodities, such as coffee, cotton and tea, the total export value of whole traditional commodities decreased because other traditional commodities, such as cashewnuts, sisal and tobacco, decreased in quantity as well as value. Percentage contribution to export is shown in the figure below.

¹¹ EIU Country Report August 2001



(Source: The Economic Survey 2000)

Value of import in 2000 was also decreased due to decrease in capital goods, such as transport equipment and accessories, building and construction materials and machinery.

Based on the fact that the increase in cashewnuts production in 1999, the Bank of Tanzania's Economic and Operations Report FY2000 points out that improved marketing arrangements, availability of inputs, processing facilities and good crop husbandry contributed to increased production of some of the traditional crops, such as cashewnuts and coffee, in 1999. With further improvements in those components, sustainability of agricultural production would be enhanced.

Gross foreign exchange reserves of the Bank of Tanzania, the central bank, rose from US\$ 440.1 million in June 1997 to US\$ 974.2 million in June 2000. Especially, remarkable increases in 1999 and 2000 are accounted by foreign exchange receipts from tourist, large inflows of foreign direct investment (FDI) and external loans and grants. Also, substantial foreign exchange was saved from external debt service by the Multilateral Debt Fund (MDF)¹² by a few bilateral donors and by interim relief made available to the country after reaching the Decision Point under the Enhanced HIPC Initiative in March 2000. (Bank of Tanzania: Economic and Operations Report for the year ending June 2000)

FDI to the country has been increasing steadily since 1995, reflecting improved business environment for foreign capitals. The table below shows the trend of influx of FDI.

Foreign exchange rate against US\$ has continued to be depreciated as shown below:

Year	Amount (US\$ million)
1996	149
1997	155
1998	172
1999	183
2000	193
2001	224

(Source: The Economic Survey 2001)

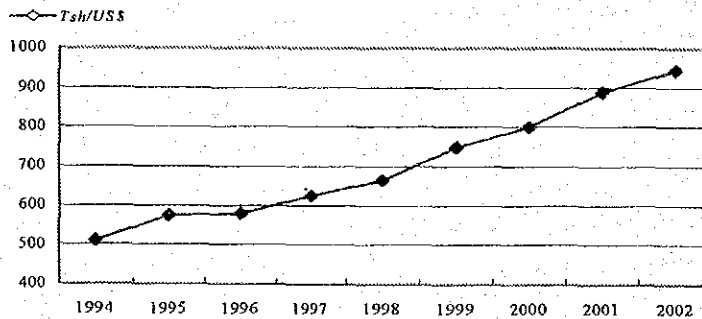
¹² "MDF has helped the government to implement a strong program of fiscal adjustment without adversely affecting outlays on the social services." "UK, Sweden, Ireland, Norway, Finland, the Netherlands, Denmark and Switzerland have contributed" to the fund which was used to service multilateral debts owed to IMF, World Bank and African Development Bank. (Source: Bank of Tanzania)

Exchange Rate at end of June

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002
Tsh/US\$	509.6	574.8	580.0	624.6	664.7	748.1	800.7	887.8	943.4
Depreciation (%) against previous year	-	12.8	0.9	7.6	6.4	12.5	7.0	10.9	6.3

(Source: Economic Survey 2001; Bank of Tanzania; For 2002, rate quoted on 20 June 2002)

Trend of Exchange Rate



1.4.3 Government Finance

Without financing from external sources, especially high level of donor inflow, the country would have suffered from very large fiscal deficits in 2000, which was Tsh. 511,083 million, about 30% increase compared to the previous year. To cope with this, the government has been committed to increasing tax revenue on one hand, and imposing tight fiscal outlays on the other. Backed by various tax collection measures, the trend of domestic revenue is on up trend, but strengthening of tax collection capability and the broadening of tax base will become more important. The government's fiscal discipline has improved since the introduction of a cash-budgeting system from FY1996/97, which has imposed tight spending constraints on ministries.¹³ But the government will definitely remain dependent on donor inflows, particularly for development expenditure to cover its budget deficit as the level of the government revenue has remained quite low, 66% (expected) against the expenditure in the fiscal year 2001/02. The deficit has been expanding since 1996/97.

¹³ In cash-budgeting system, the Ministry of Finance (Treasury) disburses funds to other government ministries according to what is available (cash in hands). The MOF takes into consideration the importance of each sector. The aim of the system is enable each ministry to achieve their financial targets as well as administrative ones. The system has a merit that it empowers the budget/planning system more effective. (Prepared based on the hearing from MAFS.)

The Government Finance (Mainland)

(Unit: Tsh. billion)

Description	1997/98 (actual)	1998/99 (actual)	1999/00 (actual)	2000/01 (actual)	2001/02 (expected)
1. Domestic Revenue	627.5	689.3	777.6	929.6	1,026.1
(1) Tax Revenue	586.2	616.3	685.1	827.8	934.7
Import Duty & Excise Duty	187.4	172.0	178.0	250.4	271.8
Sales Tax (local & imports)	145.4	0	0	0	0
Value Added Tax (VAT)	0	208.6	222.3	302.0	335.9
Imports	0	104.6	109.3	182.1	203.9
Domestic	0	104.0	113.0	119.8	132.0
Income Tax	157.0	162.4	209.7	194.0	237.2
Other Tax	96.5	73.4	75.1	81.4	89.7
(2) Non-tax Revenue	41.3	73.0	92.5	101.8	91.4
2. Total Expenditure	856.2	927.7	1,168.8	1,307.2	1,545.6
(1) Recurrent Expenditure	670.0	791.2	808.9	1,021.0	1,250.8
(2) Development Expenditure	186.6	136.5	359.9	286.3	317.4
Local Funds	24.0	18.8	19.4	35.1	42.9
Foreign Funds	162.6	117.7	340.5	251.2	274.5
(3) Special Fund for Songosongo					3.0
3. Deficit/Surplus (1 - 2)	-228.7	-238.4	-391.1	-377.6	-519.6
4. Financing	237.1	201.5	476.0	377.6	544.9
(1) External Source	256.2	223.8	488.1	380.6	584.5
Grants	119.4	169.9	280.3	293.4	424.1
Import Support/OGL Loans	80.1	36.6	54.8	39.9	142.3
Project Loans	56.8	17.2	133.0	127.6	57.6
Amortisation Foreign	-	0.0	-82.4	-80.3	-39.6
(2) Internal Sources	-19.2	-22.3	7.9	20.4	-5.5
Non-Bank Borrowing	27.3	7.7	7.7	16.2	-10.4
Bank Borrowing	-23.6	8.0	0.2	-18.7	67.6
Proceeds from privatisation	0.0	7.0	0.0	26.7	0.0
Recapitalisation	-	-	0.0	0.0	-62.6
Payment of arrears	-	-	0.0	0.0	0.0
Adjustment to Cash	-22.8	-45.0	0.0	-3.8	0.0
Amortization				0.0	0.0
Expenditure Float				-23.4	-34.1

(Source: The Economic Survey 2001; for Development Expenditure, Local Funds, and Foreign Funds, figures in 2001/02 are obtained from Planning Dept. of MAFS.)

1.4.4 Trends in Interest Rates

Following the continued decline on inflation, the discount rate of the Bank of Tanzania declined in 1999/2000 from 16.6% at end-June 1999 to 13.1% at end-June 2000. The discount rate further declined to 10.7% at end-December 2000. Accordingly, various deposit rates offered by commercial banks declined during the same period. Lending rates charged by commercial banks, however, have not changed significantly over 1999-2000, showing the rates at end-December 2000 as almost same level at end-June 1999. The table below shows the trend of interest rates.

Average Nominal Interest Rates at end of June

(unit: %)

Description	1997	1998	1999	2000
Discount Rate of Bank of Tanzania	20.50	20.70	16.60	13.10
Deposit Rates				
Savings	12.78	12.00	7.40	7.10
Fixed Deposits (3 – 6 months)	29.00	13.10	8.30	9.10
Lending Rates				
Short-term	24.50	28.00	21.40	19.10
Medium & Long term	21.50	26.00	21.30	21.10
Treasury Bills				
91 days	14.91	15.60	9.71	7.30
182 days	15.47	16.40	11.84	7.80
364 days	17.31	17.90	13.73	10.30

(Source: *The Economic Survey 2000*)

Clearly, this table shows that the spread between lending and deposit rates has been left at high level despite the decreased inflation rate. The Economic Survey 2000 attributed this widespread margin to the following reasons:

- lack of effective competition in the banking system
- high lending risks due to a high incidence of non-performing loans and inadequate supportive legal framework
- high operating costs of some banks
- the infancy of the financial sector

These are applicable to almost any developing economy, and if these are real constraints and obstacles to the development of economy in Mainland, especially private sector including industry, traders, cooperatives operating in agriculture sector and farmers, there are many rooms for government financial interventions as well as physical ones. It has become evident through the experiences in many developing countries that only by liberalising financial sector and interest rates, money does not flow from financial institutions to those who are in need of it. It is assumed that for the development of agriculture sector, the Agriculture Sector Development Programme, which is now under way, will prepare strategies, so that financial needs can be sufficiently advanced to those who need them.

