REPORT

Volume 1

TANZANIA

Diagnostic trade integration study

November 2005

ABBREVIATION AND ACRONYMS

ACP	African Caribbean Pacific
ACPC	The Association of Coffee Producing Countries
ADC	Agribusiness Development Centre
AGOA	Africa Growth and Opportunity Act
APDF	IFC's African Project Development Facility
ATC	Air Tanzania Corporation
BET	Board of External Trade
BOO	Build-Own-Operate
BOT	Bank of Tanzania
BRC	British Retailer Consortium
BSE	Bovine Spongiform Encephalophaphy
C&F	Carriage and Freight
CBPP	Contagious Bovine Pleuropneumonia
CCRF	Clean Report of Findings
CED	Customs and Excise Department
CEM	Country Economic Memorandum
CEO	Chief Executive Officer
CET	Common External Tariff
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
CPI	Country Performance Index
CRMS	Customs Risk Management System
CTI	Confederation of Tanzania Industries
DAI	Development Alternatives Inc
DANIDA	Danish International Development Agency
DFID	UK Department for International Development
DP	Development Partners
DRC	Democratic Republic of Congo
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EASC	East African Standards Committee
EBA	Every But Arms Initiative
EDP	Export Development Project
EIB	European Investment Bank
EPA	Economic Partnership Agreement
EPOPA	Export Promotion of Organic Products for Africa
EPZ	Export Processing Zone
ERP	Effective Rates of Protection
ESA	Eastern and Southern Africa
ESRF	Economic and Social Research Foundation
EU	European Union
EUREPGAP	Euro-Retailer Produce Working Group Good Agricultural Practices
FAO	Food and Agricultural Organization
FDI	Foreign Director Investment
FIATA	International Federation of Freight Forwarders' Association
FMD	Foot and Mouth Disease
FOB	Free on Board
FPEAK	Flower Producers and Exporters' Association of Kenya
FTA	Free Trade Agreement
FY	Fiscal Year
GAP	Good Agricultural Practice
GDP	Gross Domestic Product
GMP	Good Manufacturing Practice
GOT	Government of Tanzania
GSP	Generalized System of Preferences
GTZ	German Agency for Technical Cooperation
HACCP	Hazard Analysis Critical Control Point Program
HBS	Household Budget Survey
HCDA	Horticultural Crops Development Authority
IDEA	Investment in Developing Export Agriculture
IDF	Import Declaration Form
IF	Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
IFI	International Finance Institution
IFOAM	International Federation of Organic Agricultural Movements
IITC	Inter-Institutional Technical Committee
IMF	International Monetary Fund
IMTC	Inter-Ministerial Technical Committee
IPM	Integrated Pest Management
IPPC	International Plant Protection Convention
ISO	International Standards Organization
ITC	International Trade Center
ITF	Input Trust Fund
JITAP	Joint Integrated Technical Assistance Program
JKIA	Jomo Kenyatta International Airport
KADCO	Kilimanjaro Airports Development Company
KEDS	Kenya Export Development Services
KIA	Kilimanjaro International Airport
KLM	KLM Royal Dutch Airlines
LAFTA	Latin American Free Trade Association
LDCs	Least Developed Countries
LVFMP	Lake Victoria Fisheries Management Project
LVFPAT	Lake Victoria Fish Processors Association
MBP	Millennium Business Park
MCM	Ministry of Cooperatives and Marketing
MCT	Ministry of Communications and Transport
MD	MacDonald Douglas
MDG	Millenium Development Goal
MFAIC	Ministry of Foreign Affairs and International Cooperation
MFN	Most Favored Nation
MIS	Market Information Systems
MIT	Ministry of Industry and Trade
MNRT	Ministry of Natural Resources and Tourism
MOAFS	Ministry of Agriculture and Food Security
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MOU	Memorandum of Understanding
MPS	Milieu Project Sierteelt
MSC	Marine Service Company
MSY	Maximum Sustainable Yield
MWLD	Ministry of Water and Livestock Development
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NAO	National Authorizing Office
NBS	National Bureau of Statistics
NCT	National College of Tourism
NDC	National Development Corporation
NETT	National EPA Technical Team
NGO	Non Governmental Organization
NMB	National Microfinance Bank
NRDC	Natural Resources Development College
NSGRP	National Strategy for Growth and Reduction of Poverty
NSSF	National Social Security Fund
NTP	National Trade Policy
NTPTC	National Trade Policy Technical Committee
OECD	Organization for Economic Cooperation and Development
OIE	World Organization for Animal Health
PER	Public Expenditure Review
PESA	Private Enterprise Support Activity
PHS	Plant Health Service
PIP	Pesticide Initiative Programme
POPP	President's Office, Planning and Privatization
PORALG	President's Office Regional Administration and Local Government
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper

PSD	Private Sector Development
PSI	Pre-Shipment Inspection
PTC	Permanent Tripartite Commission
REER	Real Effective Exchange Rate
REPOA	Research on Poverty Alleviation
RETCOS	Regional Transport Companies
RFB	Road Fund Board
RNE	Royal Netherlands Embassy
RSA	Republic of South Africa
RTA	Regional Trade Agreement
SACCO	Savings and Credit Cooperative Organization
SADC	South African Development Community
SANAS	South African National Accreditation Services
SBE	Single Bill of Entry
SECO	Swiss State Secretariat for Economic Affairs
SEDA	Small Enterprise Development Association
SEDO	Small Enterprise Development Organization
SEZ	Special Economic Zone
SIDA	Swedish International Development Corporation
SME	Small and Medium Enterprises
SOP	Standard Operating Procedures
SPEG	Sea Freight Pineapple Exporters of Ghana
SPS	Sanitary and Phyto-sanitary
SQMT	Standardization, Quality Assurance, Metrology and Testing
SSA	Sub-Saharan Africa
SUMATRA	Surface and Marine Transport Regulatory Authority
SWOT	Strengths, Weaknesses, Opportunities and Threats
TAA	Tanzania Airports Authority
TAHA	Tanzania Horticultural Association
TANEXA	Tanzania Exporters Association
TANROADS	Tanzania National Road Agency
TANZAM	Tanzania Zambia Pipeline
TAP	Tax Administration Project
TASTA	Tanzanian Seed Trade Association
TAZARA	Tanzania Zambia Railway Authority
TBS	Tanzania Bureau of Standards
TBT	Technical Barriers to Trade Agreements
TCAA	Tanzania Civil Aviation Authority
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TEU	Twenty Equivalent Unit (20 feet container)
TEVETA	Technical Education, Vocational and Entrepreneurship Training Authority
TFDA	Tanzania Food and Drug Authority
TFPA	Tanzania Fish Processors Association
THA	Tanzania Harbor Authority
THRS	Tengeru Horticultural Research Station
TIC	Tanzania Investment Centre
TICTS	Tanzania International Container Terminal Services
TLA	Tanzania License Act
TPO	Trade Promotion Organization
TPRI	Tropical Pesticide Research Institute
TRA	Tanzania Revenue Authority
TRC	Tanzania Railways Corporation
TRIT	Tea Research Institute of Tanzania
TTPP	Tanzania Trade and Poverty Program
UFEA	Uganda Flower Exporters Association
UK	United Kingdom
UNCOMTRADE	United Nations Commodity Trade
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
US$	United States Dollars
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
VEK	VEK Adviesgroep
VETA	Vocational Education and Training Authority
VPO	Vice President's Office
WCO	World Customs Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization
ZEGA	Zambia Export Growers Association

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PREFACE AND ACKNOWLEDGEMENTS

The Tanzania Diagnostic Trade Integration Study (DTIS) has been prepared under the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF). The IF is a multi-agency, multi-donor program established by WTO trade ministers in 1996 to promote the integration of the least developed countries (LDCs) into the global economy. The participating agencies are the International Monetary Fund (IMF), the International Trade Center (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Program (UNDP), the World Bank and the World Trade Organization (WTO).

The original IF entailed the preparation of a Needs Assessment for the eligible LDCs followed by a Roundtable or Consultative Group meeting to secure donor financing for the trade action plan. Progress in mobilizing donor support proved difficult, and the program started slowly. An independent review of the IF, completed in June 2000, highlighted both the absence of donor resources, as well as the lack of linkages to overall development strategies or programs. The outcome was the redefinition of the IF to ensure better integration of trade with national development strategies, complemented by a trust fund for IF activities financed by multilateral agencies and bilateral donors, with the latter being supplemented by resources of international agencies in terms of staff contributions.

Tanzania went through the first IF process, for which a needs assessment was prepared and two donor roundtables were held (1999 and 2000). The main result from the first IF for Tanzania is the multi-donor[1] funded "Business Environment Strengthening for Tanzania" (BEST), a program of legal and regulatory reforms aimed at improving the enabling environment for private sector development that began implementation in December 2003.

With the objective of continuing and broadening its efforts in promoting trade integration, the Government of Tanzania (GOT) applied to participate in the second IF process, for which it was approved in June 2004. This DTIS has been prepared under the second IF process, in close consultation with the Ministry of Industry and Trade (MIT) of the United Republic of Tanzania. The main government counterparts for the Tanzania DTIS team is Mr. Bede Lyimo, Assistant Director, and Ms. Liz Turner, Economist, MIT. This DTIS builds upon a 'home-grown' DTIS completed by national stakeholders in 2004, guided by ITC, and financially supported by SECO.

This DTIS has been prepared under the leadership of the Africa Region of the World Bank. The Vice President is Gobind Nankani, the Country Director is Judy O'Connor, the Sector Manager is Kathie Krumm, the Regional Trade Coordinator is Christiane Kraus, and the Lead Consultant is Helena Tang.

The main mission for the DTIS was held during November 1-12, 2004. The DTIS is prepared by a team led by Helena Tang, and comprised Steve Caiger (consultant, spices), Burcu Duygan (consultant, trade and poverty), Ian Gillson (consultant, preference erosion), Spencer Henson (consultant, standards), Steve Jaffee (PRMTR, standards), Gerard Mclinden (PRMTR, customs), Rene Meeuws (consultant, transport and trade facilitation), Flora Musonda (consultant, standards), David Nyange (consultant, rural logistics), Sharon Page (consultant, preference erosion), Patricia Petney (consultant, standards), Deborah Porte (consultant, export processing

[1] The donors are the Netherlands (Royal Netherlands Embassy), U.K. (DFID), Denmark (Danida) and Sweden (Sida).

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The team extends its sincerest thanks to all the representatives of the public and private sector agencies and institutions, donor agencies, research institutes and academic institutions, which very graciously shared their time and information, without which the report could not be produced. These include: the Vice President's Office, Ministry of Agriculture and Food Security (MOAFS), the Ministry of Energy and Minerals, the Ministry of Foreign Affairs and International Cooperation (MFAIC), the Ministry of Industry and Trade (MIT), the Ministry of Natural Resources and Tourism (MNRT), the Ministry of Water and Livestock Development (MWLD), the National Bureau of Statistics (NBS), the Tanzania Revenue Authority (TRA), the East African Community Secretariat, the Board of External Trade (BET), the Tanzania Bureau of Standards (TBS), the Tanzania Food and Drug Authority (TFDA), the Tanzania Investment Center (TIC), the Confederation of Tanzania Industries (CTI), the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), the Tanzania Exporters Association (TANEXA), the European Union (EU), the Canadian International Development Agency (CIDA), the Danish International Development Agency (DANIDA), the Royal Netherlands Embassy (RNE), the Swedish International Development Corporation (SIDA), the Swiss Cooperation Office (SECO), the UK Department for International Development (DFID), the US Agency for International Development (USAID), Joint Integrated Technical Assistance Program (JITAP), the United Nations Development Organization (UNDP), the United Nations Industrial Development Organization (UNIDO), the Economic and Social Research Foundation (ESRF), Research on Poverty Alleviation (REPOA), and the University of Dar Es Salaam.

The DTIS was delivered to GOT in June 2005. The National Validation Workshop for the DTIS was held in November 7-8, 2005 in Dar Es Salaam, and was attended by around 150 stakeholders from the public sector, the private sector, and civil society organizations. This report has incorporated the outcomes of the Workshop discussions.

SUMMARY AND CONCLUSIONS

The DTIS is aimed towards supporting the Government of Tanzania (GOT) in the realization of its National Trade Policy, the objective of which is to develop an export orientation for the country to enhance income and reduce poverty.

The wide-ranging economic reform program that Tanzania has undergone over the last decade or so—including import liberalization—has unleashed an impressive supply response, raising per capita real GDP growth from 2 percent per annum during 1990-95 to 6 percent per annum during 2000-2003. Exports of goods and services had contributed significantly to this growth. Two items, in particular, had underpinned this export growth—tourism and gold exports. Gold exports, which rose from US$27m. to US$400m. between 1990-2003, had been responsible for much of the export growth during 2000-2003. Traditional exports, on the other hand, had declined significantly since 1999, with only a modest recovery beginning recently.

Notwithstanding the strong export performance, concerns arise over the sustainability of this performance, as well as the actual contribution of such export growth to employment and poverty reduction. The exhaustible nature of gold resources calls to question the sustainability of such exports, whereas the employment and poverty question arises from the fact that the proceeds of gold exports probably do not reach large parts of the population, and even less so the poor. The poverty reduction impact of the recent export performance is further called to question by the significant decrease in traditional exports, since agriculture generates over 80 percent of employment, and nearly 80 percent of the poor live in the rural areas.

Addressing the concerns of the sustainability and poverty reduction impact of exports requires strengthening the diversification of existing exports, which is already happening, and strengthening the recovery of traditional exports, which has already begun. For both types of exports (non-traditional and traditional), addressing supply-side constraints (both economy-wide and sub-sector specific ones) is the key to stronger performance, although there are issues regarding macroeconomic and trade policies and issues regarding market access—to both developed and developing countries—that Tanzania needs to pay attention to, or address, to ensure that they do not constraint exports.

On the **macroeconomic** front, the convergence back to equilibrium of the real exchange rate has contributed to the recent recovery in manufactured exports, and the growth of overall exports. Since Tanzania is likely to continue to be highly aid-dependent, maintaining a competitive real exchange rate remains a challenge for macroeconomic policy. Addressing this policy challenge requires a balancing of aid—and more broadly public expenditures—going to social sectors, and that going to infrastructure and productive sectors. Higher spending on social sectors would help meet some of the Millennium Development Goals (health, education and access to water), but at the expense of over-valuation of the real exchange rate which would undermine exports and growth. Higher spending on infrastructure and productive sectors, on the other hand, would increase competitiveness and hence exports and growth. Some ways to mitigate this trade-off are: further liberalization of the trade regime, greater access to export markets, and tackling behind-the-border constraints.

Regarding **trade policies**, the main issue on the export side pertains to export taxes. International experience has shown that export taxes and bans have generally failed to achieve industrial development objectives, led to informal trade, and frequently hurt small-holders who receive lower prices as a result.

On the import side, Tanzania's trade policies are very much determined by the regional trade agreements (RTA) that it is party to, the most important of which currently is the East African Community (EAC), given that Tanzania has joined its customs union in January 2005. The trade policy objective for Tanzania with respect to the EAC is to, over the medium-term, work with its partners Kenya and Uganda to reduce the maximum tariff of the Common External Tariff (CET). This will help reduce the dispersion of protection (whereby different sectors are protected to different degrees which could lead to resource misallocation) and the risk of trade diversion (whereby imports come from higher cost and less efficient trading partners within the customs union rather than from lower cost and more efficient producers outside of the customs union).

Tanzania also faces complications arising from being a member of more than one **regional trade arrangement** (EAC and the Southern Africa Development Community (SADC)), while its EAC partners are members of yet another RTA (Common Market for Eastern and Southern Africa (COMESA)) but not SADC. Such an asymmetric configuration has the potential to create confusing and conflicting situations which are bound to intensify over time as the respective integration agendas of EAC, SADC, and COMESA deepen. Tanzania would need to ensure sufficient flexibility in its integration commitments to avoid contradictory requirements of these RTAs which would likely arise. Above all, it is important that Tanzania anchors its regional integration efforts within a multilateral framework of liberalization, while leveraging cooperation at the regional level to tackle regulatory impediments to trade.

Although most of Tanzania's exports face zero Most-Favored-Nation tariffs, or are eligible for trade preferences, Tanzania does face barriers for some products in some markets in both developed and developing countries, which it needs to tackle on two fronts. First, together with other WTO members (the G20 group, the LDC group, and/or the African Union Group), Tanzania can try to obtain better **market access** to both developed and developing countries in the context of the current Doha round of ***WTO trade negotiations***, advocating tariff reduction formulas that focus on cutting tariff peaks, and lobbying against the exclusion of sensitive products (for example sugar and tobacco) from trade negotiations. Tanzania could also work in cooperation with other cotton exporting countries to negotiate down cotton subsidies provided by major cotton producing countries.

Second is in the context of its negotiations of the ***Economic Partnership Agreement*** (EPA) with the EU. Since the EPA will bring no new market access, Tanzania should use the negotiations to address the challenges it faces in utilizing trade preferences that it already benefits from. First, Tanzania should push the EU to re-visit the issue of the provision of technical assistance, especially that targeted at facilitating trade flows, since unless supply-side bottlenecks are overcome, the EPA would be no more successful in promoting economic development than previous preference programs. Second, Tanzania should try to obtain greater EU recognition of conformity assessment certificates issued by testing firms located in Tanzania, or in countries that are members of SADC, EAC, or COMESA. Third, regarding the rules of origin, Tanzania should push to include cumulation in the EPA; at a minimum, the EPA should preserve the full cumulation across all African Caribbean Pacific countries that Tanzania currently enjoys under the Cotonou Agreement, rather than the more limited diagonal or bilateral cumulation of the GSP and EBA.

With respect to the regional configuration of EPA negotiations, Tanzania is negotiating as part of the SADC group, while its two EAC partners are negotiating with the COMESA (or ESA) group. This poses an obvious conflict for Tanzania and the EAC, as Tanzania cannot simultaneously adopt both the EAC and SADC CETs One option is for Tanzania to negotiate EPA as part of

EAC. The least costly option is likely to have the regional configurations negotiate with the EU as free trade areas rather than as customs unions.

As mentioned earlier, while Tanzania needs to address the macroeconomic and trade policies (domestic, regional and global) discussed above, it is the "**behind-the-border**" agenda, or supply-side constraints, that constitute the major obstacle to stronger export performance. In effect, practically all aspects of the development agenda that are important for growth are also important for private investment and exports. The DTIS has identified some of the key trade-related ones, the most important of which are highlighted as follows.

- ***Transport*** costs are high and transport access is poor in rural areas. Expediting the privatization of railways would help as rail transport is cheaper than road transport. Local roads need to be improved along with the ongoing program to improve trunk roads to lower transport costs, which would raise producer prices and rural incomes.

- ***Taxes*** (particularly local taxes) for agricultural export crops and fish need to be rationalized, reduced and harmonized. The recent agreement to eliminate unnecessary taxes on cashews needs to be implemented, and similar arrangements extended to other agricultural export crops and fish. As a first step, a moratorium should be put on new taxes.

- ***Crop boards*** need to be reformed, and re-defined into producer-supported organizations responsible for representing the industry. Production, marketing, transportation, storage, processing and input supply activities should be left to the private sector, while regulation, data collection, and extension should be done by the Government.

- The lack of adequate ***skills*** is a serious constraint for several sub-sectors, including horticulture, floriculture, and tourism operators and suppliers. This requires strengthening horticulture research and training, and involvement of the private sector in designing the curriculum of the Vocational Education Training Authority.

- Both the private and public sector need to work on building management capacity with respect to ***sanitary and photo sanitary standards*** in a strategic and prioritized manner, focusing on opportunities to exploit market opportunities (such as for agricultural and food exports) in a way that engenders competitive advantage and/or minimize associated costs.

- ***Customs*** systems and procedures need to be reformed to address the problems of excessive delays in the processing of import, export and transit cargo which has been found to be an unambiguous deterrence to export growth.

- Finally, and importantly, there needs to be much greater ***private sector involvement*** in providing feedback on issues and policies that affect them. Such involvement could include: representation on the Inter-Institutional Technical Committee (which should be broadened from the current mandate of WTO issues to all key behind-the-border issues); representation in the Export Processing Zone Council; dialogue between public and private sectors on transport and trade facilitation, on collaborative efforts to enhance SPS management capacity, on customs matters, and on specific problems and solutions regarding the poor implementation of measures to facilitate exports (for instance duty drawback refunds, and use of agro chemicals).

Tackling the economy-wide and sub-sector specific constraints discussed above requires that GOT implements certain policy and institutional measures (including changing policies and institutions), as well as donor support for meeting certain technical assistance and investment needs.

EXECUTIVE SUMMARY

In its National Trade Policy of February 2003, the Government of Tanzania (GOT) has stated the objective of promoting export-led growth for the country to enhance income and reduce poverty. Similarly, Zanzibar, which is part of the United Republic of Tanzania, has adopted the Zanzibar Trade Policy to streamline trade in and between Zanzibar and neighboring countries. This Trade Policy, together with the Investment Policy and Small and Medium Enterprise Policy (2005) that Zanzibar has also adopted, also have the objective of promoting export-led growth to enhance incomes and reduce poverty.

The foundations for pursuing this objective in both Mainland Tanzania and Zanzibar have been laid down in the context of the reforms since the mid-1980s. These reforms have included sustained efforts in macroeconomic stabilization, as well as structural reforms which included trade liberalization.

The reforms have been associated with a steady decline in inflation from 36 percent in 1990 to below 5 percent in 2004, and a steady recovery in growth from 2 percent per annum during 1990-95, to 4 percent during 1995-2000, and 6 percent during 2000-03. Trade has played an important role in this growth recovery. Two items have underpinned this export growth—tourism and gold exports. Gold exports, in particular, have been responsible for much of the export growth during 2000-03. Given the import content of these exports, however, the contribution of gold and tourism to value-added in the economy is smaller, being responsible for only about one-fourth of economic growth over the period. Traditional (agricultural commodity) exports had declined significantly since 1999, with only a modest recovery beginning in 2003.

GOT has set a target of halving poverty by 2010 in its National Strategy for Growth and Reduction of Poverty (NSGRP), which is even more ambitious than the Millennium Development Goal (MDG) of halving poverty by 2015. Attaining this poverty reduction target would require that the recent growth be sustained, if not surpassed. This in turn would require the continuation of the recent strong export performance, but one based on more diversified sources, to ensure not only that the export growth is sustainable, but that the benefits of such growth would reach the poorer parts of the population.

The agriculture sector is very important to GOT's objectives of growth and poverty reduction, given its large share in the economy (50 percent of GDP), the large numbers employed by the sector (over 80 percent of employment), and the large numbers of the poor that reside in the rural areas (around 80 percent). Analysis of the poverty profile of Tanzania indicates that households that are involved in the sale of cash crops, tourism, fishing and mining are all less likely to be poor than those engaged in food crop production. This implies that boosting the recovery of traditional exports (which has recently begun), and strengthening the exports of non-traditional items such as horticulture and floriculture, fish, mining, and tourism, would be important not only for overall export growth but specifically also for poverty reduction. Further, sustaining the recent recovery in manufactured exports is also important in light of the large declines in poverty rates of households in sectors other than agriculture over the last decade.

Strengthening the performance of exports in the above sectors requires measures to address economy-wide and sector-specific supply-side constraints. Addressing economy-wide supply-side constraints would help to provide an enabling economic and business environment to support both stronger performance of existing exports, as well as diversification into other (including

manufacturing) exports. At the same time, however, the provision of an appropriate enabling environment by itself may not be sufficient, and there may also be sector-specific supply-side constraints to exports that need to be tackled.

ECONOMY-WIDE ISSUES AFFECTING EXPORTS

There are issues regarding macroeconomic and trade policies that Tanzania need to address to ensure that they do not inhibit exports. There are also issues regarding access to external markets—both in developed and developing countries—that can, and are, constraining Tanzanian exports. However, the most important factors facing export performance currently in Tanzania, and in particular the diversification of exports, are those "behind-the-border" ones. Such factors could, in principle, include virtually all aspects of the development agenda, including education, health, financial services, infrastructure, firm entry and exit regulations, governance, taxation, and investor access to the available opportunities. The DTIS addresses the trade-related subset of this larger agenda.

Macroeconomic policies

Experience has found that low levels of inflation are important for export growth. After a period of overvaluation in the mid-1990s, the real exchange rate has converged to equilibrium levels in recent years. However, in light of Tanzania's continued high aid dependency, maintaining a competitive real exchange rate remains a challenge. The concern is that aid flows may either lead to higher domestic interest rates or a more appreciated real exchange rate (or both). The former discourages private investment and the latter potentially undermines export growth and long-term productivity performance (the "Dutch disease" effect). The government would need to carefully balance the two scenarios in its macroeconomic management to avoid excessive burden on either.

Recent research has shown that competitiveness can be strengthened (rather than weakened) when aid is used to enhance productive potential through strengthening infrastructure and eliminating supply bottlenecks in productive sectors. Where aid flows are spent on social programs or institutional reforms with a limited short-run productivity impact, the risks of exchange rate appreciation and slowing growth are greater.

The challenge for Tanzanian policy makers is to decide on the split between these two kinds of aid flows but, more broadly, the allocation of resources in its budget, given the trade-off entailed: higher spending on social sectors would help towards meeting some of the MDGs (for example health, education, and access to water), but at the expense of appreciating the real exchange rate, undermining exports and growth. One way to mitigate the possible trade-off is by further liberalization of the trade regime, greater access to export markets, and tackling behind-the-border constraints, all of which are addressed in this report.

Trade policies

Tanzania adopted the Common External Tariff (CET) of the East African Community (EAC) in January 2005, lowering its average tariff from 13.8 to 12.3 percent, but further raised the dispersion of protection. The lowering of the maximum tariff of the CET from the current 25 percent to 20 percent, as expected to happen in 5 years in accordance with the Customs Union Protocol, should help correct some of the dispersion of protection. Reduction of the maximum tariff (including to below 20 percent over time) should also help address the potential risk of trade diversion, which is particularly high if trade with partner countries within the customs union accounts for a very small share of overall trade, as is the case for Tanzania. Also in the interest of

reducing the dispersion of protection, the special tariffs on "sensitive products" need to be phased out, and a time-table for this established. This phase-out should be done in a gradual manner to take into account the potential revenue impact.

Estimates indicate that the introduction of the CET has been pro-poor, similarly if the maximum tariff of the CET is reduced, although the impact on overall poverty is small. However, these relatively positive potential effects of introducing the CET could be offset by trade diversion which are particularly likely for the food and apparel sectors.

Tanzania imposes an export tax of 15 percent on raw hides and skins to assist the struggling domestic tanning and leather industry. There are also smaller levies on exports of other products, including fish, cashews and cotton. GOT needs to re-evaluate and refrain from the imposition of export taxes which, based on cross-country experience, has generally failed to achieve industrial development objectives, and has resulted in informal trade and frequently led to adverse distributional consequences as small-holders receive lower prices. In Tanzania, poverty would certainly be worsened by the imposition of an export tax on raw hides and skins since livestock holders are among the poorest in the country.

In addition to the EAC, Tanzania is also signatory to the South African Development Community (SADC) and is considering re-entering the Common Market for Eastern and Southern Africa (COMESA) from which it withdrew in 2000. Further, its EAC partners, Kenya and Uganda, are members of COMESA but not SADC. As the respective integration agendas of EAC, SADC and COMESA deepen, this simultaneous participation in multiple regional trade agreements (RTAs) would likely result in increasingly conflicting situations. Policy-makers in Tanzania need to be aware of possibly emerging conflicts in integration and liberalization schedules between different RTAs and ensure sufficient flexibility in their integration commitments to avoid contradictory requirements. What is ultimately important is that Tanzania anchors its regional integration efforts within a multilateral framework of liberalization, while leveraging cooperation at the regional level to tackle regulatory impediments to trade.

Accessing external markets

Most of Tanzania's current exports face no customs duties, either because of zero (or low) Most Favored Nation (MFN) duties set by importing countries on these products, or because Tanzanian exporters take advantage of preferential access to these markets under the Generalized System of Preferences (GSP). However, Tanzania faces barriers for some products in some markets, in both developed and developing countries.

Many of the products that face significant market barriers are those that are particularly important for poverty reduction, such as cashews, cotton, coffee, tea, gemstones, fish, and horticulture. India and China, which are among the most important of Tanzania's export partners, levy high tariffs on some of these products, and Tanzania does not benefit from trade preferences with these countries.

Tanzania also faces high tariffs on some products in developed country markets which may be discouraging exports to these markets, although arguably Tanzania could produce them competitively. These include fruit and vegetable juice, preserved fish and seafood, and saltwater fish fillets to the European Union (EU); sugar and sugar syrups, footwear and fruit juices to Japan; and tobacco, footwear and fabric and garments to the US. In some cases preferences do not exist and the high tariffs block trade directly. However, even in cases where preferences exist, traders do not necessarily receive tariff preferences on every shipment, either because the

product does not satisfy the importing country's rule of origin, or the cost of demonstrating that the product satisfies the rule of origin exceeds the value of preferences.

Tanzania can work towards gaining better market access on two fronts. First is in the context of the Doha Round of WTO negotiations, as MFN barriers—in both developed and developing countries—are best addressed in this forum. Second is in the context of the negotiations of the Economic Partnership Agreement (EPA) with the EU. Since EPA will bring no new market access, and in light of the already existent trade preferences under the EU's Every But Arms Initiative (EBA), and the difficulties Tanzanian producers face in utilizing these preferences, Tanzania should use these negotiations to address the challenges it faces in utilizing preferences. There are three fruitful areas for negotiations in light of these challenges. First is rules of origin: Tanzania should push to include cumulation in the EPA. At a minimum, the EPA should preserve the full cumulation across all ACP countries that Tanzania currently enjoys under the Cotonou Agreement, rather than the more limited diagonal or bilateral cumulation of the GSP and EBA. Second, Tanzania should try to obtain greater EU recognition of conformity assessment certificates issued by testing firms located in Tanzania, or in countries that are members of SADC, EAC, or COMESA. Third, Tanzania should push for the EPA talks to re-visit the issue of technical assistance, especially that targeted at facilitating trade flows, since unless supply-side bottlenecks are overcome, the EPA would be no more successful in promoting economic development than previous preference programs. Tanzania could also try to benefit from the EPA negotiations on trade in services on two fronts: easing restrictions on temporary migration to EU countries, and liberalizing its own markets for services which would also help facilitate exports.

Tanzania is currently negotiating the EPA as part of the SADC group, while its two EAC partners are negotiating with the COMESA (or ESA) group. One option is for Tanzania to negotiate EPA as part of EAC. The least costly option is likely to have the regional configurations negotiate with the EU as free trade areas rather than as customs unions.

Finally, potential reductions in trade barriers in both developed and developing countries as a result of the Doha Round of trade talks would result in only a small erosion of trade preferences for Tanzania in the aggregate (estimate of up to 1 percent reduction in exports), although losses could be significant for two exports in particular: sugar (estimate of 27 percent reduction) and fish (estimate of up to 4 percent reduction). Diversification and strengthening existing exports by addressing the economy-wide and sector-specific constraints discussed in this report would help offset some of the losses.

Institutions for trade policy and development

One of the major challenges facing trade ministries in general, including Tanzania's, is that issues pertaining to trade integration go far beyond the confines of trade policy to include a vast "behind-the-border" agenda. This agenda, at the limit, could include all aspects of the development agenda (with physical and human infrastructure topping the list). This means that the trade ministry by itself cannot be solely charged with the task of trade integration, and that there needs to be an effective inter-ministerial mechanism which involves the private sector for pursuing this task.

Tanzania has already taken one important step in this direction with the establishment of the National EPA Technical Team (NETT) for the purpose of the EPA negotiations. NETT consists of representatives from public and private sector organizations, researchers and academics. NETT could be made permanent, and broadened, to cover all matters of trade policy. It is also

recommended that this broadened NETT would feed position papers to a new dedicated trade policy committee of 5-6 permanent secretaries, which could be restructured from the existing WTO policy-dedicated Inter-Institutional Technical Committee (IITC). This new committee would be responsible for consulting with the relevant ministries and building consensus, after which it would forward recommendations either to the existing Inter-Ministerial Technical Committee (IMTC) which then advises the Cabinet, or directly to the Cabinet itself.

Trade policy and trade development is incorporated in various cluster strategies of GOT's National Strategy for Growth and Reduction of Poverty (NSGRP). Six of these cluster strategies specifically refer to trade and/or exports. However, more permanent institutional structures need to be set up as the current coordination between institutions on the NSGRP does not appear to be based on a continuing institutional structure, and in light of the cross-sectoral focus of the NSGRP.

Finally, the restructuring of BET needs to be expedited, alongside capacity-building of the restructured BET. Donor funding would be needed to supplement GOT funding to ensure the sustainability of BET's export development activities.

Export Processing Zones (EPZs)

EPZs could be very useful for promoting investments and exports in countries where there is inadequate capacity to address economy-wide constraints relating to infrastructure, provision of public services, and so on. Mainland Tanzania established an EPZ Program in 2002 to promote investments and exports with the objective of creating employment and reducing poverty. Since then, 7 EPZ developers and 9 EPZ operators have been licensed. Of the 9 licensed EPZ operators, only two are currently exporting; four are about to start operations; one is under receivership; one has withdrawn from the EPZ Program; and one is not exporting at all but selling in the domestic market. Zanzibar established an EPZ Program in 1992, but its success has been hampered by various factors including limited infrastructure.

Drawing on successful experiences elsewhere, the DTIS derives the following recommendations for Tanzania. First and foremost, there needs to be strong public sector commitment which, from the experiences of EPZs around the world, is the key for their success. This entails having a *vision* for where the Program is going and what it is going to do; *building consensus* among relevant public and private sector stakeholders for the Program; undertaking *concerted actions* on all fronts necessary for supporting the program ranging from legislation, setting up of one-stop-shops, provision of utilities, and so on; and *continuity* which is essential for investors' confidence.

The EPZ Program in Tanzania is managed by the National Development Corporation (NDC), which is the EPZ implementing agent. Apart from managing the EPZ Program, NDC has other national economic development mandates and responsibilities. The multiple mandates of NDC has limited its ability to properly supervise the EPZ Program. Best practice shows that EPZ Programs are managed by autonomous agencies which do not have other responsibilities. At the time of this study, GOT was in the process of establishing an EPZ Authority to replace NDC. The efficacy of merging the EPZ Authority with investment facilitation institutions in Zanzibar should also be reviewed.

