■ TANZANIA

Ambitious poverty reduction plan faces daunting barriers

The Tanzanian government's National Strategy for Growth and Reduction of Poverty is an ambitious and laudable initiative that would contribute greatly to social development. Unfortunately, the funding required for its implementation appears to far outstrip the country's current fiscal means, largely because of the barriers to financial flows created by the wealthy developed countries.

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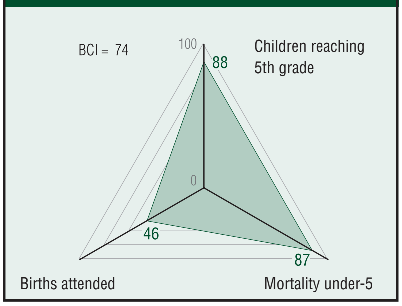
The National Strategy for Growth and Reduction of Poverty (NSGRP) was adopted by the Tanzanian government in June 2005. As the successor to the Poverty Reduction Strategy Paper of 2000, it is the second national framework for placing the goal of poverty reduction at the top of the country's development agenda. The NSGRP is based on the objectives of Tanzania's Development Vision 2025, which are high and shared growth, high quality livelihood, peace, stability and unity, good governance, high quality education and international competitiveness. The strategy also reflects Tanzania's commitment to the U.N. Millennium Development Goals (MDGs) as internationally agreed standards for reducing poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women by 2015.[1]

While the NSGRP text maintains that Tanzania experienced improved economic performance at the macro level over the six years prior to the adoption of the strategy, that same period was marked by a certain degree of instability. The GDP growth rate had risen consistently until reaching 6.2% in 2002, but subsequently dropped to 5.6% in 2003, then rose once more to 6.7% in 2004. At the same time, although inflation was kept relatively under control, it was nonetheless subject to some fluctuation: the annual inflation rate decreased from 6% in 2000 to 4.4% in 2003, but inflation increased from 4% in July 2003 to 4.6% at the end of March 2004.[2]

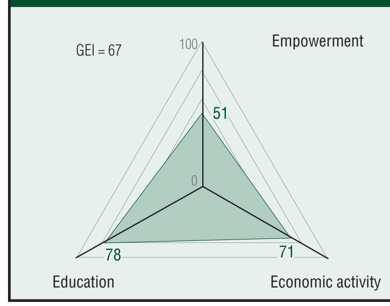
According to a study by Tanzania's Economic and Social Research Foundation (ESRF), the effective implementation of the NSGRP will require massive funding beyond the current fiscal means of the Government.[3] Moreover, the country is currently facing a severe food shortage as the result of a prolonged drought. According to the Food Security Information Team coordinated by the Prime Minister's Office and the Ministry of Agriculture, Food Security and Cooperatives, this emerging crisis is affecting nearly 85% of Tanzania's 129 districts. As of February, some 3.7 million people, or nearly 11% of the mainland population, had been identified as facing a food shortage, and it was estimated that more than 565,000 Tanzanians were in need of emergency food supplies, as they did not have the resources to purchase even heavily subsidized staple foods.[4]

This unsatisfactory economic performance and the extreme poverty in the country is largely linked with deliberate international barriers preventing more money from flowing into Tanzania. A question that remains unanswered is how the government can obtain the necessary funding to fulfil its commitments while these barriers on financial flows into the country for social development remain in place.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Barriers to financial flows for social development

Unfair trade rules imposed by developed countries

International trade represents one potential source of financing for social development. It has been estimated that if Africa's share of international trade were increased by just 1%, it would earn an additional GBP 49 billion annually.[5] If that 1% increase in the share of world trade extended to all the countries of Africa, Latin America and East and South Asia, it could help 128 million people escape poverty.[6] If the poorest countries as a whole could increase their share of world exports by 5%, it would generate GBP 248 billion or USD 350 billion in revenue, which could be used to lift many millions more out of poverty.[7]

However, while the developed countries have pressured Tanzania to open up its domestic markets through trade liberalization, they have kept their own markets closed to agricultural and textile exports from Tanzania through the application of unnecessary and highly restrictive trade rules.[8]

Among the trade restrictions that act as a barrier to financial flows into the country is the developed countries' complex rule of product origin applied to imports from Tanzania. The rule stipulates how much of a product must be made from local inputs to qualify for export and entry into their domestic markets on the basis of preferential tariffs. In reality, however, only a third of imports from developing countries eligible for preferential access are able to meet these strict rule-of-origin criteria.[9]

1 United Republic of Tanzania. Vice President's Office (2005). *National Strategy for Growth and Reduction of Poverty.* p. 1. Available from: <http://www.tanzania.go.tz/pdf/nsgrptext.pdf>.

2 NSGRP. June 2005, p. 1.

3 *Financial Times*, 31 May 2006.

4 Food Security Information Team (2005). Rapid Vulnerability Assessment (RVA) of Food Insecure Districts in Tanzania Mainland for the 2005-06 Market Year. Cited in: International Federation of Red Cross and Red Crescent Societies (2006). Tanzania: Drought – Information Bulletin No. 1/2006. Available from: <www.reliefweb.int/library/documents/2006/IFRC/ifrc-tza-3mar.pdf>.