1.4.5 External Debts

According to the Bank of Tanzania's Economic and Operations Report for FY 1999/00, total external debt and on-going debt relief packages are follows:

(1) Total External Debt

Total external debt committed, as end of June 2000, was US\$ 7,595.7 million. This amount indicates a decrease of US\$ 377.2 million or 4.7% when compared

with the previous year. Out of this, disbursed outstanding debt (DOD) is US\$ 6,538.3 million, and when added interest arrears of US\$ 1,086.5 million, the external debt stock should have reached US\$ 7,624.8 million as at the end of June 2000. The decrease was mainly due to the reconciliation of external debt database, debt service payment and Paris Club relief. The composition of DOD by creditor category shows that multilateral and bilateral debts accounted for 54.6% and 38.5%, respectively. While DOD from multilateral increased by 7.3%, bilateral debt fell by almost 10.0%. Multilateral debt increased on account of programme lending from those institutions, while bilateral debt fell following rescheduling and write-off of debt under Paris Club V.

(2) Debt Relief under Enhanced HIPC Initiative

Tanzania reached the decision point under Enhanced HIPC Initiative on 4 April 2000 and completion point in December 2001, when the Boards of the IMF and World Bank endorsed Tanzania's request. The Initiative is expected to complement Tanzania's effort towards reducing poverty and stimulating economic growth. The savings generated as a result of the debt relief are directed towards protecting or enhancing the budgetary allocations to the priority sectors, namely education, health, rural roads and water supply. In the context of Enhanced HIPC Initiative, total relief from all of Tanzania's creditors would amount to US\$ 2.0 billion in net present value terms i.e. US\$ 3.0 billion in nominal terms over 20 years. During three years 2000/01 – 2002/03, the relief will reduce debt service payments by almost half and reduce amounts due to creditors by one third of what was to be paid thereafter.

(3) Debt Relief under Paris Club VI

On 14 April 2000 the Paris Club creditors approved debt relief treatment under Cologne terms, which provide for the immediate cancellation of 90% of the debt service due to them up to the completion point of Enhanced HIPC Initiative. This interim relief will lead to immediate cancellation by Paris Club creditors of US\$ 390million of the debt. Total Paris Club creditor debt relief is about US\$ 1.1 billion in net present value terms.

1.4.6 Development Assistance in Mainland

Mainland has been a major aid recipient since independence. The volume of aid rose from US\$37.7 million in 1970 to its peak over US\$ 1 billion in early 1990's per year. Then the volume declined marginally, averaging US\$ 966 million over 1997 – 1999. Aid represented 35% of GDP in 1990, but its share declined to

11.3% in 1999. In per capita terms, aid per capita was US\$ 23 in 1985; it is US\$ 30 in 1999. (UNDP DCR 1999)

The sectoral distribution of aid for the period 1995 – 1999 is shown in the table below:

Development Assistance by Sector (1995 – 1999)

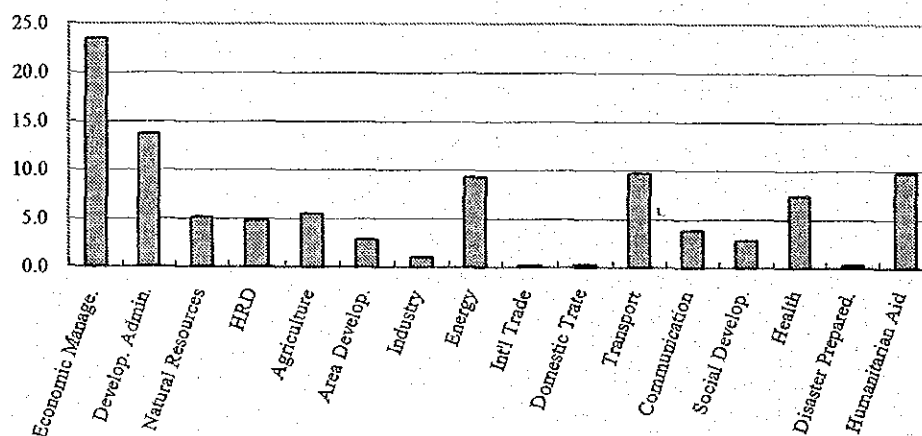
(unit: '000 US\$)

Sector	1995	%	1996	%	1997	%	1998	%	1999	%
Economic Management	46,584	5.7	99,760	11.0	196,952	19.8	114,268	12.5	232,182	23.4
Development Administration	124,476	15.3	111,133	12.3	178,761	17.9	160,896	17.6	135,174	13.6
Natural Resources	22,671	2.8	35,722	3.9	39,139	3.9	39,365	4.3	50,618	5.1
Human Resources Development	46,468	5.7	65,491	7.2	92,811	9.3	43,475	4.8	47,627	4.8
Agriculture	109,460	13.4	98,943	10.9	37,990	5.8	79,383	8.7	54,443	5.5
Area Development	36,819	4.5	28,008	3.1	29,934	3.0	26,584	2.9	27,914	2.8
Industry	10,251	1.3	13,005	1.4	7,515	0.8	9,315	1.0	10,215	1.0
Energy	46,268	5.7	109,659	12.1	77,882	7.8	93,263	10.2	91,748	9.3
International Trade	3,581	0.4	4,794	0.5	1,955	0.2	676	0.1	1,853	1.9
Domestic Trade	8,519	1.0	12,547	1.4	544	0.1	2,322	0.3	2,525	2.5
Transport	149,776	18.4	133,644	14.7	108,081	10.8	101,952	11.2	95,775	9.7
Communication	16,312	2.0	58,117	6.4	26,020	2.6	35,596	3.9	38,586	3.9
Social Development	11,507	1.4	21,717	2.4	35,093	3.5	36,811	4.0	28,130	2.8
Health	58,134	7.1	54,924	6.1	87,055	8.7	84,542	9.3	73,709	7.4
Disaster Preparedness	0	0.0	156	0.0	0	0.0	2,974	0.3	3,405	3.4
Humanitarian Aid	123,194	15.1	58,918	6.5	56,507	5.7	80,375	8.8	96,389	9.7
Total	814,020	100.0	906,538	100.0	996,239	100.0	911,797	100.0	990,293	100.0

(Source: UNDP Tanzania Development Co-operation Report 1999)

As seen in this table, aid distribution for agricultural sector is in a declined tendency. Instead, that for economic management largely increased. Sectoral aid distribution in 1999 is shown in the figure below.

Sectoral Aid Distribution in 1999



1.4.7 Current Economic Policies, Reforms and Strategies

The government has targeted several key areas in which strategic actions will need to be taken to create conditions favorable for higher economic growth, focusing on poverty reduction. Following summary of current policies, reforms and strategies being pursued are prepared based primarily on "Memorandum of Macro-economic Development" disclosed by Ministry of Finance at Consultative Group Meeting held at Dar es Salaam on 24 and 25 May, 2000.