Having strong public sector commitment should also facilitate the tackling of some of the other key issues facing the Tanzania EPZ Program, the most important of which are the lack of access to power and water, the absence of an on-site customs office, and the absence of an on-site management office in EPZ facilities. The Zanzibar EPZ Program has also been hampered by

poor infrastructure—of the 3 EPZ zones, only one has working infrastructure, whereas the other two need to be equipped with adequate infrastructure including electricity and roads to stimulate the interest of investors. Since among the main reasons for having EPZs are ensuring at least adequate provision of infrastructure and public sector services in a limited area when it is not possible to provide these on an economy-wide basis, these are serious drawbacks. In line with the need for "concerted action" indicated above, the forthcoming EPZ Authority needs to work closely with Customs and power providers to provide these essential services in the existing EPZ activities, and also with both water and power providers to ensure that future EPZ facilities are constructed with adequate utilities and connections.

In line with the need for "building consensus", there needs to be much greater private sector involvement in the EPZ program, including representation in the EPZ Council (which GOT is currently addressing through amendments to the EPZ Act), creating an EPZ developers/operators organization or business forum to monitor the concerns of the investors, and greater private sector investment, development and management of EPZ facilities. There also needs to be greater coordination with other public sector agencies and organizations to ensure that all EPZ issues and concerns are dealt with in an effective manner.

Other measures to strengthen the EPZ Program in Tanzania include: "branding" the Program to set it apart from other such programs in the region (this requires first the clarification of sectors that qualify for EPZ status, based on which to develop a strategy and promotion plan to market the Program, including marketing Tanzania's competitive advantages); developing additional regulations such as detailed evaluation criteria, development, health and safety standards; and harmonizing record keeping and reporting requirements to ease administrative burdens.

Whilst the fiscal incentives provided by the Tanzania EPZ program are in line with those provided by other countries in the region, they are not consistent with international best practice which tends to limit or not allow tax holidays. Tanzania may wish to raise this issue with its EAC partners to harmonize incentives in a way that is beneficial to all. Finally, GOT is currently considering a Special Economic Zone (SEZ) policy for the country, with the EPZ Program being a subcomponent of this larger framework. Given that proper implementation of an SEZ program requires a higher level of governmental capacity than is currently present in Tanzania, it is recommended that GOT focuses first on improving the EPZ program before introducing an SEZ initiative into the country.

Sanitary and Phyto-sanitary Standards (SPS)

Building SPS capacity has become increasingly important for Tanzania with the emergence of non-traditional exports (such as fish and horticulture), as well as the need to expand these exports to help Tanzania achieve its objective of sustained growth and reduction of poverty. Measures have been undertaken in recent years to build capacity to meet increasingly stringent SPS in the international markets. Such efforts, however, have generally been the response to crises (such as the EU ban on fish exports in the late 1990s, or outbreaks of animal disease or plant pests), rather than the product of coherent and concerted government policy. As a result, there are limited pockets of well-developed capacity in both the public and private sectors alongside areas in which there is little or no capability to perform even basic management functions.

In certain sub-sectors, for example livestock products, this limited capacity has severely constrained Tanzania's agricultural and food exports, although other supply-side factors have also undercut international competitiveness and even the development of the domestic market. For some commodities, including groundnuts and honey, uncertainty about meeting particular food

safety standards has led Tanzanian exporters to adopt a defensive posture, channeling these commodities only to markets where standards are less stringent and/or not rigorously enforced. There are some indications that Tanzania's largest non-traditional 'export', namely tourism, may be vulnerable to the risks associated with poor food hygiene and inadequate monitoring and inspection. For a broad array of traditional and non-traditional export(able) commodities, variable or sub-par quality has resulted in price discounts in international markets.

Tanzania has basic SPS legislative frameworks in place, but a more extensive and updated framework of regulations needs to be promulgated and institutional structures strengthened across both the public and private sectors. Mechanisms through which management measures are implemented and enforced also need to be strengthened; there is an evident tendency for actions to be taken when problems arise but for these to fade once the immediacy has faded and other issues arise. This emphasizes the need for the sustainability of the system to be underpinned through appropriate levels of resourcing and/or more effective management of those resources that are made available. Relating to this latter point, it is evident that cases exist where functions are duplicated and/or there is a lack of coordination of functions and responsibilities. This creates significant scope for the inefficient use of resources, a situation that Tanzania cannot afford given the evident resource constraints under which public agencies operate.

SPS management capacity should be developed strategically, focusing on the opportunities to exploit export market opportunities in a manner that engenders competitive advantage and/or minimizes the associated costs. This requires that Tanzania positions itself such that capacity-building occurs not in a reactive mode, but as part of a longer-term strategy aimed at enhancing capabilities in a prioritized manner. Further, the focus should be as much on establishing the core elements of SPS management capacity (building awareness and recognition and 'good practice'), as on institutional frameworks and 'hard' equipment such as laboratories. In pursuit of this, it is recommended that (for detailed measures see Action Plan):

- a formal mechanism be put in place to achieve greater coordination of national efforts related to promoting quality and managing SPS risks;
- a concerted campaign is launched to raise both awareness and recognition of the importance of SPS management capacity to Tanzania's competitiveness in international markets for agricultural and food markets and ability to exploit potential opportunities;
- GOT enhances the budget available to the development and maintenance of SPS management capacity;
- the enhancement of SPS management capacity should be incorporated into broader efforts to build the competitiveness of agricultural and food exports and to enhance the productivity of the agricultural and food processing sectors;
- Tanzania makes concerted efforts to encourage and participate in the development of SPS management capacity and sharing of resources at the regional level;
- GOT enters into a dialogue with private sector leaders on collaborative efforts to enhance SPS management capacity.
- the government and private industry seek to build a consensus of views regarding the most immediate risks and opportunities which the country faces in relation to SPS matters and trade as well as on important medium-term priorities.

In Zanzibar, the plant protection division of the Ministry of Agriculture, Livestock, and Environment that inspects and certifies produce for exports has serious shortages of skilled staff and post-entry quarantine facilities. Further, Zanzibar's island geography provides many illegal points of entry, making enforcement of regulatory mechanisms difficult. The 1997 plant protection legislation needs to be reviewed and updated to cope with this situation.

Zanzibar also suffers from frequent outbreaks of pests and disease due to the weak quarantine system in place. The fruit industry has been completely destroyed since 1998 by fruit flies which have invaded the Islands through unregulated importations of fruits by traders. Farmers have been deeply affected by high yield loss as a consequence, and rural poverty has worsened. Technical and financial measures are needed to help address this situation.

Finally, Zanzibar has a reasonable potential to export livestock products especially meat to the Middle East markets. However, there are serious shortages of infrastructure to support exports, including lack of well-equipped laboratories and post-entry quarantine facilities; and sub-standard slaughter houses that are not adequate even for the internal market. The existing animal health legislation also needs to be reviewed and upgraded.

Transport

Moving goods from the point of production to their final destination expeditiously and cost-effectively is an important factor underlying the export competitiveness of a country. Inadequate development of transport infrastructure in Tanzania poses a serious constraint to the commercialization of agricultural products and the transportation of commodities.

The overwhelming majority (99.5 percent) of international transport (including transit trade) in Tanzania is by ocean freight. Of this, 75 percent is by roads, 17 percent by rail, and 7 percent by pipeline. Road transport dominates in both transit and non-transit trade (84 percent for the former and 46 percent for the latter). The dominance of road transport is due to the fact that a large share of imports coming in through the Port of Dar Es Salaam is destined for areas around the capital, which requires only short haulage. However, the serious infrastructural and operational problems in the railways also contributed to this outcome.

The main problems of transport in Tanzania, including for transit trade, are: inadequate rehabilitation and maintenance of both the road and rail networks; a lack of efficiently operating intermodal connections; and high transport costs. Transport costs are higher than those in Kenya and much higher than in South Africa, though around the same as in Mozambique and lower than in Zambia. The main reasons for high transport costs are imbalanced freight flows (much greater volumes of imports than exports for both roads and railways resulting in idle outgoing capacity); long distances; long trip times due to deficient rolling stock in the case of railways; low capacity transport infrastructure (inadequate roads and low speed of trains); inefficient operation of service providers; and red tape and bureaucracy in part due to the lack of experience and capacity among the main stakeholders in transport infrastructure and transport services and operations (transport operators and forwarders).

Addressing the main problems in the transport sector highlighted above requires action in four areas (for detailed measures see Action Plan):

- upgrading transport infrastructure, in particular railways, intermodal infrastructure, and rehabilitation and maintenance of feeder roads; this requires public-private partnerships in infrastructure investments;

- training of transport operators, providers of logistics services, forwarders and terminal operators;
- strengthening public-private dialogue in transport and trade facilitation, transit, and border crossings;
- developing a transport reform program that includes, inter alia, modernizing transport legislation and regulations to reflect the new socio-economic reality of free market competition and increasing private sector involvement; developing technical capacity of staff; setting up a transport information system; and so on.

Customs

Tanzania is performing well in some areas of customs compared to neighboring countries. For instance, Tanzanian customs officials process around 137 customs declarations annually, compared with 92 in Kenya, and 49 in Ghana. In other areas, however, Tanzania is behind regional and international best practice and needs to take urgent steps to reform and modernize its systems and procedures.

In particular, import/export procedures in Tanzania are complex and duplicative, and are characterized by excessive documentation, repeated checking of the same information, and a general distrust of the trading community. A control mentality focused on maximizing revenue collection permeates all customs activities. The current systems and procedures employed by the Customs and Excise Department (CED) contribute to excessive delays in the processing of import, export and transit cargo and present a significant barrier to business activity in Tanzania and neighboring countries.

Tanzania has introduced a Customs reform and modernization program for which there is significant leadership commitment. This program has gained momentum with the adoption in 2004 of a comprehensive modernization plan that is well integrated into the corporate plan of the Tanzania Revenue Authority (TRA). Positive developments include the implementation of the ASYCUDA++ import/exports processing system; the replacement of the pre-shipment inspection scheme with a more productive destination inspection regime; and the establishment of a post clearance audit capacity. Much is still to be done, however, and the current momentum for change will need to be sustained in the coming years.

The following areas are identified as in need of policy changes and/or technical assistance: customs export and import processing; transit regulations; relationship with private sector; integrity; duty relief schemes; staff participation and human resource management and development (for details see Action Plan).

SECTOR-SPECIFIC CONSTRAINTS TO EXPORTS

Addressing the economy-wide constraints to exports discussed above would certainly help facilitate export development. But it may not be enough if there are sector-specific constraints to exports. In consultation with MIT, the team has selected a few sub-sectors on which to undertake more in-depth studies to analyze their potential for, and the constraints to, exports, and the measures needed for export expansion.

The sub-sectors have been selected on two basis: Tanzania has a comparative advantage in them (as reflected in existing exports as well as the potential for further expansion), and they are particularly important for poverty reduction. Fish, horticulture, tourism, and agricultural export crops (coffee, cashews, cotton and tea) meet both of these criteria. The focus of the report is on

the backward linkages of tourism because of their importance for employment generation and poverty reduction, and because there have already been extensive studies on the tourism sector itself. Spices were also selected because of their presumed potential for exports and poverty reduction; although the finding of the study indicates that their potential is small relative to those of other sectors. Tanzania also has a comparative advantage in gemstones. This sub-sector was not covered by the DTIS because a very detailed study on gemstones was undertaken in 2000/01 funded by USAID. However, given the significant developments in the sector since then, the importance of gemstones (mining) in poverty reduction as indicated earlier, and the interest of the Government to increase the value-addition of gemstone exports, the DTIS recommends as a priority action an update of that study that will focus on developing concrete actionable measures with particular attention to increasing value-addition in gemstone exports.

Regarding manufacturing exports, the DTIS addresses the cross-cutting constraints that affect them rather than sub-sector specific ones, as the sub-sectors that have potential—clothing and textiles, and wood and wood products—are being studied under another program.[2]

There is no chapter dedicated to transit trade, which has the potential for generating more revenues than it does now as a service export item. Issues related to transit trade are covered in the transport and customs chapters, and recommendations for improvements in transport infrastructure, import and export procedures, and transit regulations in those chapters clearly have direct positive impacts on transit trade.

Manufacturing Exports

At 8 percent of GDP, Tanzania has a relatively small manufacturing sector. Manufactured exports were less than 10 percent of total exports in 2003. There has been a recovery in the manufacturing sector in the last few years, spurred by the large efficiency gains resulting from the economic reforms that have been undertaken since the mid-1990s, while the recovery in manufactured exports were additionally helped by the convergence of the real exchange rate back to equilibrium in recent years.

Recent analysis by the World Bank has identified a few policy-related areas that are important for manufactured exports. First is the availability of graduate and post-graduate education and computer literacy. Second is infrastructure, including more and higher quality infrastructure (transport and power). Third are more expedited customs procedures. And fourth is partnerships with global firms (such as in the case of floriculture where European firms supply the latest technologies to flower growers).

Agricultural Export Crops

Boosting agricultural crop exports is not just important for overall exports and growth, but also poverty reduction. The importance of agricultural export growth to long-term economic growth is supported by the very successful experience of the newly industrialized countries in East Asia. Korea, Malaysia, Taiwan and Thailand which have had rapid economic growth and also large agricultural sectors, have also tended to have rapid growth of agricultural exports.

The four agricultural export crops—cashews, cotton, coffee and tea—analyzed in the DTIS make up around 15 percent of Tanzania's merchandise exports, and are the main sources of income for

[2] By the ITC under the Joint Integrated Technical Assistance Program with support from Canada under the Program for Building African Capacity for Trade.

around 1.2m. rural households. With the (possible) exception of cotton, all 4 crops experienced a large supply response to the liberalization of the agricultural sector between the mid-1980s and the mid-1990s. Rising international prices also contributed to the large increase in cashew, coffee and tea exports during the first half of the 1990s. From then on until 2003, the decline in international prices and other crops-specific problems had led to a large decline in such exports. There has been recovery in production and exports of some of the crops recently. Some of the increases appear sustainable and hold promise of further increases (cotton and tea), while others (coffee and cashews) may signal nothing more than a good harvest.

Even with the current environment of declining international commodity prices, which has affected all of Tanzania's major export crops, there is still potential for the country to increase its agricultural exports if the domestic supply constraints facing these crops are tackled. While there are certainly crop-specific constraints, four stand out as cross-cutting ones: excessive power of crop boards, taxation, weak agricultural support services, and price volatility.

Crop boards have virtually unlimited regulatory power, and have intervened in ways that distort the markets and harm the farmers. Funding for the crop boards is from a cess on crop exports levied on producers, but the crop boards have not always worked in the interests of the producers. There is a need to separate out the private and public activities of the crop boards. It is recommended that crop boards be restructured to become independent producer supported organizations, and be responsible for representing the industry. Production, marketing, transportation, storage, processing and input supply activities should be left to the private sector, while regulation, data collection, and extension should be done by the Government. It is also recommended that producers and farmers associations be strengthened; technical assistance for capacity building would be needed in this regard.

The other major cross-cutting issue is heavy taxation. Taxes on export commodities are roughly 20 percent of sales prices. Local taxes are collected as a cess on volumes, which means that per unit tax rates are a much higher percentage of total price in low-price years than in high-price years—the opposite of what is desirable. Despite a directive from the Prime Minister's Office that District Cess should not exceed 5 percent, local taxes remain high—taxes have been renamed to bypass this directive. Also, local municipalities have the authority to pass new levies without oversight from the central government. Heavy taxation has resulted in negative nominal rates of protection and hence a negative incentive to production. There is a need to rationalize and lower taxes, and also to harmonize them across the different crops in order not to distort production incentives. The positive recent development on this front regarding cashews—for which GOU has agreed to abolish unnecessary taxes—needs to be extended to the other crops. At a minimum, a moratorium should be put on new taxes for them.

A third cross-cutting issue is the need to improve support services to the agricultural sector. In particular, research and extension needs to be strengthened with a view to responding to market demands.

Fourthly, price volatility affects all these crops. The failure of public intervention schemes in this area in past decades has led to the exploration of market-based insurance systems—such as warehouse receipt or inventory financing systems—to address the issue. One example is the pilot project being introduced by the World Bank to link coffee and cotton farmers in Tanzania to international financial markets through their cooperatives or local agricultural credit institutions or banks.

In addition to these cross-cutting problems, there are crop-specific problems including problems in the delivery and use of agricultural inputs, the quality of exports, and the continued delivery of public goods such as research and extension, and infrastructure. See Action Plan for measures to address all these issues.

Horticulture and Floriculture

Horticulture and floriculture are emerging non-traditional exports in Tanzania, and among the few exports that have increased their share in total merchandise exports since the mid-1990s. In 2003, such exports amounted to US$12m., or around 1 percent of total exports, but analysis for the DTIS indicates that these statistics significantly underestimate the true magnitude of these exports which might reach US$55m., half of which destined for Europe, and half for the regional market (mainly Kenya).

With respect to the European market, the major constraints are climate, freight, shortage of skilled middle-management, supervisors and workers, and a business environment that is not exporter friendly, specifically with regard to obtaining duty and VAT refunds, and agro-chemicals that are important for raising yields. The recommendations for expansion and enhanced competitiveness in this market are:

- reducing cost and improving availability of air freight by getting horticulture and floriculture exporters to cooperate to have all their exports air-freighted from the Kilimanjaro Airport (currently more than half of such exports are trucked to Nairobi for air freight to Europe); the situation would be further improved if the cooperation of fish exporters (currently using the Mwanza Airport) is also obtained;
- facilitating duty and VAT refunds, and access to agro-chemicals;
- building research and training capacity; and
- improvements in infrastructure in areas where the climate is better for either improving the quality of crops or for growing other crops.

With respect to regional horticultural exports, what is needed first is a comprehensive analysis of the market chain for these regional exports—such an analysis is important for understanding where costs can be reduced in the chain and also helps identify where efficiencies can be made. Other interventions should concentrate on improving on-farm productivity through better agronomic and management techniques and improved marketing. See Action Plan for detailed measures.

It is expected that relieving the constraints discussed above would help expand horticulture and floriculture exports from Tanzania from around US$55m. currently to US$86m. in five years' time. The estimated numbers employed for the European export market are expected to increase from around 7000 currently to 11,700 over the same period. It is estimated that around 3000-4000 farmers are currently involved in producing horticultural crops for exports to Kenya.

Tourism

Tourism is the top foreign exchange earner in Tanzania, exceeding even gold export which is the top merchandise export item. Various recent reports have looked at the issue of how to more fully exploit Tanzania's tourism potential.[3] The DTIS focuses on the backward linkages of

[3] Notably the Tourism Master Plan (1996) which was updated recently with funding from the EU, and the MIGA (2002) report. The MIGA report also discusses the measures that are being undertaken to address some of the issues, and which development partners are involved.

tourism, given the large potential they have in raising value-added in the economy, and hence reducing poverty.

There are significant opportunities for strengthening tourism backward linkages in agriculture, manufacturing, and services sectors. The potential to increase backward linkages is both in terms of volumes and also through inclusion of additional sectors/industries that are currently not benefiting from these linkages. Specifically, the potentials for increasing value-added, while simultaneously strengthening sector-to-sector linkages, are by increasing:

- the value of agriculture production through improved techniques, and processing of fruits and vegetables (see also recommendations for regional horticulture exports above);
- value of fish and seafood through improved techniques of catching, storing, transporting, and merchandising, pricing, and selling;
- value of chicken farming through increased capacity, more location options, better-trained employees, and improved quality of inputs, especially chicken feed;
- value of beef and lamb through better monitoring through the supply chain to ensure its quality;
- value of furniture through increased capacity and better-trained employees; and
- value from trading goods not produced in Tanzania through improved importing procedures, increasing variety of products, and improved communication between buyers and sellers to ensure availability and continuity of products and services.

The cross-cutting issues that affect the above linked sectors are low quality of products, poor investment promotion, unclear and poor implementation of TIC incentives for the tourism industry, poor communication between suppliers and tourism businesses, and lack of trained manpower.

Strengthening these linkages require a strategic and realistic approach. The recommendations identified under each supply chain review (see Volume 2, Chapter 3) will help achieve this objective. Prioritization and progressive introduction of reforms is necessary. For example, increasing and strengthening linkages with agriculture and farm sector will be relatively easier. Even in this sector, it would help to initiate this process by solely focusing on fruits, vegetables, chicken, and egg. Slowly, other sector supply chains could also be included in this process. The relatively less complicated initiatives like organizing a supplier trade fair will bring momentum to the process and also increase confidence amongst stakeholders. Finally, further research, such as detailed value chain analyses for fruits, vegetables, chicken, meats, food processing, furniture and small manufacturing supply chains, can further reveal gaps that need to be filled to realize their maximum linkages with tourism (and other demand) sector(s).

Strengthening the linkages through implementation of the above recommendations could have considerable impact on poverty, for three reasons. First, more people are employed in agriculture than in any other sector. Several sub-sectors (fruits, vegetables, poultry, and meat) would benefit from increased employment in supply chains that have higher value products. It will also help them access essential skills that will be transferable for farming of other similar products, making them better prepared to diversify their work. Second, these initiatives will also improve the general entrepreneurship environment and support local investment. One of the biggest challenges for Tanzania is to move from being a trader to a producer. Increasing the production capacity of the nation will clearly have a significant influence on reducing poverty. And third,

the expected increase in overall skill levels of employees will increase wages and also their ability to get better jobs, as well as overall labor productivity.

For Zanzibar, supply-side and pro-poor initiatives are needed to link tourism—a very important sector in the economy—to other sectors to increase the contribution of tourism to the economy and to promote sustainable poverty reduction. In particular, these initiatives should be focused on such linked sectors as agriculture, cultural heritage, and handicraft, all of which are labor-intensive activities. These initiatives can be accomplished through the Zanzibar National Tourism Policy and the Indicative Tourism Master Plan for Unguja and Pemba.

Spices

Currently the spice production and export sector is small, with estimated exports levels of less than US$5 million per year. Export levels and market destinations are variable year-to-year. Potential is identified to increase exports of a limited range of crops—vanilla, cardamom, paprika, pepper and ginger—to around US$15-20 million per year. Regional markets, particularly Kenya, and those of the Middle East and South Asia, are important destinations for current exports, and should offer considerable scope for increased development in the short term while production volumes are raised to allow targeting of the major international markets.

Production is almost exclusively smallholder based, productivity is low, and little use is made of improved production and post harvest technologies. The structure of the sector is fragmented with little organization of growers, few specialist export companies, and much of the crop purchased by intermediaries with no fixed linkages to growers or buyer/exporters. Any substantial development of the sector requires the development of clear structure through the organization of growers, the linkage of growers to buyers/exporters, and the improvement of productivity and quality in the production and post harvest sectors. The development of a commercial farm sector and irrigated production would greatly increase the security of development. Although the current competitive position of the sector is weak, the country does have the important advantage of a large number of different spice crops, of good intrinsic quality, already present in the production sector, a number of climatic niches very well suited to the requirements of the different crops, and extensive land resources.

The proposed development strategy focuses on the organization of the sector, and the promotion of production. Detailed measures for implementing this strategy can be found in the Action Plan. Spice production is, and will remain, primarily smallholder based, and increased opportunities for cash crop development can have an important impact on the alleviation of rural poverty. It is estimated that the development potential outlined would deliver the equivalent of 20,000 full time jobs, with the indirect creation of a further 2,000 jobs from forward and backward linkages.

Given that the long term export potential of the sector in Mainland Tanzania must still be considered limited (in terms of gross export revenue potential, projected in the range US$10 to US$20 million per year) relative to the potential of some other sectors, the allocation of resources to the sector for actions identified in the Action Plan as required to deliver this export growth must be carefully appraised.

Zanzibar, renowned for its exotic and abundant home grown spices,[4] has been exporting cloves, black pepper, cardamom, cinnamon, hot chillies, ginger, and so on internationally but in particular to the Gulf States and the Far East. These spice exports have been significant factors in

[4] Also known as the “Island of Aromatic and Romantic Spices.”

boosting Zanzibar's economic growth, and Zanzibar intends to exploit these important natural resources through encouraging private foreign and domestic investment in increased production capacity and expanded market networks.

Zanzibar has the potential to increase its spice exports through development of irrigated agriculture. Reflecting the Government's commitment to the latter is the comprehensive study to identify potential irrigable lands for agriculture, the establishment of the Zanzibar Master Plan, and the creation of the Department of Irrigation. While water resources and rainfall are adequate, there is a need to emphasize water harvesting techniques and the establishment of irrigation infrastructure. 57 schemes have been inventoried with an irrigated potential area of 8,500 hectares; the 9 existing schemes in operation are expected to be extended to about 2,100 hectares through rehabilitation or improvements of such irrigation facilities as diversion weir, pump, and irrigation canal. Zanzibar requires technical and financial assistance to enable it to achieve the objectives of better utilization of water resources and improved irrigated agriculture.

Fisheries and Mariculture

Fish is one of the major emerging non-traditional exports of Tanzania. In 2003, fish exports totaled US$154m., making up 15 percent of the country's merchandise exports, and ranking it the second largest merchandise export item after gold. Approximately 150,000 artisan fishermen make their living through fish capture in Tanzania.

There is potential for Tanzania to substantially increase its fish production and hence exports from the exploitation of its offshore Exclusive Economic Zone, which it has only just begun to do, as well as from investments in fish farms in the shallow waters surrounding the country's many offshore islands. With respect to the Nile perch (which constitutes 80 percent of Tanzania's fish exports), there are concerns over the sustainability of Nile Perch fishing, notwithstanding regulatory measures undertaken over the last decade or so to stem the tide of over-fishing. The decline in Nile perch landings together with an expansion in processing capacity has resulted in significant levels of over-capacity; many facilities are currently operating at less than 50 percent capacity. Exporters are increasingly exploring options for value-added in light of declines in Nile perch landings as well as insufficient operating capital.

The EU restrictions on fish imports from Tanzania (as well as Kenya and Uganda) towards the end of the 1990s led to a large decline in such exports—by one-third in dollar terms—in 1999. The crisis spurred the Tanzania Fisheries Department and the industrial fish processors to undertake the necessary reforms and investments to comply with EU requirements, which they did so more rapidly than either Kenya or Uganda. The joint government/private sector response in Tanzania appears to have been successful, as reflected in the recovery in fish exports to the EU markets.

However, the current fisheries inspection and laboratory capacities remain inadequate. Basic infrastructure at landing sites for Nile perch needs to be upgraded (cold store, electricity, all-weather access roads, etc). Of the 54 sites designated by the Fisheries Department for landing of fish for exports, only rudimentary improvements have been made to 10 of them due to lack of financing,. Estimates for upgrading all the landing sites range from US$4m. upward.

Notwithstanding the significant improvements made to hygiene standards through the supply chain for Nile perch, significant capacity constraints remain that are likely to limit efforts to upgrade capacity into the future as standards continue to evolve. There is also a danger that the capacity that has been developed will gradually creep towards obsolescence. Tanzania needs to

keep on top of emerging food safety requirements for fish and fish products now that an enhanced capacity has been established to avoid creeping obsolescence. The high costs incurred in the upgrading of food safety capacity from a low level within a short period of time, and the recent Fisheries Department's approval of two or three new processing facilities despite existing overcapacity, further underline the need for more effective and coherent planning to safeguard the future of the sector in a climate of reduced fish availability.

Finally, high taxes (in particular the loyalty fee for fish exports) are undermining Tanzania's competitive advantage in fish exports. There needs to be harmonization and rationalization of the basis for taxing, which may require a detailed study to analyze the fiscal, investment and employment effects of alternative taxation regimes other than the existing royalty-based one.

With respect to Zanzibar, its vast potential for the development of the fishing industry has yet to be exploited. Zanzibar has rich marine fishery resources including tuna, snappers, groupers, rays, sharks, kingfish, barracuda, calamari/squids, octopus, and so on. Potential investment opportunities (such as fish processing, canning, freezing and packaging) have not been exploited although they are opened to foreign investment. The main obstacle to investment is the lack of EU market export code in Zanzibar. There is also a need to strengthen the inspection capacity of the Zanzibar Department of Fisheries and Marine Resources.

Zanzibar also has a mari-culture activity mainly in seaweed farming. Current production of the seaweed *Euchuma cottonii* in Zanzibar is too low to meet the high world demand for it. The seaweed is cultivated by coastal communities (mainly women) all over the Islands of Unguja and Pemba, mainly in shallow, stagnant and dense waters with high temperatures, and unstable salinity. Communities need to shift to new areas for cultivation to increase production. This requires research to identify potential new areas (offshore and deepwater), the development of a program to establish seaweed farming in these new areas, and training for seaweed farmers.

ACTION PLAN

The Action Plan that follows this Executive Summary provides a list of the actions recommended in the report, including a suggested time frame for these actions. The analysis behind these proposals can be found in this report (Volume 1). Volume 2 contains the detailed sub-sector studies.

Priority Actions

Developing a well-articulated export strategy requires that consensus be built around a well-defined vision and strategy, that priorities are articulated, and persons made accountable for well-defined deliverables. All these take time.

To provide some momentum for the process, a few actions are selected from the many that have been laid out in the Action Plan. These actions are selected either on the basis that they could result in a quick pay-off, or for which the urgency is such that they should be initiated without delay. In the meantime, however, work on the other issues identified in the report and Action Plan should be initiated.

Policy actions

- Ensure implementation of measures to facilitate exports including expedition of duty drawback refunds, and clarify the list of capital goods eligible for exemptions for the tourism industry and implementation of such exemptions.
- Redefine the role of crop boards to be independent producer-supported organizations.
- Critically assess export taxes with a view to phasing them out.
- Lower, rationalize, and harmonize taxes, particularly local taxes, to eliminate distortions to production incentives and disincentives to value-addition activities for agricultural export crops and fish. Implement the recent Memorandum of Understanding to eliminate unnecessary taxes for cashews. Extend similar arrangement to the others; as a start, refrain from the imposition of new taxes on them.

Actions requiring investments

- Upgrade basic infrastructure at the designated land sites for Nile perch.

Actions requiring technical assistance

- Update USAID-funded study on gemstones and jewelry with a view to deriving concrete action plan to promote value-addition in gemstone exports.
- Strengthen the capacity of the Tanzania Horticultural Association.
- Implement comprehensive program of food safety controls in hotels/restaurants servicing tourists via awareness-raising, certification, surveillance, and auditing.
- Implement National Integrity Action Plan based on the provisions of WCO's Revised Arusha Declaration on Integrity in Customs.

