

## The damage of liberalisation and the dead-end of debt



Liberalisation of trade, imports and investment, which began during the mid-1980s, affected agriculture and small-scale traders, undermined small businesses and cottage industries owned by women and damaged the national industry, while incentives offered to attract foreign direct investment have undermined the available tax base with few positive returns. On the other hand, the HIPC initiative does not provide a lasting exit from debt problems and has minimal impact in poverty reduction.

### Domestic resources

Tanzania is one of the world's least developed countries with a Gross Domestic Product (GDP) of about USD 8.33 billion (2000 exchange).<sup>1</sup> The Tanzanian economy depends mainly on agriculture, which in 2000 accounted for 48.2% of the GDP. The trade, hotel and restaurant sectors constituted 15.6%; financial and business services 9.9%; manufacturing 7.9%; public administration and other services 7.3%; transport and communication 5.2%; construction 4.4%; mining and quarrying 2.2%; and electricity and water 1.6% (*Economic Survey*, 2000).

The main source of revenue for the government in 2000/2001 was the Value Added Tax (VAT). Its impact on women and the poor has not yet been fully assessed, but the issue will soon be examined by the Public Financial Management Program (PFMP) and Tanzania Social Watch. The 20% VAT targets consumers without differentiating between the wealthy and the disadvantaged. All residents of the country pay tax via VAT except for foreign investors, who often receive significant exemptions. The level of services provided by the government is poor, and inadequate education of taxpayers and tax collectors coupled with corruption and weak administrative control has resulted in a public weariness of taxation. Citizens see no clear relationship between the taxes they pay and the amount and quality of public services they get in return.

### Government deficit perpetuates poverty

Historically, government expenditure has been higher than revenue, creating gaps of millions of shillings. These deficits have led to a reduction in government spending, including that for social services, in an attempt to balance expenditures with revenue collected. The most vital sectors, such as education, health, water, roads and agriculture, are highly under-funded.

In 2000-2001, 27.2% of the total recurrent budget was set aside for servicing the public debt, but 47.5% was actually spent in the first half of the year for this purpose (*Economic Survey*, 2000).

### Trade liberalisation: disproportionate negative effects on poor

Liberalisation of trade, imports and investment, which began during the mid-1980s, affected men and women differently and disproportionately impacted small-scale traders. An investment code that allows foreigners to engage in retail and small-scale activities has undermined small businesses and cottage industries

owned by women. Incentives offered to attract foreign direct investment have undermined the available tax base with few positive returns. Most of the industries that benefited are large-scale, foreign-owned and operated, employing expatriate workers as senior managers and paying low wages, even to skilled Tanzanian workers. These industries are not subject to existing government regulations promoting gender equality and labour standards.

In addition, Tanzania's entry into free or preferential trade agreements has damaged local industries as well as small-scale production and petty trading in the informal sector where many women work. For example, large-scale, male-dominated fishing companies have replaced local, small-scale women who specialised in fish-processing and local trading. Large-scale business in second-hand clothes imported cheaply and often dumped from the West has affected both women, who traditionally produce tie-and-dye and batik fabrics, and other local industries employing many men and women.

Agriculture has also been impacted. In the last decade, the government removed price supports for small-scale growers. Private traders were allowed to purchase commodities directly from farmers, state-owned agricultural estates were privatised, food subsidies were withdrawn from consumers and producers were no longer supplied with farm inputs such as seed and fertilizer. These factors, plus the decrease in spending power as a result of inflation, have meant that despite an overall record of national growth in the country, the majority of Tanzanians have experienced rising prices for basic necessities. (Keller and Kitunga, 1999)

### Impact of liberalisation policies on women

There is evidence that women more than men have been adversely affected by fiscal adjustment policies. Women at all levels are being marginalised more than ever before. Few of the high authorities who make major government decisions are women.

Women and children are the most frequent users of health facilities, so when a health care budget is cut by 50%, they bear the brunt. Poor women are given the false impression that health services will be free. But pregnant women going to government hospitals to deliver are asked to bring along a delivery kit. Most cannot afford this, so they deliver at home. Moreover, medicines and supplies are often not available at government hospitals, even if supposedly free, meaning that individuals have to buy from private dispensaries. In addition, because of user fees and withdrawal of government support, much of the burden of care of the sick and the elderly has fallen on families – in other words, on women. This has compounded the inequality of the length of the work day for women and men: it is estimated that women in rural areas work more than 14 hours a day compared with men's 10 hours.