Summary of Current Economic Policies, Reforms and Strategies

Objectives	Reforms/Measures	Key Components
Improving market efficiency and productivity, and eventually improvement in macroeconomic performance, especially in agriculture sector	- Financial Sector Reforms - Tight money policy - Liberalisation of foreign exchange rate	- New bank license issuance and privatisation of government banks - Control of money supply - Increase of exports and foreign exchange inflows
Promotion of exports	- Agriculture Sector Reform - Development of new export commodities - Tourism sector development	- Production increase of traditional and non-traditional crops - Mining and horticulture - Tourism sector
Increasing investment, both domestic and foreign investors	- Parastatal Sector Reforms - Private sector development	- Privatisation of government owned enterprises - Private sector
Efficient channeling of government resources towards faster economic growth and poverty alleviation	- Tax Reforms - Integrated Financial Management System (IFMS) - Parastatal Sector Reforms - Public Service Reform Programme (PSRP)	- Government revenue enhancement - Government expenditure management and control - Restructuring and privatisation of public enterprises) - Reduction of the government employment; Improvement of efficiency in the management of public expenditure; Strengthening of public service capacity for the management of economic growth and poverty reduction; - Improvement of the delivery of public services; Improvement of accountability, transparency and resource management in service delivery; Test of effectiveness and sustainability of the Distance Learning Center as a knowledge sharing network.
Debt servicing and debt sustainability, and economic development and poverty alleviation	Enhanced HIPC Initiative and PRSP	- Agreement of PRGF with IMF - Attainment of Completion of Enhanced HIPC Initiative and PRSP to be eligible for debt relief and new donor inflow - Increase of budgetary allocations for poverty reduction; target sectors are health, water, agriculture, roads and judiciary

(Source: Prepared by JICA Study Team based on "Memorandum of Macro-economic Development" prepared by Ministry of Finance.)

In implementing reforms, Mainland has continued to focus on both macroeconomic adjustment and stability, and structural reforms. The structural reforms have been largely aimed at establishing a favorable environment for

increased investment. At early stages changes on legal and regulatory framework were the focuses, including the introduction and mining law and the revision of Investment Act, which created the Tanzanian Investment Center as a one-stop investors facility. The government has also sought to accelerate the pace of privatisation of state-owned enterprises. State-owned commercials banks, Tanzania Telecommunication Company Ltd. (TTCL), the Harbours Corporation, Tanzania Electric Supply Company (TANESCO), Dar es Salaam Water Supply Authority (DAWASA), and National Agriculture Food Company (NAFCO) have been privatized in various ways and means. Further privatization plan is underway, including Tanzania Railways Corporation.

1.4.8 The Status of Poverty in Mainland

Poverty is in principle described in two aspects: income poverty and non-income poverty.¹⁴

(1) Income Poverty

The basis for assessing income poverty is a measure of households' consumption expenditure, which results in the poverty lines representing the cost of the minimum consumption necessary for living. Households that fall below the poverty line are poor; individuals are classed as poor if they live in a poor household.

Poverty lines are described in two ways: food poverty line and basic needs poverty line. Food poverty line defined in HBS 2000/01 represents food consumption pattern of the poorest 50% of the population, which is adjusted equal to 2,200 kilo calories per day in calorific value. This amount of calorie is further adjusted to be valued in monetary term, representing the cost of the food to get the minimum adult calorific requirement. Food poverty line in Dar es Salaam is Tsh. 6,719, which is 32% higher than that in rural areas¹⁵. The resulting poverty line is given in the table below:

¹⁴ **Income poverty** is internationally thought to be when people earn less than one US\$ per day. This means that they will not have enough food or medicine and they will have poor clothes and houses. Level of income poverty varies according to time, country, and region.

Non-income poverty happens when people may have a little bit of money but they do not have access to good schooling or safe water. People living with non-income poverty are likely to have stunted growth and to die young. It is also unlikely that they participate in making the decision that affect their lives. Income poverty measures what people buy and how much they spend so it is basically about money. Non-income poverty refers to quality of life and social well-being. It measures many of the things that move people from ill-being to well-being.

(Source: Tanzania without Poverty by Hakikazi Catalyst)

¹⁵ Since the expenditure required to meet a given minimum consumption level varies depending on where the household live, the result is adjusted for the prices faced by the household using a Fischer Index.

Poverty Lines per Adult Equivalent for 28 days

(unit: Tsh.)

	Dar es Salaam	Other Urban Areas	Rural Areas	Mainland
Food Poverty Line				
2000/01 HBS	6,719	5,607	5,107	5,295
1991/92 HBS	3,031	2,387	1,958	2,083
Basic Needs Poverty Line				
2000/01 HBS	8,313	6,386	6,348	7,253
1991/92 HBS	3,045	2,419	2,116	2,777

(Source: HBS 2000/01 Draft Final Report National Bureau of Statistics)

Basic needs poverty line is also calculated in HBS 2000/01. The basic needs makes allowance for the fact that people need more than just food to live, thus the basic needs poverty line is a little higher than the food poverty line. Those basic needs comprise expenditure on durables, medical services, education, and other non-durables, other than food. In HBS 2000/01, expenditure on basic needs poverty of the poorest 25% of the population is calculated, as shown in the table above. Percentage of expenditure on non-food items in Dar es Salaam, 19.2%, is almost the same as in rural areas, 19.5% in 2000/01. The percentages represent a significant increase in the expenditure on non-food items over 1990s. In the previous HBS, the percentage in Dar es Salaam is only 0.45%, and in rural areas, 7.5%. This percentage increase appears to indicate the improvement of livelihood.

The percentage of the population below the two poverty lines in 1991/92 and 2000/01 are provided in HBS 2000/01, as shown in the table below:

Incidence of Poverty in Mainland

(unit: percentage)

	Dar es Salaam		Other Urban Areas		Rural Areas		Mainland	
	91/92	00/01	91/92	00/01	91/92	00/01	91/92	00/01
Food Poverty	13.6	7.5	15.0	13.2	23.1	20.4	21.6	18.7
Basic Needs Poverty	28.1	17.6	28.7	25.8	40.8	38.7	38.6	35.7

(Source: HBS 2000/01 Draft Final Report National Bureau of Statistics)

About 36% of total population fall below the basic needs poverty line and 19% below the food poverty line in 2000/01. Both of them represent decrease by 2.9% compared with those in 1991/92. Rural areas have the highest population which fall below poverty lines: 20.4% in food poverty and 38.7% in basic needs poverty. These percentages evidence wide gap of poverty incidence between rural and urban, especially compared with Dar es Salaam, where the levels of poverty for both aspects are the lowest.

(2) Non-income Poverty

(a) Education

Primary school enrolment rate is one of major indices describing poverty. The table below presents gross and net enrolment ratios for primary

education. This shows that about 59% of children aged seven to thirteen years are in school in Standard I to VII; remaining 41% are not studying. Gross enrollment rates are higher than net enrollment rates because many over-aged children are present in primary schools. This is particularly a problem in rural areas

Net and Gross Enrolment Ratios by Sex

(unit: percentage)

Measure	Dar es Salaam	Other Urban Areas	Rural Areas	Mainland
Net Enrolment Ratio:				
Total	71.0	71.4	56.0	58.7
Boys	68.3	72.0	53.9	56.7
Girls	73.4	70.7	58.4	60.8
Gross Enrolment Ratio:				
Total	98.3	96.3	81.5	84.2
Boys	104.4	99.9	79.9	83.5
Girls	93.1	92.8	83.2	85.0

(Source: HBS 2000/01 Draft Final Report National Bureau of Statistics)

Illiteracy rate is also associated with poverty. In Mainland, illiteracy rate is 28.6% in 2000/01 according to HBS 2000/01; remaining 71% are literate in at least one language. Women, particularly in rural areas, are more likely illiterate.

(b) Survival

High mortality rates, especially among infants and under-five children and corresponding low life expectancy are an important dimension of poverty. In 1999, infant mortality was estimated at 99% per 1,000 live births, and under-five mortality was 158 per 1,000 live births. Although these rates represent a major improvement over the 1970s rates, recent evidence suggests that infant and the under-five mortality rates have begun to level off.

(c) Clean and Safe Drinking Water

Use of unprotected sources of drinking water is believed to be associated with poverty. According to HBS 2000/01, 53.2% of the household in rural areas in Mainland still depends on unprotected sources of drinking water. Use of piped water is much more common in urban areas, especially in Dar es Salaam, 85.7%, where only 3.6% of the household depends on unprotected sources. But in the capital, this percentage is exactly the double of the percentage in 1991/92 and about 46% of the household there now depends on a neighbor for water. The water supply system in the capital

appears to have suffered a serious decline in the population it should serve.¹⁶

1.4.9 Forecast

The economic policy of Mainland has been basically supported by the IMF/PRGF and World Bank/PSAC and guided by poverty reduction strategy. The country reached the completion point under the IMF-World Bank's HIPC Initiative in November 2001, and as a result the country will benefit from not only debt relief of US\$ 3 billion, but also increasingly favorable donor assistance which would be utilized for economic and social development. Especially, significant amount is expected for budget support and balance of payment support in the budget of 2002/03¹⁷, which would improve government fiscal balance.