ACTION PLAN

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
Trade Policy						
Import Policy						
	Enhance capacity building for policy reforms and trade negotiations including trade statistics database.			X	MIT, TRA, MTTI, DP	Short, Medium to Long term
	Reduce reliance on tariff revenue (import duties) by strengthening the tax administration and broadening the tax base (see section 3.1 in Volume 1).		X	X	MoF, MOFEA, TRA, DP	Longer term
	Improve awareness of trade policy issues through all forms of communication channels.			X	MIT, MTTI, regional administration, DP	Short term
Export policy						
	Expedite duty drawback refunds in order to reduce anti-export bias.	X			MTTI, MOF, MIT, BET, TRA	Short term
	Critically assess existing export taxes and levies with a view to phasing them out.		X		MIT, MCM, MFAIC	Short term
	• Rationalize taxes across various institutions for export goods • Harmonize and rationalize further local government taxes and levies		X		MOF, regional administration, MNRT, BET	Medium term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
Regional integration						
	Enhance harmonization of exemptions within EAC to reduce the risk of trade deflection.		X		MOF, MIT, MTTI, TRA, MODNS	Medium term
	Negotiate simple and non-restrictive rules of origin specifications in regional agreements.		X		MIT, MTTI	Medium term
	Aim for harmonization within RTAs to avoid contradictory requirements.		X		MIT, MTTI	Longer term
Competition Policy						
	Operationalize competition policy through capacity building of Competition Policy Commission.		X	X	MIT, DP	Medium term
Market Access						
	Undertake studies to identify sectors for liberalization through trade negotiations.		X	X	MIT, MTTI,DP	Medium term
	Further examine means to expand market access into non-traditional markets through WTO negotiations.		X		MIT, MTTI	Short, Medium term
	Use EPA negotiations to address challenges faced in utilizing trade preferences.	X			MIT	Short term
Trade Institutions						
Trade Policy Institution						
	Expand the National EPA Technical Team (NETT) to cover all matters of trade policy including behind the border issues.		X		MIT	Short term
	Broaden the function of existing PS-level Inter-Institutional Technical Committee (IITC) to cover all matters of trade policy.		X		MIT	Short term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Improve skills, recruit and train competent staff and attach them to the field to deal with issues of regional and multilateral trade arrangements.		X		POPP, MTTI, MIT	Short term
	Strengthen donor/government coordination mechanisms in the context of the Joint Assistance Strategy.			X	POPP, MOFEA, MTTI, MIT, MOF, VPO, DP	Short and Medium term
	Establish institutional structure on a more permanent basis to ensure continued integration of trade in NSGRP/ZPRP.		X		POPP	Short term
	Organize specific export policy training for private sector operators.			X	MTTI, POPP, MIT, TPSF, ZNCCIA, BET, DP	Short to Medium term
Export development						
	Expedite restructuring and reinforce the capacity of BET.		X	X	MTTI, MIT, DP	Short term
	Identify alternative sources of funding to ensure sustainability of the operations of BET.			X	MOF, MIT,DP	Medium term
	Increase export competitiveness funding program.			X	MIT, MOF, BET, DP	Short to Medium term
	Capacity building for packaging center at TBS.			X	MIT, TBS, DP	Short term
Export Processing Zones						
Institutional Framework						
	Facilitate the process of establishing EPZ Authority and ensure adequate staffing coupled with capacity building.		X	X	MIT, DP	Short term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Evaluate effectiveness of merging EPZ Authority with other investment facilitating institutions in Zanzibar.		X	X	ZIPA, DP	Short term
	Expedite process of reviewing EPZ Act.	X	X	X	MIT, MJCA, ZIPA, DP	Short term
	Develop a comprehensive strategy for implementing the EPZ Program that entails adequate staffing and provision of training. The strategy could be extended to Zanzibar to strengthen existing EPZ programs.	X	X	X	MIT, ZIPA, MTTI, DP	Short term
	Facilitate the process of establishing SEZ.			X	POPP, MIT, MTTI	Long term
EPZ Regulatory Framework						
	Fine-tune the EPZ regulatory framework including: (i) developing an industrial sector eligibility list for the EPZ Program; (ii) preparing criteria to assess EPZ applications; (iii) preparing detailed, minimum development standards for all EPZ sites in Tanzania; and (iv) developing standard operating procedures for the agency administering the EPZ Program.			X	MIT, ZIPA, DP	Short term
	Revisit custom procedures with TRA to ensure compliance with the intent of the EPZ Program in both Zanzibar and Mainland.	X			ZIPA, MIT, TRA	Short term
Investment Promotions						
	Develop a market strategy for Zanzibar and Mainland to promote the EPZ Program and seek funding for its implementation.			X	MIT, ZIPA, DP	Short term
Utility Providers						
	Work with utility providers to develop guidelines and criteria for EPZ facilities to ensure availability of proper infrastructure and utilities in future EPZs; develop streamlined procedures to obtain utility approvals for EPZ facilities.		X		MIT, ZIPA	Short term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
Public/Private Sector Dialogue						
	Enhance opportunities to carry out discussion/public forums on EPZ issues.		X		MIT, MTTI, ZIPA	Short term
Trade-related Sanitary and Phyto-sanitary management capacity						
Strategy and Priority Setting						
	Enhance capacities to participate effectively and play a more active role in committee meetings of the SPS, Codex Alimentarius, OIE, and IPPC.		X	X	TBS, MOAFS, MIT, MOF, TFDA, MWLD, POPP, MNRT, MALE, DP	Long term
	Establish formal mechanism for improved strategic planning.			X	TBS, TFDA, MOH, MOAFS, MNRT, MOF, MIT, MWLD, MALE, private sector, research and professional organizations, DP	Short term
Institutional efficiency and effectiveness						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Establish formal mechanisms for improved institutional coordination on matters of trade-related quality and SPS management, GHP/SSOP.			X	TBS, TFDA, MOH, MOAFS, MNRT, private sector, research and professional organizations, MOF, MIT, MALE, DP	Short term
Food Safety Controls in Food and Agriculture						
	Undertake awareness-raising and training in food processing sector and agriculture related to HACCP, GAP, GMP, GHP/SSOP, etc.			X	TBS, TFDA, MOAFS, MALE, private organizations, training institutions, DP	Short term
	Implement scheme for support of implementation of HACCP, GAP, GMP etc. through loans, partial subsidies etc.			X	TBS, TFDA, MOAFS, MOF, MALE, private organizations, DP	Medium-term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Implement comprehensive program of food safety controls in hotels/restaurants servicing tourists via awareness-raising, certification, surveillance, auditing, etc.		X	X	MNRT, MOH, TBS, MOF, MALE, private organizations, local governments, CTZ, DP	Short to Medium-term
Enhancing food quality standards in smallholder production						
	Increase and sustain initiatives that build on existing efforts to organize small and medium scale producers to supply high-value markets for agricultural and food products.			X	MOAFS, NGOS, private organizations, TFDA, MALE, MOF, MNRT, MWLD, TAHA, DP	Medium-term
Phytosanitary control measures						
	Update legislation on plant health controls to become compliant with the IPPC.		X	X	MOAFS, MOF, POPP, MJCA, MALE, DP	Medium-term
	Raise awareness and training in practices for plant health control including GAP, integrated pest management, etc.			X	MOAFS, training institutions, MOF, POPP, TPRI, MALE, DP	Medium-term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Address immediate problems which threaten to undermine trade or productivity (including fruit fly), including cross-border control arrangements.		X	X	MOAFS, neighboring countries where there are regional/ bilateral arrangements, MOF, MIT, MTTI, MALE, DP	Short-term
	Enhance scale and effectiveness of surveillance for plant pests and diseases.		X	X	MOAFS, MOF, TPRI, POPP, MALE, DP	Medium to Long term
Animal Health Controls						
	Continue updating of animal health legislation.		X		MWLD, MJCA, MALE	Medium term
	• Enhance scale and effectiveness of surveillance for animal diseases, including cross-border control arrangements; • Enhance post entry quarantine structures; • Modernize slaughter houses to meet international standards.		X	X	MWLD, neighboring countries where there are regional/ bilateral arrangements, MOF, MIT, MALE, DP	Medium to Long term
Laboratory Capacity						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Upgrade laboratory capacity for food safety, plant and animal health in a graduated manner building upon existing initiatives (for example the DANIDA project and Nyegezi laboratory) including for post-harvest handling, and for Government Chemist Laboratory of Zanzibar.			X	TBS, TFDA, MOH, MOAFS, TPRI, MNRT, private organizations, MALE, MOF, MIT, MOH Zanzibar, DP	Medium to Long term
Advisory and Certification Services						
	Develop competitive market for advisory and certification services involving both public and private suppliers. Capacity building on inspectorate processes.		X	X	TBS, MOAFS, private organizations, MOF, MIT, MNRT, MWLD, MALE, DP	Medium to Long term
Quality Enhancement						
	Create and raise awareness among herders and in slaughterhouses and implement a grading system which provides incentives to improve the quality of hides and skins available to industry. Improve animal quarantine structure and inspection system.		X	X	MWLD, BET, training institutions, MOF, TCCIA, MIT, Chamber of Butchers, MALE, DP	Short to Medium term
Transport						
Upgrade transport infrastructure						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Develop a comprehensive transport infrastructure needs assessment and development strategy.			X	MCT, MOW, MOF, DP	Short to Medium term
	Promote private-public partnerships for investments in railways infrastructure, air transport infrastructure, marine and fresh water transport infrastructure, cargo terminals, and the development of all transport corridors.		X	X	MCT, TRC, TAZARA, TAA, NDC, TANROADS, TPA, MIT MOW, MOF, Municipalities, private sector, DP	Medium to Long term
	Promote and facilitate the building and operation of (dry) ports and intermodal terminals.	X	X	X	MCT, Ports, TRC, TAZARA, MOF, private sector , DP	Medium to Long term
Training						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Training of transport operators, providers of logistics services, forwarders and terminal operators.	X	X	X	MCT, Road Haulage Association, Forwarders Association, Clearing Agents Association, Ports, TRC, TAZARA, SUMATRA, BET, MOF, training institutions, DP	Short to medium term
Strengthen public-private dialogue in transport and trade facilitation, transit and border crossings						
	Create capacity at SUMATRA to carry out monitoring of performance of transport, transit and border crossings and involve all stakeholders in the process.	X		X	SUMATRA, MOF, TRA, DP	Short term
	Promote dialogue between private and public sectors on trade and transport facilitation issues and strengthen the existing Working Group on Trade Facilitation.		X	X	BET, MIT, MCT, MOW, DP	Short term
Develop and Implement Transport Reform Program						
	Transpose and enforce international agreements like SADC Protocol on Transport, Communications and Meteorology into national legislation to obtain legal enforcement authority.	X		X	MCT, MOF, MJCA, DP	Medium term
	Elaborate new transport legislation: road freight transport act; road passenger transport act; Railway Code.		X	X	MCT, MOF, MJCA, DP	Medium term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Strengthen implementation and control capacity of the Ministry of Communications and Transport.	X		X	MCT, MOF, DP	Short term
	Set up transport information system to monitor developments of the sector.		X	X	MCT, MOF, DP	Medium term
	Further develop technical capacity of staff of SUMATRA and related transport institutions.	X		X	MCT, MOF, DP	Medium term
	Re-assess situation of overloading by balancing interests of road transport operators with those maintaining roads and overlooking safety.		X		MCT	Medium term
Customs						
Customs Import and Export Processing						
	Implement recommendations from Time Release Study (TRS) to address bottlenecks and inefficiencies in clearance procedures.		X		TRA, TPA, TICTS, TBS	Short term
	Establish steering committee for monitoring implementation of TRS report recommendations.		X		MOF, MTC, MIT	Short term
	CED executive to pursue as a matter of priority the feasibility of establishing an electronic interface between the ASYCUDA ++ system and external systems (for example TISCAN) to avoid the need to re-enter data already held in electronic form. This integration will comply with the state-of-the-art ICT security and trade facilitation EDI standards (XML, CUSDEC).		X		TRA, MOF	Short term
Transit Regulations						
	Review current transit transport regulations and procedures including existing time limits to ensure they are consistent with commercial reality.		X	X	TRA, TPA, SUMATRA, MCT, MOF, DP	Short term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Implement electronic cargo tracking system under the framework of the EAC.		X	X	TRA, MOF, EAC, DP	Medium term
Relationship with Private Sector						
	Consolidate existing consultative mechanisms to foster open and effective communication and facilitate the development of a constructive partnership with clients.		X		TRA, Industry Associations	Short term
Integrity						
	Ensure full implementation of the national integrity Action Plan based on the provisions of WCO's revised Arusha Declaration on Integrity in Customs.		X	X	TRA, DP	Short term
Duty Relief Schemes						
	Expedite elimination of current "double lock" system at bonded warehouses and replace by audit based approach.		X		TRA	Medium term
Staff Participation						
	Develop effective destination inspection exit strategy to ensure CED officials are capable of assuming their full range of responsibilities at expiry of current 7-year Tiscan contract. As an early step, give consideration to stationing appropriate CED officials in TISCAN office in Dar Es Salaam.		X	X	TRA, MOF, DP	Medium term
	Develop detailed client service standards or review and modify existing standards to adequately address client service responsibilities of Tiscan.				TRA	Medium term
Human Resource Management and Development						
	Expedite implementation of TRA Human Resources Development Program.			X	TRA, MOF, POPP, DP	Long term
Gems and Jewelry						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Update study on gems and jewelry focusing on developing concrete actions for increasing value-added in gems and jewelry exports.			X	MIT, DP	Short term
Agricultural Export Crops						
Cross-cutting issues						
	Review crop boards to respond to reformed roles and functions to become producer supported organizations.		X		MOAFS, MCM, private sector organizations, Crop Boards	Short term
	Build farmers' capacity to produce, and develop and strengthen farmers associations through the provision of technical assistance for capacity building.		X	X	Private sector associations, MCM, ZNCCIA, POPP, DP	Short to medium term
	Continue reviewing agricultural taxes with a view to eliminating all nuisance taxes and enforce the existing laws on taxes, particularly the 5 percent cap on producer prices.	X	X		MOF, MOAFS, local governments, private sector organizations	Short term
	Explore options for market-based insurance schemes to reduce the vulnerability of farmers to international commodity price volatility.		X	X	MCM, MOF commercial banks, crop boards, producer organizations, DP	Short to medium-term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Improve support services to agricultural sector, in particular in the area of research and extension services, with a view to responding to market demands.			X	MOAFS, MALE, MCM, private sector, DP	Short to medium term
Cashews						
Replanting						
	Review feasibility of aggressive replanting using new clones.	X		X	MOAFS, DP	Short to medium term
Taxation						
	Implement Memorandum of Understanding on cashew nut processing incentives (including through reduction of level of taxation to promote processing) between MOAFS, MOF, and MIT.	X			MOAFS, MIT, MOF	Short term
Increasing international demand for Tanzanian cashews						
	Undertake pilot project to test response to advertising to increase demand in selected importing countries and willingness of donors to finance such an activity.			X	MOAFS, MIT, MCM, TPSF, DP	Short-term
Develop processing industry						
	Develop and implement strategic plan to promote competitive cashew processing.			X	MIT, CTI, TPSF, DP	Short-term
Coffee						
Licensing						
	Rationalize license fee.		X		MOAFS, MCM,Coffee Board	Short-term
Horticulture and Floriculture						
Improve range of horticulture and floriculture exports						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Identify new areas suitable for horticulture and floriculture production and undertake feasibility study to highlight costs and benefits of providing infrastructural access to these areas.			X	MOAFS, TAHA, DP	Medium term
Air freight						
	Promote cooperation between fish, vegetable and flower exporters to have all their exports air-freighted out of Kilimanjaro Airport. Coordinate importers for south-bound cargo for cost reduction.			X	MOAFS, BET, MNRT, TFA, MTTI, TAHA, DP	Short term
Research and Training						
	Develop business plan, including curriculum, for a Training and Research Farm at Tengeru, and seek funding for the Farm. Put more emphasis on research and training.			X	MOAFS, MALE, TAHA, DP	Medium term
Improve enabling environment for exporters						
	Discuss, prioritize, and propose mitigation measures for export-related problems.			X	Exporters, TAHA, MTTI, MIT, DP	Short term
	Develop entrepreneurship culture through changes in curriculum of educational and training institutions.		X		MOE, MHL, TPSAF	Short to medium term
Registration of Pesticides						
	Review arrangements for pesticide registration and explore equivalency of approval processes in other countries.		X	X	MOAFS, MNRT, TAHA, MALE, ZCCIA, TPRI, DP	Short term
Improve coordination and economies of scale and increasing productivity and quality						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Capacity building of TAHA.			X	MOAFS, MALE, ZCCIA, TAHA, DP	Short term
	Seek funding for and recruit short-term technical experts to be made available to exporters through TAHA.			X	MOAFS, TAHA, DP	Medium term
Improve regional export trade and its competitiveness and increase returns to farmers						
	Prepare a comprehensive study to evaluate the competitive environment and understand costs of each transaction in value chain.			X	TAHA, ZNCCIA, MALE, MOAFS, MTTI, DP	Short term
	Introduce farmer marketing education including training to improve product quality, packaging and level of service offered to buyers.			X	MOAFS, TAHA, MTTI, DP	Medium term
	Introduce export market information system based on a comprehensive review of existing regional trade and identification of areas of greatest potential.			X	MIT, BET, MOAFS, DP	Medium term
Tourism Backward Linkages						
Monitoring quality standards						
	Extend implementation framework for monitoring TBS standards in agriculture and fishery supply chains to include local vendors.		X		TBS, MIT, MOAFS, MNRT, MWLD, Municipalities	Medium term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	TBS to include quality standards for spices and other dry goods targeted for local markets with special emphasis on implementation and monitoring.		X	X	TBS, MIT, MOAFS, MNRT, MWLD, Municipalities, DP	Medium term
Investment promotion						
	Conduct a focused campaign to encourage investments in products "most likely" for local production: dry, processed, and canned fruits and vegetables, select small machinery items, and furniture.	X		X	TIC, TBS, MIT, private sector, DP	Short term
TIC capital goods list						
	Review the list of capital goods approved for tourism and the exemptions associated with it.	X	X		TIC, MNRT, MOF, TPSF, Tourism Confederation of Tanzania	Short term
Trade Fair						
	Organize a "trade fair" specifically for tourism businesses for supplier and buyer interactions particularly with respect to dry goods and perishables, and locally manufactured goods.			X	TTB, MNRT, MIT, Tourism Confederation of Tanzania, private sector, DP	Short term
Vocational and Technical Education and Higher Education Institutions						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Include private sector representatives on executive boards of training and research institutions, with a view to evaluate course offerings and participate in curriculum development.		X		VETA, MLYDS, MOSTHE, MIT, MOF, MTTI, MNRT, private sector	Short term
	Ensure accreditation and consistency of curricula amongst all institutions offering training in tourism.	X			MNRT, MTTI, NACTE, VETA, private sector	Short term
	Continue reviewing Vocational Training Levy (VET) which increases production costs and in the long-run could significantly reduce Tanzania's competitiveness in the regional market; explore other sustainable measures for training employees.		X	X	VETA, MLYDS, MOF, MIT, DP	Short to Medium term
	Review policy and provide incentives to encourage private colleges that will supplement VETA's role.		X		MIT, MLYDS, MYEWCD, MNRT	Medium term
"Quality Vendor" program						
	Develop quality vendor program linking small local producers of fresh produce and meat suppliers with hotels/restaurants.			X	MCM, MIT, MNRT, private sector	Short term
Product Enhancement						
	Develop and improve production of handicraft supply into tourism market involving the private sector.	X		X	MTTI, COT, ZIPA	Short term
	Develop policy to emphasize historical and cultural attractions involving the private sector.		X	X	MTTI, DA	Short term
Spices						

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
Increase production and productivity						
	Initiate program to establish nurseries for multiplication of planting material, and develop improved technology packages for production and post harvest practices. This should be integrated into general product and market development plans.			X	MANREC, MALE, SUA, MOAFS, DP	Short term
	Develop a sustainable small-scale irrigation infrastructure to furrow irrigation from surface run-off stored in field dams.			X	MOAFS, MALE, DP	Long term
	Establish water harvesting schemes for irrigation.			X	MALE, MOAFS, DP	Long term
Development of integrated and efficient structure to sector						
	Develop an active Industry Association involving exporters and processors to ensure private sector voice established in development of sector.			X	TCCIA, ZCCIA, private sector	Short term
	Expand programs for promotion and support of formation of farmer associations to provide a focus for buyer linkages; promote and facilitate linkages between associations and buyers.			X	MALE, MMC, MOAFS, TPSF, TAHA, DP	Medium term
	Establish business support programs to stimulate private sector buyers to establish extension programs for growers and promote farmer uptake of improved technology packages developed by MOAFS research programs to deliver increased productivity.			X	MALE, MOAFS, TPSF, ZCCIA, DP	Medium term
Promotion of Exports						
	Develop market profile of domestic spices to identify positions in international markets and include value-addition activities.			X	TBS, MALE, MIT, BET, ZSTC, DP	Short term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Undertake market research to identify demand, competitive sources of supply, existing export levels trade routes, and export costs to market.			X	TCCIA, MALE, ZCCIA, MOAFS, DP	Short term
Fish/Mariculture						
Review and modify taxation regime to avoid penalizing value added products						
	Analyze fiscal, investment and employment effects of alternative taxation regimes other than existing royalty based one.		X	X	TRA, Fisheries Department, MOF, DP	Short term
	Develop clear and operationally useable definition of "value-added content" for manufactured fish products which may be exempted from royalty payments.		X		TRA, Fisheries Department, TFPA, LVFPAT, DP	Short term
	Set up working group involving the TRA, the Fisheries Department, and the two fish associations (TFPA, LVFPAT) to establish mechanisms for collecting, reporting, and auditing accounts for the purpose of duty drawback, royalty payment, and other operational issues involving efficient tax administration.		X	X	TRA, Fisheries Department, TFPA, LVFPAT, MOF, DP	Medium term
SPS issues						
	Further strengthen fisheries inspection capacity.			X	Fisheries Department, TBS, DP	Medium term
	Complete the upgrade of basic infrastructure (cold store, electricity, etc.) for the 54 designated landing beaches.			X	Fisheries Department, DP	Short to Medium term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Strengthen DFMR capacity to enable Zanzibar to obtain EU export market code for fish products (that is, train DFMR staff to meet EU inspection standards and familiarize with HACCP Manual).			X	MALE, DP	Medium term
Enhance seaweed farming in Zanzibar						
	Undertake research and identify potential areas, and develop program to establish offshore/deep water seaweed farming for world demanded sea weed species (for example, *Euchuma cottonii*).			X	DFMR, seaweed companies, seaweed farmer committees, DP	Medium term
	Implement (program developed as discussed above) by providing training to increase production of world demanded seaweeds.			X	DFMR, seaweed companies, seaweed farmer committees, DP	Medium term
Strengthen backward linkages to fishermen						
	Work with local NGOs to help develop fishermen's associations which have commercial orientation and which can enter into collective bargaining agreements.		X	X	Fisheries Department, NGOs, TFPA, LVFPAT, DP	Short to medium term

Objective/Policy/ Technical Issue	Action recommended	Requirements			Agency involved	Time frame
		Implement existing policy	Change policy/ legislation/Reform Institutions	Technical assistance/ investments		
	Work with local NGOs to demonstrate viability of alternative business models for fishermen associations (after they are set up -- see above action) which involve direct contracting for services/outputs to fish processors without intervention of "agents".		X	X	Fisheries Department, NGOs, TFPA, LVFPAT, fishermen's associations, BEST, DP	Medium to Long term

Time Frame Specifications: Short-term – within 12 months; Medium-term – within 2 years; Long term – 2 to 5 years;
DP indicates development partners.

PART I THE TANZANIAN ECONOMY AND ITS INTEGRATION INTO THE WORLD ECONOMY

1. CONTEXT AND BACKGROUND

The Diagnostic Trade Integration Study (DTIS) identifies the key constraints, both internal and external, to the expansion of Tanzania's trade, with a focus on how trade expansion can help alleviate poverty in the country. In particular, the DTIS is aimed towards supporting the Government of Tanzania in the realization of its National Trade Policy (NTP)[5], the objective of which is to develop an export orientation for the country to enhance income and reduce poverty.

The NTP recognizes that the pursuit of trade and, in particular, export development, requires going beyond the confines of narrow trade policies, that is, the reduction of tariff and non-tariff barriers, to address the various supply-side constraints that have hampered a positive supply response so far. Specifically, the NTP has identified the following issues on the supply-side that are constraining trade: an enabling business environment; soft and hard infrastructure; market supporting institutions; and capacity to participate in and influence changes in the world trading system.

The DTIS is also aimed at supporting the realization of the Zanzibar Trade Policy, which is aimed at streamlining trade in and between Zanzibar and neighboring countries.

The rest of this chapter will provide the overall socio-economic context under which Tanzania is striving towards greater trade integration. It will review the macroeconomic environment, the country's economic and export performance to date, as well as poverty trends and profile. This will be followed by analyses of *economy-wide* issues that affect exports in Chapters 2 to 9. These issues can be grouped into two sets: those that need to be addressed domestically (the internal constraints), and those that need to be addressed in a multilateral arena (the external constraints). Internal constraints include those arising from macroeconomic policies; those arising from domestic trade policies and regional trade agreements; weaknesses in trade policy and development institutions including export processing zones; inadequate transport infrastructure and trade facilitation including customs; insufficient capacity to meet increasingly stringent SPS standards in international markets. External constraints are those that restrict Tanzania's access to export markets.

It should be noted that the economy-wide issues listed above constitutes an important, but not exhaustive, list of factors that could affect a country's export supply response. In a sense, all the factors that affect private investment would affect export supply responses as well as competitiveness. These factors could include virtually all aspects of the development agenda, ranging from education and health, to financial sector development, other infrastructure, firm entry and exit regulations, governance, the legal framework, and taxation. In Tanzania's case, many of these factors are cited by foreign investors as impeding their operations, with the cost of and reliability of power, water, and transport being ranked as the most important one, while inefficient bureaucracy, unfair tax administration, frequent changes in government regulations

[5] *National Trade Policy: Trade Policy for a Competitive Economy and Export-Led Growth*, the Ministry of Industry and Trade, the United Republic of Tanzania, February 2003.

and corruption also make it to the top ten business constraints.[6] A recent Investment Climate Survey by the World Bank identified reduction of the burden of taxes and tax administration, improving access to credit especially for micro and small enterprises, reducing corruption, increasing the ties to the international economy, improving the performance of the power sector, and reducing the cost of business licensing as being important for enterprise performance and growth.[7]

The topics covered by the DTIS constitute a narrower and more trade-related subset of this larger agenda, selected to complement the work that has already been, or is being, undertaken in other studies.[8] After reviewing economy-wide issues that affect exports, Chapter 10 will turn to reviewing *sector-specific* constraints to trade. The chapter will first discuss the constraints facing manufacturing production and exports on a sector-wide basis. It will then discuss the constraints facing agricultural exports, focusing on those sub-sectors that are particularly important for poverty alleviation (agricultural crops), as well as those that are emerging and/or have the potential to make an even larger contribution to export and hence overall economic growth (horticulture and floriculture; spices, and fish). There will also be an analysis of the constraints on expanding tourism backward linkages, given the importance of tourism as an export item, and the potential of tourism backward linkages to increase value-added and reduce poverty in Tanzania.[9]

Based on these reviews and analyses, the DTIS will provide a prioritized and sequenced action plan that lays out the policy reforms, institutional capacity building measures, and investment requirements needed for removing bottlenecks and seizing opportunities to promote the integration of Tanzania into the global economy.

1.1. ECONOMIC BACKGROUND

Reforms and macroeconomic outcomes

After independence in 1964, Tanzania pursued two decades of socialist policies before replacing them with more market oriented ones. In the mid-1980s, economic reforms were introduced to deregulate the domestic economy and encourage domestic and foreign investment; initial steps were also taken in trade liberalization. These economic reforms were, however, not sustained and it was not until the mid-1990s that Tanzania resumed its reform course.

The reforms since the mid-1990s have included a clear and sustained commitment to macroeconomic stabilization; more concerted efforts in trade liberalization; liberalization of domestic marketing in the agriculture sector; privatization of the majority of state-owned enterprises; progressive implementation of a market-oriented regulatory framework; abolition of restrictions for payments and transfers for current international transactions; and liberalization of the financial sector (allowing private actors). These efforts have been accompanied by a sustained decline in inflation from 36 percent in 1990 to below 5 percent in 2004, and an increase

[6] Rutihinda (2004).

[7] *Investment Climate Assessment: Constraints on Enterprise Performance and Growth in Tanzania* (2004), the World Bank.

[8] Including, but not limited to, the ongoing CEM/PA, the Investment Climate Assessment (2004), and the *Specific Needs Assessment Regarding Foreign Direct Investment in Tanzania* by Rutihinda (2004) under Danida's Market Access Programmed.

[9] Manufacturing sub-sectors of interest in terms of export potential—specifically clothing and textiles (because of AGOA), and wood and wood products (in light of Tanzania's abundance in this natural resource)—are being studied in the context of Danida's Program on Market Access.

in growth from an annual average of 2 percent during 1990-95 to 4 percent during 1995-2000 and 6 percent during 2000-03.

Table 1.1: Key Economic Indicators

	1990	1995	2000	2001	2002	2003
Real Sector						
GDP (m. US$)	4249.4	5216.7	9091.6	9443.4	9806.6	10296.8
GDP per capita (PPP, international $)	428.9	447.3	521.0	552.1	579.3	610.6
Gross Domestic Investment/GDP (%)	26.1	19.8	17.6	17.0	19.1	18.6
Public Investment/GDP (%)	10.5	15.3	6.0	5.6	7.6	7.4
Private Investment/GDP (%)	15.3	4.5	11.6	11.4	11.6	11.2
External Accounts (US$m)						
Exports of Goods & NFS	538.4	1265.8	1307.1	1455.7	1568.3	1827.6
Imports of Goods & NFS	1474.0	2140.3	2063.6	2249.8	2223.8	2747.5
Current Account Balance, incl. transfers	-558.88	-646.4	-469.6	-479.8	-251.2	-337.1
(percent of GDP)	-13.2	-12.4	-5.2	-5.1	-2.6	-3.3
Fiscal Accounts (% of GDP) 1/						
Revenues		13.2	12.0	12.1	12.1	12.9
Expenditures		17.6	17.0	17.6	19.8	22.2
Overall balance, including grants		-2.6	-1.6	-1.1	-1.6	-2.9
Prices, Exchange Rate						
Inflation (CPI, annual average)	35.8	27.4	6.0	5.2	4.5	4.4
Exchange Rate (Shillings per US$)	195.5	579.0	800.5	876.2	963.2	1038.4
Export Price Index (1992=100, U.S.$) 2/	100.4	110.8	123.1	114.7	122.8	134.1
Import Price Index (1992=100, U.S. $) 2/	93.6	103.5	88.2	90.0	89.7	103.8
Terms of Trade (1992=100)	107.3	107.1	139.6	127.4	136.9	129.2
Social Indicators						
Population (in millions)	25.5	29.6	33.7	34.5	35.2	35.9
Life expectancy at birth (years)	50.1	48.5	44.4	n.a.	43.1	n.a.
Infant mortality rate (per 1000 live births)	102.0	103.0	104.0	n.a.	104.0	n.a.
Adult literary rate (% of people over 15)	62.9	69.2	75.0	76.0	77.1	n.a.

Notes: 1. Refers to central government operations; on FY basis.

2. On FY basis from 1990/91 to 1996/97, and calendar year basis for 1997-2003.

Sources: All data from Government of Tanzania except fiscal accounts, exchange rate and export and import price indices from IMF, and social indicators from World Bank.

Sectoral contributions to growth

In terms of sectoral contribution to growth, agriculture was the most important by virtue of its large share in the economy, making up nearly half of gross domestic product (GDP) during 1990-2003, although at 3.5 percent per annum its growth performance was below the economy-wide average of 3.7 percent for that period (Table 1.2). The trade, hotel and restaurants sector was the second largest contributor to growth, as well as the second largest sector after agriculture, making up around 16 percent of GDP during 1990-2003. Another sector worth noting in terms of growth is mining and quarrying, which grew at an impressive 14 percent per annum between 1990 and 2003, tripling its share of GDP, although at 3 percent of GDP in 2003 it was one of the smallest sectors in the economy. Finally, the manufacturing sector had among the worst performances

which, after public administration, registered the second lowest growth rate over the period, although manufacturing production accelerated recently, growing at 8 percent per annum in real terms in 2002 and 2003.

Table 1.2: Sectoral Shares of GDP and Contributions to Growth, 1990-2003 (in constant 1992 shillings)

	Shares of GDP (in %)			Average growth per annum (in %)	Annual average contribution to growth (in %)
	1990	2003	Average 1990-03		
Agriculture, Forestry, Fishing, Hunting	47.9	46.8	48.8	3.5	1.7
Trade, Hotels and Restaurants	16.3	16.8	16.1	4.0	0.6
Manufacturing	8.8	8.6	8.3	2.8	0.3
Transportation & Communications	4.6	5.4	5.2	5.0	0.3
Public Administration	8.7	7.2	8.1	2.3	0.2
Financial and Business Services	5.6	5.3	5.4	3.4	0.2
Mining and Quarrying	0.9	3.0	1.7	13.5	0.2
Construction	5.7	5.2	4.7	3.0	0.1
Electricity and Water	1.5	1.6	1.6	4.4	0.1
Total GDP				3.7	3.7

Source: Derived based on data from Economic Survey 2003, GOT.
Note: Contribution to growth = shares of real GDP * real growth, and denotes what total GDP growth would have been if growth of all the other sectors were zero.

The growth performances of the various sectors are more or less mirrored in their performances in exporting. The high growth sectors have also been export leaders (notably tourism, and mineral and metals), while the low growth ones have lagged behind in exports (notably manufactures). The strong correlation between output and export performances in the individual sectors is reflected in the important role that exports have had in determining overall economic growth (see next section).

1.2. EXPORT PERFORMANCE

Exports of goods and non-factor services have played an important role in contributing to the overall growth of the economy since 1990. Two exports items, in particular, have underpinned export performance over the last decade or so: tourism and gold exports (Table 1.3). Tourism receipts rose more than 10-fold between 1990 and 1995, from US$47m. to around US$500m., although it has been stagnating since then. Gold exports increased 15 times between 1990 and 2003, from US$27m. to around US$400m. In 2003, tourism and gold were the largest and second largest export items, respectively.

There has been a significant shift in the composition of merchandise exports (Figure 1.1; Table 1.4). Starting with around equal shares in 1990, traditional exports gained increasing shares through the decade; in 1998, it made up 60 percent of merchandise exports. From 1999 onwards, however, the trends of the two categories of exports reversed, and non-traditional exports began accelerating such that by 2003, they made up nearly 80 percent of merchandise exports. This compositional shift can be attributed both to the decline in agricultural crop exports as well as the emergence of gold exports. In addition to gold, other non-traditional exports have also emerged, including fish and fish products and horticulture exports. Manufactured exports recovered in

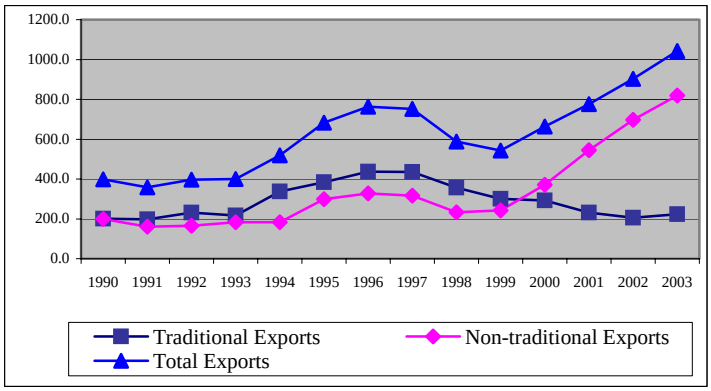
2003, although they are still below the levels (both in dollar terms and in terms of shares of total exports) reached in the mid-1990s.

Table 1.3: Contribution to Growth in Exports of Goods and Services (in percent)

	Average 1993-2003
Agricultural crop exports	1.4%
Horticulture	0.1%
Fish	0.6%
Gold Exports	2.8%
Manufacturing	0.6%
Tourism	3.8%
Other exports	4.2%
Exports of Goods & Services	13.5%

Source: Derived based on data from Economic Survey 2003, GOT, and IMF BOP (for tourism data).
Note: Contribution to growth is derived from shares * growth rates.

Figure 1.1: Merchandise Exports –Traditional and Non-Traditional (in m. US$)



Source: Economic Survey 2003, GOT.

Two implications can be drawn from the stylized facts of export performance outlined above.

First, while much of the growth recovery since 2000 could be attributed to exports (the latter being responsible for two-thirds of the 6.4 percent per annum growth between 2000-2003), much of this export growth was due to gold exports alone. However, analysis of economic growth from the production side indicates that gold production—or, the mining and quarrying sector—contributed very little to overall economic growth (only 6 percent of GDP growth during 2000-2003) came from this sector. This is likely due to the fact that gold production and exports had been import-intensive, such that in net terms the contribution to overall economic growth is small. Over the longer-term, as import intensity of gold production falls and the contribution of gold exports to overall growth could be higher, there is still the question of sustainability of such production (given exhaustible reserves) and hence exports. Another important issue is the income distributional impact of growth from gold exports, as proceeds from such export revenues probably do not reach large parts of the population, and even less so the poor. All this points to the need for greater export diversification. There are signs that such diversification has begun—witness the increase in fish and fish products and horticulture exports—but it needs to be sustained, as is the recent recovery in manufactured exports.

Table 1.4: Composition of Exports (in percent)

	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
Traditional Exports	**50.2**	**56.2**	**57.1**	**57.8**	**60.5**	**55.4**	**44.1**	**29.8**	**22.8**	**21.4**
Coffee	21.0	20.9	17.8	15.9	18.5	14.1	12.6	7.4	3.9	4.8
Cotton	18.7	17.6	16.4	17.3	8.1	5.2	5.7	4.3	3.2	4.5
Tea	5.4	3.4	3.0	4.2	5.2	4.5	4.9	3.7	3.3	2.4
Tobacco	2.7	4.0	6.4	7.1	9.4	8.0	5.8	4.6	6.2	4.0
Cashew Nuts	1.4	9.4	12.8	12.1	18.2	18.6	12.7	7.3	5.2	4.0
Sisal	1.0	0.9	0.7	1.2	1.2	1.3	0.8	0.9	0.7	0.6
Cloves						3.7	1.5	1.6	0.4	1.0
Non-traditional Exports	**49.8**	**43.8**	**42.9**	**42.2**	**39.5**	**44.6**	**55.9**	**70.2**	**77.2**	**78.6**
Minerals & metals	6.8	6.6	7.3	6.8	4.5	13.5	26.9	38.9	42.5	43.2
of which: gold				0.2	0.5	6.4	17.0	32.7	37.8	38.6
other mineral	6.8	6.6	7.3	6.6	4.0	7.1	9.9	6.2	4.7	4.6
Manufactured	18.2	16.0	16.1	14.8	6.1	5.5	6.5	7.2	7.3	9.6
Fish & products				7.5	12.6	10.4	11.5	12.5	12.9	13.5
Horticulture				0.7	1.5	1.6	1.5	1.4	1.2	1.1
Other	24.8	21.3	19.5	12.4	14.8	13.5	9.5	10.2	13.2	11.2

Source: Economic Survey 2003, Government of Tanzania.