5 Yergin, D. (2002). "Globalisation - It Pays Off". *The Sunday Times,* London, 24 April.

6 *Edinburgh Evening News* (2002). "Poor nations 'cheated out of £69bn'". 11 April. http://edinburghnews.scotsman.com/index.cfm?id=389892002

7 Bain, S. (2002)."Bringing down the barriers". *The Herald*, Glasgow, 11 April, p. 21.

8 Pollard, S., Mingardi, A., Gabb, S. and Philippe, C. (2003). *EU Trade Barriers Kill.* Brussels: Centre for the New Europe.

9 Brenton, P. and Manchin, M. (2002). *Making EU Trade Preferences Work: The Role of Rule of Origin.* Working Document No. 183. Brussels: Centre for European Policy Studies. Available from: <www.ceps.be>.

Moreover, even if Tanzanian exporters were able to comply with this rule of origin, there are further restrictive regulations related to health and safety. For example, one regulation requires that milk must be taken from cows by machines and not by hand.[10] This represents a major obstacle for the majority of the country's dairy farmers in both urban and rural areas, because such machinery is either unavailable or prohibitively expensive. Although sanitary conditions could be ensured by wearing gloves to milk cows, this would not be enough to satisfy the regulations in question.

Anti-dumping regulations, applied when an exporter sells goods below production cost, act as another barrier to potential exports and revenue.[11] Obviously, a product made in Tanzania will have an extremely low production cost when compared with the same product produced in the wealthy developed countries of Europe, which poses yet another obstacle for Tanzanian-made products to be exported and sold in Europe.

These restrictive practices have discouraged investment in agriculture in Tanzania, as reflected in Table 1.

The shortage of investment in the agriculture sector – which is the main employer in rural areas and the primary source of livelihood and income for the majority of the population – has led to limited growth and in some cases even a decline in the production of the country's most important cash crops.

It is therefore recommended that the developed countries should remove unfair trade restriction rules for products made in Tanzania and open more markets to Tanzanian agricultural products, so as to attract greater investment and promote higher productivity in the agriculture sector.

Moreover, limited agricultural sector growth does not solely affect cash crops, which are a crucial means of earning revenue for the country. There has also been a marked decline in the production of various staple food crops, which obviously has a direct impact on the lives and health of the Tanzanian population.

TABLE 1

Total number of investors in the agriculture sector

Year	2001	2002	2003	2004	2005
Number	77	93	115	145	169
Change in %	0	20.78	23.66	26.08	16.55

Source: Tanzania Investment Centre, reproduced in the Government of Tanzania Economic Status Report of June 2006, p. 133.

TABLE 2

Production of various cash crops (tonnes)

CASH CROP	2004	2005	CHANGE IN % (2004-2005)
Cotton	344,207	378,000	9.82
Tobacco	51,972	56,500	8.71
Sugar	223,889	263,317	17.61
Tea	30,259	30,000	-0.86
Coffee	51,970	34,334	-33.94
Sisal	26,800	27,794	3.71
Cashew nuts	100,000	90,385	-9.62

Source: Ministry of Agriculture, Food and Cooperatives, reproduced in the Government of Tanzania Economic Status Report of June 2006, p. 133

TABLE 3

Production of various food crops (000 tonnes)

FOOD CROP	2004	2005	CHANGE IN % (2004-2005)
Maize	4,286	3,131	-26.95
Rice	1,030	1,077	4.56
Wheat	66	44	-33.33
Millet	937	721	-23.05
Cassava	2,470	2,851	15.43
Beans	603	650	7.79
Bananas	2,576	2,007	-22.09
Sweet potatoes	1,245	1,300	4.42

Source: Ministry of Agriculture, Food and Cooperatives, reproduced in the Government of Tanzania Economic Status Report of June 2006, p. 132.

The continued burden of external debt

Owing to its status as a poor country heavily burdened by external debt, Tanzania has benefited from a number of debt relief initiatives. In December 2005, for instance, Tanzania was provided with 100% debt relief on all of its outstanding debt to the International Monetary Fund (IMF). This amounted to some USD 336 million, or USD 297 million excluding the debts scheduled for cancellation under the Heavily Indebted Poor Countries (HIPC) Initiative. According to the IMF, these additional resources were made available by the international community to help Tanzania make progress toward fulfilling the MDGs.[12]

Despite initiatives like these, however, Tanzania's external debt load continues to grow, representing a serious drain on the country's limited resources. Tanzania's external debt was USD 9.73 billion in December 2004, but had risen to USD 9.96 billion in December 2005. As a result, the country was compelled to increase its external debt payments from USD 77.8 million in 2004 to USD 91.1 million in 2005.[13] If it were not for this debt burden, the Tanzanian government could channel the funds currently allocated for debt servicing towards social development efforts – including the National Strategy for Growth and Reduction of Poverty. ■

10 Pollard, S., *et al* (2003), *op cit,* p. 8.

11 *Ibid.,* p. 9.

12 International Monetary Fund (2005). *IMF to Extend 100 Percent Debt Relief to Tanzania Under the Multilateral Debt Relief Initiative.* Press Release No. 05/286 of 21 December 2005. Washington: IMF.

13 United Republic of Tanzania (2006). *Tanzania Development Status, June 2006.* p. 74.