GDP growth rate is expected to rise to 5.9% in 2002 (calendar year), 6.3 % in 2003 and 7% in 2004. Other economic conditions, such as inflation and domestic revenue, foreign exchange reserves, are also expected to improve.¹⁸

1.5 Sectoral Economic Analysis

1.5.1 Overall Characteristics

Despite the efforts of structural reforms, the country's per capita income is US\$259¹⁹ in FY1999. Its population is estimated to be 32.8 million,²⁰ growing currently at 2.8% per year (for Zanzibar, 3.0%).²¹ Its economy is heavily dependent on agriculture (primarily, coffee, cotton, tea, cashewnuts, sisal, maize, rice, wheat, cassava, and tobacco), which accounts for 48%²² of its GDP, provides 65% of its foreign exchange earnings. Manufacturing accounts for only 8% of and is limited to processing agricultural products and light consumer goods. Mining sector has good potential, but has yet to be fully developed. Tourism is one of the country's dynamic sectors and has shown significant growth in recent years. The service sector is increasingly important source of employment.²³

¹⁶ HBS 2000/01

¹⁷ Budget Speech of Minister of Finance made on 13 June 2002.

¹⁸ Minister of State in the President's Office (Planning and Privatization) remarks to the National Assembly made on June 2002 during the presentation of the Economic Survey 2001 and proposals for the medium-term plan and expenditure framework for 2002/03 – 2004/05. Newspaper "The Guardian" dated 14 June 2002.

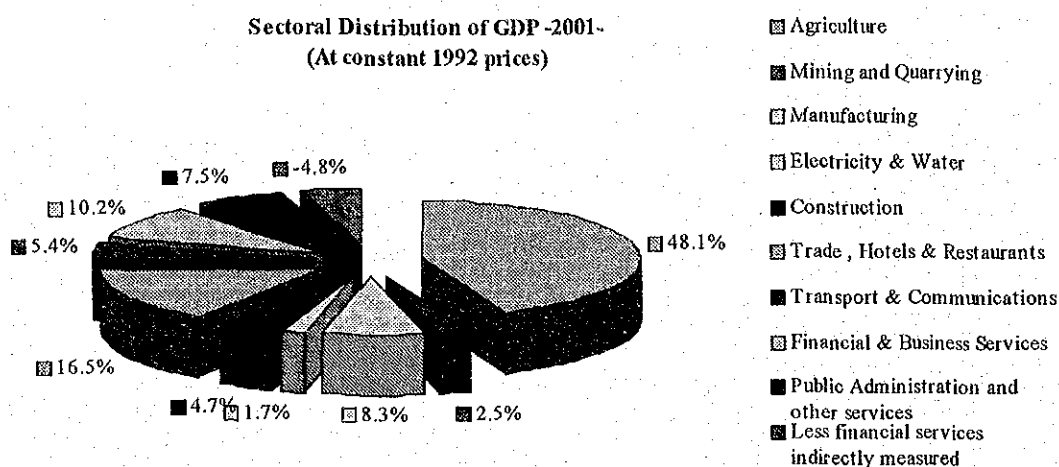
¹⁹ Calculated by JICA Study Team

²⁰ The Economic Survey 2000 p.81

²¹ Population & Development Newsletter July-Sept. 1999 Planning Commission

²² The Economic Survey 2000 p.11

²³ World Bank Report: Tanzania



(Source: The Economic Survey 2000)

1.5.2 Sectoral Distribution of Government Expenditure

If it is assumed that the government policies are represented only by sectoral distribution of government expenditure, as shown in Table 1.5.1, it is no doubt that the government has put top policy priorities on education, transport (roads) and health sectors, and not on agriculture sector, as noted in the Economic Survey 2000. Percentages of those 3 sectors against total government expenditure in 2000/01 (Estimate) are 19.0%, 5.5% and 5.2%, respectively. Percentage of agricultural sector in the same year is only 2.6%, and that has even decreased from the peak of 4.6% in 1998/99, 3.9% in 1999/00. Definitely it is important to clarify why the percentage of agriculture sector has declined in the last two years, when all the policy/strategy papers assumed the strategic importance of the sector for the country's sustainable development, especially for poverty alleviation and food security. The sector is one of the priority sectors in PRSP. To fill in the shortage of the government budget, there have been out-of-budget financial resources coming in from foreign donors. According to the UNDP Tanzania Development Co-operation Report 1999, approximately half of donor money is reflected in the government budget, and the remaining will go directly to projects/programs as out-of-budget funds.

During the Questionnaire Survey on Donor Activities, this issue was raised by an officer of one of key donors, who had also been dissatisfied with the past budget allocation to the agricultural sector. This task will be performed during the next phase of the Study.

1.5.3 Agricultural Sector

As evidenced in the previous section the agricultural sector, consisting of crops, livestock, fisheries, forestry and wildlife, contributed 48.2% to GDP and 65% of foreign exchange earnings in 2000. The sector's annual growth rate declined by 0.7%, from 4.1% in 1999 to 3.4% in 2000. This was attributed by a decreased production of the crops sub-sector as a result of low rainfall in the short and main rainfall seasons in some parts of the country, especially Kilimanjaro, Arusha and Singida regions as well as occurrences of destructive animals (monkey, wild pig, mouse) and pests and inadequate availability and distribution of inputs. (The Economic Survey 2000)

The ASDS put the growth target of the sector at 5% per year in average over 3-year period, 2005 – 2007, but actual growth rates have never reached the level since 1988 except in 1990, 1995 and 2001, as evidenced in the table below. Considering its dominance share in the whole economy, enhanced growth in the sector is critical to the attainment of the development target of the whole country.

Growth Rate of Agriculture Sector – at constant 1992 prices –

(unit: %)

Description	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Agriculture	2.2	3.9	5.5	3.6	1.2	3.1	2.1	5.8	3.9	2.4	1.9	4.1	3.4	5.5
Crops	2.0	4.3	6.4	3.9	0.7	3.1	2.0	6.8	4.2	2.3	1.8	4.5	2.9	5.9
Livestock	2.8	2.7	3.0	2.7	2.7	2.7	1.4	2.7	2.7	2.7	1.9	3.5	3.9	3.3
Forestry & Hunting	2.7	2.7	2.8	2.7	2.7	2.9	2.7	2.7	2.7	2.7	1.2	2.4	4.8	3.6
Fishing	3.0	3.1	2.9	2.9	3.0	4.4	3.9	4.0	4.1	3.7	3.5	3.2	7.2	7.0

(Source: The Economic Survey 2001; National Bureau of Statistics)

1.5.4 Private Sector Development

The government has been shifting its roles and interventions from direct involvement in productive and commercial activities towards provision of social and economic infrastructure as well as providing technical assistance and advisory services. In order to speed up private investments, the government has implemented policies aimed at encouraging more private sector participation. Establishment of the Tanzania Investment Center (TIC) in 1990 and the Presidential Parastatal Sector Reform Commission in 1993 are the measures in line with this objective. Investment amounts approved through TIC has been increasing as shown below:

Investment Approved by TIC

(unit: million Tsh.)

	1995	1996	1997	1998	1999	2000
Total Amount	186,829	376,979	602,642	447,275	399,138	495,729
Agriculture	6,662	4,206	16,319	118,110	40,168	27,344
(%)	3.6	1.1	2.7	26.4	10.0	5.5

(Source: Economic Survey 2000)

As seen in Sub-clause 1.3.2, Foreign Direct Investment (FDI) has been steadily increasing reflecting the improved business environment.

1.5.5 Rural Social Structure

In Mainland, poverty is mainly a rural phenomenon. In rural areas, incomes are lower and poverty is more widespread and deeper than in the urban centers. Another aspect of the issue of poverty in Mainland is that the poor are concentrated in subsistence agriculture. Farmers in rural areas are in general poorer than non-farmers. According to the 1991/1992 HBS, the poverty incidence for households whose heads work in own farms is 57%.

By comparing the major items of Basic Human Development Indicators (HDI) by region, the situation of regional poverty and welfare in the country becomes clear.