Export diversification could also come from services exports, and in particular tourism, which has the potential to play a much more important role in boosting overall economic growth in Tanzania than it had done during the second half of the 1990s. Notwithstanding the recovery in tourism since 2000, by 2003 tourism receipts of US$450m. were still below the peak of $500m. attained in 1995. Expansion of the tourist sector—which aside from being labor-intensive also has a high income multiplier and strong forward and backward linkages—would also have the beneficial effects of generating employment and incomes beyond the sector itself.

Second, the decline in virtually all agricultural crop exports, in light of the fact that agriculture generates over 80 percent of employment and that nearly 80 percent of the poor reside in the rural areas, further underlines concerns over the distributional impact of the recent export recovery. Recovery of such agricultural crop exports would contribute not only to overall growth but also poverty reduction (see discussion in the next section on poverty trends and profile).

The overwhelming majority of Tanzania's exports go to industrial countries. Of Tanzania's top 10 export partners, 5 are in the OECD (Japan, Netherlands, U.K., Germany, and the U.S.) (Table 1.5). OECD countries absorbed 83 percent of Tanzania's exports in 2003, with EU markets taking in two-thirds, and Japan 10 percent (Table 4.1). Two major developing countries also make it to the top 10—India and China, taking in 9.9 and 2.6 percent, respectively. Finally, regional export partners are becoming more important, in particular Kenya, Malawi and Zambia, although Tanzanian exports to the region are still small in the aggregate (Box 1.1).

Between 2000 and 2003, the EU was Tanzania's main export market for precious metals and stones, fish, tobacco, coffee, plants, sugar, clothing and textiles. India was the most important export destination for cotton, cashew nuts and vegetables (pulses). China was also an important export destination for cotton, as well as of wood. Virtually all of Tanzania's metal ore exports went to Japan which was also the largest market for its exports of oil seed. Over half of Tanzania's exports of tea went to Kenya.

Table 1.5: Tanzania's Top Export Partners
(shares of total exports, in percent)

	1990	1995	2000	2003
India	16.7	8.3	13.4	9.9
Japan	3.9	8.4	4.8	9.3
Netherlands	5.4	5.1	6.3	8.1
United Kingdom	10.6	5.7	20.2	5.2
Germany	12.6	9.5	9.1	5.2
Kenya	2.9	3.4	5.2	4.7
China	0.0	1.3	0.1	2.6
United States	6.8	3.2	2.1	2.5
Malawi	0.2	0.3	1.5	2.3
Zambia	0.5	1.3	1.3	2.2
Top Ten Share of Total Exports	*59.4*	*46.4*	*64.0*	*52.1*

Source: UNCOMTRADE, data from reporting country (Tanzania).

The combination of export products and destination outlined above has a few important implications that will be explored in the rest of this report. The importance of developed country markets for Tanzania's exports highlights the need to evaluate the effect of protectionism in these countries on Tanzania's exports, as well as the potential effect of the reduction in such protectionism arising from the current Doha round of WTO negotiations. Also, the importance of the India and China markets for some of Tanzania's main agricultural commodity exports highlight the need to evaluate protectionism in these markets (for example for cotton), and the need to diversify such exports (for example for cashews to India). Issues relating to market access—to both developed and developing countries—will be addressed in Chapter 4. And issues relating to agricultural export crops in Chapter 10. The importance of EU markets for Tanzania's fish exports highlights the need to upgrade Tanzania's capacity to meet stringent sanitary and phytosanitary standards; this is explored in depth in Chapter 7.

1.3. POVERTY TRENDS AND PROFILE

The growth recovery over the last decade notwithstanding, per capita income remains very low and poverty is still widespread in Tanzania. In 2003, GDP per capita was $611 (on a purchasing power parity basis), which was lower than even the post-conflict countries of Burundi, Rwanda, or the Democratic Republic of Congo, let alone more peaceful Kenya and Uganda. It was, significantly, less than a third of the average in Sub-Saharan Africa, and less than half of the average for LDCs and other heavily indebted poor countries (Table 1.6). According to the Tanzania 2000/01 household budget survey (HBS), about 36 percent of the population lives below the basic needs poverty line, and about 17 percent below the food poverty line (Table 1.7). Social indicators also confirm the severity of poverty: only 68% of the population has access to safe water; infant mortality is 104 per 1000 live births; life expectancy is extremely low at about 44 years; the adult HIV/AIDS prevalence is 8.8%.

Box 1.1: Data Discrepancies

The data shown in Table 1.6 are from UNCOMTRADE, based on what Tanzania has reported. It is, however, important to note that there are substantial discrepancies in trade data depending on the source. Even within the same UNCOMTRADE data base, there are substantial discrepancies in intra-regional (sub-Saharan African) trade between data from reporting country and data from importing country. In Tanzania's case, as shown in Box Table 1.1, the differences are particularly large with respect to trade with Kenya, although there are also substantial differences with respect to trade with Uganda, Zambia and South Africa. Data from IMF Direction of Trade (DOT) Statistics show yet another set of data for intra-regional trade, even though the IMF also takes data from partner countries' reporting. While some of the data differences between exporting and importing countries could be due to long waiting periods at customs, the latter is likely not to explain most of these differences. This points to the need for technical assistance to improve data collection, since having accurate data is essential for trade policy-making and negotiations.

Box Table 1.1 Data Differences in Tanzania's Exports, 2003 ($ million)

Country	Partner's Reported	Tanzania Reported	IMF DOT Reported /b	Difference between Partner Country & Tanzania reporting	Difference between Partner Country reporting and IMF
Kenya	18.2	83.5	44.7	65.3	26.50
Malawi	11.3	13.1	22.5	1.80	11.20
Uganda	10.8	48.1	9.8	37.3	-1.00
Zambia /a	14.9	24.9	21.4	10.0	6.50
South Africa	17.9	39.1	20.9	21.2	3.00
Above total	73.1	208.7	119.3	135.6	46.2

Notes: /a Zambia didn't report 2003 data, 2002 is substituted.
Sources: Based on UN COMTRADE and IMF DOT databases.

For Tanzania to reach the poverty reduction target of halving poverty by 2010 set out in its National Strategy for Growth and Poverty Reduction, which is even more ambitious than the Millennium Development Goals of halving poverty by 2015, it will need to—at a minimum—sustain the growth rate it has achieved in the last few years and perhaps even to exceed it. Further, while sustained high growth is essential for the reduction of poverty[10], the benefits of high growth may not reach some of the poorest households. This is underlined by the fact that the growth recovery over the last decade in Tanzania has had a much greater impact on reducing poverty in the capital city, Dar Es Salaam, than anywhere else. Between 1991/92 and 2000/01, poverty fell from 28 to 18 percent in Dar Es Salaam, compared with the decline from 29 to 26 percent in other urban areas, and from 41 to 39 percent in the rural areas. This difference is all the more striking considering that almost 80 percent of the population live in the rural areas, and only 7 percent live in the capital.

[10] There is abundant cross-country evidence on the strong positive relationship between GDP growth and poverty reduction. This relationship applies also to Sub-Saharan Africa (SSA). Demery and Squire (1996), for example, argue that the dominant factor responsible for changes in poverty in SSA during the 1980s is economic growth.

Table 1.6: Comparative GDP per capita, PPP (current international dollars)

	1991	1995	2003
Burundi	757.2	640.2	626.8
Congo, Dem. Rep.	1175.3	889.4	673.5
Kenya	948.9	978.7	1034.8
Mozambique	556.3	631.1	1132.8
Rwanda	944.2	841.2	1268.0
Tanzania	*436.9*	*447.3*	*610.6*
Uganda	763.2	979.4	1470.9
Zambia	809.0	709.3	882.9
Sub-Saharan Africa	1440.0	1500.0	1860.0
Heavily indebted poor countries	960.0	1050.0	1410.0
Least developed countries	920.0	1000.0	1370.0

Source: Global Development Finance and World Development Indicators Central (August 2004).
Note: PPP denotes purchasing power parity.

Table 1.7: Shares Below the Poverty Line by Location

	1991/1992		2000/2001	
	Poverty Headcount ratio	**Share of total population**	**Poverty Headcount ratio**	**Share of total population**
Dar Es Salaam	28.11%	5.35%	**17.63%**	**7.44%**
Other Urban	28.67%	12.60%	25.94%	13.55%
Rural	40.80%	82.06%	38.59%	79.01%
Tanzania	*38.60%*		*35.64%*	

Source: Tables prepared by World Bank staff for the CEM (2004).
Notes: Poverty headcount ratio indicates the percentage of population that is poor in a given area. Share of population indicates the percentage of total population that lives in that area. Bold signifies that the difference across years is significant at the 5% level.

Most of the poor—around 80 percent—make their living in agricultural activities (Table 1.8). The share of the poor working in agriculture has declined only slightly over the last decade—down from 86 percent in 1991/92. By contrast, poverty rates have dropped by as much as one-third for households headed by wage workers in other sectors.

Amongst households dependant on agriculture, those most likely to be poor (highest headcount ratio) rely on livestock sales (Table 1.9). Agricultural households whose main source of cash income is from sales of cash crops or livestock ***products*** fare better than other agricultural households. Poverty rates are lower in households dependant on business income or on fishing, and lowest for those drawing wages or salaries as the primary source of cash income.

Table 1.8: Poverty by Main Economic Activity of the Household Head

	Share of the Poor (in percent)	
	1991/1992	**2000/2001**
Farming/livestock/fishing	85.7	80.8
Employee – government	3.3	1.8
Employee - parastatal	1.1	0.3
Employee - other	2.0	3.0
Self employed with employees	4.9	1.4
Self employed without employees	0.2	5.0
Unpaid family helper in business	0.0	1.5
Housewife / household chores	0.1	0.7
Not active – all reasons	2.7	5.5
Total	*100*	*100*

Source: Household Budget Survey (HBS) Final Report, 2002.
Note: "Share of the poor" shows the percentage of poor households involved in given activity. For example, 80% of the poor are involved mainly in farming.

Table 1.9: Poverty by Main Source of Cash Income of the Household 2000/2001 (in percent)

	Head count Ratio	**Share of the Poor**
Sales of food crops	40.6	46.9
Sales of livestock	59.1	7.2
Sales of livestock products	33.3	1.4
Sales of cash crops	38.6	20.5
Business income	24.0	8.4
Wages or salaries in cash	14.9	3.6
Casual cash earnings	32.8	4.9
Cash	35.2	2.3
Fishing	28.3	1.5
Other	34.0	3.3
Total	*35.6*	*100*

Source: HBS Final Report, 2002.
Note: "Headcount ratio" indicates the percentage of households who live below the poverty line for a given source of income; "share of the poor" shows the percentage of poor households who derive their income from the given source. For example, 7% of the poor derive their main cash income from sales of livestock.

Statistical analyses that control for geographic location, education, and household size confirm this relationship between the sources of income and poverty.[11] Controlling for all these other variables, the estimates are that household incomes of cash crop producers are on average more than 20% higher than those of food crop producers, 10 percent higher than those selling livestock and livestock products, and 4 percent higher than those who depend primarily on business income. Estimates of the probability of being poor indicate that if a household obtains most of its income from selling cash crops, it has a 9.5% lower chance of poverty compared to food crop producers. Also compared to food crop producers, households in tourism are 10% less likely to be poor, fish producers are 3.6% less likely, and mining sector households are about 1% less likely. These results indicate that households that are involved in export oriented sectors are less likely to be poor.

Employment statistics for the whole population, not just the poor, also highlight the importance of agriculture, which provides the livelihood for over 80 percent of the population (Table 1.10). Within this group, the vast majority grow crops; other notable sub-sectors are livestock and livestock products. The retail trade and service sectors are the next most important, employing about 7.5 percent and 7 percent of the population, respectively.

The above discussion on the characteristics of the poor in Tanzania underlines the importance of exports for poverty reduction. First of all, as a general proposition, exports can be an engine for growth[12] --as evidenced by the experience of many countries (in particular the East Asian countries)—which is essential for poverty reduction. Further, the poverty profile for Tanzania indicates that among agricultural households (which form the bulk of the poor), those that are involved in export-oriented sectors—cash crops, tourism, fish and mining—have lower poverty rates (see Box 1.2). Following from the finding in Tanzania's poverty profile that large declines in poverty rates (by one-third) of households headed by wage workers in sectors other than agriculture over the last decade, diversification of exports into non-agricultural sectors would also help raise incomes and reduce poverty. Tackling economy-wide constraints and external market access issues (see Chapters 2 to 9) would help encourage the diversification of exports, while sector and sub-sector specific constraints are tackled in Chapter 10.

[11] See Appendix 1.

[12] Quite aside from the trivial accounting relationship whereby exports constitute one component of the gross domestic product (GDP) such that higher export growth leads to higher GDP growth, exports could also enhance overall economic growth through the positive externalities that are associated with exports, including economies of scale, and technological upgrading that is entailed in competing in international markets as well as enabled by the foreign exchange earnings from exports, all of which help raise productivity in the domestic economy.

Table 1.10: Distribution of Employment by Industry, 2000/01

	No. of Employed People	Share of Total
Agriculture, Forestry & Fishing	13,889,507	82.11
Cattle, Beef, Dairy, & Small Animals	779,018	4.61
Crop Growing	12,967,758	76.67
Agricultural & Forest Services	24,610	0.15
Fishing	118,121	0.70
Mining & Quarrying	29,223	0.17
Manufacturing	245,448	1.45
Grain Mill Products & Food Canning	73,564	0.43
Manufacture of Wearing Apparel, Spinning, Weaving & Finishing	78,366	0.46
Furniture Making & Manufacturing Of Non- metallic Mineral Products	93,518	0.55
Electricity, Water, and Gas	14,698	0.09
Construction	151,690	0.90
Retail Trade	1,262,968	7.47
Retail Trade -Agric. Products, Meat, Charcoal, & Chicken	371,576	2.20
Retail Trade -Processed Food	224,447	1.33
Retail Trade -Clothing, Textiles & Footwear	95,879	0.57
Stationary, Photograph & General Retail	340,210	2.01
Restaurants & Hotel	230,856	1.36
Transport & Communication	112,118	0.66
Finance, Insurance & Business Services	26,500	0.16
Personal Services	1,182,651	6.99
Public Administration	88,496	0.52
Non-Profit Public Institutions	6,215	0.04
Social & Community Services	139,378	0.82
Education Services	195,155	1.15
Repair Services	78,878	0.47
Domestic Services	600,867	3.55
Other Personal Services	73,662	0.44
Total	16,914,803	100.00

Source: Integrated Labor Force Survey, 2000/01 Analytical Report, Table 3.10, p.34.

Box 1.2: Effect of increasing production of export-oriented sectors on incomes and poverty levels

Export expansion has the largest, or most direct, impact on poverty reduction if the poor is directly involved in this expansion—either through provision of their products, or their labor. Currently, and in accordance with the analysis of the poverty profile, the regions producing cash crops for export report the lowest poverty rates of all agricultural regions (see Figure 1.2).

Simulations were undertaken for the purpose of this report to estimate the changes in household incomes and poverty levels arising from increased production and exports of traditional cash crops exports (coffee, cashew nuts, cotton, tea, tobacco) as well as of tourism, fishing and mining—relatively non-traditional exports. In particular, four switching simulations were performed (see Appendix 2):

Scenario I: Switching one-third of coastal households' main source of cash income to fishing
Scenario II: Switch half of households from food crops to cash crops
Scenario III: Switch 10% of households to mining in Mbeya, Morogoro, Mwenza, Shinyanga (the relevant areas)
Scenario IV: Switch one-fourth of households to tourism in Kilimanjaro, Arusha, and Dar Es Salaam (the relevant areas)

Having about 30% more households in coastal areas generating their main cash income from fishing can increase affected household incomes by 5% while reducing poverty by 1.3 percentage points nationwide. Similarly, if half of the households now mainly dependant on food crops sales, were to rely instead mainly on cash crops overall poverty would be reduced by as much as 4.8 percentage points. Effects from mining are similar, while tourism contributes even more.

Box Table 1.2 Overall impact on households and poverty of switching simulations

	Percentage change in income				% Points Change in Poverty			
	All	**Dar**	**Other Urban**	**Rural**	**All**	**Dar**	**Other Urban**	**Rural**
Scenario I	0.2%	0.0%	0.2%	0.2%	-1.3%	0.0%	-0.9%	-1.4%
Scenario II	2.3%	0.0%	1.5%	3.4%	-5.6%	-0.6%	-2.1%	-6.7%
Scenario III	0.1%	0.0%	0.1%	0.1%	-0.5%	0.0%	-0.5%	-0.5%
Scenario IV	0.9%	1.6%	1.0%	0.8%	-1.4%	-2.3%	-1.5%	-1.3%

Box Table 1.3: Impact on only those that switch

	Percentage change in Income
Scenario I	4.8%
Scenario II	15.7%
Scenario III	7.1%
Scenario IV	21.5%

Figure 1.2: Level of Poverty, Regional Mapping, 2000/2001

Source: Prepared by World Bank staff for the CEM (2004).

PART II KEY FACTORS AFFECTING TRADE INTEGRATION

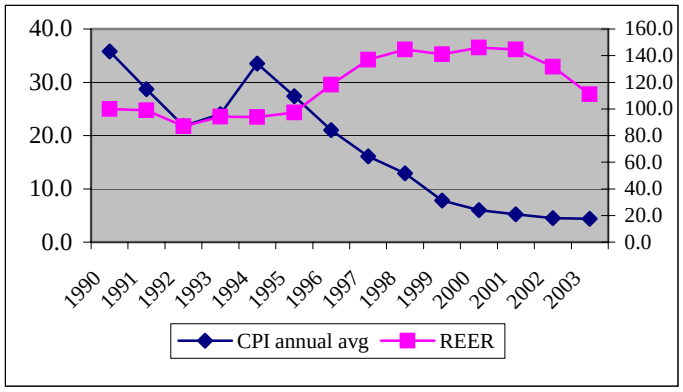
2. MACROECONOMIC ENVIRONMENT AND COMPETITIVENESS

International experience has shown that low levels of inflation and a stable and competitive real exchange rate are important for export growth.[13] Low levels of inflation are important for encouraging private investment, which in turn is the source of export growth. Exchange rate volatility creates a risky business environment in which there are uncertainties about future profits and payments. These risks are especially exacerbated in countries where financial instruments for hedging against foreign exchange risk are not developed, which is the case in many developing countries including Tanzania.

2.1 TRENDS OF INFLATION AND REAL EXCHANGE RATE

Tanzania has been enjoying a steady decline in inflation since the mid-1990s. The real effective exchange rate (REER) was relatively stable during the first half of the 1990s, then appreciated sharply by nearly 50 percent between 1996 and 1998, before declining during the last two years (Figure 2.1). A recent IMF study constructed alternative REERs using CPI, wholesale price index and import prices of five major trading partners (Germany, UK, Japan, Italy and the U.S.) using only export weights showed the same pattern.[14]

Figure 2.1: Inflation and REER (percent changes in CPI, REER = 100 in 1990)



Source: REER from IMF; CPI from Economic Survey 2003, Government of Tanzania.

Given the importance of commodity exports (agricultural crops and gold) for Tanzania, export prices are likely to be determined in the world market and in major currencies. Hence, bilateral real exchange rates with respect to major currencies would also have an impact on export competitiveness. To this end, the same IMF study mentioned above constructed bilateral real exchange rates with respect to the US dollar, the UK pound, and the Euro, and found that all 3 have similar patterns as the various REER indicators mentioned above.

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[13] See, for example, *Lessons of Growth for the 1990s*, World Bank (2005).

[14] Source: International Monetary Fund, *Tanzania: Selected Issues and Statistical Appendix*, September 2004.

Finally, given the increasing importance of regional trade, not in the least with the joining of the customs union of the EAC in January 2005, real exchange rates with its regional trading partners are also important in determining Tanzania's export competitiveness. To this end, the same IMF study constructed a regional real effective exchange rate for Tanzania with respect to Kenya, Uganda and South Africa, and found substantial appreciation of this rate in the second half of the 1990s, followed by a sharp depreciation such that it is now back at the level of the mid-1990s.

2.2 THE REAL EXCHANGE RATE AND EXPORT PERFORMANCE

The real exchange rate is one of the factors determining the competitiveness of exports; other factors include business environment, infrastructure (cost and availability), taxes, and so on, some of which are addressed in the other chapters of this report.

An appreciating real exchange rate, however, does not necessarily imply an erosion in a country's competitiveness, nor a depreciating one the opposite. For instance, increased productivity arising from structural reforms, or a favorable shift in a country's terms of trade, would lead to a more appreciated *equilibrium* real exchange rate Under such circumstances, appreciation of the real exchange rate is reflective of nothing but changes in the underlying economic fundamentals that justify a more appreciated rate. It is therefore pertinent to determine what is the level of the equilibrium real exchange rate, based on which to assess whether the observed real rate is overvalued or undervalued in relation to this equilibrium rate, and hence whether competitiveness has been affected.

The IMF has recently undertaken a study to estimate the equilibrium real exchange rate of Tanzania[15], as determined by the major macroeconomic fundamentals: the terms of trade, factor productivity of Tanzania relative to its trading partners, government consumption as a proxy for policy stance and non-tradable demand, trade openness, and foreign capital flows (proxied by official development assistance in the case of Tanzania). The results of the study show that there appears to have been some undervaluation of the real exchange rate in the first half of the 1990s, followed by a period of overvaluation in the mid-1990s (1994-96), after which the real exchange rate appears to have converged back to equilibrium levels as dictated by economic fundamentals. The results also suggest that the increase in aid flows has appreciated the real exchange rate, but through active liquidity management the Bank of Tanzania has managed to achieve a real exchange rate that is in line with economic fundamentals.

2.3 AID INFLOWS, ABSORPTIVE CAPACITY, AND THE REAL EXCHANGE RATE

While the real exchange rate may be currently at equilibrium, the maintenance of a competitive real exchange rate continues to be a challenge for Tanzanian policy makers in light of the country's high aid dependency for the foreseeable future. The concern is that aid inflows will either lead to higher domestic interest rates or a more appreciated real exchange rate (or both), with the former discouraging private investment and the latter potentially undermining export growth and long-term productivity performance (the "Dutch disease" effect). The government would need to carefully balance these two in its macroeconomic management to avoid excessive burden on either.

The evidence from other countries suggests that some modest currency appreciation can be expected when aid flows are increased, which has also happened in Tanzania as discussed above. Recent research (see next 3 paragraphs) suggest that competitiveness can be strengthened (rather

[15] Tanzania: Selected Issues and Statistical Appendix, September 2004, IMF.

than weakened) when aid inflows are used to enhance productive potential by strengthening infrastructure, eliminating supply bottlenecks, and so on. While an initial exchange rate appreciation weakens exports, subsequent productivity gains can leave exporters more profitable, boosting the country's medium-term export and growth performance, although there may be negative distributional consequences as urban households tend to gain compared with the rural poor. Where aid flows are spent on social programs or institutional reforms with a limited short-run productivity impact, the risks of exchange rate appreciation and slowing growth are more serious.

Radelet, Clemens and Bhavnanai (2004) examined the relationship between aid and growth across 67 countries between 1974 and 2001, and found that "short-impact" aid (aimed at infrastructure and productive sectors, and budget support) has a significant positive impact on growth, while the impact of "long-impact" aid (directed towards social sectors, institution building, etc.) is small and insignificant, and that of humanitarian aid is negative. The paper also found that the marginal impact on growth is largest with the smallest amounts of aid, and falls as the amount of aid climbs. However, the point at which the marginal impact of aid reaches zero is well above the amount of aid that most countries receive—it occurs at the point when "short-impact" aid is 8-9 percent of GDP.

Sundberg, Lofgren and Bourgignon (2005) explored absorption issues in Ethiopia using a dynamic general equilibrium model, and found the following. First, spending on infrastructure has the largest impact on economic growth and income/consumption poverty, whereas additional spending on health/education/water has only a minimal additional impact in boosting growth or reducing income poverty. Second, "Dutch disease" effects are smallest when spending is on infrastructure: although the real exchange rate appreciates initially, it subsequently depreciates, and exports rise to above baseline levels. Third, achieving the Millennium Development Goals (MDGs) for schooling, health, and access to water is estimated to require considerable additional public spending in these areas. Fourth, aid inflows for social spending result in larger and more prolonged Dutch disease effects. The authors conclude that such adverse effects could be reduced by trade liberalization, tackling behind-the-border trade impediments, and opening industrial country markets. Finally, front-loading aid for social spending achieves faster progress towards the MDGs but at the cost of a larger appreciation of the real exchange rate.

Adam and Bevan (2003) calibrated a simple model of aid and public expenditure to Uganda, and found that aid that goes to public investment generates a productivity bias in favor of non-tradable production (and hence the largest bang for the buck in terms of returns to that aid). However, the gain comes at the expense of deteriorating income distribution because the gains accrue predominantly to the urban skilled and unskilled households, leaving the rural poor relatively worse off.

The discussion in the previous section has two implications for Tanzania. First, policy-makers need to balance between "short-impact" aid and "long-impact" aid to achieve their multiple objectives of increasing growth (including through higher export growth) and attaining the MDGs, taking into account the possible trade-offs between the two. In effect, however, it is not just the balance of such aid flows that matters, but really the balance of where public expenditures fall, whether funded by donors or from domestic revenue mobilization. Second, one way to mitigate potential trade-offs (that is higher spending on social sectors having a negative impact on real exchange rate and hence exports and growth) is by further liberalization of the trade regime, greater access to export markets, and tackling behind-the-border constraints, all of which are addressed in the rest of this report.

3. TRADE POLICY

Over the past two decades, Tanzania has made significant progress in opening up its economy to international markets. In the mid-1980s, increasing supply shortages and a worsening balance of payments in the largely state-controlled economy contributed to triggering a fundamental change in economic and trade policy orientation. Trade liberalization was initiated, and included gradual reduction of import restrictions, liberalization of foreign exchange transactions, and simplification of the tariff structure. These reforms were reinforced and extended in the early 1990s when import bans for luxury goods and licensing requirements for exports were abolished, and the private sector was granted permission to compete in the processing and marketing of cash crops. Since the late 1990s, quantitative restrictions and taxes on most exports have been eliminated, and progress has been made in liberalizing the financial, telecommunications, and transportation sectors. Import tariffs were adjusted and gradually reduced on several occasions over time, most recently when Tanzania joined the East African Community (EAC) customs union in January 2005.

The marked liberalization of the trade regime has resulted in a reduction of Tanzania's tariffs by more than 7 percentage points since the late 1990s. While other countries in Eastern and Southern Africa have liberalized in parallel, Tanzania's import duties have fallen clearly below the regional average (Figure 3.1).

3.1 IMPORT POLICIES

Tanzania is a founding member of the WTO and its trade policy is guided by adherence to WTO rights and obligations. Tanzania grants at least most-favored-nation (MFN) treatment to its trading partners. All tariffs are *ad valorem*, and there are no seasonal duties, tariff quotas, or variable levies. Tanzania has tariff bindings at a rate of 120 per cent on goods in 755 tariff lines, covering all agricultural goods and some manufactured products.[16]

Tanzania changed its trade policy regime in January 2005 when, together with Kenya and Uganda, it joined the customs union of the East African Community (EAC), and adopted the Common External Tariff (CET). The previous 4-band escalatory tariff structure of 0, 10, 15 and 25 percent (on capital goods and unprocessed materials; semi-processed inputs; fully processed inputs; and final consumer goods, respectively) was replaced by a 3-band escalatory tariff structure of 0, 10 and 25 percent[17] (on raw materials, capital goods, and meritorious goods, such as medical, pharmaceutical and educational supplies; intermediate goods; and finished goods, respectively) (Table 3.1). In addition, suspended duties and minimum dutiable values[18] were

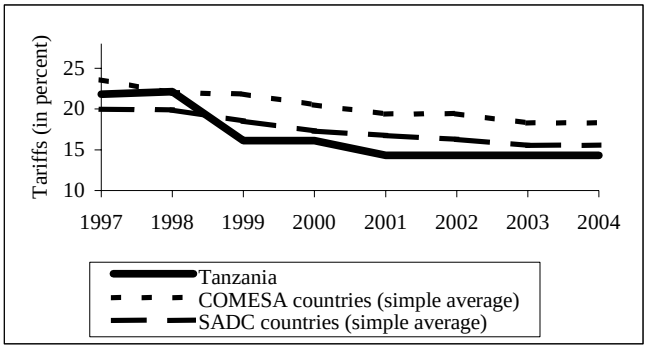
[16] Bound tariffs represent the maximum allowable tariffs that WTO members have scheduled as part of their commitments in the Uruguay Round of multilateral trade negotiations. Application of import duties above bound rates is not allowed, but if it happens the party that adjusts the tariff will need to provide compensation to its trading partner(s).

[17] The Customs Union Protocol provides for a revision of the top rate five years after the customs union has entered into force, and it is expected that the top rate will at that point be reduced to 20 percent.

[18] Suspended duties were applied to 128 tariff lines until the end of 2004, most of which were *ad valorem* levies while a few were specific duties. The additional import taxes were supposed to protect domestic industry from unfair competition until new legislation on anti-dumping and countervailing duties, enacted in April 2004, is fully implemented. The highest suspended duty rate amounted to 40 per cent, bringing the peak applied tariff rate to 65 per cent (25 per cent MFN-tariff plus 40 per cent suspended duty). Moreover, minimum dutiable values of USD 390 per metric ton applied to imports of sugar.

discontinued or replaced by special tariffs on "sensitive products". The special tariffs apply to a list of 56 sensitive products. For about one-third of these products, the special tariff rates are the same for the three countries, while for the other two-thirds different duty levels apply, which is a departure from the principle of a CET. In Tanzania, special tariffs range from zero to 105 per cent, with the top rate applying to imports of sugar, which was subject to minimum dutiable values up to end-2004. Adoption of the CET reduced Tanzania's listed duty rate (import duties plus suspended or special duties) from 13.8 per cent to 12.3 per cent, as industrial tariffs were lowered while duties on agricultural imports actually increased on average (Table 3.2).

Figure 3.1: Simple Tariff Averages in Eastern and Southern Africa



Note: Membership in the Common Market of Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) overlaps.
Source: The International Monetary Fund.

Table 3.1: The EAC Common External Tariff

Category		**Number of tariff lines**	***Ad valorem* tariff (percent)**
Items in zero band		1927	0
- of which:	Meritorious goods	105	0
	Raw materials	1111	0
	Capital Goods	711	0
Intermediate goods		1159	10
Finished goods		1886	25

Source: World Bank Staff.

The EAC customs union provides for phasing out of intra-regional trade barriers. Upon entering into the customs union, Kenya has immediately eliminated all tariffs on imports from Uganda and Tanzania, and Uganda and Tanzania have also eliminated tariffs on each other's imports[19]. Regarding imports from Kenya, Uganda and Tanzania will eliminate tariffs on all imports except for an agreed list of products for which tariffs will be gradually reduced to zero over a period of up to five years. Tanzania's list contains 859 products which are deemed sensitive due to their importance for tariff revenues or industrial development. The asymmetry in liberalizing intra-regional trade is intended to give Tanzania and Uganda, which are less developed and have a

[19] As of the writing of this report (February 2005), however, there are reports that the Kenyan customs authorities have not been notified of the new regime, and imports from Uganda have been levied pre-CET tariffs.

large trade deficit with Kenya, additional time to initiate structural adjustments.[20] Small and medium-sized enterprises, in particular, are very concerned about competition from more established Kenyan producers and fear to be squeezed out of the common market by cheaper imports, although the fears may be overblown[21], in addition to which domestic firms have been given some time to adjust.

Table 3.2: Key Indicators of Tanzania's Import Regime

	Number of tariff lines		Number of bands	Minimum rate (in %)	Maximum rate (in %)	Standard deviation (in %)	Simple average (in %)	Weighted average (in %)
	Total	Non-zero						
MFN tariffs (2004)	5324	3550	10	0	65	11.4	13.8	9.3
- agricultural products	779	672	6	0	35	9.2	20.8	18.6
- industrial products	4545	2878	10	0	65	11.3	12.7	8
CET (2005)	5028	3098	10	0	105	12.1	12.3	n.a.
- agricultural products	767	697	7	0	105	12.2	22.0	n.a.
- industrial products	4261	2401	8	0	65	11.2	10.5	n.a.

Note: MFN tariffs include suspended duties. Agricultural products are those in HS 01-24, and industrial ones those in HS 25-99. Calculations are done at the 8-digit HS-level. Weighted tariffs are based on 2003 import data. CET tariffs include special tariffs on sensitive products.
Source: World Bank staff based on information from Tanzania's National Bureau of Statistics, the Tanzania Revenue Authority, and UNCTAD's-TRAINS database accessed through WITS.

Import duty revenues

Tanzania's imports are subject to the same value-added and excise tax rates as domestically produced goods. Indeed, a large share of the excise duty revenues, which are charged at specific or *ad valorem* rates of up to 30 per cent, is derived from goods that are mainly imported, such as petroleum and cars. Also, the collection of value-added taxes is to a significant extent based on imports. In this context, the authorities should pay attention that not only the indirect tax rates but also the intensity and yield of tax collection is similar for imported and domestic products. Otherwise, the indirect taxes could turn into implicit barriers to trade by raising the costs of imports relative to domestically produced goods.

Joining the EAC customs union has a fiscal impact arising from the adoption of the CET, the phase-out of intra-EAC tariffs, and the abolishment of suspended duties. GOT expects that the overall effect will be positive and that additional revenues of Tsh1,138million (US$ 1.1million, or 0.8 per cent of import duty revenues in 2003/04) will be generated during the fiscal year 2004/05.[22] Other studies project modest revenue losses of 4.2 per cent of import duty revenues in Tanzania, with most of the revenue shortfalls being associated with imports of machinery and transport equipment, as well as food and live animals.[23]

In case revenue losses occur, the fiscal shortfalls are best addressed by improving customs administration, border controls, and transit arrangements in order to reduce "unofficial exemptions" and smuggling. If these measures are not sufficient, revenues from non-

[20] Bheenick (2003).
[21] This was indicated by the Secretary General of the Confederation of Tanzanian Industries to the DTIS team during the main mission.
[22] Mramba (2004).
[23] Castro, Kraus and de la Rocha (2004).

discriminatory excise taxes levied at equal rates on imports and domestic products and improvements in the yield of existing value-added taxes should be used to replace the forgone tariff revenues. A restructuring of the indirect tax system is, in any case, desirable, as deeper integration into the world trading system will tend to further reduce tariff revenues over time.