<sup>1</sup> Editor's note: The source of this data is *The Economic Survey 2000. World Development Indicators Database* of the World Bank gives USD 9.315 billion as GDP for the same year.

In rural areas liberalisation demands increased exports and hence, increased crop yields. In the absence of improved farm technology, the farmers have no alternative but to expand the size of their fields, relying on the hand hoe and human labour. This means a greater workload falls on women who have to cultivate, weed and harvest extra acres. Rural women who must grow food for their families' survival are now pressured by government to produce a surplus of food and cash crops to satisfy the world market.

An increase in crop production should mean an increase in the political say of the women producers in how the government spends the monies gained. However this is not the case in Tanzania. Women are being asked to produce more and getting less in return.

The increase in the acreage of crops has also meant an increase in the depletion of forests because of the slash-and-burn system of agriculture practised in rural Tanzania. Great expanses of land lie bare and barren, so rural women must travel further in search of firewood. Without forest cover, water reserves dry up, increasing the walking distance for women fetching water.

Both urban and rural women need time and an enabling environment (including a sound economic base) if they are to work towards bringing about gender equality. Structural Adjustment Programmes (SAPs) have drained women's time and energy. Less free time for women means diminished capacity to organise and lobby for their empowerment in society.

### Commitment to a gender-sensitive budget

Efforts have been made to make government expenditures more gender-equitable, but much work is still needed. As a result of lobbying by NGOs and willingness on the part of some key government actors, an initiative began in the Ministry of Finance in 2000 to increase sensitivity to gender issues in six pilot sectors within the government. This process is being funded by the Swedish International Development Agency (SIDA) with support of NGOs, particularly the Tanzania Gender Networking Program (TGNP), and international consultants. It is still beginning, so no major results have been documented in terms of shifts in resource allocation.

The process has been encouraging, however, as selected sectors have begun to include gender-sensitive objectives within their budgeting priorities. The process of gender mainstreaming is expected to expand to budgeting in the remaining sectors, at the local level (through the Local Government Reform Programme) and to macro-economic frameworks through the government's three-year PFMP. The latter programme contains some exciting possibilities, including estimating women's unpaid labour as one of the factors to include when calculating GDP.

### New loans to pay old debts: the limitations of HIPC

The total external debt at the end of September 2001 was USD 7,501.9 million. Debt service payments to the IMF and World Bank are projected to decline to USD 35 million in 2002/03 from USD 61 million in fiscal year 2000/01. From 2003/04 onwards, however, debt service obligations are projected to exceed actual payments in 2000/01, even after full Highly-Indebted Poor Country (HIPC) programme relief. When domestic debt is added to external debt, the fiscal impact of debt (debt service to fiscal revenue ratio) remains high, above 20%.

One key reason why Tanzania's debt will not be reduced to the agreed level is because Tanzania continues to take out new loans and these new debts, which are not included in the HIPC, will start to come due. Tanzania is not unique in this respect. This system of granting new loans to maintain repayments on old debts, even if these are reduced under HIPC, keeps countries on the debt treadmill.

The HIPC initiative does not provide a lasting exit from debt problems unless countries achieve strong and shared economic growth associated with new private investment, open markets, and additional development assistance. These conditions do not exist in Tanzania. After full debt relief, debt service payments will rise again. The current Poverty Reduction Strategy Plan (PRSP) is not fully funded. This financing gap of about 30% undermines the fight against poverty.

Debt relief under HIPC has minimal impact in poverty reduction.

### Recommendations

- The government should reduce expenditures to other sectors so as to increase the budget on public services.
- HIPC debt relief, however small, will have a significant impact if PRSP is fully funded. Therefore donors should increase their financial support for PRSP through grants. Debt should also be totally and unconditionally cancelled in order to exit from poverty.
- The ongoing process of structural adjustment, particularly privatisation, has to be looked at carefully and made more pro-poor. Privatisation should avoid adverse social impacts such as massive retrenchment and acceleration of poverty in general.
- Mechanisms should be adopted to ensure full participation in policy formulation, implementation and monitoring of the debt relief strategy, with special attention paid to economic and gender inequities. ■

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