Comparison of Basic Human Development Indicators across Regions

Rank from Most Deprived	Regions	GDP/capita (Tsh.) 1997	Primary Schools Enrollment Ratio (%) 1995	Infant Mortality Rate (/1000) 1995	Severe Malnutrition (%) 1995
1	Dodoma	100,763	67	130	7.5
2	Kagera	95,623	66	127	11.2
3	Lindi	126,949	64	129	13.4
4	Kigoma	98,961	66	81	7.6
5	Coast	124,188	74	105	8.4
6	Morogoro	125,739	79	112	7.3
7	Mara	118,591	92	112	5.7
8	Tanga	112,777	77	100	8.1
9	Mtwara	126,873	78	119	8.7
10	Rukwa	192,642	65	101	9.7
11	Arusha	161,802	73	52	9.2
12	Mwanza	134,335	75	95	6.3
13	Iringa	157,895	87	111	14.7
14	Mbeya	129,442	80	9	6.8
15	Shinyanga	148,404	73	81	5.0
16	Tabora	130,943	63	73	2.7
17	Singida	133,565	75	67	9.8
18	Kilimanjaro	101,457	100	59	4.0
19	Ruvuma	157,749	80	88	7.1
20	Dar es Salaam	371,811	93	102	4.2

(Source: Bank of Tanzania Economic and Operations Report 2000; Poverty and Welfare Monitoring Indicators, Vice President's Office, 1999)

Based on the same data, the PRSP provides a composite deprivation index, and the division of "Most Deprived Region" and "Least Deprived Region" in the country become evident.

Regional Variation in Poverty as of 1999

Indicator	Least Deprived Region	Most Deprived Region	Most Deprived Regions
Per capita GDP in 1997 (Tsh.)	371,811 (US\$608)	95,623 (US\$156)	Kagera, Kigoma, Dodoma, Kilimanjaro,
Literacy rate (%)*1	96.4	68.1	Shinyanga, Arusha, Singida, Kigoma
Gross primary school enrollment rate (%)	100	63.0	Kagera, Kigoma, Rukwa, Tabora, Dodoma
out of which, Boys	99.0	65.0	Tabora, Dodoma, Kagera, Kigoma, Rukwa
out of which, Girls	100	60.0	Tabora, Dodoma, Kagera, Kigoma, Rukwa
Life expectancy (years)	59	45	Dodoma, Morogoro, Mtwara, Kagera, Rukwa, Iringa
out of which, Men	57	44	Dodoma, Morogoro, Mtwara, Kagera, Rukwa, Iringa
out of which, Women	62	45	Dodoma, Morogoro, Mtwara, Kagera, Rukwa, Iringa
Infant mortality (per 1000)	52	130	Dodoma, Lindi, Kagera, Mtwara
Under-5 mortality (per 1000)	78	220	Dodoma, Lindi, Kagera, Mtwara
Low birth weight	4.7	15.6	Mara, Ruvuma, Mtwara
Severe malnutrition	2.7	14.7	Iringa, Lindi, Kagera, Singida
Food security (cereal equivalent) *2	590	177	Coast, Dodoma, Morogoro, Tanga

*1: For women the most deprived regions were Shinyanga, Tabora, Coast and Kigoma.

*2: Availability of cereal equivalent levels (in kilograms) during 1992 - 96.

(Source: Tanzania PRSP collected through World Bank HP)

These results should be reflected and taken into consideration in the process of prioritization of irrigation schemes selected in NIMP.²⁴

²⁴ In 1998 Tanzania's HDI was 0.415, and it was ranked 156th among United Nations countries in terms of HDI.

CHAPTER 2 TRENDS IN DEVELOPMENT ASSISTANCE

2.1 General

Enhanced donor coordination and improved partnership between the government and foreign donors are increasingly critical to the sustainable development of the country, especially to the challenge of poverty reduction. In this context, effectiveness of foreign assistance to the output and impact planned or envisaged from the projects and their sustainability need to be properly monitored and verified at various stages and accounted for to all stakeholders. In Mainland, since the Helleiner Report was issued in 1995, there have been intensified efforts within the donor community and between the government and its donors to improve aid coordination and to increase the effectiveness of development assistance. As noted already in the explanation on the TAS, this principle for the improved coordination is set out in the TAS. With these developments taken into account, the JICA Study Team decided to conduct a survey on donor activities in the country.

2.2 Questionnaire Survey

The JICA Study Team contacted 21 development assistance organisations in total, 6 multilateral donors, 14 bilateral donors and 1 NGO, and made questionnaire survey in November and December 2001, requesting information on their on-going and under preparation (already planned) projects/programmes in Mainland, with main focus on agricultural sector.

- Multilateral

- 1) World Bank (WB/IDA),
- 2) United Nations Development Programme (UNDP),
- 3) International Fund for Agricultural Development (IFAD),
- 4) Food and Agriculture Organization (FAO),
- 5) World Food Programme (WFP),
- 6) European Union (EU)

(Note: Replies from World Bank has not arrived yet as of 10 December 2001)

- Bilateral

- 1) Japan International Cooperation Agency (JICA),
- 2) Danish International Development Agency (DANIDA),
- 3) Government of the Netherlands,
- 4) Netherlands Development Agency (SNV),

- 5) Government of Norway/NORAD,
- 6) Government of Finland,
- 7) Government of Belgium,
- 8) German Technical Cooperation (GTZ),
- 9) Swiss Agency for Development and Cooperation (SDC),
- 10) Government of Ireland,
- 11) Government of France,
- 12) U.S. Agency for International Development (USAID),
- 13) Canadian High Commission/CIDA,
- 14) Government of Sweden/SIDA

(DFID of UK was excluded from the survey because the office in DSM has been temporarily closed during the survey.)

- Non-governmental Organisation
 - 1) Traditional Irrigation and Environmental Development Organization (Tanzanian)

2.3 Donor's Aid Policy

(1) Similar Donor Activity Survey

According to an officer of a donor, they had received similar questionnaires from 3 organisations, Ministry of Finance of the government, Food and Agriculture Organization (FAO) and lastly JICA (Study Team). Also it was known to the Study Team that UNDP had been conducting similar aid activity survey each year for the preparation and production of their annual Development Co-operation Report. Therefore, it is suggested that future collaboration among donors and the government would make data collection more efficient and the results could lead to more meaningful analysis. In the next phase of the Study, the data collection process itself could be one of issues.

(2) Donor's Aid Policy

A donor used to provide assistance in the agricultural sector, but they decided to withdraw from the sector because they did not have the project output or project impact to be obtained from the project. Now they are concentrating in Health, Education, Local Government, Private Sector Development, and Legal Sector. Based on the past experience an officer of a different donor stressed that large-scale irrigation or large-scale and capital-intensive farming would be more effective than small-scale ones in principle. But just opposite opinion was provided from a different donor, who stressed the importance of human development and participation in small-scale agriculture projects. Thus, it became

clear that donors have their own aid policies about the sector, target group, type of project, etc.

A different JICA study implemented in 2000 provides comprehensive view on aid policy of each donor (Report of Preliminary Study Mission on Tanzania Country Programme Evaluation Study on JICA's cooperation in Tanzania November 2000). Based on the findings of the study, the JICA Study Team prepared a table below which shows priority and/or target sector of each donor. As shown in the table, World Bank (study only), Denmark, Finland (forestry sub-sector), Germany and Japan regard the agricultural sector as the priority and/or target sector.

Priority and/or Target Sectors by Donor

Donor/Sector	Agriculture	Economic Management	Development Administration	Natural Resources	Human Resources Development	Area Development	Industry	Energy	Internal Trade in Goods & Services	Domestic Trade in Goods & Services	Transport	Communication	Social Development	Health	Disaster Preparedness	Humanitarian Aid & Relief
Multilateral																
1 World Bank/IDA	●				●	2							●	●		
2 UNDP		1														
3 UNICEF					●								1	●		
4 UNFPA			1									●		●		
5 ILO						1							2	3		
6 EU				●	●		1				2		●	●		
Bilateral																
7 Japan	●				●			1			1	1	1	●		
8 Denmark	●		1					●			2			●		
9 Netherlands				●	●								●	●		
10 Norway			1	●		●		●			2			●		
11 Finland	1		2		●											
12 Germany	●															
13 USA			1	●						2						3
14 Canada					●		1									●
15 Sweden			1			●										
16 UK		●	1		●		●									●
17 Italy		●								1	2					●

(Source: Prepared by JICA Study Team on NIM/P based on the Report of Preliminary Study Mission on
*Sector Classification Method: UNDP Classification Codes

Note:

World Bank: 1: Study, 2: Rural Roads

UNDP: 1: Economic Management & Aid Coordination, 2: Good Governance; Local Government Reform; and Poverty (Monitoring)

UNICEF: 1: Legislation on Children; Drinking Water

(UN Children's Fund)

UNFPA: 1: Demography Data

(UN Fund for Population Activities)