3.2 THE INCENTIVE REGIME

The tariff structure prior to the introduction of the CET had created quite a large dispersion in protection levels, with effective rates of protection (ERP)[24] ranging from –16 to 216 percent (Table 3.3).[25] Although the tariff changes resulting from the CET were modest for most products and sectors, they are estimated to have raised the dispersion of protection (the range of ERPs is wider, from –26 to 218 percent), further adding to the risk of resource misallocation.

Table 3.3: Nominal and Effective Rates of Protection (in percent)

Sector	Listed tariff		Ex-post tariff		Listed CET	
	NRP	ERP	NRP	ERP	NRP	ERP
Agriculture, Hunting and Forestry	5.9	20.8	5.9	26.3	11.2	34.0
Food	25.5	32.7	22.7	39.7	22.2	25.8
Beverages	25.0	48.7	24.3	45.3	25.0	44.8
Tobacco	5.9	52.1	3.5	36.3	25.0	47.1
Textiles and Textile Products	20.0	155.1	5.5	74.3	24.3	165.1
Leather and Leather Products	3.3	67.0	2.8	59.5	12.7	82.3
Wood and Furniture	15.4	11.7	10.9	5.3	19.6	21.1
Paper and Publishing	8.7	7.1	4.8	0.7	10.3	12.0
Chemicals and Chemical Products	24.0	215.8	21.5	215.6	24.1	217.6
Rubber and Plastics	21.6	54.3	9.9	27.7	23.1	55.0
Non-metallic Mineral Products	24.7	125.8	16.3	87.2	24.8	123.5
Basic Metals and Fabricated Products	12.4	40.3	7.6	37.2	19.7	73.2
Machinery	11.7	-3.3	9.8	-7.9	7.2	-25.6
Transport Equipment	0.3	-22.3	0.2	-15.9	10.4	-9.0

Note: Listed tariffs are import duty plus suspended duty (or special tariffs in the case of the CET). Ex-post tariffs are average tariffs (that is, customs receipts divided by cif import values) and take into account exemptions, preferential rates, and "unofficial exemptions".
Source: Maxwell Stamp (2003).

While Government views import taxes as a means to protect domestic industry, it is not clear whether the distribution and scale of protection granted to different industries has been intentional. In the recent survey of 152 manufacturing enterprises from which the ERP estimates in Table 3.3 were derived, 24 firms were found to be value-subtractors, meaning the value of their tradable production inputs at international prices exceeded the trade value of their final products. Because of the distorted domestic price structure, these companies were not necessarily loss-making and could, hence, continue to operate, although they clearly represent a waste of resources for the economy overall. Results from a follow-up enterprise survey confirm the existence of value-subtractors in Tanzania and suggest that these highly inefficient firms are particularly prevalent in the milling, furniture, metals, and textiles sub-sectors (Table 3.4).

[24] ERPs take into account protection on both outputs and inputs, and provide a better representation of protection to domestic industries than nominal rates of protection which are based on protection of outputs only.
[25] The estimates of ERP are taken from Maxwell Stamp (2003) which are based on data collected from 152 manufacturing firms.

Table 3.4: Effective Rates of Protection for Selected Sub-Sectors

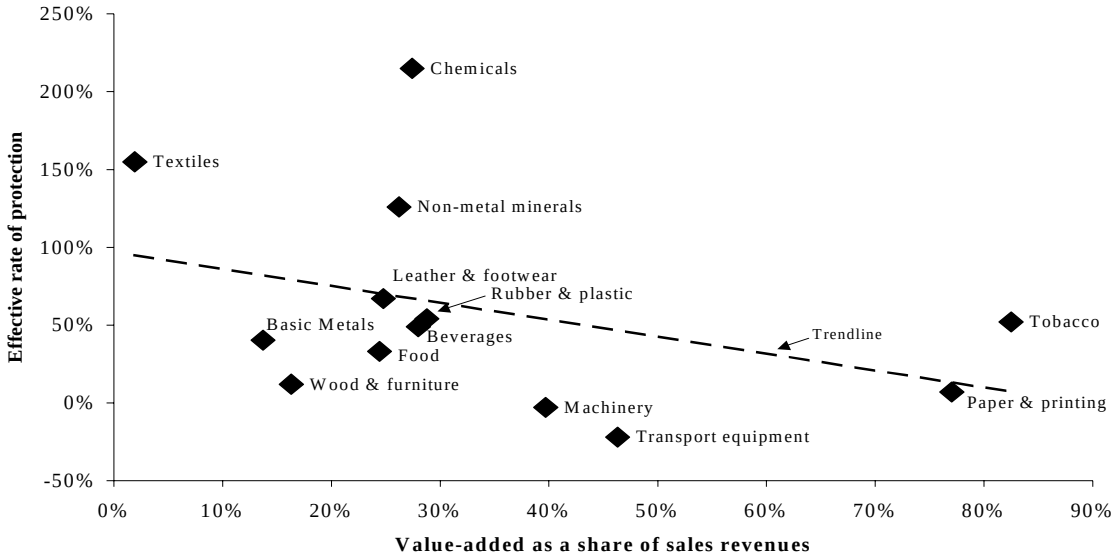
(in percent)

Sub-sector	Listed tariff		Ex-post tariff		Listed Common External Tariff
	MFN	EAC	MFN	EAC	
Cotton	-22.0	-6.3	-22.0	-6.3	10.8
Dairy	187.2	37.2	192.4	51.0	11.8
Fish	30.0	3.7	30.8	5.9	31.3
Milling	-VAw	-VAp	-VAw	-VAp	-VAw
Milling *	31.0	6.0	25.6	6.2	-3.7
Oils	-27.1	4.2	-33.0	-1.8	25.4
Tea/coffee	55.6	5.6	47.4	5.1	28.6
Tea/coffee	53.4	5.5	45.5	5.0	27.8
Alcoholic drink	48.4	38.6	46.6	37.6	33.2
Soft drinks	122.2	-4.3	147.9	-19.2	134.3
Soft drinks *	35.5	-4.2	37.3	-19.1	38.0
Paints & inks	49.9	5.6	34.2	5.6	26.4
Soaps & detergents	34.4	46.9	35.3	34.4	47.7
Other chemicals	10.7	2.2	10.6	2.1	25.1
Other chemicals *	10.7	2.2	10.6	2.1	25.1
Mattresses	28.4	5.6	16.6	3.0	28.4
Mattresses *	27.6	5.4	16.1	2.9	27.6
Other furniture	-VAw	-VAp	-VAw	-VAp	-VAw
Other furniture *	35.9	5.7	15.0	4.4	40.0
Articles of metal	10.9	4.0	0.8	2.8	11.1
Articles of metal *	10.9	4.0	0.8	2.8	11.1
Basic metals	-VAw	-VAp	-VAw	-VAp	-VAw
Basic metals *	16.7	3.3	7.8	3.2	10.8
Paper products	18.3	24.0	8.3	9.0	15.6
Printing & publishing	-1.2	3.0	-4.3	2.5	-8.5
Printing & publishing *	-1.2	2.9	-4.2	2.5	-8.3
Stationery	30.3	62.5	8.2	51.4	2.1
Stationery *	9.9	7.5	6.5	6.2	13.5
Textile articles	-VAw	-VAp	-VAw	-VAp	-VAw
Textile articles *	10.3	2.2	10.4	0.5	18.1
Yarns & fabrics	47.9	13.7	21.3	-5.4	14.1
Yarns & fabrics *	46.1	13.2	20.5	-5.2	13.6
Articles of wood	48.8	8.2	46.4	7.7	43.8
Articles of wood *	36.6	6.8	24.8	6.3	27.2
Basic timber	18.5	3.6	5.0	2.9	7.5
Basic timber *	16.4	3.2	4.6	2.5	6.9
Joinery	37.5	7.7	-5.1	7.6	43.3

Notes **:** 1) "*" means that enterprises with negative value added (at world or EAC prices) have been excluded. 2) "-VAw" means that sector value added is negative at world prices. 3) "-VAp" means that sector value added is negative at EAC prices. 4) "Tariff Protection" includes the excises and VAT payable upon import duties, but not on the values of the goods. 5) Listed tariffs are import duty plus suspended duty. 6) Ex-post tariffs are average tariffs (i.e. customs receipts divided by cif import values).
Source: Rajhi and Webster (2004).

Further, higher protection is granted to manufacturing branches with lower value-added. Sectors like chemicals or textiles for which the share of value-added in sales revenue is relatively small receive strong market protection, while high value-added industries, like paper and publishing, machinery, and transport equipment, are not supported to a significant extent or even taxed through high tariffs on imported inputs (Figure 3.2). This structure of protection supports the survival of firms that are internationally uncompetitive and that generate little income to pay wages and income taxes, while imposing significant costs on the economy through high output prices. In this context, a rebalancing of trade incentives appears desirable with a view to initiating an efficiency-enhancing restructuring process in low value-added manufacturing branches to reduce the risk of policy-induced resource misallocations.

Figure 3.2: Effective Rates of Protection and Value-added in Manufacturing, 2002



Source: World Bank Staff based on Maxwell Stamp (2003) and National Bureau of Statistics (2003).

Incentives and Trade Performance

The sectors producing textiles and leather, and machinery and equipment display the strongest export orientation in terms of the share of domestic output that is sold abroad (Table 3.5). Given the high effective rates of protection for textiles and the resulting anti-export bias, the prominence of textiles exports might seem surprising, but a large share of these exports is sold to industrialized country markets under preferential access conditions. Moreover, exports are very volatile over time, so that the export to output ratios and export growth rates for particular manufacturing branches can change significantly from one year to the next (for this reason the indicators should be treated with care). Concerning import substitution, the sectors for non-metallic minerals, and food, beverages and tobacco have the largest domestic market shares, although import growth of non-metallic mineral has been strong since the late 1990s.

Table 3.5: Indicators of Trade Performance in the Manufacturing Sector (in percent)

	Ratio of imports to apparent consumption, 2002	Ratio of exports to domestic output, 2002	Average annual growth of imports, 1997-03	Average annual growth of exports, 1997-03
Food, Beverages and Tobacco	32	13	0.8	3.0
Textiles and Leather	52	21	9.0	11.3
Wood and Furniture	40	9	12.9	-1.7
Paper and Publishing	40	1	6.4	11.3
Chemicals, Rubber & Plastic	72	11	27.2	40.1
Non-Metallic Minerals	24	10	14.2	5.9
Machinery and Equipment	98	19	7.9	16.9

Source: World Bank Staff based on National Bureau of Statistics (2003) and UN COMTRADE database accessed through WITS.

3.3 EXPORT POLICIES

By 1998, trade liberalization had resulted in the removal of requirements for export registration, licensing, and surrender of proceeds, as well as the elimination of most commodity export taxes. However, some non-governmental crop boards, such as the Cotton Development Fund and the Cashew Nuts Development Fund, continue to levy fees on their members' exports to finance research, extension services, and training.[26] Exporters of cotton and raw cashew nuts are required to pay a 3 percent export charge, while processed cashews are subject to a 1 percent levy.

The Government collects export taxes in two instances. First, the Fisheries Department collects royalties on fish exports. Rates are set at what is estimated to be 6 per cent of fob-value, but charged per kilogram rather than on an *ad valorem* basis in an attempt to reduce evasion through under-invoicing.[27] The duty revenues are used by the Fisheries Department to foster development in the sector.

Second, the government introduced an export tax of 15 per cent on raw hides and skins in 2003, and established a Livestock Development Fund to administer the revenues from the duty. The principal aim of the measure is to assist the struggling domestic tanning and leather industry by discouraging exports of raw hides and skins and making a larger number of domestically produced hides and skins available for local processing.[28] However, the success of this strategy is uncertain. A study on Tanzania's leather and footwear sectors found that one of the main reasons for the insufficient capacity utilization of domestic processing facilities was the poor quality of locally produced hides and skins.[29] More than half of the total supply was considered to be unsuitable for processing. This deficiency is related to inadequate animal husbandry practices, prevalent livestock diseases, inappropriate slaughtering facilities, poor slaughtering practices, and

[26] See Chapter 10.
[27] Wilson (2004).
[28] Revenue collection is not the primary aim of the measure, since the targeted revenue from the 15 percent export tax on raw hides and skins is only 0.1 percent of total domestic tax revenues.
[29] Kiruthu (1999).

deficient preservation techniques (see also Chapter 7). The imposition of export taxes not only does not address this problem, but by reducing the value that farmers and slaughterhouse operators obtain from hides and skins, it lowers their incentives to produce high-quality raw materials for the tanning and leather industries.

Also, it is unclear to what extent export taxes will succeed in discouraging exports of raw hides and skins rather than just enticing producers to trade informally. Tanzania has long land-borders that traders and their livestock can cross relatively easily. Indeed, the value of informal trade between Tanzania and its neighbors is significant[30] and according to some estimates even exceeds the value of formal transactions.[31] One indication that a large part of the trade in raw hides and skins might indeed have turned informal is that revenues from the export tax during July to December 2003 have amounted to less than 40 per cent of the government's target.[32]

Local taxes constitute another, although unintentional, policy impediment to exports[33] (see also Chapter 10). Despite a directive from the Prime Minister's Office that district taxes should not exceed 5 per cent of the goods value, local authorities continue to levy charges at points of transit as well as original sale. For producers that are distant from export locations, the cumulative burden of the local taxes can be considerable and will, in combination with the high transport costs (see Chapter 8), tend to discourage export operations.

In general, export restrictions introduce costly distortions into the domestic economy and most often fail to achieve their industrial development objectives. Similar to import restrictions, export bans and taxes encourage inefficient production and consumption patterns and an suboptimal resource allocation.[34] Moreover, there are frequently adverse distributional impacts. If the export restrictions concern primary commodities, as in Tanzania, it is often poor smallholders that have to bear the bulk of the economic costs as prices for their produce are depressed. In Tanzania, an export tax on raw hides and skins would certainly worsen poverty since livestock holders are the poorest in the country.

3.4 REGIONAL TRADE AGREEMENTS

Tanzania is engaged in two regional trade agreements (RTAs), the EAC and the Southern African Development Community (SADC), and is considering to re-enter the Common Market for Eastern and Southern Africa (COMESA), from which it withdrew in 2000 (see Box 3.1). Tanzania also participates in the Regional Integration Facilitation Forum, and has a considerable number of bilateral trade agreements, even though the latter are not always thoroughly implemented.[35]

The regional integration efforts are intended to harmonize economic policy and promote trade, but to a significant extent also motivated by political objectives. SADC, in particular, has for a long time had a development approach to regional integration, stemming from the economic independence desires and political security needs of the Front Line States.[36] Similarly, the EAC has an agenda that spans far beyond trade and economic integration. Yet, given the low per

[30] World Food Program (2004). See also Chapter 7.
[31] Ackello-Ogutu and Echessah (1998).
[32] Mramba (2004).
[33] Booth and Kweka (2004).
[34] Piermartini (2004).
[35] Kweka and Leyaro (2004).
[36] Kritzinger-van Niekerk and Moreira (2002).

capita incomes in Tanzania and the country's development needs, the economic impacts of the regional initiatives deserve the greatest attention of policy makers and international donors.

Box 3.1: History of Regional Integration

East Africa has a long history of regional integration. Kenya and Uganda first formed a customs union in 1917, which the then Tanganyika (later Tanzania) joined in 1927. Subsequently, the three countries had close economic relationships in the East African High Commission (1948-1961), the East African Common Services Organization (1961-1967), the East African Community (1967-1977), and the East African Co-operation (1993-1999). In November 1999, the Treaty for the establishment of the (new) East African Community was signed, and entered into force in July 2000.

The EAC Trade Protocol was signed in March 2004. After subsequent ratification in national Parliaments, the customs union was launched in January 2005, establishing a common external tariff and removing all intra-regional trade barriers during a five-year transition period. Once the customs union is completed, the EAC partners envisage further integration steps with the creation of a common market, a monetary union, and ultimately a political federation, although no time table has been established yet.

Tanzania is also an active member in SADC, which in 1992 grew out of the Southern African Development Co-ordination Conference. Members of SADC are, in addition to Tanzania: Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Republic of South Africa (RSA), Swaziland, Zambia and Zimbabwe. SADC's Trade Protocol, which was signed in 1996 and came into effect in October 2000, aims to remove intra-regional trade barriers and turn the Community into a free trade area for 85 per cent of goods by 2008, and for all goods by 2012. Tariff reductions are asymmetrical, with domestic market protection *vis-à-vis* RSA (and indirectly the entire Southern African Customs Union area) staying in place for longer than *vis-à-vis* other SADC countries. Plans for the formation of a customs union and a common market have been under discussion.

Tanzania used to be a member of COMESA, which was founded in 1994. Members of COMESA are: Angola, Burundi, Comoros, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe. One of the main objectives of this regional initiative was to establish a free trade area, which was (partly) achieved in October 2000, when nine of COMESA's members removed their intra-regional trade barriers. A further integration step in the form of the establishment of a customs union, which had been planned for 2004, has been postponed, as the final structure of the common external tariff has yet to be agreed upon.

Tanzania is no longer a member of COMESA after leaving the Agreement in 2000. The withdrawal decision was based on an assessment that multiple RTA membership was too resource-consuming and that Tanzania's regional integration interests were better served by its membership in SADC. Moreover, concerns about revenue losses as a result of ongoing COMESA tariff liberalization are also believed to have contributed to the decision (WTO, 2000). Yet, Tanzania continues to be influenced by trade policy developments in COMESA, not least because Kenya and Uganda, Tanzania's two partners in the EAC customs union, are both members of COMESA.

Regional trade flows

Tanzania's trade relationships with other countries in the region have intensified in recent years, both in terms of the volume of trade and the scope of traded goods.[37] However, according to official statistics, regional trade remains only of modest overall importance for the country. The 8 countries with which Tanzania has land-borders have a combined population and gross domestic product that is 5 and 4 times, respectively, the size of Tanzania's. Yet, in 2003 these neighbors absorbed less than 14 per cent of Tanzanian exports and were the origin of less than eight per cent of the country's imports.[38] The value of trade with all African countries accounts for less than a quarter of Tanzania's total exports and imports (Table 3.6). More than 90 per cent of Tanzania's regional trade was undertaken with members of EAC or SADC, that is, under terms of preferential market access.

After leaving COMESA in 2000, the Tanzanian authorities tried to negotiate bilateral agreements with the countries that are members of COMESA but not SADC to maintain the tariff preferences that had been achieved through earlier liberalization steps within COMESA. This attempt succeeded only with Tanzania's EAC partners, Kenya and Uganda, with whom the achieved preference margins were frozen. Preferential trade relations with the other COMESA-but-not-SADC members were discontinued. While trade with the "COMESA only" group of countries accounts for less than two per cent of Tanzania's total exports and imports, Tanzania has consistently had a merchandise trade surplus with the group since 1997. Also, a relatively large share of the trade with "COMESA only" is in industrial goods, which motivates interest of industrial producers in Tanzania in re-entering COMESA and obtaining better access to "COMESA only" markets.[39]

EAC and SADC accounted in 2003 for about ten per cent each of Tanzania's total exports, with EAC trade being focused on agri-food products, while exports to SADC members consisted mainly of mining and industrial products. On the import side, SADC was almost three times as important as EAC as a source of goods. As a result, Tanzania had a sizable trade deficit with SADC, while for the first time in many years it boosted a surplus vis-à-vis its EAC partners.

However, Tanzania's trade positions *vis-à-vis* its two EAC partners differ fundamentally. With regard to trade with Uganda, Tanzanian exports during 2003 exceeded the value of imports in all goods sectors, except for wood and chemical products (Table 3.7). The bilateral trade surplus amounted to almost US$40million. With Kenya, on the other hand, Tanzania had a trade deficit of almost similar size, as the value of its strong agricultural, fish and textiles exports was more than offset through Kenyan exports of industrial products into the Tanzanian market. In earlier years, Tanzania had a larger trade deficit with Kenya, while trade with Uganda was roughly in balance.

Economic Effects of Regional Initiatives

Economic integration at the regional level can make it possible to reap benefits from international specialization while tailoring the provisions of the agreement to the particular needs and adjustment capacities of the countries involved. In the short term, regional integration will entail adjustment needs, as prices on the domestic market change in response to tariff reforms. Econometric analysis based on firm-level data suggests that the adoption of the EAC's common

[37] Kweka and Mboya (2004).
[38] It should be noted, however, that these figures do not reflect underreported or informal trade.
[39] Matambalya (2004).

external tariff by Tanzania will affect profit margins, productivity, wages and employment only slightly (and not always statistically significant) (Table 3.8). The effects are not uniform across sectors, though, as the changes in input and output prices differ, with the paper and publishing and metals sectors being subject to more marked impacts.

Table 3.6: Structure of Tanzania's Merchandise Trade within the Region

(percent of gross domestic product)

		Total trade			Exports			Imports			Net-Exports		
		1997	2000	2003	1997	2000	2003	1997	2000	2003	1997	2000	2003
All Goods													
World		22.2	21.5	33.1	7.5	7.2	11.8	14.7	14.3	21.3	-7.2	-7.1	-9.5
- Africa		4.0	3.7	7.3	1.1	0.9	2.7	2.9	2.8	4.6	-1.8	-1.9	-1.8
- Members of	EAC	1.7	1.1	2.5	0.4	0.4	1.3	1.3	0.7	1.2	-0.9	-0.3	0.1
	SADC only	1.5	1.8	3.4	0.1	0.1	0.4	1.4	1.7	3.0	-1.3	-1.6	-2.6
	SADC & COMESA	0.6	0.5	1.0	0.4	0.2	0.8	0.2	0.3	0.2	0.3	-0.1	0.6
	COMESA only	0.2	0.2	0.3	0.2	0.1	0.2	0.0	0.1	0.1	0.1	0.0	0.1
- Other Africa		0.0	0.1	0.2	0.0	0.1	0.1	0.0	0.0	0.1	-0.0	0.0	0.0
- Rest of World		18.2	17.8	25.8	6.4	6.3	9.1	11.8	11.5	16.7	-3.6	-3.2	-5.8
Agriculture, and Food, Beverages and Tobacco													
World		9.5	7.3	8.1	6.6	4.7	5.2	2.9	2.6	2.9	3.6	2.1	2.3
- Africa		1.4	1.1	1.9	0.8	0.5	1.5	0.6	0.6	0.4	0.2	-0.1	1.1
- Members of	EAC	0.5	0.4	1.1	0.3	0.3	1.0	0.2	0.1	0.1	0.1	0.1	0.9
	SADC only	0.4	0.3	0.3	0.1	0.0	0.1	0.3	0.3	0.2	-0.2	-0.2	-0.1
	SADC & COMESA	0.3	0.3	0.3	0.3	0.1	0.3	0.0	0.2	0.0	0.3	-0.1	0.3
	COMESA only	0.1	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.1
- Other Africa		0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1
- Rest of World		8.1	6.2	6.2	5.8	4.2	3.7	2.3	2	2.5	2.1	3.2	2.2
Minerals, and Base Metals													
World		1.0	2.2	6.1	0.0	1.3	5.0	1.0	0.9	1.1	-1.0	0.4	3.9
- Africa		0.4	0.3	0.8	0.0	0.1	0.3	0.4	0.2	0.5	-0.3	-0.1	-0.1
- Members of	EAC	0.2	0.1	0.2	0.0	0.0	0.1	0.2	0.1	0.1	-0.2	-0.1	0.0
	SADC only	0.1	0.2	0.6	0.0	0.1	0.2	0.1	0.1	0.4	-0.1	-0.1	-0.1
	SADC & COMESA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	COMESA only	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Other Africa		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Rest of World		0.6	1.9	5.3	0	1.2	4.7	0.6	0.7	0.6	0.2	-0.3	0.7
Industrial Manufacturing *													
World		11.6	12.1	18.9	0.9	1.3	1.6	10.7	10.8	17.3	-9.8	-9.6	-15.7
- Africa		2.3	2.4	4.6	0.3	0.4	0.9	2.0	2.0	3.7	-1.7	-1.7	-2.9
- Members of	EAC	0.9	0.7	1.2	0.1	0.2	0.2	0.8	0.5	1.0	-0.7	-0.4	-0.7
	SADC only	0.9	1.3	2.5	0.0	0.0	0.1	0.9	1.3	2.4	-0.9	-1.3	-2.3
	SADC & COMESA	0.2	0.2	0.5	0.1	0.1	0.4	0.1	0.1	0.1	0.0	0.0	0.3
	COMESA only	0.1	0.0	0.2	0.1	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0
- Other Africa		0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
- Rest of World		9.3	9.7	14.3	0.6	0.9	0.7	8.7	8.8	13.6	-6.5	-6.2	-10.0

Note: EAC trading partners are Kenya and Uganda; "SADC only" refers to Botswana, Lesotho, Mozambique, and RSA; "SADC & COMESA" is the group comprising Angola, DRC, Namibia, Malawi, Mauritius, Seychelles, Swaziland, Zambia, and Zimbabwe; and "COMESA only" consists of Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Madagascar, Rwanda, and Sudan.

* Industrial Manufacturing refers to all manufacturing sectors except Food, Beverages and Tobacco, and Basic Metals (ISIC rev. 2 codes 31 and 37).

Source: World Bank Staff based on UN COMTRADE database accessed through WITS.

Table 3.7: Structure of Tanzania's Trade with EAC Partners, 2003 ('000 US$)

ISIC-2 Code	Sector Description	Kenya Exports	Kenya Imports	Kenya Balance	Uganda Exports	Uganda Imports	Uganda Balance
11	Agriculture and Hunting	18081	2719	15361	31599	1418	30181
12	Forestry and logging	87	3	84	31	0	31
13	Fishing	44532	8	44524	513	0	513
21	Coal Mining	2	5	-4	0	0	0
22	Crude Petroleum & Natural Gas	0	94	-94	0	0	0
23	Metal Ore Mining	0	1	-1	0	0	0
29	Other Mining	331	1152	-821	0	0	0
31	Food, Beverages and Tobacco	4554	7928	-3374	1094	278	815
32	Textiles and Leather	6575	2014	4561	775	80	695
33	Wood and Furniture	680	1540	-860	59	65	-6
34	Paper and Publishing	469	4377	-3908	288	123	165
35	Chemicals, Rubber and Plastic	3286	62795	-59509	4484	5814	-1330
36	Non-Metallic Minerals	137	3748	-3611	1024	50	974
37	Basic Metal Industries	801	8291	-7490	4373	31	4343
38	Machinery and Equipment	3409	20316	-16907	3819	349	3470
39-99	Other	421	1320	-899	47	2	44
0-99	Total	83363	116310	-32948	48104	8210	39895

Source: World Bank Staff based on UN COMTRADE database accessed through WITS.

Table 3.8: Short–Term Impacts of the Adoption of the Common External Tariff in Tanzania

Sector	Price-Cost Margin	Productivity	Employment	Wages
Agro-industry	0.31	0.65	-2.78	0.90
Chemicals and Paints	1.27	7.59	1.46	-0.72
Construction Materials	0.74	1.59	-0.88	2.87
Metals	0.33	-3.94	-5.69	4.33
Paper and Publishing	0.71	-10.49	-9.01	6.40
Textiles and Leather	-0.21	-1.54	-1.91	0.47

Note: Calculations based on listed overall average tariffs.
Source: Rajhi and Webster (2004).

In the medium and longer term, there might be more pronounced impacts. If the reduction of intra-regional trade barriers fosters partner countries to expand output and exports of products for which they are internationally competitive, the price of final goods or production inputs on the importing country market falls to the benefit of consumers and input-purchasing producers. In this case, additional welfare-enhancing trade is created.

Regional trade initiatives can also have beneficial indirect effects. Opening domestic markets to partner countries, for example, can increase competition in sectors with previously highly concentrated industrial structures and thereby reduce the monopolistic pricing power of incumbents. Such pro-competitive impacts are particularly important for countries like Tanzania that have only a nascent domestic competition policy, while showing significant concentration in some industrial sectors, such as cigarette manufacturing and beer brewing.

Other benefits include harmonization of customs procedures and domestic regulations, which can help facilitate trade and foreign direct investments. In addition, RTAs can also be used as laboratories for international integration, training grounds for negotiations at a broader level, and strategic means of trade policy making. By teaming up with regional partners, countries may be able to increase the weight of their positions in international trade negotiations and possibly

achieve more favorable negotiation outcomes. Also, regional trade agreements make it possible for countries to gain some control over the trade policy of their partner countries.

However, engaging in RTAs also implies passing parts of a country's sovereignty on to the regional bloc. For instance, as a result of joining the EAC customs union, Tanzania can no longer freely decide on its level of import duties, but depends on consensus with Kenya and Uganda to pursue changes to the common external tariff. Hence, the institutional framework for trade policy making changes. Moreover, by concluding a customs union, countries may implicitly have to abide by international commitments of their trading partners that are more stringent than their own. In the case of the EAC, Kenya and Uganda have scheduled lower WTO-tariff bindings than Tanzania (Table 3.9). While these commitments do not formally limit Tanzania's ability to raise the tariffs it applies towards its own binding level, the country would not be able to do so if it violates the common external tariff—that is, if one of its EAC partners faces a binding WTO commitment in the respective tariff lines.

Table 3.9: WTO Tariff Bindings of EAC Members

Country	Number of bound tariff lines	Minimum binding (%)	Maximum binding (%)
Kenya	748	18	100
Tanzania	755	120	120
Uganda	815	40	80

Source: World Bank Staff based on WTO Consolidated Tariff Schedules database accessed through WITS.

More importantly, RTAs may result in losses of government revenues as tariffs on intra-regional trade are phased out (as discussed earlier), or promote costly trade diversion rather than welfare-enhancing trade creation, if trade is shifted from efficient producers outside the RTA to preferential trading partners that produce at higher costs. In this case, government loses tariff revenue on imports from third countries, without domestic producers benefiting to a corresponding extent from lower import prices.

A recent review of studies on the trade and welfare effects of customs unions concluded that the elimination of intra-regional trade barriers between small developing countries is likely to generate mostly trade diversion and little trade creation, unless significant reductions in MFN-tariffs accompany the regional integration efforts.[40] The risk for trade diversion is particularly high if, in addition, trade with partner countries in the RTA accounts for only a small share of overall trade,[41] as is the case of Tanzania. Tanzania sources very few products exclusively from EAC partners. Indeed, for nearly all tariff lines, imports from third countries dominate imports from Kenya and Uganda.[42] Hence, there is a risk that the extension of EAC preferences leads to a substitution of regional for third country imports instead of creating new trade.

Analysis using a partial equilibrium model that takes into account the response of producers and consumers to tariff and price changes following the customs union formation suggests that imports into Tanzania from EAC partners would grow by 3.1 per cent over 2002-levels following the complete phase-out of intra-regional tariffs, while imports from third countries would increase by 14.5 per cent.[43] If the top CET rate were to be reduced to 20 per cent, the study finds that imports from third countries would grow by 16.3 per cent compared to the 2002-baseline, while imports from EAC partners would increase by only 2.4 per cent. These results imply that a

[40] Schiff and Winters (2003).
[41] World Bank (2004).
[42] Castro, Kraus and De La Rocha (2004).
[43] Castro, Kraus and De La Rocha (2004).

lowering of MFN-tariffs would result in a reduction (or slower growth compared with the baseline) of intra-regional trade. Hence, at least some of the new EAC trade seems to be merely the consequence of regional tariff preferences rather than comparative advantage. In other words, the EAC customs union is diverting trade away from third countries.

Another way to evaluate the economic effects of regional integration is to assess the complementarities of the countries' trade structures using a bilateral product complementary index (the higher the index, greater the product complementarity).[44] Based on 2003 trade data, the EAC partner complementarity fall short of those for well established, successful regional trade initiatives, such as the European Union (EU) and the North American Free Trade Agreement (NAFTA), but exceed those of failed RTAs, such as the Latin American Free Trade Association (LAFTA) and the Andean Pact.[45] In any case, the EAC index values are relatively large by regional standards and compare well with bilateral complementarity indices between COMESA and SADC partners.[46] Yet despite the low intra-regional trade intensity and complementarity in Southern Africa, *ex-ante* analysis using a computable general equilibrium model predicts that the formation of the SADC free trade area will be net welfare-improving, with Tanzania, however, reaping smaller benefits in relation to its GDP than other SADC members.[47]

While further quantitative analysis of the economic effects of regional integration initiatives in Eastern and Southern Africa seems warranted, the available evidence suggests that there is considerable uncertainty about whether the existing regional agreements are in the best economic interest of Tanzania and its partner countries in the region. The authorities should try to maximize the benefits from Tanzania's RTAs by pursuing deeper integration through harmonization of trade standards and behind-the-border regulations. Differences between EAC member states in areas such as customs procedures, quantitative restrictions, competition policy, contingency trade remedies, and internal taxes are undermining the utility of having a CET. Therefore, harmonizing policies in these areas throughout the EAC should be a priority since it would reduce transaction costs for traders, discourage smuggling and tax evasion, and further promote integration within the EAC, and between it and the rest of the world. In parallel, GOT should follow a paradigm of open regionalism by continuing to push for lower external trade barriers in order to counter the risk of trade diversion. RTAs should generally be seen as a means of economic cooperation that can contribute to the achievement of the country's overall development strategy, but that can not be a substitute for continuing domestic policy reform and multilateral trade liberalization.

Overlapping Membership in Regional Agreements

The simultaneous participation in several RTAs poses a number of challenges for trade policy makers in Tanzania and in its EAC partners. As discussed earlier, Tanzania is a member of SADC, but not of COMESA, while Kenya and Uganda are members of COMESA, but not of SADC. This asymmetric configuration has the potential to create confusing and conflicting

[44] This index is used to analyze the similarities between the export basket of one country and the import basket of another country (Tsikata, 1999). The value of this index can range from one (no complementarity between exports and imports of two countries), to 100 (perfect match).

[45] The bilateral product complementary index for Tanzania's export and Kenya's imports is 52.8 and for Tanzania's imports and Kenya's exports a value of 42.0. The corresponding values for Tanzania's trade with Uganda are 49.7 and 31.0. The indices for other RTAs are: EU 53.4, NAFTA 56.3, LAFTA 22.2 and the Andean Pact 7.4.

[46] Only in a few cases for COMESA and SADC partners did the index exceed 25 (Khandelwal, 2004).

[47] Lewis, Robinson and Thierfelder (2003).

situations, which are bound to intensify over time as the respective integration agendas of EAC, SADC and COMESA are deepening.

Multiple membership of overlapping RTAs creates demanding requirements in several respects. In the private sector, traders have to operate within different trade regimes, each with its own tariff rates, regulations and procedures. In the public sector, negotiating and serving different regional initiatives can absorb large amounts of scarce administrative resources and occupy policymakers' attention to a considerable extent. In addition, budgetary contributions from member states towards the administration costs of the various RTAs can be a significant burden, as indicated by the cumulative (annual) arrears in membership contributions in SADC and COMESA.[48] Also, judicial conflicts might arise out of the existence of alternative legal frameworks and dispute settlement mechanisms.

One issue of particular concern are the potentially significant costs that can result from the need to comply with multiple rules of origin regulations.[49] The EAC agreed on rules of origin that are generally in line with those used in COMESA, which specify a local value addition requirement of 35 per cent or a change in tariff heading, but for a number of tariff lines more complex, sector and product-specific rules of origin, as in SADC, were adopted. This situation with different rules of origin in EAC, SADC, and COMESA may pose problems for firms in EAC members as they may need to adjust their production or trade operations depending on which country they are exporting to. The most likely outcome is that firms would be compelled to focus on only certain export destinations. Also, situations at the border may arise that are open to abuse or subject to excessive bureaucracy, thereby inflicting costs on traders in addition and beyond those related to compliance with the applicable rules of origin regulations.[50]

Another type of problem from overlapping RTA-membership relates to conflicting liberalization commitments and requirements in different agreements.[51] The SADC Trade Protocol (Article XXVIII, paragraph 2) states that member states cannot enter into a preferential trade agreement with third countries that may "*impede or frustrate the objectives of this protocol and that any advantage, concession, privilege or power granted to a third country under such agreements is extended to other Member States.*" A similar provision is included in Article 56 of the COMESA Treaty. Since upon joining the EAC customs union, Tanzania has granted market access preferences to Kenya and Uganda that exceed those given to its SADC partners, the literal reading of the provision implies the requirement to extend the EAC free intra-regional trade benefits also to all SADC countries. However, paragraph 3 of the same Article grants countries an exception from the obligation to extend preferences if the additional concessions are undertaken in the context of an agreement that preceded the Trade Protocol. As the EAC Treaty came into force three months before the SADC Trade Protocol, the waiver could apply.

Indeed, after deliberating on the matter, the EAC Council decided not to extend the EAC market access benefits to SADC and COMESA partners. However, the EAC members were allowed to continue with their existing obligations to SADC and COMESA and imports from the respective countries were exempted from the EAC's common external tariff. This continuation of member-specific preferences within the customs union could result in trade deflection, unless border controls are maintained for strict intra-EAC policing of trade, notably verification of rules of origin. Otherwise, Egyptian traders, for example, could export goods duty free to Kenya under

[48] Kritzinger-van Niekerk and Moreira (2002).
[49] Brenton and Imagawa (2004).
[50] Hess (2004).
[51] Bohanes (2002).

the COMESA free trade arrangement and the local importers could then ship them to Tanzania duty-free under EAC preferences. Conversely, SADC members could use Tanzania as a transit route to Kenya and Uganda. Similar trade deflection could occur as a result of differences among EAC partners in tariff exemptions, providing a strong argument for their harmonization.[52] To counter any unintended extension of preferences, border controls will have to be maintained for strict policing of the trade between the EAC partners. Indeed, as long as the situation of overlapping membership remains, the EAC will not be able to become a fully functioning customs union, and its members will not be able to reap the benefits of free internal movement of goods.[53]

Over the past years, SADC, COMESA and the EAC have been working more closely together in areas such as regional trade analysis, capacity building, and transport facilitation. So far the economic integration schedules and the move towards freer intra-regional trade have not resulted in any major inconsistencies. Yet, the formation of the EAC customs union and the possibly resulting problems of trade deflection highlight the emerging integration conflicts, as the individual trade initiatives deepen their status. Both COMESA and SADC are also hoping to form customs unions in the medium-term future. Since one country can not realistically apply two different common external tariffs, Tanzania and its EAC partners are sooner or later bound to face the choice about which agreement they want to go with.

Some analysts have suggested that Tanzania, Kenya and Uganda should resign, respectively, from SADC and COMESA, while retaining their political affiliation through an "Associate Membership." The status of the latter would grant the right to attend meetings as observers, but would be free of tariff obligations and carry reduced membership fees. The EAC would then negotiate preferential agreements covering all of the partner countries within SADC and COMESA.[54] Others have suggested that the Cotonou Agreement and the Economic Partnership Agreement negotiations with the EU could become the external driving force that would push the regional organizations to rationalize and harmonize their trade agreements[55] (see Chapter 4 for a more detailed discussion of this). What seems important, in any case, is that policy makers are aware of the possibly emerging conflicts in integration and liberalization schedules between different RTAs and ensure sufficient flexibility in their integration commitments to avoid contradictory requirements.

3.5 TRADE POLICY AND POVERTY

Changes in trade policy can have strong implications on poverty. If changes in the domestic tariff structure reduces anti-export bias, they can promote exports, and hence growth, and in turn reduce poverty. Conversely, changes in domestic tariff structure that increases anti-export bias would have the opposite effect. Changes in the domestic tariff structure can also affect poverty by changing the prices paid and received by the poor, and the returns to the factors of production that the poor have to offer.

This section presents estimates the impact on household income and poverty levels arising from changes in the tariff structure through the adoption of the CET of the EAC, as well as those from lowering of the CET, as envisioned by the EAC. It is important to note that these estimates represent short-term effects only, that is, those arising from price changes. Over the longer-term,

[52] Castro, Kraus, and de la Rocha (2004).
[53] Hess (2004).
[54] Hope, Bhowon and Ruhindi (2003).
[55] De La Rocha (2003) and Hinkle and Schiff (2004).

there will also be production changes in response to the changes in prices, which will affect the incomes of households. The simulation results therefore overestimates the losses and underestimate the gains over the long-term.[56] Nonetheless, it is important to ascertain the short-term effects, in case there is need for measures to alleviate potential adjustment costs. International experience[57] indicates that trade policy changes can have significant negative effects on poverty for several reasons, including limited mobility of labor, which, in the absence of re-training, would find it difficult to move to expanding sectors.

The most recent change in trade policy regime in Tanzania—the adoption of the CET of the EAC which lowered average tariff from 13.8 to 12.3 percent—reduced tariffs on industrial goods, but raised average tariffs on agricultural goods. Higher protection in agriculture is likely to benefit households that receive a large share of their income from agriculture, and hurt those whose main source of income is non-farm wages. Indeed, comparison of the average tariff applied to each household consumption and production (income) bundle[58] under the 2004 MFN tariff rates and under the 2005 EAC CET rates indicates that *the EAC CET has been pro-poor* (Table 3.10): although the overall protection rate decreased with CET, the average tariff on net household income under the new regime is higher for poor households than rich ones, whereas the reverse was true under the old previous tariff regime.

Tables 3.11-13 present estimates of the overall consumption and income effects of these tariff changes from the baseline of MFN 2004 tariffs, to the current EAC CET with some items having over 25 percent tariff (Scenario A), as well as to three other alternative scenarios of maximum tariff of 25, 20 and 15 percent, with no items having tariffs above the maximum (Scenarios B, C, and D, respectively).

Under Scenario A, the simulations indicate an average increase in household consumption of 1.3%, and in household income of 0.35%, which in combination results in a reduction of 0.95% in net income (Table 3.11). The main losses, though, seem to be incurred by the richer households and in the Dar Es Salaam region (Tables 3.12 and 3.13). This is as expected since the main change with the adoption of the CET has been toward higher rates in agriculture and lower on industrial products. The change in overall poverty is, however, insignificant.

Under Scenario B, where all the items above the maximum tariff rate of 25 percent are reduced to 25 percent, there is a smaller net reduction in net income (0.46%), which results from smaller increases in both household consumption (0.5%) and income (0.04%). Again, the main losses are incurred by the richer households and in the Dar Es Salaam area, but not much change in the overall poverty rate.

Reducing the maximum tariff for all items to 20 percent (Scenario C) reduces net household income by 0.46 percent (same as Scenario B), but the negative effect on net household income is larger (-1.26 percent) if the maximum tariff is reduced further to 15 percent (Scenario D). Under either Scenarios C or D, the brunt of the losses fall again on the richer households as well as on Dar, but in Scenario D the losses in rural areas are larger than under any other scenarios. Nonetheless, the impact on overall poverty remains small.

[56] Methodological details are given in Appendix 2.
[57] See *Lessons of Growth in the 1990s*, World Bank (2005).
[58] The average tariff on the consumption bundle is calculated as the consumption-weighted average tariff imposed on the consumption bundle of each household. The average tariff on net household income is derived as the average tariff on income sources minus average tariff on consumption bundle.

Table 3.10: Average Tariff on Household Consumption Basket, Incomes, and Net Incomes by Expenditure Deciles under 2004 MFN rates and 2005 EAC CET rates

Expenditure decile	Cons '04	Cons '05	Income '04	Income '05	Net Income '04	Net Income '05
1	9.28	10.60	11.58	12.44	2.30	1.84
2	9.16	10.61	11.58	12.37	2.42	1.76
3	9.12	10.55	11.61	12.43	2.49	1.88
4	9.13	10.56	11.85	12.49	2.72	1.93
5	9.14	10.55	11.39	12.09	2.26	1.53
6	9.09	10.50	11.97	12.55	2.88	2.04
7	9.13	10.51	11.85	12.33	2.72	1.82
8	9.00	10.32	11.80	12.12	2.80	1.81
9	8.93	10.18	11.37	11.49	2.44	1.31
10	8.62	9.70	11.47	11.29	2.84	1.59
Dar	7.85	8.82	12.70	11.74	4.84	2.91
Other Urban	8.95	10.22	10.52	10.51	1.58	0.29
Rural	9.20	10.58	13.37	14.56	4.17	3.98
All	8.97	10.27	11.61	11.96	2.64	1.69

Source: Author's calculations using HS2 Level Tariff data and 200/2001 HBS.

Table 3.11: Percentage average change in consumption, income and net household income due to changes in tariff policy

	Scenario A	Scenario B	Scenario C	Scenario D
% Change in consumption	1.30%	0.50%	-0.74%	-2.54%
% Change in income	0.35%	0.04%	-1.20%	-3.80%
% Change in Net household Income	-0.95%	-0.46%	-0.46%	-1.26%

Table 3.12: Percentage average change in net household income due to changes in tariff policy, by expenditure deciles and area

Expenditure deciles	Scenario A	Scenario B	Scenario C	Scenario D
1	-0.46%	-0.06%	-0.19%	-0.97%
2	-0.66%	-0.24%	-0.33%	-1.12%
3	-0.61%	-0.15%	-0.20%	-1.04%
4	-0.79%	-0.38%	-0.47%	-1.30%
5	-0.72%	-0.29%	-0.33%	-1.08%
6	-0.84%	-0.42%	-0.50%	-1.36%
7	-0.90%	-0.43%	-0.43%	-1.27%
8	-0.99%	-0.51%	-0.52%	-1.35%
9	-1.13%	-0.59%	-0.52%	-1.25%
10	-1.26%	-0.68%	-0.59%	-1.40%
Dar Es Salaam	-1.93%	-1.45%	-1.55%	-2.58%
Other Urban Areas	-1.29%	-0.72%	-0.54%	-1.06%
Rural Areas	-0.19%	-0.16%	-0.13%	-1.41%
Overall	-0.95%	-0.46%	-0.46%	-1.26%

Table 3.13: Poverty rates (headcount ratio) and tariff policy

	Before	Scenario A	Scenario B	Scenario C	Scenario D
Dar Es Salaam	17.6%	18.3%	18.3%	18.4%	18.5%
Other Urban	25.9%	26.9%	26.4%	26.4%	26.4%
Rural	38.6%	38.9%	38.5%	38.5%	39.6%
Overall	35.3%	35.7%	35.3%	35.4%	36.2%

The relatively positive potential impacts of introducing the CET do not take into account the implications of trade diversion risk caused by the RTAs. As discussed in the previous subsection, RTAs are likely to generate trade diversion and contribute little in terms of trade creation. The risk of trade diversion could be particularly significant if historically there is little trade with EAC partners in sectors for which the CET is high. This is particularly the case for the food and apparel sectors, which accounted for less than 10 percent of total imports from EAC partners in 2003, but on which the average CET exceeds 20 percent. Given that the budget share of food is typically very large for poor households, the impact on the poor can be significant depending on the share of imported food items.

4. MARKET ACCESS AND TRADE PREFERENCES

4.1 MARKET ACCESS

Most of Tanzania's current exports face no customs duties, mostly because of either zero or low MFN rates set by the importing countries on these products, or because Tanzanian exporters take advantage of preferential access such as under the Generalized System of Preferences (GSP). In 2003, 82.7 percent of Tanzania's exports went to OECD countries, around two-thirds of which faced MFN tariffs of zero percent (Table 4.1). The low or zero MFN tariffs also mean that the value of preferences is small relative to the value of exports, even though current exporters take advantage of most the trade preferential programs available. Tanzania requested preferences only on 5 percent of its exports to the EU (with exports of sugar and fish accounting for most of the preferences received from that market), and less than 1 percent of its exports to Japan and the U.S., respectively.

Although most of Tanzania's exports enjoy low MFN duties and trade preferences, Tanzania does face problems with respect to market access, as follows.

First, relatively high MFN tariffs in non-OECD markets. Although less than 20 percent of Tanzania's exports go to non-OECD countries, these are important markets for Tanzania on an individual country basis. India, for instance, was Tanzania's top export partner in 2003, absorbing around 10 percent of Tanzanian exports. Tanzania also faces the highest tariffs in the India market compared to other markets – the MFN rate is higher and there are very few zero tariff lines (Table 4.1). China is another important individual market, ranking among Tanzania's top ten export destinations and absorbing 2.7 percent of Tanzania's exports in 2003. Some of Tanzania's major exports, such as tea and coffee, face high duties in China as well as in India.

Second, tariff peaks. Tariff peaks, or particularly high tariffs, also constrain Tanzania's integration into the world economy. Table 4.2 ranks Tanzania's largest exports by the degree of protection they face in importing country markets (that is, the value of tariffs that would be collected at MFN rates). The table shows that Tanzanian exporters face important tariff barriers in India and China for products such as cashews, legumes, and gemstones in India, and cotton in China.[59] Both economies are experiencing rapid economic expansion, so one should expect their demand for these products to remain high in the future. China's global demand for cotton, in particular, will likely increase if China is able to expand fabric production in the wake of the abolition of quotas.

[59] In addition to levying an import duty of 47 percent, China also shields its domestic growers with subsidies and other measures totaling $1.2 billion in 2002, second to the U.S with $3.6 billion, and above the EU ($1.1 billion) and India ($500 million). See John Baffes, "Cotton: Market Setting, Trade Policies, and Issues," in *Global Agricultural Trade and Developing Countries* edited by M. Ataman Aksoy and John C. Beghin (Washington: The World Bank, 2005), pp. 259-273.

Table 4.1: MFN Tariffs and Tanzania's Exports, 2003

Region or Country	Product	Simple Average Tariff (%)	Weighted Average Tariff (%)	Value of Exports ($000)	Value in duty-free lines ($000)	Share of Total Exports	Share of duty-free lines in exports
World	All Products	9.8	4.8	1,017,182	631,359		
	Agriculture	10.3	8.6	259,428	117,224		
	Textiles and Clothing	15.2	11.4	13,967	38		
OECD	All Products to OECD	5.3	3.7	840,947	577,154	82.7%	68.6%
	Agriculture	7.7	7.1	177,961	91,496	17.5%	51.4%
	Textiles and Clothing	9.4	8.8	8,770	37	0.9%	0.4%
of which:							
EU	All Products to EU	4.9	3.2	689,634	465,305	67.8%	67.5%
	Agriculture	5.8	2.1	120,176	53,275	11.8%	44.3%
	Textiles and Clothing	8.7	10.4	4,528	-	0.4%	
Japan	All Products to Japan	2.4	0.3	99,826	92,415	9.8%	92.6%
	Agriculture	2.6	0.3	29,048	27,705	2.9%	95.4%
	Textiles and Clothing	4.8	0.8	1,571	-	0.2%	
U.S.	All Products to U.S.	3.4	2.7	25,386	13,849	2.5%	54.6%
	Agriculture	1.8	0.5	9,009	7,510	0.9%	83.4%
	Textiles and Clothing	8.6	11.4	2,063	-	0.2%	
COMESA (All)	All Products to COMESA	13.5	12.3	76,877	3,808	7.6%	5.0%
	Agriculture	14.6	11.2	25,106	1,167	2.5%	4.6%
	Textiles and Clothing	18.0	17.0	2,896	0	0.3%	0.0%
SADC (All)	All Products to SADC	17.3	13.4	17,502	503	1.7%	2.9%
	Agriculture	14.8	7.3	6,350	0	0.6%	0.0%
	Textiles and Clothing	22.5	22.7	1,267	0	0.1%	0.0%
India	All Products to India	31.5	32.0	76,729	37	7.5%	0.0%
(2001 data)	Agriculture	34.1	31.8	57,162	37	5.6%	0.1%
	Textiles and Clothing	27.5	22.0	14	0	0.0%	0.0%
China	All Products to China	7.9	11.8	27,567	16,590	2.7%	60.2%
	Agriculture	15.4	35.0	8,981	0	0.9%	0.0%
	Textiles and Clothing	6.0	6.0	96	0	0.0%	0.0%

Source: WITS calculations using tariff data from the UNCTAD Trains database and trade from the UN Comtrade database. "World" includes only 2003 data; the most recent Indian tariff and trade data come from 2001. Notes: Tariffs on non-traded products are excluded; SADC and COMESA include all members, including countries that are in both (for example, Zambia) regardless of participation in trade liberalization protocols. All export values are based on mirror statistics, that is, reports by the importing countries.

Table 4.2: Exports Facing Greatest MFN Protection, 2001-2004

Product Name	Importer	Potential MFN duties ($000)	Value of Imports ($000)	Average MFN Tariff Rate	Tariff Year
Fish fillets, fresh or chilled	EU	12,869	96,689	13.3	2002
Cashew nuts	India	11,703	33,436	35.0	2001
Cut flowers, fresh	Norway	6,072	3,596	168.9	2003
Rough gemstones (other than diamonds)	India	5,742	16,405	35.0	2001
Fish fillets, frozen	EU	2,016	19,609	10.3	2002
Other legumes, dried and shelled	India	1,660	4,744	35.0	2001
Peas, dried and shelled	India	1,512	3,024	50.0	2001
Chickpeas, dried and shelled	India	1,383	3,952	35.0	2001
Shrimps and prawns, frozen	EU	1,037	8,131	12.8	2002
Cotton, not carded or combed.	China	990	2,098	47.2	2004

Source: Importer data from UN Comtrade and tariff data from UNCTAD Trains for the most recent year when data are available.
Notes: data are at 6-digit level; duties calculated by multiplying average MFN duties by the reported import flow.

Tanzania also faces high tariffs on certain products in some markets to which it does not currently export, but which it has the potential to either because it is already exporting those products to other markets, or because these are products for which Tanzania has clear comparative advantages. For instance, tea and coffee are amongst the most important traditional exports of Tanzania, but the country does not presently export either of them to either India or China, both large sources of tea consumption as well as high protection. India levies MFN duties of 100 percent on all types of tea and coffee. Tea faces MFN duties of 15 percent in China; coffee duties of 8 to 15 percent, rising with the degree of processing.

In addition to high tariffs on certain products in developing country markets, Tanzania also face high ad valorem tariffs on some products in the EU, Japan and the U.S,[60] which may be discouraging exports by Tanzanian companies which arguably could produce them competitively. These include, to the EU, fruit and vegetable juice (MFN rates as high as 34 percent), preserved fish and seafood (20-25 percent), and saltwater fish fillets (18 percent); to Japan, sugar and sugar syrups (as high as 50 percent), meats (50 percent), maize (50 percent), skins, hides, and leather (30 percent), footwear (30 percent), and fruit juices (25–30 percent); and to the U.S., tobacco (350 percent on out-of-quota), footwear (35–50 percent), and fabric and garments (20–30 percent). In some of these cases preferences do not exist and high MFN tariffs block trade directly (for example, sugar in Japan, and textiles and out-of-quota tobacco in the U.S.). Even where preferences are available and Tanzania currently export the product, traders do not necessarily receive tariff preferences on every shipment (for example sugar and fish in the EU and t-shirts in the U.S.) (see discussion later in section on Preferential Market Access).

Third, escalation of tariffs. Tariff escalation (higher tariffs on more highly processed goods than on unfinished items) can constrain Tanzania's exports even in markets where trade preferences are present because the rules of origin on many processed goods tend to be more complicated or harder to meet than rules on raw materials or unfinished products. For example, rules of origin would be hard to meet when critical inputs must be imported, for example glues for laminated wood products, buckles and other hardware for luggage, or packaging materials for all manner of

[60] These countries impose non-ad valorem duties (for example specific, compound, seasonal) on certain agricultural products. Such forms of duties often disguise high levels of ad valorem protection.

manufactured goods. The result is that it is more difficult for Tanzania to export more processed products, as such products face higher levels of protection in foreign markets.

Coffee provides one example of tariff escalation. In China, for example, the MFN rate on un-roasted coffee is 8 percent, 15 percent on roasted, and 30 percent on coffee substitutes that contain coffee. The EU has no tariffs on coffee that has been neither roasted nor decaffeinated, but imposes MFN tariffs of 7.5 percent on roasted coffee, 8.3 percent on decaffeinated, and 11 percent on coffee that is both roasted and decaffeinated.

Figure 4.1 presents information on MFN tariff escalation by stage of production in the EU, Japan and U.S.[61] It displays the simple average tariff rates on semi-processed and fully-finished goods in those countries as multiples of the average tariff rate on goods at the first stage of production in manufacturing industries. The EU's average tariffs on semi-processed and fully finished goods are four times higher than the tariff on goods at the first stage of production. In the U.S., tariffs triple as goods become more processed. Japan's tariff structure is more uniform but it starts from a higher base (and average rate of 3.0 percent on goods at the first stage versus rates in the EU and U.S. of 1.2 and 1.3 percent, respectively).

Fourth, quotas and tariff rate quotas. Two of Tanzania's more important agricultural exports face tariff quotas in the U.S: tobacco and sugar. Most of Tanzania's tobacco exports to the U.S. are partially processed tobacco not used for cigarettes. Tanzania does not presently export cigarette tobacco, the average unit values of which have been higher and more stable in recent years than other types of tobacco, suggesting that it may be a profitable product to export. The U.S regulates imports of cigarette tobacco with a tariff rate quota where the in-quota shipments face specific duties of 37.5 cents/kg (around 10–15 percent ad valorem, based on average prices) and out-of-quota shipments face 350 percent duties.[62] Tanzania must compete with other countries for the very small share of the total quota that is not already allocated to a specific country.

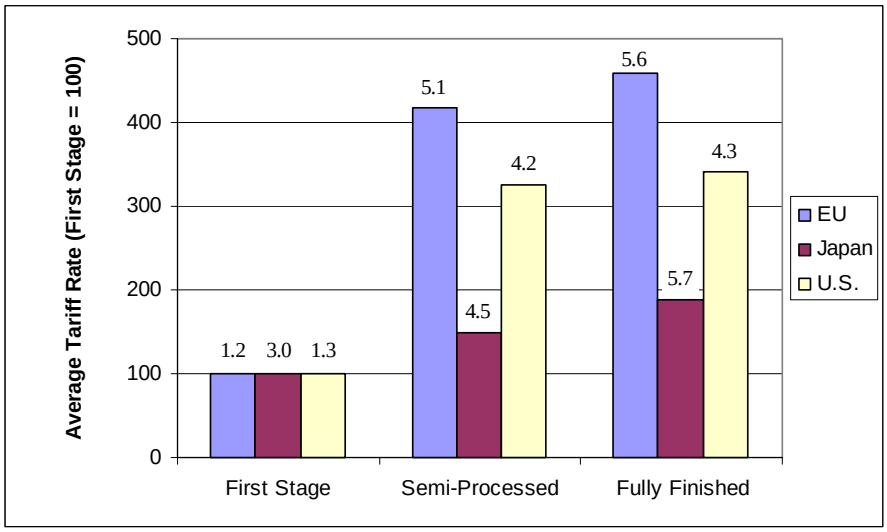
Many governments around the world intervene in sugar markets. Tanzania gains from this intervention in the EU. Tanzania ships sugar to the EU on exceptionally favorable terms: a guaranteed price for sugar shipped within its quota. This generates very large preferential margins (67 percent) and a high value of preferences. In other countries, however, government interventions block Tanzanian sugar. The U.S. maintains import quotas on sugar but, unlike the EU, does not allocate any rights to Tanzania. Most countries with quotas to export sugar to the U.S. completely fill their quota (including the Dominican Republic, which holds the largest quota). This pushes up the U.S. price of sugar above the world price, that is, the price that Tanzania can receive.[63]

[61] Industry definitions follow the International Standard Industrial Classification (ISIC). The stage of processing classification used here is one developed by the WTO Secretariat.

[62] The out-of quota shipments are not eligible for AGOA preferences.

[63] The average price of all sugar exported to the U.S. in 2003 was around $300/metric ton; Tanzania receives a price of $215/metric ton on world markets and $500/metric ton from the EU.

Figure 4.1: Tariff Escalation in Manufacturing Industries



Source: DTIS team calculations using tariff schedules reported to UNCTAD.
Notes: Numbers above bars are the average tariff rates; manufacturing industries are defined according to ISIC Rev. 2 classification and stages of processing are defined using the WTO's classification.

Market access and poverty

The preceding discussion highlights the market access constraints that Tanzania faces for some products and in some markets. From the analysis of the poverty profile in Chapter 1, many of these products are also the ones that provide the most significant incomes sources for the poor, or that have a significant potential to raise poor household incomes. Cotton, cashew nuts, gemstones, and fish, for example, are amongst these highly protected commodities. At the same time, households whose main source of income is sales of cash crops, such as cashew nuts and cotton, have on average 20 percent more income than those that depend on food crops. Similarly, those households that report fishing as their main activity are much less likely to be poor. A reduction in export barriers for these commodities could attract households to these sectors and increase their incomes while at the same time increase demand in the importing country. The same potential applies to non-traditional exports, such as horticulture—fruits, vegetables, and cut flowers. A recent study on Kenya[64] shows that enabling more households to participate in the export horticulture sector could indeed reduce poverty significantly though intensive use of land and unskilled labor.

4.2 PREFERENTIAL MARKET ACCESS

Tanzania, as a least developed country, receives preferential access to developed country markets under a variety of schemes. The schemes, extended by Tanzania's major developed country export partners, are as follows[65]:

[64] McCulloch and Ota (2002).
[65] See Volume 2, Chapter 2 for a detailed discussion of the evolution and current status of these schemes.

- EU – GSP, the Cotonou Agreement, and the Everything But Arms (EBA) initiative
- Japan – GSP
- U.S. – GSP and the US Africa Growth and Opportunity Act (AGOA)

Scope of preferences

These three markets make preferences available on most of Tanzania's exports that are dutiable—preferences can be applied for all dutiable exports to the EU, all dutiable manufactured exports to Japan, and all dutiable agricultural exports to the U.S. (Table 4.3). However, only 62 percent of dutiable manufactured exports to the U.S. are eligible for preferences, and a mere 8.5 percent of dutiable agriculture exports to Japan.

Both the U.S. and Japan exclude from preferences a number of products that are important to Tanzania. Japan excludes processed fish products. While Japan's MFN rate is relatively low (3.5 percent), this product makes up 80 percent of Tanzania's total dutiable exports to Japan.[66] Sugar, an important Tanzanian export to the EU, is not eligible for preferences in Japan, which levies duties of up to 50 percent ad valorem. Japan also excludes tea from its GSP program, which faces an MFN rate of 9 percent. Tanzania does not export either of these products to Japan.

The U.S. excludes textiles from AGOA (and therefore GSP), which includes articles such as linens, towels, and blankets, in addition to fabric used to make garments. Textiles made up about one-fifth of all dutiable exports from Tanzania to the U.S. in 2002–2003. The particular textile products that Tanzania exports to the U.S. paid duties of just under 10 percent ad valorem. (The U.S. levies tariffs of up to 18 percent on many similar textile products.) Textiles are important for two reasons. Some types can be produced competitively using labor-intensive technologies, so Tanzania could potentially have a comparative advantage. In addition, all of these products are covered by some of the preferential agreements the U.S. has signed with other countries (notably Mexico) that compete with Tanzania, which means that regardless of what happens to MFN tariffs in the Doha Round, Tanzania's preference margins are shrinking due to increased use of regional free trade agreements.

Use of preferences

Tanzanian exporters take advantage of essentially all preferences that are available to them in Japan, but their utilization of preferences in the U.S. and EU is somewhat lower. Traders request preferences for 78 percent of eligible exports to the EU (2002) and 67 percent of eligible exports to the U.S. (2002-2003). Forgone preferences in the U.S. include certain types of tobacco (which face duties of 23.9 cents/kg for less processed tobacco and 37.5 cents/kg for more processed types), fresh cut roses (MFN tariff of 6.8 percent), t-shirts and other garments (MFN tariffs range from 8 to 20 percent), and certain gemstones (10.5 percent).[67] The main products for which traders did not request European preferences in 2002 include fish fillets, tobacco and cut flowers. MFN duties on these products range from 8.5 to 10 percent, although saltwater fish fillets face tariffs of 18 percent.

[66] Japan reports imports of fish fillets (tariff code 030420099) totaling 1.1 billion yen in 2002. Total dutiable imports from Tanzania that year summed to 1.37 billion yen.

[67] The duties paid on tobacco imported into the U.S. accounted for 78 percent of all customs duties actually paid on Tanzanian goods for which the U.S. has offered preferences. Over one-quarter of all U.S. imports from Tanzania in 2002–2003 were gemstones, the vast majority of which were partially worked semi-precious stones that face zero MFN duties.

Table 4.3: Preferences in Major OECD Markets, 2002

Imports into European Union (2002)	***Agriculture***	***Manufacturing***	***All Trade***
Total Shipments (euros)	243,179,770	166,399,880	409,579,650
Dutiable trade (MFN tariff > 0)	201,541,170	10,069,570	211,610,740
Share of trade in duty-free lines	17%	94%	48%
Trade eligible for preferences	201,541,170	10,069,570	211,610,740
Trade requesting preferences	158,583,710	7,411,450	165,995,160
Share of eligible trade requesting preferences	79%	74%	78%
Share of total trade requesting preferences	65%	4%	41%
Potential value of preferences	25,255,686	655,084	25,910,770
Value of preferences actually requested	21,335,380	549,512	21,884,892
Preference utilization rate	84%	84%	84%
Potential preferential margin	13%	7%	12%
Realized margin on trade eligible for preferences	11%	5%	10%
Imports into Japan (2002)	***Agriculture***	***Manufacturing***	***All Trade***
Total Shipments (100 yen)	40,067,460	91,567,550	131,635,010
Dutiable trade (MFN tariff > 0)	12,424,380	1,284,870	13,709,250
Share of trade in duty-free lines	69%	99%	90%
Trade eligible for preferences	1,051,320	1,284,870	2,336,190
Trade requesting preferences	1,042,220	1,284,870	2,327,090
Share of eligible trade requesting preferences	99%	100%	100%
Share of total trade requesting preferences	3%	1%	2%
Potential value of preferences	127,663	19,114	146,777
Value of preferences actually requested	127,508	19,114	146,622
Preference utilization rate	100%	100%	100%
Potential preferential margin	12%	1%	6%
Realized margin on trade eligible for preferences	12%	1%	6%
Imports into United States (average 2002-2003)	***Agriculture***	***Manufacturing***	***All Trade***
Total Shipments (dollars)	12,529,314	12,259,495	24,788,809
Dutiable trade (MFN tariff > 0)	1,173,531	1,531,086	2,704,617
Share of trade in duty-free lines	91%	88%	89%
Trade eligible for preferences	1,173,531	952,561	2,126,092
Trade requesting preferences	564,295	866,611	1,430,906
Share of eligible trade requesting preferences	48%	91%	67%
Share of total trade requesting preferences	5%	7%	6%
Potential value of preferences	86,152	116,070	202,222
Value of preferences actually requested	30,780	104,940	135,720
Preference utilization rate	36%	90%	67%
Potential preferential margin	7%	12%	10%
Realized margin on trade eligible for preferences	5%	11%	6%

Sources: Official data from the European Commission and Governments of Japan and the United States.
Notes: The value of preferences is the value of foregone customs duties on trade eligible for preferences ("potential value of preferences") or on trade requesting preferences ("value of preferences actually requested"), calculated by multiplying the value of imports by the margin between MFN and preferential tariff rates. The potential preference margin × the preference utilization rate = the realized margin on trade eligible for preferences.

In many of these cases, traders requested preferences for some shipments of a product (that is a tariff line item) but not other shipments to the same country and in the same year. For example, the U.S. imported $1.13m. of stemmed/stripped tobacco in 2002, of which only $139,000 entered under AGOA while the rest faced MFN duties. Some shipments of saltwater fish filets that Tanzania exported to the EU in 2002 faced MFN duties of 18 percent while others entered preferentially, paying zero duties. The EU imported some freshwater fish filets under GSP, some under Cotonou, and others at MFN rates. This means that exporters did not forego these and many other preferences solely out of ignorance about the availability of preferences or conditions on their use. It also implies that either the products did not satisfy the importing country's rules of origin (for example because the value added in Tanzania was too small) or the cost of demonstrating that a product satisfied the rule of origin exceeded the value of preferences. For instance, in the case of the EU, the origin test for preferential fish imports differs from many other products in that the trader must provide information about the nationality of the crew, the country where the vessel is registered, nationality of the board of directors of, and source of capital invested in, the company owing the fishing vessel, and so forth.

Depth of preferences

With respect to only those dutiable products that are eligible for preferences, Tanzanian exporters enjoy only a small preferential margin in the markets of major industrial countries: 6 percent in the U.S. and Japan; 10 percent in the EU.[68] Preferential margins of this magnitude may not always, by themselves, provide sufficient incentive to invest in new, export-oriented production in Tanzania. The government and private sector must also address impediments to competitiveness such as high transport costs, low productivity, and the high cost of doing business.[69]

While the preferential margin may be small on average, margins for certain products can be quite substantial. Tanzanian sugar enjoys a 67 percent preferential margin on sugar in the EU. Sugar shipments, which made up less than 2.7 percent of total EU imports from Tanzania in 2002, accounted for 34 percent of the total EU preferences requested.[70] Tobacco enjoys margins as high as 58 percent in the EU, although most of the tobacco products that Tanzania exports are in lines with lower MFN rates—around 18 percent in the EU (and 9 percent in the U.S.). The highest preferential margins for Tanzanian garments imported into the U.S. are around 20 percent. Margins of these magnitudes are more significant in a commercial sense. They provide a window of opportunity for businesses to develop export markets for products where Tanzania has a long-run comparative advantage. This window is closing, however, as the U.S., EU, and (to a lesser extent) Japan sign reciprocal trade agreements with more partners. In addition to having to share preferences with these other countries, preferential margins will naturally shrink as importing countries lower their MFN tariff rates.