ILO: 1: Labor Intensive Infrastructure, 2: Child Labor, 3: Social Security Scheme

EU: 1: Tourism, 2: Infrastructure (Road Maintenance)

Japan: 1: Infrastructure (Transport, Communications, Power, Drinking Water)

Denmark: 1: Governance (Legal Reform), 2: Infrastructure (Roads)

Norway: 1: Multilateral Debt Fund; and Local Government Reform, 2: Roads

Finland: 1: Forestry, 2: Poverty Reduction Budget Support and Democracy; and Local Government Reform

USA: 1: Good Governance, 2: Private Sector Development, 3: Primarily for HIV/AIDS

Canada: 1: Micro-finance

Sweden: 1: Democracy; Deregulation of Economic System; and Capacity Building

UK: 1: Community Participation

Italy: 1: Private Sector Development, 2: Roads

(3) Effectiveness of Basket-funding

During the survey, the JICA Study Team collected some comments on the effectiveness of the basket-funding from the donors. Some embassy officers said that the basket-funding scheme had worked effectively when monitored and consulted about the performance properly. But an officer of a different embassy said that they did not like it. Also, an officer of a different embassy who had donated through the basket-funding scheme said that it had taken a long process and time to advance the money to the end beneficiaries because of cumbersome handlings decided by the side of Mainland or their insufficient fund and project management capacity.

Followings are findings on the basket-funding scheme quoted from the same JICA study in (2) above.

(a) The basket-funding scheme can be regarded experimental means to rationalize donors' activities by employing common as well as innovative aid procedures. The definition of the scheme is not yet firmly made known to all interested parties. The basket funds are to be created in association with sector wide approach (SWAp). The funds for health sector and local government reform had been actually created as at the time of the JICA study. For other sectors, education and election had been considered.

(b) Because of the legal framework, USAID could not participate the basket-funding scheme. They regarded the current operation of the funds in Mainland had not been transparent enough. They criticized the view that the SWAp and the basket-funding scheme were considered identical to each other when the basket-funding was one of the means applicable under the SWAp. It is hardly justified to the donors that the basket-funding scheme in the country has held back donor coordination. Actually, participation to the committee for health sector basket-funding is limited to the donor of the fund. Canada is also opposed to that policy, although the country is considering joining the scheme. The United Kingdom is of the opinion that too much time is consumed for the scheme, and they are considering to stop participating the scheme to transfer their contribution to the budget support.

(c) For health sector, UK, Norway, the Netherlands, Denmark, Switzerland and Ireland have joined the basket-funding scheme. Despite their expression of interests, Germany and World Bank have not joined the scheme yet. The Ministry of Health said that they were pleased with the results of the scheme as the process of negotiation between the Ministry and each bilateral donor could be saved once all participating donors reached an agreement on issues

to be solved, although some additional procedural works had been created because of the scheme. A new project in the health sector must be formulated within the SWAp and approved by the Ministry.

(d) For education sector, an agreement had been reached as to the programmed within the SWAp, but both donors and the Ministry of Education had not reached the agreement regarding financial aspects, such as the operation of the basket-fund. The donors were worried about the deficient capacity of the Ministry.

(e) For good governance issues, Norway and Finland had joined the basket-funding scheme, with special intention to local government reform.

2.4 Aid Programme/ Projects

(1) Survey Results

Total number of the projects reported in 21 replies collected is 222, including 74 projects of agricultural sector. The results have been classified by sector and by sub-sector for agricultural sector projects only, and put in the matrix below. In line with the objectives of the NIMP, the focus of the questionnaire survey was put on the agricultural sector.

Results of Questionnaire Survey on Donor Activities*

Donor/Sector	Agricultural Sector										Economic Management Development Administration	Natural Resources	Human Resources Development	Area Development	Industry	Energy	Internal Trade in Goods & Services	Domestic Trade in Goods & Services	Transport	Communication	Social Development	Health	Disaster Preparedness	Humanitarian Aid & Relief	Total
	Irrigation	Sector Policy & Planning	Research & Development	Support Services	Food Crops	Industrial Crops	Livestock	Forestry	Fisheries																
Multilateral																									
1 World Bank/IDA	1		1	1						1														4	
2 UNDP	14																							14	
3 IFAD			2	1																				3	
4 FAO	1	4	15			2					3												25		
5 WFP											30												30		
6 EU										1						4							5		
Bilateral																								81	
7 Japan	4	1	3					1				1		1						1			10		
8 Denmark/DANIDA	1	1	4			1				1	1	2				1	1			1			14		
9 Netherlands										2	1					1						1	5		
10 Netherlands/SNV																5			1				6		
11 Norway		1	1							2	10	5		1	3		7		7	2			39		
12 Finland										4	2	1	1				1						9		
13 Belgium										2	1						1		5	5			14		
14 Germany/GTZ			1	2						1	1							1	3				9		
15 Switzerland/SDC			1														1			1			3		
16 Ireland			1							1		1											3		
17 France			3								1						1	1		2			8		
18 USA/USAID	1		1							1		1	1				1	1		1	1		7		
19 Canada/CIDA											1	1	2						4				7		
20 Sweden/SIDA											1									1			2		
NGO																								##	
21 TIP*	5																						5		
Total	27	5	3	31	3	0	3	0	2	0	10	53	11	5	4	4	4	8	12	0	23	14	0	##	

(Source: Results of the Questionnaire Survey collected from donors/NGO.)

*Sector Classification Method: Except irrigation sub-sector, UNDP method was applied.

(UNDP: Tanzania Development Co-operation Report 1999 p. 35-37)

*TIP: Projects formulated and implemented under their initiative were considered. For those projects TIP receive financial assistance from various donors.

The questionnaire formats duly filled in by the respondents are in Attachment 3.

The result of the survey is tentative, and the number of projects of other sectors should be taken just for reference. The reason for this is that some donors, like World Bank, UNDP, JICA, DANIDA, have so many projects covering many sectors that it is quite difficult to collect their replies from them and sort out those data within a few weeks. Also, to push all donors to fill in all the sectors would give them a big trouble, it is against the purpose of aid-coordination.

(2) Donors' Projects in the Agricultural Sector

The donors and their projects in the agricultural sector responded to the survey are as follows:

- Multilateral

World Bank (4), UNDP (14), IFAD (3), FAO (22)

(Note: Reply from the World Bank was prepared by JICA Study Team based on the information obtained through the Bank's URL: www4.worldbank.org/projects/Project.asp?pid)

- Bilateral

Japan (10), DANIDA (7), Government of the Netherlands, Government of Norway/NORAD (2), GTZ (3), SDC (1), Government of Ireland (1), Government of France (3), USAID (2)

(The number in the bracket represents the number of each donor's projects. The projects of NGO (TIP) are excluded here.)

Among them, 21 irrigation projects have been reported as follows:

World Bank (1), UNDP (14), FAO (1), Japan (4), DANIDA (1), USAID (1)

2.5 NGOs' Activities in Mainland

It is said that there are roughly 3 thousand Non-Government Organizations (NGOs) working in Mainland including foreign NGOs; some of them are dormant. Active local NGOs established their umbrella organization called Tanzania Association of Non-Governmental Organizations (TANGO) in 1988 to promote the growth of NGO sector and contribute to the improved performance of NGO sector through capacity building, coordination of its members, and by acting as a resource hub for information and skills exchange. Currently TANGO has about 500 members (all of them are local), which are classified into 3 categories: 1) service delivery type NGOs, mainly dealing with health and education sectors; 2) economic-oriented type NGOs, mainly dealing with business and productive

activities, such as provision of micro-credit, management of farmers revolving fund, implementation and maintenance of various types of development projects. Those involved in agricultural projects including irrigation projects are also included in this category. Major NGOs in this category are Austro Project Association, Mbutu Agriculture Society, Mkulima Progressive Association, Mshikamano Asilia Nanyumbu, Chama Cha Kuhamasisha Vijana Katika Kilimo Na Uchumi Tanzania, Amka Registered Trustees, Kikundi Cha Uzalishaji Mali, Mila Na Utamaduni. 3) lobbying and advocacy type NGOs, mainly dealing with persuading government officials on providing equal rights to women, children and all unprivileged group. 60% out of 500 members are engaged in service delivery type, 30% are engaged in economic- oriented type, and the remaining 10% are engaged in lobbying and advocacy type.

According to TANGO, major constraints to the work of NGO are limited availability in terms of human and financial resources.

Traditional Irrigation and Environmental Development Organization (TIP), based in Moshi and not a member of TANGO, has been active in irrigation sector, and at the time of interview survey they had 5 on-going irrigation projects. TIP finances its operations from consultancies as well as from donor funding.

CHAPTER 3 FRAMEWORK FOR THE IMPLEMENTATION OF THE NIMP

3.1 Macroeconomic and Policy Framework

GOT has been pursuing the long-term policies, strategies and targets as laid out in Tanzania Vision 2025 and medium and short term policies through PRSP, MTEF, ASDS as well as each year's annual budget. They have set up various targets, including GDP growth rate, limiting expenditures, especially recurrent expenditure, increasing revenue, reduction of national debts and using the resources with maximum effects to improve economic and social services, and promoting greater private sector participation in not only commercial sectors, but also in the sectors which used to be dominantly the responsibility of the government. Utilizing those objectives, policies, measures and targets, the NIMP has drawn its own macroeconomic and policy framework to attain the goal of poverty reduction and food security through sustainable irrigation development through effective use of national resources. Pillars of the framework and specific targets adopted for the projection of the financial resources envelope for the NIMP are summarized below:

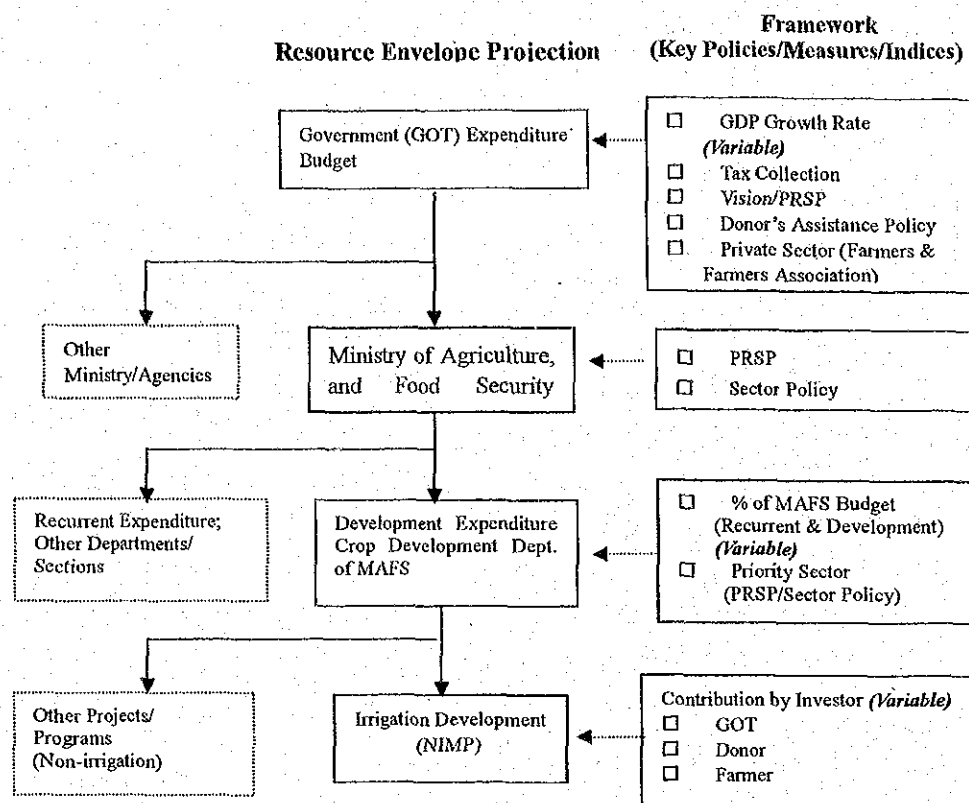
Pillars	Specific Measures/Targets
Stable and sustainable overall economic development	GDP growth rate
Accelerated and sustainable development of crop production	Allocation of Development Fund (Local and Foreign Funds) to MAFS
Expanded and improved irrigation program/projects	Allocation of Development Fund (Local and Foreign Funds) to irrigation projects implemented and/or managed by Crop Development Dept. of MAFS
Stable and increased donor assistance	Financial assistance of foreign donors, both multilateral and bilateral, distributed through on-budget and out-of-budget system to irrigation/water management projects

Macroeconomic and policy framework including other strategies and targets which should be the background and preconditions for the implementation of the NIMP is shown in Table 3.1.1.

3.2 Projection of the Financial Resources Envelope for NIMP

3.2.1 Projection Process

Projection process of financial resources available for the implementation of the projects identified in the NIMP is shown below:



Variable indices applied to the resource envelope projection should be 1) GDP growth rate, 2) Percentage of Development Expenditure of MAFS Budget, 3) Contribution by foreign donors. GDP growth rate is assumed to regulate the government income, thus the government budget is assumed to increase annually in proportion with GDP growth rate. Necessity of the increased percentage of Development Expenditure of MAFS budget needs little discussion because Mainland's long-term goals of poverty reduction and food security cannot be achieved without productivity improvement of crop production. Investment in irrigation development under the government management and with farmers contribution is considered to be one of the most effective and suitable means, especially in Mainland, to achieve these goals. Another reason to make percentage of Development Expenditure of MAFS budget variable is that a certain economic and social factor might arise to increase or decrease this percentage depending on political and economic policy focusing. Fluctuation of foreign donor contribution is also assumed to affect the total amount of resources envelope. Indeed it has been varying in the past and in many cases it changes out of control of the government.

3.2.2 Assumptions for Projection

(1) Initial Investment/Development Expenditure

(a) Methodology for Assumptions

NIMP can be viewed as a program subordinate to the ASDP. As noted already in 1.2.2, ASDP forms the basis on which resources from the government and development partners will be allocated to the agricultural sector, and to implement the priority interventions identified during its preparation as being required in key areas. According to the initial schedule, the process of financial resources allocation over its 5-year program period should have been finalized by the time the writing of this master plan gets started, and 2002/03 has been supposed to be the starting year of the ASDP. But this process is still underway and seemingly takes some time for finalization.

With the absence of the basic information to be provided by the ASDP on the requirements and availability of resources from the government and development partners and their allocations to the NIMP, historical data of development expenditures, both budgets and actuals, have been applied to draw necessary assumptions to be used for the calculation of financial resources for the implementation of NIMP. Those historical data are summarized in Table 3.2.1. In the table, actual amounts disbursed are summarize for 1)GOT Development Expenditures, 2)MAFS's Development Expenditure, 3)Development Expenditures allocated to Crop Development Division., 4) Development Expenditures allocated to Irrigation Development. Breakdown of local fund and foreign fund are provided for all items.

(b) Basic Assumptions

1) Data area of 1998/99 – 2002/03 covering 5 years is assumed to form the base of assumptions for projection. One reason to adopt this assumption is that data area of Table 3.2.1 covers 11 years, 1992/93 – 2002/03, which forms broader basis in general, but available data from 1992/93 – 1997/98 are incomplete, and some data are inconsistent with those of 1998/99 – 2002/03. Another reason is taken from macroeconomic conditions. As detailed in 1.2, during the mid 1990s Mainland's reform programs fell off track and the economy stagnated, resulting in high budget deficit, increased inflation, and low economic growth. After these chaotic years Mainland's economic reforms began in 1996, although the economy in 1997 was again poor. At last macroeconomic conditions recovered in 1998 and the development is sustained till now. Also, formulation process of present

economic development framework started in 1997 and major development policies strategies were finalized after that. Reflecting these conditions, percentages of GOT Expenditures (local fund) during 1992/93 – 1994/94 are quite different from those of 5 years, 1998/99 – 2002/03. (Average percentage 1992/93 – 1994/94 is 30.4%; it is 13.1% during 1998/99 – 2002/03). Another thing that can be pointed out from the review of comparison of budgets and results is that ratios of (actual) expenditure/budget in recent years are closer to 1.0, especially after 2000/01. On the contrary, ratios of GOT Development Expenditure during 1993/94 and 1998/99 are quite low, except in 1996/97, with average of 0.51.

2) For the purpose of simplification of calculation process, the budget allocation of local fund portion of each budget item (vote and sub-vote in budget system of Mainland) is described in the percentage of the local fund portion of GOT Development Fund.

3) Allocation of foreign fund of development expenditure is supposed to have a fixed multiplier to local fund. Average multiple of irrigation development during 1998/99 – 2002/03 is 9.4. This assumption is based on the understanding that actual disbursement of foreign fund is regulated by the availability of local fund.