Overall, non-reciprocal preference programs such as AGOA, EBA, and GSP are not very important for Tanzania, mainly because non-dutiable products make up so much of Tanzania's export. Relative to the value of Tanzania's total exports, the value of preferences is less than 1

[68] The preferential margin is the difference between the MFN and preferential tariff rates. These statistics were computed by summing the value of preferences requested for each product and dividing by the total value of trade for which preferences were requested.

[69] The World Bank/IFC Doing Business database indicates that it costs twice as much to start a new business or create collateral for credit in Tanzania than in its neighboring countries, when measured in terms of per capita income. See http://rru.worldbank.org.

[70] EU trade data report that shippers imported 11.2 million euros of raw cane sugar from Tanzania (tariff code 17011110) in 2002 and requested 7.5 million euros of preferences.

percent of exports to Japan and the U.S., and 5 percent of exports to the EU. Moreover, Tanzanian exporters do not capture the full value of preferences that they request; as importing companies often capture a large share of the rents.[71]

4.3 GAINING BETTER MARKET ACCESS

There are two forums where Tanzania can potentially gain better market access: the multilateral trade negotiations under the WTO's Doha Development Agenda; and the negotiations of the Economic Partnership Agreement (EPA) with the European Union (EU).

WTO trade negotiations

MFN barriers in the form of high tariffs, tariff peaks, tariff escalation as well as quotas and tariff rate quotas are best addressed in the current round of multilateral trade negotiations. Given that much of Tanzania's exports face zero MFN tariffs, Tanzania's negotiating interest lies in advocating tariff reduction formulas that focus on cutting tariff peaks, and lobbying against the practice of excluding politically sensitive products (for example, sugar and tobacco) from trade negotiations. Pursuing trade liberalization in the multilateral arena would be more fruitful than, for instance, attempting to negotiate a share of U.S. quotas on sugar and tobacco through bilateral negotiations since domestic politics in the U.S. make success of this unlikely. Tanzania should also work in cooperation with other cotton exporting countries to negotiate down cotton subsidies provided by major cotton producing countries (such as the U.S. and China).

Economic Partnership Agreement

The EPA talks provide a second forum for addressing Tanzania's market access barriers. The Cotonou Agreement signed in 2000 by the EU and the 77 African Caribbean and Pacific (ACP) countries calls for establishing economic partnership agreements between the EU and regional groupings of ACP members. The agreement calls for completing negotiations by the end of 2007. The following year, the reciprocal preferences in the EPAs will replace the non-reciprocal preferences that the EU has been giving to the ACP countries since the first Lome Convention in 1975.[72] The EU and ACP have placed a high priority on complying with WTO rules regarding regional trade agreements, specifically that the EPAs liberalize substantially all trade flowing in both directions. The EU intends EPAs to be tools for economic development, distinguishing them from the FTAs it is signing with more developed countries (for example, South Africa), which it considers to focus more narrowly on market access.

The EU intends that the regional groupings will form customs unions. The main rationale is that signing a free trade agreement with a group of countries will minimize "hub-and-spoke" trade integration common in North-South FTAs (that is, an FTA increases trade flows between the industrial and developing countries but discourages trade among developing countries). The EU also expects that negotiations will be more streamlined if it negotiates with customs unions. The Sub-Saharan COMESA members established themselves as the Eastern and Southern Africa

[71] Recent research on U.S. preferences given to the Caribbean region estimates that exporters capture only around two-thirds of the preferential margin in highly competitive markets and less when importing companies have market power. Çaglar Ozden and Gunjan Sharma, "Price Effects of Preferential Market Access: The Caribbean Basin Initiative and the Apparel Sector," Policy Research Working Paper No. 3244, The World Bank, March 2004.

[72] There is no evidence indicating that the EPAs will replace its GSP and EBA programs, both of which grant preferences to countries that are not part of the ACP group.

(ESA) group in January 2004. A SADC-oriented group established itself the following month. It excludes South Africa (with which the EU has already signed an FTA) and SADC members that have joined the ESA group (for example, Zambia). Tanzania belongs to this second group. Its EAC customs union partners (currently Kenya and Uganda, but Rwanda and Burundi are expected to join in 2006) are in the ESA group.

i. Market access for goods

An EPA will bring Tanzania no new market access. The EU is proposing that ACP countries sign WTO-compliant FTAs, meaning that they eliminate all tariffs on substantially all products flowing between all signatories of the agreement. The EU already provides duty- and quota-free access to Tanzania (and other LDCs) through the EBA program which, unlike the Cotonou Agreement and GSP, does not expire and is not subject to periodic review.

Two issues arise with respect to the EPA negotiations. First, Tanzania needs to understand the impact of lowering tariffs to the EU on its economy—including at the sectoral level—to better inform its negotiations with the EU. Second, in light of the already existent trade preferences under the EBA, and the difficulty Tanzanian producers faces in utilizing these preferences as mentioned earlier, Tanzania could use these negotiations to help address the challenges it faces in utilizing preferences. Such challenges have arisen either from difficulties in meeting origin requirements, or from domestic factors such as high internal transportation costs, lack of skills, low productivity, and inefficient customs procedures and so on that have reduced the competitiveness of Tanzanian producers. There is also a further challenge arising from the need to comply with importing countries' increasingly stringent health and safety standards (whether public or private). Three areas emerge as potentially fruitful ones for negotiations in light of these challenges.

Rules of origin. Tanzania and other LDCs would benefit from more flexible rules of origin in preferential trade agreements. First, Tanzania should push to include cumulation in the EPA. At a minimum, the EPA should preserve the full cumulation across all ACP countries that Tanzania currently enjoys under the Cotonou Agreement, rather than the more limited diagonal or bilateral cumulation of the GSP and EBA.[73] Less than full cumulation hinders the ability of Tanzania firms to participate in global supply chains since administrative rules rather than market conditions determine how a company picks its suppliers.

Second, the EPA should also provide for the maximum flexibility in rules that define whether local processing activities are sufficient to judge that an export originates from Tanzania. Product- or process-specific rules[74] tend to be disguised protectionism. Value-added rules discourage the use of preferences since it requires extensive accounting documentation, which is disproportionately costly for small enterprises in developing countries. Value-added rules also discourage the use of preferences available for labor-intensive manufactures when the cost of imported inputs is high relative to local wage rates. A simpler rule, such as the rule that local

[73] Full cumulation means that imported inputs processed in other beneficiary countries counts as qualifying content when Tanzania exports goods to the EU. Under diagonal cumulation, the inputs would qualify only if they were imported from another beneficiary in the same regional group. Bilateral cumulation means that only inputs originating in either the EU or Tanzania convey origin. See Paul Brenton and Hiroshi Imagawa, "Rules of Origin, Trade and Customs" in *Customs Modernization Handbook*, ed. Luc du Wulf and Jose B. Sokol (Washington: World Bank, 2005), chapter 9.

[74] A prime example is the triple-transformation rule for garments, which states that the fibers used to make the yarn, the yarn used to make the fabric, and the fabric used to make the garments must all "originate" in the beneficiary country in order for the garment to qualify for preferences.

processing which results a change in tariff heading (luggage's heading versus the headings of its many components: leather, waxes, thread, buckles, zippers, etc.) would be more advantageous to legitimate Tanzanian producers while at the same time screen out products that genuinely originate in non-beneficiary countries and receive only limited processing (such as repackaging) in Tanzania.

Standards recognition. Tanzanian exporters would benefit from greater EU recognition of conformity assessment certificates issued by testing firms located in Tanzania or in countries that are part of SADC, EAC or COMESA, all of which are working towards greater regional standards integration. Exporters pay twice for testing services when locally-issued testing certificates are not recognized. They pay for testing conducted in the importing country. They also pay for testing conducted before export, even though these certificates are not recognized in the importing country, to reduce the risk that the shipment will be rejected when it is tested in the importing country. Tanzanian negotiators might encourage its regional partners and the EU to use the EPA talks to negotiate mutual recognition of conformity assessment certificates.

Aid for trade. The EU's public pronouncements (for example on its europa.eu.int website) highlight behind the border constraints that limit developing countries' capacity to take advantage of market access opportunities.[75] EU trade negotiators have been reluctant, however, to discuss any change in financial assistance from levels set at the time of the 2000 Cotonou Agreement. Unless these supply-side bottlenecks are overcome, the EPA will be no more successful in promoting economic development than previous preference programs. Tanzanian negotiators should push for the EPA talks to revisit the issue of technical assistance, specifically technical assistance targeted specifically at facilitating trade flows.

ii. Trade in services

Although the EPA cannot deliver greater access to European markets for trade in goods, it can potentially improve conditions affecting trade in services. The Cotonou Agreement includes no firm commitment to negotiate liberalization of services trade. A subsequent joint ACP-EU communiqué indicates a willingness to explore the issue during the negotiations, however.[76] One issue worth discussing is the easing of restrictions on temporary migration. The flow of remittances from Tanzanians working in Europe can play an important role in boosting incomes of poor households. Liberalization of Tanzanian rules on issuing work permits can facilitate new FDI in Tanzania.

Tanzania can also benefit from liberalization of its own rules affecting trade in services, such as imports of business services that facilitate exports of goods including insurance, logistics, market consulting services, and quality assurance services. Policies that restrict international trade in services are typically domestic regulations, some of which serve important policy objectives (for example prudential regulations in the banking sector). Identification of barriers to services trade is not a trivial task as it is important to distinguish the protectionist element of regulations from those that underpin legitimate policy goals. Finally, Tanzania can use the EPA negotiations to open up its own markets to imports of such services. Tanzania should also "multilateralize" such liberalization by opening markets on an MFN basis.

[75] Other sections of the DTIS address these problems in detail and provide technical assistance recommendations.

[76] "ACP-EU negotiations: Joint Report of the All ACP-EU Phase of Negotiations," ACP/00/118/03 Rev. 1, Brussels, October 2, 3003.

iii. Dangers of trade diversion

Giving the EU preferential access to the Tanzanian market will undoubtedly increase imports from Europe. There is a very real danger that much of this increase will be simply a diversion of trade from other sources rather than new trade. Preferential liberalization causes trade diversion when a less competitive supplier benefits from the tariff reduction and the most competitive one does not. In contrast, when all suppliers benefit equally (through MFN liberalization), the most competitive supplier sells its products to the importing country at the lowest world price. Hence, trade diversion is greatest when the gap between MFN and preferential rates is highest. Tanzania can minimize trade diversion if it lowers its MFN tariffs at the same time it extends preferences to the EU. This requires convincing its customs union partners, Uganda and Kenya, to do the same.

iv. Choice of regional configuration

The EU's intention that the regional configurations form customs union creates an obvious conflict for Tanzania and the EAC. Tanzania cannot simultaneously adopt both the EAC and SADC common external tariffs, let alone implement the customs and fiscal integration (for example revenue-sharing) that are basic components of customs unions.

Tanzania could sidestep this conflict if regional configurations negotiate with the EU as free trade areas rather than as customs unions. As a second alternative, Tanzania could negotiate with ESA rather than SADC. This might require reestablishing Tanzania's membership in COMESA. Even this step would not fully overcome the conflict between the nascent EAC customs union and the customs union that ESA is forming. A third alternative is to open new EPA talks, either through the EAC as a new regional configuration or by negotiating a bilateral agreement between Tanzania and the EU. The window of opportunity for identifying regional configurations seems to have already closed, however. The most ambitious alternative is to synchronize the ESA and SADC negotiations. Negotiating as FTAs rather than customs unions would address the conflict created by EPA negotiations with the least costs.

Recommendations

Technical assistance can help Tanzania achieve success in its trade negotiations. The first prerequisite in trade negotiations is possessing accurate trade data and the ability to use those data to support Tanzania's commercial diplomacy. Building this capacity is a long-term project. As negotiations proceed, negotiators will need to evaluate the costs and benefits of new proposals. This can tax the capacity of trade-related ministries, and the government should look to donors to help finance advisory services from independent sources, that is, from sources not connected to the party on the other side of the negotiating table. Technical assistance could also help Tanzania conduct studies to identify services sectors that it might liberalize through trade negotiations.

4.4 EROSION OF TRADE PREFERENCES

The issue of erosion of trade preferences has emerged as a potentially important one for LDCs in the context of the current Doha round of WTO trade negotiations. Specifically, the concern is that liberalization of MFN tariffs by both developed and developing countries for both agricultural and non-agricultural goods proposed under the Doha round of trade negotiations would expand exports from competing countries (as these would face lower tariff barriers in developed country markets) to the detriment of the poorer developing countries (such as Tanzania) which currently benefit from trade preferences.

As discussed earlier in this chapter, most (two-thirds) of Tanzania's merchandise exports face zero-duty MFN rates and would not be affected by any potential erosion of trade preferences. However, for some commodity groups in certain export markets, existing preferential margins are significant. The maximum margin of preference is over 15 percentage points for Tanzania's exports to Kenya (for cereals, edible vegetables, sugar, clothing and textiles), the EU (for tobacco and sugar), Switzerland (for plants), Norway (for plants) and South Africa (for tobacco).

Estimates of preference erosion loss for Tanzania associated with tariff reductions in the Doha Round are predicted to be between US$4.9-8.3m., or 0.5-0.9 percent of total merchandise exports.[77] While these losses are small in the aggregate, for both agriculture and non-agriculture products, they are significant for a few individual products.

For agriculture products (Table 4.4), the aggregate loss is estimated to be US$3.5-$3.87m. (less than 0.5 percent of total merchandise exports), but losses are significant for sugar exports (reduced by 27 percent), tobacco (1.7-2.3 percent) and plants (1.7-2.1 percent), with almost all losses faced in the EU market (US$3.1-3.4 million).

Table 4.4:Summary of Preference Erosion Losses in Major Agricultural Export Commodities

Product	**Preference erosion loss US$ millions**		**Preference erosion loss (% of total merchandise exports)**		**Preference erosion loss (% of exports in the sector)**	
	July Framework	**Uruguay Round**	**July Framework**	**Uruguay Round**	**July Framework**	**Uruguay Round**
Cereals	0.07	0.05	0.01%	0.01%	0.32%	0.23%
Cotton	0.03	0.03	0.00%	0.00%	0.07%	0.07%
Tobacco	1.03	0.75	0.11%	0.08%	2.27%	1.65%
Coffee	0.00	0.00	0.00%	0.00	0.00%	0.00%
Cashew nuts	0.00	0.00	0.00%	0.00%	0.00%	0.00%
Edible vegetables	0.06	0.06	0.01%	0.01%	0.32%	0.32%
Tea	0.19	0.18	0.02%	0.02%	0.66%	0.63%
Oil seed	0.01	0.01	0.00%	0.00%	0.06%	0.06%
Plants	0.24	0.19	0.03%	0.02%	2.14%	1.70%
Cloves	0.04	0.03	0.00%	0.00%	0.45%	0.34%
Sugar	2.2		0.24%		26.51%	
Total agricultural	*3.87*	*3.50*	*0.42%*	*0.38%*		

For non-agricultural products (Table 4.5), the aggregate loss is estimated to be US$1.4-$3.07m. (0.2-0.5 percent of total merchandise exports), but again losses are significant for fish (1.2-3.7 percent reduction in exports) and clothing and textile (0.4-1.6 percent), with losses also concentrated in the EU market (US$1.2-3.5m.) If the impact of zero-for-zero sectoral initiatives[78] in fish and fish products, textiles, clothing, footwear, leather goods, stones, gems and precious metals are included, the aggregate loss increases to US$4.35 million.

[77] Gillson and Page (2005), background paper for the DTIS.

[78] These refer to some non-agricultural market access (NAMA) proposals that tariffs be eliminated by all countries (except LDCs and with longer transition periods for developing countries) in specific sectors assumed to be of export interest to developing countries, namely electronics and electrical goods, fish and fish products, textiles, clothing, footwear, leather goods, motor vehicles (and parts), stones, gems and precious metals.

In sum, losses from the erosion of trade preferences that would result from the potential outcomes of the Doha Round of WTO negotiations are likely to be small in the aggregate for Tanzania, although they could be significant for the sugar and fish sectors, affecting both large processing firms and small-scale farmer/fishermen. Such losses could be compensated by addressing the economy-wide and sector-specific constraints facing exports discussed in the rest of this report.

Table 4.5:Summary of Preference Erosion Losses in Major Non-Agricultural Export Commodities

Without sector initiatives

Product	**Preference erosion loss US$ millions**		**Preference erosion loss (% of total merchandise exports)**		**Preference erosion loss (% of exports in the sector)**	
	***B*=1**	***B*=5**	***B*=1**	***B*=5**	***B*=1**	***B*=5**
Precious metals & stones	0.00	0.00	0.00%	0.00%	0.00%	0.00%
Fish	2.76	1.29	0.30%	0.14%	2.62%	1.22%
Metal ores	0.00	0.00	0.00%	0.00%	0.00%	0.00%
Clothing & textiles (inc. sisal ex. cotton)	0.31	0.11	0.03%	0.01%	1.22%	0.43%
Petroleum products	0.00	0.00	0.00%	0.00%	0.00%	0.00%
Total industrial	*3.07*	*1.40*	*0.33%*	*0.15%*		

With sector initiatives

Product	**Preference erosion loss US$ millions**		**Preference erosion loss (% of total merchandise exports)**		**Preference erosion loss (% of exports in the sector)**	
	***B*=1**	***B*=5**	***B*=1**	***B*=5**	***B*=1**	***B*=5**
Precious metals & stones	0.00	0.00	0.00%	0.00%	0.00%	0.00%
Fish	3.95	3.95	0.43%	0.43%	3.74%	3.74%
Metal ores	0.00	0.00	0.00%	0.00%	0.00%	0.00%
Clothing & textiles (inc. sisal ex. cotton)	0.40	0.4	0.04%	0.04%	1.57%	1.57%
Petroleum products	0.00	0.00	0.00%	0.00%	0.00%	0.00%
Total industrial	*4.35*	*4.35*	*0.47%*	*0.47%*		

5. INSTITUTIONS FOR TRADE POLICY AND EXPORT DEVELOPMENT

This chapter reviews and evaluates the institutional framework and capacity for, first, trade policy, and second, trade—and in particular export—development in Tanzania. The work here builds on existing extensive analytical work, notably the Institutional & Organizational Review of November 2003[79], and the UNIDO study on Strengthening the Capacity and Capabilities of the Ministry of Industry & Trade of September 2000

5.1 TRADE POLICY

Having adequate capacity for trade-policy making is clearly important for promoting trade integration in a way that is beneficial for Tanzania. Such a capacity would help Tanzania evaluate the impact of various trade proposals on its economy and people, based on which to help determine its positions in trade negotiation forums.

Typically in Tanzania, trade policy decisions have been made at the political level, with the relevant ministries providing technical inputs into the political process. Policies are then implemented and reviewed at the management level of government, primarily by ministries. Trade policy can usefully be seen as encompassing three functional areas: domestic trade policy; regional trade agreements; and international (or extra-regional) trade policy that deals with Tanzania's relationships with groupings outside the region, such as the WTO, the EU, and individual trading partner countries such as the USA.

As discussed in Chapter 3, with almost all trade controls abolished, domestic trade policy in Tanzania is now concerned primarily with the setting and reviewing of tariffs.[80] Further, now that Tanzania has joined the EAC Customs Union, tariffs can no longer be set in isolation, which means that domestic trade policy and policy regarding RTAs can be treated as functionally the same thing.

With regard to RTAs, the tasks involve analyzing the government's policy on RTA's; giving trade policy guidance; and keeping all relevant RTA's under regular review. In practice, much of the work within the trade policy area is driven by the need to prepare for specific negotiations, primarily by preparing GOT position papers for such negotiations. In addition, in light of the objective of GOT—as stated in the NTP—of assigning trade a central role in poverty reduction, policy regarding trade need to be coordinated with GOT policy on poverty reduction. Finally, since conditions of access to other markets within RTAs is of great interest to private businesses, another important element within this task area is regular consultation with the private sector's representative organizations.

With respect to international (extra-regional) trade policy, at the broadest level**,** the primary task is to manage the relationship with the WTO. Within this, the main current task is to participate effectively in the Doha Round, both individually and as a member of one or more of the available multi-country groupings within the WTO such as the G20 Group, the LDC Group, and the

[79] Prepared for the Ministry of Industry & Trade in November 2003, and financed by DFID under the Tanzania Trade & Poverty Program (TTPP).

[80] There remain a few specific taxes levied on exports, primarily those on hides & skins, and on fish & fish products.

African Union Group. With respect to obtaining the best possible market access and preferences into the key industrialized markets, the next most important relationship is that with the EU. As with RTA trade policy, both the link to poverty reduction and the need for consultation with the private sector apply in this task area of international trade policy as well.

The Current Institutional Framework for Trade Policy

Domestic & RTA Trade Policy

The lead role in this functional area has now been shifted from the Ministry of Finance (MOF) to the Ministry of Industry and Trade (MIT), in accordance with the National Trade Policy (NTP). The shift in responsibilities in the trade policy area reflects two changes. First is the vastly diminished importance of tariffs as a revenue source, which was the primary reason for MOF taking the lead role in this area in the past. Second, the urgency of preparing for the EPA negotiations has also apparently resulted in MOF formally requesting MIT to take over the lead role in trade policy in January 2005, a change that has now been effected.

Nonetheless, MOF continues to have an important role in trade-policy making because:

i. MOF has the legal mandate to set tariffs. When there are issues that solely concern tariff rates, such as the EAC CET, MOF still sees itself as playing the leading role.
ii. MOF is a "central ministry," which places it in a strong position to put pressure on line ministries to participate in co-ordination efforts.
iii. MOF staff previously working on trade policy were not transferred to MIT, so the required skills and experience are still strong within MOF.
iv. The EU has a general arrangement that its ACP aid funding is channeled through the "National Authorizing Office" (NAO) for the country. As is the general practice, this role is within MOF. Thus, for instance, assistance to Tanzania for EPA preparations is channeled through MOF, even though it is predominantly concerned with trade policy.

The Ministry of Foreign Affairs and International Cooperation (MFAIC) is the other key player in RTAs. EAC & SADC have strong political roots and involve co-operation in much more than trade matters (for example, infrastructure, social matters, security, cultural matters, and so on). Thus, GOT's link into these groupings is coordinated by MFAIC. For instance, MFAIC is the ministry that co-ordinates the SADC National Committee. However, it is clear that MFAIC coordinates these links only, whereas MIT has the lead role on all matters concerning trade policy. MFAIC also sees MIT taking the lead role in any analysis and preparation of position papers with respect to the trade policy implications of possible re-entry into COMESA, although wider political and other implications will also come into any decision on COMESA.

International (Extra-Regional) Trade Policy

MIT's lead role in international trade policy has also now been fully accepted, a shift from the past when MFAIC took the lead role for WTO trade policy matters. However, when there are political considerations "above" trade policy matters (for example, when GOT has to decide on which candidate to support to chair a particular committee), then MFAIC takes the lead. In addition, MFAIC's embassies in Geneva and Brussels are the key link to the WTO and the EU, respectively; the ambassadors in these places have experience within MIT in trade policy.

The role of the President's Office, Planning & Privatization (POPP), the institution responsible for managing the Tanzanian economy, centers on evaluation of trade performance. Through its annual Economic Survey, research work by POPP staff feeds into the trade policy formulation

process. There is a definite tendency for other ministries to defer to POPP, the old planning commission, although at POPP itself the lead role of MIT in all matters of trade policy is accepted.

The EPA process has been driving significant institutional changes (assisted by EU funding).[81] EU insistence that EPA negotiations be held with regional groupings—which is a major departure from past EU practices—has created an unusual link between regional trade policy and extra-regional trade policy. The urgency of having to prepare for these important negotiations has exposed the lack of a permanent mechanism for co-ordination between ministries, and for including the private sector in preparations. As a first step, a National EPA Technical Team (NETT) has been established which consists of 18 public-sector institutions, two private-sector representative organizations (the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) and the Confederation of Tanzanian Industry (CTI)); one NGO umbrella organization (the Tanzania Association of NGOs); one research institute and two academics. Technical Working Groups have been set up under NETT to prepare position papers on key issues of interest for Tanzania, such as agriculture and services.

Trade Policy and Poverty Reduction Strategy and Donor Coordination

GOT's Poverty Reduction Strategy, now renamed the National Strategy for Growth and Reduction of Poverty (NSGRP), has been developed on the basis of three "Clusters." Trade policy and trade development is incorporated in various cluster strategies; six specifically refer to trade and/or exports.

Co-ordination between institutions on the NSGRP does not appear to be based on a continuing institutional structure. However, there are mechanisms to monitor implementation and expenditure: the Poverty Monitoring System (PMS) monitors implementation of the NSGRP, and Public Expenditure Reviews (PERs) review how budget allocations have been spent. Nonetheless, structures are required to facilitate implementation of the NSGRP given its cross-sectoral focus. There is also a need to strengthen donor/government coordination mechanisms in the context of the Joint Assistance Strategy.

Consultations with the private sector and civil society

The EPA process is strengthening the mechanisms for consultations on trade policy with the private sector and civil society, which had been weak in the past. On broad matters of GOT policy, there is a structure for regular consultation, the Tanzania National Business Council. However, there is no specific coverage at that level of trade policy. Nor does there appear to be a standing sub-committee dealing with trade policy.

It is clear that the establishment of NETT, and the related EU funding, has established the first element in a standing arrangement for regular consultation on trade policy. This is strongly welcomed by the two key private sector apex organizations, CTI and TCCIA, which would welcome this joint technical committee being made a standing committee, and broadening its remit from just EPA to trade policy in general.

Involvement of the private sector in NETT has been a particularly important step in rebuilding the confidence of the private sector in GOT's willingness and capacity to set its trade policies in a

[81] The EU is providing funding of Euro 450,000 for a year to October 2005 for expert advice and capacity building.

manner that takes full account of their interests. Both organizations strongly opposed the decision to leave COMESA. There was clearly a feeling that the potential impact on trade performance was not properly analyzed, ahead of the decision, and that the decision was instead driven by political rather than economic considerations.

New organizational structure within MIT

Since the 2003 Review, MIT has introduced a new organizational structure. It now has two core operational divisions, one for industry and one for trade. There are, in addition, two divisions that are in a support role for these two core divisions. One deals with Administration and Personnel, the other is the Policy and Planning Division.[82]

Within the Trade Division, three of the four Sections deal specifically with trade policy. The *Multilateral Trade Programs Section* deals with WTO, EU/EPA and UNCTAD with seven technical staff. The *Regional Integration Program Section* deals with all RTA matters with four technical staff. Currently, the Director of the Trade Division also serves as Head of Section. The *Bilateral Co-operation Programs Section* deals, theoretically, with policy concerning all bilateral trading partners with two technical staff. In practice, the focus appears to be mostly on Asia, where the priority seems to be to obtain aid, rather than negotiate on trade policy issues. This section has, in the past, made attempts to obtain special access deals with individual members of COMESA, with no success. The fourth section is the *Trade Support Services* Section, which is only marginally involved with external trade. Its main responsibility is business registration. It also acts as the contact point for the various external institutions for which the Minister is responsible, including the Board of External Trade. Also, when trade policy matters are to be disseminated out to the regions of Tanzania, it is this section which provides the link to the outlying MIT offices.

In addition, there is a Policy & Research Section in the Policy & Planning Division which has four technical staff and was responsible for the development of the National Trade Policy of 2003. It is still involved with the dissemination of this policy, but its policy formulation focus is now on a review of the Sustainable Industrial Development Policy. This section is unlikely to get involved again with trade policy formulation until the NTP is reviewed which is to take place in 2008/09 according to WTO rules. The Policy & Planning Division is also responsible for mobilizing resources, both from the Budget and from donors. However, the choices as to how to utilize these resources are typically within the Trade Division, and the Industry Division, not here.

Under the Civil Service Reform Program, a strategic planning process has been introduced into MIT. The first Strategic Plan was produced in June 2003 to cover the three years 2003/04 to 2005/06. It would appear, however, that this strategic planning process has not yet established itself as central to the management of trade policy operations. Linked to this, a performance evaluation process is also in the process of being introduced. However, again, this has not yet become integral to the management process. It is not yet annual, and does not yet extend lower than section head level.

Conclusions and Recommendations

First, trade policy must be continually managed, but Tanzania has many other pressing priorities. With respect to RTA policy, 90 percent of the negotiations on trade issues within both

[82] There are also two central service units, the Accounts Unit and the Internal Audit Unit.

the EAC and SADC have been completed. The emphasis from now on will be monitoring implementation of what has been agreed. There remains, of course, the question of possible re-entry into COMESA, which does require good immediate analysis. But there is little or no scope for Tanzania to negotiate terms, as it would be rejoining a club under the terms of the established rules. Thus, this is a one-off analysis requirement. It probably therefore makes sense to use external expertise, rather than staff up for this task.

With respect to international trade policy, the two most important forums for Tanzania are the WTO and the EU EPA negotiations. With respect to the former, Tanzania needs to work together with other country groupings, as discussed earlier in this chapter and Chapter 4. With respect to the latter, it is not negotiating for more market access that is important (since Tanzania already has difficulty utilizing existing trade preferences) as using the negotiations to address the challenges Tanzania is facing in utilizing existing preferences.

In sum, there is no doubt that GOT must maintain and develop the capacity of MIT to undertake good and thorough trade policy analysis. However, looking ahead to the next two to five years, it would be difficult to justify a major expansion of resources for this task. Budget allocations driven by poverty reduction analysis is surely the right approach. In this context, it must be admitted that there are many more pressing tasks outside of trade policy to be funded. Finally, donor funding should be sought to assist GOT in specific areas of capacity building for the EPA negotiations (trade in services, building accurate databases and analyzing data – see Chapter 4).

Second, the important funding requirement is for training, which is well catered for by existing self-funded and donor programs. MIT has put in place provisions for longer-term re-training of staff in trade policy. Currently, MIT has four staff members attending a three-year Masters' Course on International Trade, run by the Institute of Financial Management in Dar. In 2005, the University of Dar Es Salaam, in collaboration with MIT, has started a Trade Policy program.[83] The program is attended by 24 selected professionals from various Ministries, private sector, and other stakeholder organizations focusing on trade issues. For specialized short courses, MIT relies mainly on donor funding.[84] The EU is providing support to the EPA preparations (as mentioned earlier), and the WTO provides resource persons for specialized short courses and workshops. The fact that so much training is already in place reflects the seriousness that MIT is taking with respect to the need for fundamental reorientation training. In sum, there appears to be adequate donor funding already available for such capacity building activities as MIT can realistically absorb over the coming years. This was confirmed by the responsible manager within the Policy & Planning Division.

Third, strengthen capacity of the private sector in the area of export policy. While there appears to be sufficient training for trade policy as discussed above, a case can be made for specific export policy training for the private sector. The Trade Policy Program at the University of Dar Es Salaam mentioned above can be extended to provide capacity building to the private sector in the area of export policy.

[83] Danida is providing support to this.

[84] These are, first, the Joint Integrated Technical Assistance Program Phase II (JITAP II) which is the second of a three-year program worth $500,000 of multi-donor funding. The program provides for capacity building towards enhancing the knowledge of stakeholders on WTO Agreements, rules and regulations. Second, the Business Sector Program Support (BPSP II) which is a 5-year program running up to 2008, funded by Danida with a component for market access of $6m. out of a total program worth $35.7m. The program provides for CB support in trade policy formulation and trade negotiations.

Fourth, the top priority now is to build on NETT, and establish a permanent framework for inter-ministerial co-ordination. GOT should now build on the important start made with the establishment of NETT. NETT could be made permanent, and broadened, to cover all matters of trade policy. The name could be changed to clarify this new broader role. It could become, for instance, the National Trade Policy Technical Committee (NTPTC). At the same time, this new NTPTC could extend its private-sector representative membership, to include the Tanzania Chamber of Mines and the Tanzania Chamber of Agriculture. This would help give somewhat more balance to public and private sector representations on this committee.

What has not yet been established is the structure above NETT, at the permanent secretary (PS) level. It would be useful, in light of capacity constraints, that the function of the existing PS-level Inter-Institutional Technical Committee (IITC) (which deals with WTO matters) be broadened to include all aspects of trade policy, including EPA, and other behind-the-border aspects that directly impact on trade development. This broadened IITC would consists of a small number of PSs that deal with trade and trade-related matters (such as MIT, MOAFS, and so on). The broadened NETT (or NTPTC) would feed position papers on trade policy matters into this broadened IITC, which would be responsible for consulting with relevant ministries and building consensus, after which it would forward recommendations either to the existing all-PS Inter-Ministerial Technical Committee (IMTC), which then advises the Cabinet, or directly to the Cabinet itself.

Fifth, second staff to the field to deal with EAC & SADC. GOT has permanent representation in Geneva and Brussels led by persons familiar with trade policy. They operate as contact points with the WTO and the European Commission. Surprisingly, no such permanent trade policy contact points exist in Arusha for the EAC Secretariat, or in Gabarone for the SADC Secretariat. As a result, the small RTA team at the MIT in Dar Es Salaam finds itself stretched, with officers travelling for much of their time to meetings in the field. Of course, certain meetings will be of such significant direct interest to Tanzania that this travel makes sense. But, if the task is merely to maintain a watching brief, then it probably makes more sense to station one officer each in the field, to act as contact points into the EAC and SADC Secretariats respectively.

Sixth, minor improvements could be made in the MIT structure. The separation out of "bilateral" trade policy into a third section does not seem appropriate. In the event, there is very little bilateral trade policy being carried out, which is probably as it should be. MIT could therefore consider absorbing this small separate section into the section dealing with extra-regional trade policy.

Other Proposals. With respect to MOF's legal mandate to be responsible for tariffs, review after, say, two years whether this distinction has caused problems in practice, with respect to the lead role for MIT in trade policy.

5.2 EXPORT DEVELOPMENT

Export development has historically focused on helping exporters, both actual and would-be, to break into new foreign markets. Governments have provided them with information on foreign markets, extending from desk research to full-blown market surveys. They have helped to organize group participation in foreign trade fairs; and have used trade attaches in their embassies to provide on-the-ground help when they arrive. The attraction of this approach was that it subsidized the indirect costs of exporting, not the direct costs of supplying a product. It therefore was, and still is, generally acceptable within the rules of the multilateral trading system.

This approach was very actively promoted in the 1960's and later, primarily by ITC, which followed an UNCTAD conference decision to set up what are now termed "trade promotion organizations" (TPO's) in almost all developing countries. Most of these continue to this day, still being assisted by ITC.