4) Disbursement ratio of the approved budget of 2002/03, which is current financial year at the time of this study, is assumed to be 1.0, which is reasonable based on recent years' ratios.

(c) Specific Assumptions

Indices and assumptions applied for this analysis are summarized as follows:

	Financial Resources	Assumptions
I.	GOT Expenditure Budget	<p>□ GOT Expenditure, both Recurrent and Development, is assumed to increase annually in proportion with GDP (representing national income and consumption) growth rate, which varies as follows (same rate as projected in IMF/IDA Tanzania Completion Point Document for HIPC Initiative. <i>(Variable)</i>)</p> <ul style="list-style-type: none"> ➤ Base Case: 5.8% p.a. for 2003/04 – 2007/08; 5.9% p.a. for 2008/09 – 2012/12; 6.0% p.a. for 2013/14 – 2017/18. ➤ High Case: 1.0%p.a. above Base Case; ➤ Low Case: 5.1% is assumed to be sustained for the entire period of NIMP. This case assumes that current level of growth, 5.1% in average of the last 3 years, 1999/00 – 2001/02, should be the bottom line for Tanzania.. <p>□ Share of local fund portion of GOT Development Expenditure is assumed to remain at 12.5% of total Development Expenditure throughout the period of NIMP (2003/04 – 2017/18). This assumption is considered reasonable because average share of local fund portion to GOT Development Expenditure for 5 years (1998/99 - 2002/03) is 12.5%. Availability of local fund of Development Expenditure during the implementation stages regulates actual disbursement</p>

		<p>ex-post facto of its foreign fund provided by foreign donors.</p> <p><input type="checkbox"/> Revenue base is assumed to be broadened and strengthened sufficiently to meet expenditures in local fund, especially development expenditure.</p>
2	MAFS's share of GOT Development Expenditure	<p><input type="checkbox"/> MAFS's share (local fund portion) of GOT Development Expenditure is assumed at 5.5%.</p> <p>Actual average MAFS's share to GOT Development Expenditure (local fund) for 5 years (1998/99 - 2002/03) is 5.5%.</p>
3	Irrigation Development in NIMP	<p><input type="checkbox"/> Actual average share of Crop Development Division (local fund) for 5 years (1998/99 - 2002/03) is:</p> <ul style="list-style-type: none"> - 2.1% of GOT Development Expenditure; - 40.5% of MAFS's Development Expenditure. <p><input type="checkbox"/> Actual average share of irrigation development for 5 years (1997/98 - 2001/02) is:</p> <ul style="list-style-type: none"> - 1.5% of GOT Development Expenditure; - 62.3% of Crop Development Division <p>The share of irrigation development is assumed at 1.5% of GOT Development Expenditure in Base Case. <i>(Variable)</i></p> <p>The percentage is assumed to vary as follows depending on political and economic policy focusing as noted in 3.2.1.</p> <ul style="list-style-type: none"> ➤ Base Case: 1.5%; ➤ High Case: 1.7%; ➤ Low Case: 1.5%, assuming that actual average share for last 5 years is sustained. <p><input type="checkbox"/> For further assumption, the multiplier of irrigation development (foreign fund portion) of Crop Development Division is assumed at 9.4, which is the same as the actual average multiple for 5 years (1997/98 - 2001/02). (Farmers are encouraged to contribute to take some shares, but so far their contributions are limited, and also percentage is not clear.)</p>
5	Out-of-Budget Donors Assistance	<p><input type="checkbox"/> External financial resources contributed out-of-budget basis are assumed in the following percentage. <i>(Variable)</i></p> <ul style="list-style-type: none"> ➤ Base Case: 100% (Same amount) of Foreign Fund portion of Irrigation Development; ➤ High Case: 110%; ➤ Low Case: 100%, assuming that current level of foreign assistance is sustained.

Among these assumptions, "Out-of-Budget Donors Assistance" would need some reasoning explanation. The government has received substantial amount of extra-budgetary or out-of budget financial assistance from foreign donors. PRSP says, " --- extra-budgetary interventions by international and other development partners will continue to provide substantial complementary support for poverty reduction."²⁵ In his budget speech on the estimates of government revenue and expenditure for the FY 2002/03 made on 13 June 2000, Minister of Finance said, "Grants and soft loans for development projects amounted to ---- . There is a possibility that a substantial amount of donor assistance for development projects was disbursed outside the government budget system, and has not yet been reported to government." The Minister went on to say, "the government maintains good relations with bilateral donors and multilateral financial institutions. However, due to historical reasons, not all donor assistance is channeled and captured through the government exchequer system. This makes it difficult for the government to have reliable information on the level of assistance, due to lack of a single system of channeling, utilizing, and accounting for such resources." Only a

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rough estimate on how much or how big of this resource is possible. As noted before in 1.5.2, UNDP Tanzania Development Co-operation Report 1999 indicates that approximately half of donor money is reflected in the government budget, and the remaining will go directly to projects/programs as out-of-budget funds. Therefore, whatever the terminology may be, out-of-budget donor assistance is justified to be assumed as the resource in the envelope. JICA Study Team held a meeting in June 2002 with an official of Ministry of Finance, and the result of the discussion on this issue is reflected to decide the percentage of out-of-budget donor assistance.

(2) Management and Maintenance Expenditure

Financial resources for management and maintenance expenditure are analyzed on the following assumptions.

(a) Personnel Expenditure

Number of staff who are involved in irrigation development including Zonal Office is 203 at present. This is 37% of total number of Crop Development Department (627). During the NIMP period, half (50%) of their personnel expenditure should be the responsibility of NIMP. In 2002/03 budget, Personnel Expenditure (Emolument) of Crop Development Department is Tsh. 1,718,497 thousand. Therefore, Tsh. 317,922 thousand is assumed to be allocated to NIMP.

(b) Maintenance Expenditure of Irrigation Facilities

In 2002/03 budget, maintenance expenditure allocated for irrigation facilities is Tsh. 4,500 thousand, which is 15% of Maintenance Physical Infrastructure within Recurrent Expenditure.

For Base Case and High Case, both (a) and (b) are assumed to increase in accordance with GDP growth rate. For Low Case, both (a) and (b) are assumed to remain in the same amount as the current level for the entire NIMP period.

3.2.3 Financial Resources Envelope

(1) Initial Investment/Development Expenditure

Using indices assumed in 3.2.2 above, the calculation has been carried out and the result is Tsh. 342,179 million in Base Case, which is US\$ 360.2 million converted at Tsh. 950/US\$, over 15 years of NIMP implementing period.

(2) Management and Maintenance Expenditure

The calculation has been carried out and the result is Tsh. 7,863 million, which is US\$ 8.3 million converted at Tsh. 950/US\$, over 15 years of NIMP implementing period.

The calculation of Base Case is included in Table 3.2.2.

3.2.4 Sensitivity Analysis

Three scenarios, Base Case, High Case, and Low Case, for Initial Investment, that is Development Expenditure, are analyzed. Each scenario has the following indices:

Variable	Base Case	High Case	Low Case
GDP Growth Rate	5.8% p.a. for 2003/04 – 2007/08; 5.9% p.a. for 2008/09 – 2012/12; 6.0% p.a. for 2013/14 – 2017/18	1.0%p.a. above Base Case	5.1%p.a. for the entire NIMP period (Ave. of 1999 – 2001)
Budget allocation to Irrigation Development of Crop Development Division	1.5% (of local fund portion of GOT Development Expenditure)	1.7%	1.5% (No increase)
Our-of-Budget Donors Assistance	100% (Same amount of foreign fund portion of Development Expenditure)	110%	100% (No increase)

Base Case or baseline scenario has combined modest and most likely assumptions under the current economic and policy framework. High Case with combined higher than Base Case indices and expecting higher economic growth and increased donor assistance represents optimistic and buoyant development scenario. Low Case with combined more modest indices than those included in Base Case and expecting lower economic growth and decreased donor assistance represents rather pessimistic and low development scenario. The calculations are included in Table 3.2.3 for High Case and 3.2.4 for Low Case.

The results of the sensitive analysis are summarized in the table and figure below:

Results of Sensitivity Analysis

Scenario	Financial Resources Envelope (million Tsh.)	Equivalent US\$ (million US\$)
Base Case	350,042	368.5
High Case	451,251	475.0
Low Case	327,967	345.2

The results are also shown in the figure below:

Projection of Financial Resources Envelope