Despite steadily improved access (including preferential access) to industrialized country markets (notwithstanding remaining issues as discussed in Chapter 4), developing countries have still generally not been able to significantly expand their exports.[85] There is now a growing recognition in developing countries around the world—and also broad acceptance in Tanzania—that various supply-side constraints are responsible.

This has an important implication for "export development." It means that government actions should not be focused so much on export market entry services as in the past, but more on various supply-side constraints. Addressing supply-side constraints—which commonly include the legal and regulatory framework; provision and cost of infrastructure; trade facilitation (such as customs) issues—are all clearly within the domain of the government, as well as also central issues for private sector development (PSD). In other words, export development should really not be seen as a separate activity, with its own separate institutional framework, but should be seen, instead, as the responsibility of the institutional framework set up for PSD.

The Institutional Framework for Export Development

Aside from the cross-sectoral PSD issues that are equally important for exports and that are within the domain of the government to address, as discussed above, there are also typical export development activities that entail direct provision of services to individual exporters. In Tanzania, most of such kind of assistance is centered at the Board of External Trade (BET), a semi-autonomous support institution under MIT. In addition, Tanzania has about ten trade attaches stationed at embassies. But these attaches are primarily concerned with trade relations and trade policy, and do not appear to be involved in export development work and there is no linkage between them and BET. Finally, there is also a nascent export credit guarantee scheme (ECGS).

The institutional framework for PSD

GOT involvement in PSD is in its infancy. A PSD Strategy is to be prepared, which will take into account the findings of this report. In overall charge of PSD issues is the Directorate of Growth Strategies within POPP, whose current focus is on the enabling environment.[86] Out of the 15 professionals in this directorate, about four are working on PSD matters, with another two staff expected to join. POPP provides the link to the donors on PSD issues. It also co-ordinates implementation work with the responsible line ministries, primarily those for industry & trade, agriculture and mining. As yet there is no permanent structure for co-ordination between ministries. Within MIT, much of the industry focus has historically been on SME promotion (SME's are defined in Tanzania as employing up to 100 people, and having capital of up to $1m.) There appears so far to have been little or no explicit linkage to export development.

[85] There are notable exceptions, such as China, Malaysia, Mauritius and Botswana.

[86] This is being supported by the multi donor-funded project Business Environment Strengthening for Tanzania.

ECGS

The ECGS is administered by the Foreign Markets Department of the Directorate for Financial Markets within the Bank of Tanzania. The ECGS has clearly had a difficult history. Some time in the 1990's it collapsed, and has been revived since 1999/2000, although it is not yet widely used. This is hardly surprising as EGCSs are intended specifically for helping access to finance for pre-shipment export production activities, and there is currently very little dedicated production for export going on in Tanzania. In addition, export credit guarantee schemes are notorious vulnerable to misuse (with presumed exporters applying for and claiming such guarantees when actually no production or exporting has taken place). Neighboring Kenya, for instance, has suffered in this respect

BET

BET has the status of a "support institution" under MIT, as opposed to being an "agency" under direct ministry management. As such, BET receives government funding from MIT, solely for salaries, and provides the Minister with an Annual Operational Report. An MIT representative sits on the Board.

BET consists of three directorates, one of which deals with finance & administration. The two operational divisions are the Directorate of Research & Planning and the Directorate of Export Promotion.

The Directorate of Research & Planning, in spite of its name, is involved in the direct provision of services, mainly provision of market information. There is a library which contains both hard-copy and CD-ROM resources. There is also a website, which functions as a "trade point," a portal for trade-related information. Linked to this, BET staff provide advice, on request, to help exporters find the right information.[87] BET makes a nominal charge for this service of TS500 ($0.50), but if an exporter claims he cannot pay this, he apparently still gets the service. These information services appear to be very under-utilized. A quick viewing of the visitor log for January 2005 indicated a total of seven visitors, three of whom were wanting information related to importing into Tanzania.

The directorate also conducts market surveys and product supply surveys, although no list of available reports could be provided. A leather sector development strategy was recently produced with help from ITC. The Policy and Planning Division of MIT created an implementation matrix called the Leather Industry Master Plan based on this strategy.

As and when donors offer other programs or events, BET takes these up. These might be "contact promotion programs," buyer-seller meets, or exporter training events. In 2004, the directorate participated in sixteen external events such as workshops and seminars (typically donor-funded and initiated), most of them abroad.[88]

There is also a small internet café, and photocopying services for exporters, although BET reports that these suffer from unreliable power supply at the trade fair grounds, outside Dar Es Salaam, where BET has its offices.

[87] This is referred to as "counseling."
[88] According to the BET Annual Operation Report for 2004.

The Directorate of Export Promotion concerns itself with trade fair activities. The directorate's main responsibility is to organize the Fair and manage the fair grounds. The Fair has almost nothing to do with export development, being a fair targeted at the domestic market. Instead, it represents a form of subsidy to BET, with revenues from the Fair accounting for 75 percent of the annual budget of BET, while direct government funding accounts for a further 22%, and fees generated by services account for only 3%. Of the total annual budget of around $850,000, only about 35% are used for export promotion activities, while the balance is used to meet the costs of the Fair. Apart from hosting the annual Fair, the extensive grounds managed by BET are used hardly at all.

The directorate also organizes subsidized group participation in trade fairs outside Tanzania. It has regular participation only in the Nairobi and Kampala general fairs which, like the Dar fair, are predominantly aimed at the local consumer market. In addition, as and when donors (currently mostly the Japanese) offer funding, group participation is also organized for other fairs. However, it is generally accepted that specialized fairs are usually more effective for market entry into industrialized markets than these general fairs that Tanzania participates in, but BET does not currently organize participation in specialized fairs.

BET reports very disappointing results from its trade fair activities. BET has difficulty filling available space, even though it is heavily subsidized[89]. When selecting participants, there is a deliberate focus on SME's. The typical exhibitor employs five to ten people. These very small firms that participate have a tendency to focus on spot retail sales, rather than using trade fair participation to build up contacts with would-be importers or local agents. Thus, they compete against the very firms they should be cultivating. According to sales figures only for one fair in Japan,[90] only four firms took part, achieving total spot sales of $25,500 plus orders of about $46,400. Also, most participations consist of four or five firms only, even in the Nairobi Fair.[91]

In light of the weaknesses of BET, GOT has plans to restructure BET in order to improve its functioning.

Conclusions & Recommendations

Expedite restructuring and build capacity of BET. The restructuring of BET needs to be expedited, and the capacity of BET reinforced. Donor support will be required to supplement GOT funding to ensure sustainability of the operations of the restructured BET.

PSD itself needs to build a structure at sub-sector level. Looking now at the wider PSD perspective, the current institutional structure reflects the reality that PSD work is in its infancy. However, once the PSD Strategy is in place, then more will be needed, if the government's PSD work is to have an impact on export development. What is needed is a structure that can develop and review sub-sector strategies for the sub-sectors of most interest for export development. The EU/EPA NETT initiative provides a template. Following adoption of the PSD Strategy, joint technical committees should be set up for the key sub-sectors. They will feed draft strategy papers into the PS's of the line ministries concerned (industry, agriculture, mining). And from then on, the IMTC and the Cabinet will take over.

[89] A flat rate of $500 covers shipping of samples as well as booth rental and construction.
[90] From the BET Annual Operation Report, 2004.
[91] There was no mention for that year of participation in the Kampala fair.

Review the Export Credit Guarantee Scheme. In particular, the review should be focused on whether the scheme is likely to be cost-effective, given Tanzania's very limited production activity for export.

6. EXPORT PROCESSING ZONES

Export processing zones (EPZs) could be very useful for promoting investments and exports in countries where there is inadequate capacity to address economy-wide constraints relating to infrastructure, provision of public services, and so on. An appropriate EPZ regime that is properly implemented can attract foreign direct investment, boost employment, stimulate export and economic growth, transfer knowledge and skills to the local community, and facilitate export development that contributes to a higher level of infrastructure and services within a country. Within sub-Saharan Africa, Mauritius is a prominent example of success, but there are also successful examples from East Asia (for example South Korea, Taiwan, China), Central America (for example Panama), and the Caribbean Basin (for example the Dominican Republic).

6.1 BACKGROUND

Tanzania established an EPZ Program in March 2002. The Program consists of a comprehensive EPZ strategy, incentive package, and legal, institutional and regulatory framework. The goals of the Program are to: (i) promote export-oriented investment in Tanzania; (ii) stimulate international competitiveness; (iii) spur export-led economic growth; (iv) increase foreign exchange earnings; (v) create new employment; (vi) transfer skills, knowledge and technology; and (vii) reduce poverty in the country. The Program is open to both foreign and local investors but restricted to new investments (to limit the loss of existing, industrial tax revenues in the country). Its main objectives are to promote export-oriented production, manufacturing and value-added industrial activities in Tanzania.

A number of industrial sectors has been selected for EPZ status under the program. These sectors and sub-sectors[92], although not specifically stated in the EPZ Act or within the associated regulations are: (i) agro-processing; (ii) textiles and garments; (iii) fish processing; (iv) leather goods; (v) lapidaries; (vi) wood products; (vii) electrical appliances and electronics; and (viii) information and communication technology.

Currently, GOT has targeted eight regions of the country for EPZ activities, selected based on a 'gateway' approach whereby they are in close proximity to airports, ports or dry ports, and border areas to promote trade, or within areas where industrial growth is projected in the future. The targeted regions are Dar Es Salaam, Mtwara, Tanga, Mwanza, Arusha, Kilimanjaro, Kigoma, Manyara, and Kibaha. These locations are only guidelines for investors, however, as all areas of the country are open to EPZ investment.

Tanzania's EPZ Program is headed by an EPZ Council which is responsible for developing the EPZ policy for the program. The EPZ Council consists of six members: the Minister of Industry and Trade who is the Council's Chairman, the Minister of Finance, the Minister of Lands, the Attorney General, the Governor of the Central Bank, and the Managing Director of the National Development Corporation (NDC). GOT is in the process of amending the EPZ Act to include, among other issues, private sector members in the EPZ Council, to allow private sector interests

[92] Industry sectors and sub-sectors were identified through discussions with the Ministry of Industry and Trade, and the NDC. These industry sectors are also listed in the promotional materials for EPZs in Tanzania.

and concerns to be taken into account in the development of policies, strategies, and investment promotion plans.

Legal authority for declaring EPZs has been delegated to the Minister of Industry and Trade, with NDC being the authorizing body or agent responsible for implementing, managing, facilitating, and promoting the EPZ Program. NDC, the country's economic development organization established in 1962, has formed a special section to monitor the EPZ Program. However, due to funding limitations, this section is run with a skeleton staff and few resources.

Zanzibar established an EPZ Program in 1992, but its success has been hampered by various factors including limited infrastructure.

6.2 CURRENT STATUS

Since the establishment of the Mainland Tanzania EPZ Program in 2002, 7 developers and 9 operators have been granted EPZ licenses. The 7 developers are: Millennium Business Park Limited (MBP), Nida Textile Mills Limited, Hifadhi EPZ Limited, Mwananchi Gold Company Limited, Gomba Development Limited, Net Health Limited, and Fruit Kin Concentrates Limited. Of the 7 developers, 3 (MBP, Hifadhi, Mwananchi) are operational; 3 (Gomba, Net Health, and Fruit Kins) are under construction; and one (Nida) has withdrawn from the EPZ Program. EPZ operator licenses have been given to Nida Textiles, Star Apparel Ltd, Reclaimed Appliances Ltd., African Pride, Mwananchi Gold Company Ltd., Tsubasa Renew Car (EA) Ltd., Net Health Ltd., Vector Health International Ltd., and African Packing International Ltd.

EPZ developers

Millenium Business Park is the first large-scale EPZ to be developed in Tanzania. It is a 20 hectare fenced industrial park situated in the Dar Es Salaam suburb of Ubungo. It is located along Morogoro Road, the main access route linking the EPZ to the Port of Dar Es Salaam, the International Airport, Tazara Railway Station and Tanzania's hinterland. MBP was developed by Contitrade, which is a foreign-owned company headquartered in the United Kingdom, 80% financed by Contitrade and 20% by the East African Development Bank. MBP was given a 'light industrial land use designation' by the NDC which permits it to function as a manufacturing, production and warehousing facility. The development has 40,000 square meters of factory/warehouse space, 5000 square meters of showroom facilities, and 10 residential units to house onsite management staff. The pre-built facilities were designed to be easily sub-divided. The warehouse units were designed with loading bays and wide-turning radiuses to accommodate truck movements in and out of the site.

MBP was under construction when NDC approached the owners to convert the site into an EPZ facility. After lengthy negotiations, Contitrade agreed to obtain EPZ status for the complex with the intent that NDC, in time, would purchase and operate the facility themselves, making this a build, own, operate, and transfer (BOOT) transaction. To date, financial discussions between the NDC and Contitrade have not been finalized, and Contitrade remains the owners and operators of the business park with some major complications (see discussion later).

Nida Textile Mill is a stand-alone EPZ. It is owned by Nida Textile Mill and is a 14 hectare, fenced EPZ facility in the industrial suburb of Tabata in Dar Es Salaam. It has easy access to the Port of Dar Es Salaam, the International Airport, Tazara Railway Station and Tanzania's hinterland. It began construction in February 2002 and the site was inaugurated in May 2003. It has its own sub-station (paid for by Nida at a cost of US$350,000), back-up generators, loading

facilities, security, and an on-site customs officer to facilitate exports. In June 2005, Nida Textile Mills Ltd. withdrew from the EPZ Program and is currently operating under the Tanzania Investment Center (TIC). *Hifadhi* EPZ is owned by the National Social Security Fund (NSSF), and is a 15-hectare site located in Ubungo, Dar Es Salaam. *Mwananchi* Industrial Park is owned by a local group which is interested in manufacturing and processing gold and gemstones. The remaining 3 industrial parks are still under construction. *Gomba Development* Industrial Park, located in Arusha, is owned by a private company. It will process floricultural products. *Net Health* Industrial Park is also located in Arusha; it occupies 70 hectares of land, and is owned by a local textile company (A-Z Textile Mills Ltd.) *Fruit Kin Concentrates*, located in Kibaha, is a single factory EPZ for processing fruits into concentrates.

EPZ operators

So far 9 EPZ operators have been licensed. 4 in MBP (Star Apparel, African Pride, Reclaimed Appliances, and African Packing International); 2 in Net Health Industrial Park (Net Health Ltd., and Vector Health International Ltd.); one in Hifadhi EPZ (Tsubasa Renew Car (EA) Ltd.); one in Mwananchi Industrial Park (Mwananchi Gold Company Ltd.); and Nida Textile Mill which is a stand-alone EPZ. However, Nida has withdrawn from the EPZ Program, and Star Apparels is under receivership. Table 6.1 provides key business information on four operators. All three firms operating in MBP face constraints (discussed next), although both Star and African Pride are confident about the viability of their businesses, while Reclaimed faces an uncertain future because of their inability to obtain a certificate of origin.

Table 6.1: EPZ Operators in Tanzania

	Star Apparel	**African Pride**	**Reclaimed Appliances**	**Nida Textile Mill Ltd**
Parent Company	Tri Star Ltd	African Pride	Reclaimed Appliances Group	Nida Textile Ltd
Ownership	100% foreign	100% foreign	100% foreign	80% foreign; 20% local
Country of Origin	Uganda	India	United Kingdom	Dubai UAE
EPZ License Granted	1 year ago	6 months ago	1 year ago	1.5 years ago
Type of Business	Apparel/Garments	Textile/fabric manufacturing	Refurbished appliances/ electronics	Processing and stitching bedsheets
Total Investment	US$5m.	US$1m.	US$400,000	US$10m.
Value of Exports	US$6m./year	US$6m./year	Not exporting	US$7m.
Profitability	Confident but new player in market	Not yet started production	Poor	Poor (part of factory closed down; reassessing EPZ)
Employees	850	200	54	300
Preferential Trade Agreements	AGOA	None	None	SADC, EBA
Export share of Production	100%	100%	0% (only selling to local market)	100%
Export Destination	USA	Zambia, Malawi, Mozambique, Togo, Benin and Nigeria	Local market	Europe, RSA, SADC countries

Source: Consultant interviews with EPZ operators.

6.3 ISSUES WITH EPZS

Lack of access to water and power is the major constraint in the EPZ facilities currently in place in Mainland Tanzania. Since one of the main reasons for having EPZs is to ensure at least adequate provision of infrastructure in a limited area when it is not possible to provide for this on an economy-wide basis, this is a serious drawback.

Power

When MBP was first designed, Contitrade was not able to anticipate the power needs or demands of its future tenants. The site was not developed with sub-stations, transformers, or switching posts to support industrial type activities facilities, and only has low electrical capacity (enough power to support basic warehouse lighting). Discussions between Contitrade, NDC, and Tanesco (the city's electrical provider) over the past year to rectify the problem has not resulted in a solution. In order to operate within MBP, EPZ operators have to obtain power through alternative means, including using generators, which is expensive as they are mostly run on diesel fuel, or by tapping into the limited on-site electrical supply, which is dangerous. Both solutions are neither viable nor sustainable in the long run, and make MBP impractical for long term industrial activities. Nida is solving its power problem by having its own generator, which is costly and, together with high cost of water (see next para.), has resulted in the recent closure of its processing operations.

Water

Access to water is another serious issue for both MBP and Nida. Although MBP was constructed with modern water connections to Dar Es Salaam's water network, City Water, the local water provider, is currently not able to supply water to the facility (this is a common problem throughout Dar Es Salaam). Dawasco is currently upgrading the city's water network, but does not anticipate that water will be available on a consistent basis within the Ubungo district until 2006-2007. In the meantime, EPZ operators in MBP must purchase water from a private source to operate their businesses, which is expensive and inconvenient for water-intense industries. In Nida, water for production purposes is obtained from bore holes and is cleaned through an on-site water treatment plant, which is also an expensive endeavor.

Institutional Issues

EPZ operators in MBP are concerned with several institutional issues. First, there is no on-site management office. Contitrade does not currently have the capacity to provide such an office, but expects NDC to do so when the latter takes over the operations and management of MBP. In the meantime, EPZ operators are having difficulties getting prompt responses to their problems from either Contitrade or NDC. Also, NDC is not staffed or trained appropriately to provide proper after care service and support.

Second, there is no on-site Customs Office. According to the EPZ Act, a Custom's facility must be located within an EPZ facility in Tanzania. Although Contitrade has constructed a Custom's booth on the premises for the Tanzania Revenue Agency (TRA), it is not operational. Discussions between TRA and Contitrade continue but, to date, an on-site Custom's presence is not available in the park. EPZ operators must call TRA a day before a shipment is either to enter or exit the EPZ facility to request a custom's officer to document and verify shipments. This is not a satisfactory solution to the problem and leads to delays. Further, Customs is not

sympathetic to import and export issues that EPZ operators face, and do not follow the streamlined procedures set forth in the EPZ Custom's regulations.

Thirdly, the reporting requirements for both NDC and TRA are cumbersome. TRA and NDC require separate quarterly reports to monitor the EPZ Program.

Other Issues

The leasing rates charged by MBP are high, especially considering the lack of adequate utilities and infrastructure. Compared with Kenya's flagship EPZ facility, the Athi River EPZ, a public sector investment operated by Kenya's Export Processing Authority, leasing rates by MBP are high yet the array of amenities offered is much smaller (even though customarily private sector EPZs have higher levels of infrastructure and amenities than public sector ones) (Table 6.2 and Box 6.1).

Table 6.2: Rental/Lease Rates of Tanzania/Kenya EPZ Facilities

Property Rentals and Lease Terms	Millennium Park Tanzania	Athi River EPZ Kenya
Serviced Plots	Not land plots available (pre-built facilities only)	US$5,000/year (30 year lease)
Service Charges	Not applicable	10% for common services
Industrial Buildings	US$3.00/m2/month (rent)	US$2.8/sq.ft/year (6-year lease)
Service Charge for common service areas	10%	15%

Security is also poor in MBP. Although the developer has hired private security which monitors the grounds on a 24-hour basis, the complex still has security issues (this has also been highlighted by TRA), having experienced break-ins in the past which have forced the EPZ operators to hire additional security to guard their individual premises.

Finally, there is limited access to MBP. Although MBP's site plan includes two entrances—a main access point off Morogoro Road and a secondary entryway from the adjacent side street—to date direct access from the site to Morogoro Road is not available. For the past year, the developer has been in discussions with Tanzania Road Agency to open the main access point on Morogoro Road, but the Tanzania Road Agency is concerned with the distance to the traffic light. Until this issue is resolved, MBP will not have a main entry gate or direct access to Morogoro Road. Since the custom's office within MBP is located at the main entrance to the facility, without access to this entrance way, it is unlikely that the TRA will feel the need to have a permanent customs presence in the EPZ facility.

Low EPZ occupancy rates

All the issues discussed above have contributed to low occupancy of the EPZ. MBP currently only has 3 EPZ tenants. As a result, the developer has leased out a number of warehouse/factory units to non-EPZ operators, which violates the EPZ Act, the Custom's Regulations, and the Developer's licensing agreement.

Box 6.1: Athi River EPZ, Nairobi Kenya

On-site Infrastructure

- Serviced land for lease (62x1 hectare plots)
- Industrial buildings (44 buildings at 1000-1500 sq.m.)
- Office block (5 storeys with roof top restaurant-for rent)
- Dispensary/health facility
- Banking facilities
- Electricity supply with sub-station, fire station, and telephones
- Water reticulation, storm water drainage and sewerage disposal
- Asphalt roads with street lights
- Zone cleaning and landscaping
- Illuminated perimeter fence, 24 hour security and on-site police post
- Warehouse and gate house with customs and EPZ Authority zone support
- Food canteens

Off-site Facilities

- Water supply line, bulk storage tanks and pumps
- Sewerage line and treatment works
- 28 hectares of land for residential housing-lease
- 9.7 hectares of commercial area for retail, petrol stations, restaurants, hotels
- Vocational training institute developed by the Government of Kenya with assistance from Korea
- Street lighting and widening of Namanga Road

Source: Kenya Export Processing Authority.

Zanzibar EPZ Issues

The Zanzibar EPZ Program has been hampered by poor infrastructure. Of the 3 zones that have been declared as EPZs, only one has working infrastructure, whereas the other two need to be equipped with adequate infrastructure including electricity and roads to stimulate the interest of investors.

6.4 THE WAY FORWARD FOR EPZS IN TANZANIA

The EPZ Program has the potential to contribute to Tanzania's export development. However, this requires fine-tuning of the EPZ Program, and addressing the issues identified in the preceding discussion. This requires the following.

Public sector commitment

The EPZ Program in Tanzania is in its infancy stage and it is too early to properly assess its success or failure. The Program should, however, be fully supported by the government and continued. From evidence of successful EPZs in other countries[93], what is required is strong

[93] Watson (2001).

public sector commitment to the Program that entails having a *vision* of where the Program is going, what it wants to do; *building consensus* with relevant private and public sector stakeholders for the Program; *concerted action* is undertaken to ensure that all the important elements are in place, ranging from legislation, setting up of one-stop-shop, provision of utilities, and so on; and *continuity* which is essential for investors' confidence.

Provision of utilities

The availability of water and electricity is the greatest and most significant barrier to EPZ development in the country. Although EPZ operators complain about the costs of water and power, they are competitive with other countries (Table 6.3).

Table 6.3: Cost of Electricity and Water in International Markets

Country	Electricity US$/kwh	Water US$/m3
Tanzania	US$0.057	US$0.70
Kenya	US$0.06	US$0.43
India	US$0.07	US$0.23
UAE	US$0.05	US$1.80
Philippines	US$0.07	US$.039
Djibouti	US$0.29	US$1.43
Oman	US$0.06	US$2.06
Saudi Arabia	US$0.032	US$1.60
Yemen	US$0.09	US$0.19
Ethiopia	US$0.05	US$0.40
Jordan	US$0.09	US$1.40
China	US$0.09	US$0.13
Thailand	US$0.07	US$0.25
Singapore	US$0.07	US$0.02 (with tax)
Malaysia	US$0.05	US$0.138
Morocco	US$0.057	US$0.606
Tunisia	US$0.067	US$0.680
France	US$0.069	US$1.987
Spain	US$0.071	US$1.044
Czech	US$0.04	US$1.718
Turkey	US$0.10	US$2.00

From discussions with Tanesco, it is clear that electricity can be provided to existing and future EPZ facilities if a developer or operator (a) contacts and meets with Tanesco prior to receiving development approvals, (b) undertakes a energy demand assessment for the new EPZ facility, (c) hires a licensed electrical engineer/consultant to prepare drawings, (d) purchases the electrical equipment themselves (transformers, breakers, sub-stations, etc which must be imported as they are not available in Tanzania), and (d) undertakes the installation of the equipment at their own cost. (Currently, Tanesco does not have the capacity or the capabilities to identify or design electrical requirements for a site. At this time, they are only capable of bringing the electrical lines to the boundary of the site.) For existing EPZs, it would be best if the developer finds a comprehensive solution to the facility's electrical problems rather than permitting operators to install transformers on the site to provide electricity to their individual factories or warehouses.

With respect to water, the government is now embarking on a five year capital improvement program to repair and upgrade the water infrastructure in the city. Although this is an appropriate measure, upgrading a water network is a slow process and it will be 3-5 years before the water issue is adequately addressed for all industrial/EPZ facilities/ and residential uses in the community. Until then, water will continue to be purchased or obtained through bore holes for EPZ operators within Dar Es Salaam.

Finally, NDC needs to work closely with the water and power providers to develop a comprehensive strategy, application procedures, and streamlined approval processes to ensure that future EPZ facilities are constructed with adequate water and power capacity and connections to support various types of EPZ activities.

Fine-tune institutional regime

The existing institutional structure of Tanzania's EPZ Program follows international best practices – it is regulated by an autonomous government corporation (NDC), and it establishes a framework to allow for private sector development and management of zones. However, it does not function effectively in regards to the following.

Coordinating and approving start-up activities. The EPZ Act has not designated NDC as a one-stop shop, although NDC has been given (a) the authority to issue EPZ licenses and site development permits (excluding environmental clearance), (b) a mandate to co-ordinate with relevant authorities to facilitate start-up procedures for EPZ investors, and (c) the powers to monitor the EPZ Program.

Currently, NDC does not have the staff capacity or the expertise to undertake these regulatory activities, and rely on private contractors to provide a number of these services for them. However, if the private sector is going to undertake these activities for NDC, NDC must have/develop clear guidelines or specific EPZ regulations to govern the implementation of these activities so 'conflict of interest' situations or abuses do not occur. Regardless, the EPZ program requires adequate funding and staffing to properly develop, implement, manage, facilitate and promote the EPZ program. This needs to be a priority for the Program to be effective and attract the types of investors to make the Program a success. Adequate funding and staffing would also enable NDC to liaise on a regular basis with other public sector agencies and organizations—something it is not doing now—to ensure that all EPZ issues and concerns are being dealt with in an effective manner.

Further institutional reform. Although the institutional structure of the EPZ Program generally conforms to international best practices, a number of changes should be undertaken to help the program function more effectively in the future. One change that is already underway is the GOT decision to establish an EPZ Authority to replace NDC, in light of the multiple mandates of the latter (national economic development mandates and responsibilities) which have limited its ability to properly supervise the EPZ Program, and in light of best practice that shows that autonomous agencies which do not have other responsibilities should be in charge of EPZ Programs. The process of establishing the EPZ Authority should be facilitated, and adequate staffing coupled with capacity building for the staff ensured. An evaluation should also be made on the efficacy of merging the EPZ Authority with other investment facilitating institutions in Zanzibar. Other recommended changes are: (i) promoting more private sector involvement in the program; and (ii) re-defining the implementation policies and procedures for the program.

Harmonization of record keeping and reporting requirements. The current requirement of separately reporting to TRA and NDC on a quarterly basis is costly and time-consuming. The reporting requirements should be harmonized to eliminate having two versions of the same information.

Fine-tune regulatory framework

An EPZ Program needs, first and foremost, a clear legal and regulatory framework to make it competitive in a global market. International best practices show that EPZ Programs with transparent legal and regulatory frameworks consisting of: (i) an EPZ Act; (ii) a set of comprehensive EPZ Regulations with corresponding guidelines; and (iii) a set of EPZ Operational Procedures, are most successful.

Regarding (i), Tanzania's EPZ Act is both comprehensive and flexible. It sets out investment incentives, provides for equal treatment of foreign and domestic investors, includes streamlined customs procedures in accordance to Kyoto Convention standards and guidelines, and gives NDC the authority to prepare detailed regulations to guide the implementation of the program. The regime is transparent and accountable, which give investors confidence in the sustainability of the program. The fiscal and non-fiscal incentives provided by the Tanzania EPZ program are similar to those of other EPZ programs in the region (Table 6.4). However, they are not consistent with modern, international best practice EPZ regimes that no longer impose minimum export requirements, and tend to limit or not allow tax holidays, exemptions and/or reductions to attract investment. Best practice indicates that such benefits tend to attract short term investors who leave the country once the incentives are over, or learn to re-invent themselves to take advantage, in perpetuity, of these benefits. Tanzania may wish to raise the issue of limiting or not allowing tax holidays with its EAC partners as harmonization of such incentives would be beneficial for all, whereas, conversely, competition between them over these incentives would be harmful for all.

Table 6.4: Regional EPZ Programs

Country	Tax Rate	Sector Targeted	Designation	Other Incentives/Features
Botswana	15% through 2020	Financial services	Any firm	Credit for withholding taxes levied in other jurisdictions; Services exempt from VAT; Tax exemption for collective investment undertakings; 0% services allowed in local market
Kenya	0%for 10 years; 25% thereafter	Manufacturing; Processing; Commercial activities for export Export services	Any firm	Withholding taxes (10 years) on dividends to non-residents; Exemption from stamp duty; 100% deduction over 20 years on initial investment; Perpetual duty and VAT exemption on raw materials, machinery and other inputs
Malawi	0%	Non-traditional goods	Any firm	Withholding tax exemption; Duty and surtax free imports, including office furniture, packaging materials, and work cars; 20% of output can be sold locally; US $50,000 minimum capital investment; Status valid for 5 years

Mauritius	15% corporate tax	Manufacturing for exports Printing/Publishing Information technology Agro industries Services Produce of deep sea fishing	Any firm	No tax on dividends; No capital gains; Tax-free repatriation of profits, dividends, and capital; No customs duty or sales tax on raw materials and equipment; 50% exemption on registration fees on land; Relief on personal income tax for two expatriate staff
Mozambique	0% corporate tax	Manufacturing Manufacturing services	Any firm; 3 established zones	Exemption from general sales tax, stamp and transfer duties, import duties on machinery and raw materials, from real property transfer tax; 85% minimum export/15% domestic market; 85% of workforce must be local
Namibia	0%	Manufacturing Export oriented activities	Any firm; 2 established zones	Exemption from corporate tax, VAT, stamp duty, transfer duty and import duties; On machinery and raw materials
Nigeria	0%	No restrictions	Any firm	Tax holidays; Exemption from taxes, levies, duties, and foreign exchange, unrestricted remittance of profits, dividends, no import or export licenses, repatriation of foreign capital investment, must export no less then 75% of its production
Tanzania (mainland)	0% for 10 years; 25% thereafter	Manufacturing Processing	New investment only; 2 zones developed, 2 zones in development	Withholding tax exemption; Local tax exemption; Exemption from pre-shipment inspection; 30% of output can be sold locally; US $100,000 minimum annual turnover
Tanzania (Zanzibar export processing zone)	0-50% on export earnings depending on % of Zanzibar ownership	Manufacturing	3 established zones	20% of output can be sold locally; Personal income tax exemption for 10 years; Personal effects imported duty free; Exemption from withholding tax on loan interest; Exemption from withholding tax on technical services
Tanzania (Zanzibar Freeport)	0% for 20 years; tax holiday may be renewed	Services Retail Transit trade	Freeport area	20% of output can be sold locally; Output/services exempt from local taxes if exported; Unlimited storage time without paying duties
Zambia (proposed per the Technical Committees Report on the Declaration of EPZs)	0% for 15 years	Agriculture Agro-processing Manufacturing Commercial Export processing zone development Stand alone EPZ Industrial Park EPZ	Any firm	Exemption from withholding tax on dividends; Exemption from tax on interest; Exemption from tax on royalties; Exemption from duty on raw materials, machinery, intermediate and capital goods and services; Exemption from imported VAT; Exemption from excise duty;

		Greenfield		20% of output can be sold locally; Status valid for 15 years
Zimbabwe	15% corporate tax after 5 year tax holiday	Manufacturing Processing Assembly Service sector Industrial Parks Stand Alones Only new projects	Any firm	Exemption from withholding tax on dividends, royalties; Exemption from duty for goods imported into EPZ; Exemption from fringe benefits tax for employees of EPZ companies; Exemption from capital gains tax; Permission to borrow locally; Must export min. of 80%

Source: Export Processing Authorities in all the above countries.

Regarding (ii), Tanzania's EPZ Program has clear general regulations and customs regulations which are well-written and describe the rules and conditions for setting up an EPZ company and determine how exports will be managed and monitored within an EPZ facility. However, additional regulations with detailed evaluation criteria are needed to help properly guide the implementation of the EPZ Program and to eliminate any discretionary decision-making. NDC should prepare development standards and health and safety standards for EPZ facilities; these regulations need to be prepared in association with both the public and private sectors to ensure their compliance. Further, standard operating procedures need to be developed to ensure that the staff of NDC deals with EPZ investors in a consistent manner.

Approval Process. The approval process for Tanzania's EPZ Program is similar to other EPZ Programs in the region. When compared to Kenya and Zambia, the time and costs associated with the processing of an EPZ license are competitive (Table 6.5).

Table 6.5: Timeframe and Costs of the Approval Process for EPZ Status

Approval Process	Tanzania	Kenya	Zambia
Timeframe for approvals	30 days	30 days	30 days
Application fee	US$250	US$250	US$300
Developers License	US$5,000 one time fee	US$1,000 yearly	US$2,950 yearly
Operators License	US$1,000 yearly (pay US$3,000 in advance for the first 3 years /$1,000 yearly there after-renewal)	US$1,000 yearly	US$1,420 yearly
Service Provider License	US$1,000 per year	Not Applicable	Not Applicable

The approval process in Tanzania is defined by legal regulations and is transparent. NDC reviews only completed application submissions which reduces the administrative timeframe for approvals. However, NDC must develop clear criteria for evaluating and granting approvals to make the process more accountable. Currently, there is room for discretionary decision-making

in the process with regard to eligibility which needs to be eliminated to assure the private sector that there is a fair playing field in the granting of EPZ status.

Standard Operating Procedures (SOP). SOP are needed to properly administer and implement the EPZ Program in Tanzania. They will determine roles and responsibilities within NDC, set out workflows and timeframes, define standards, identify reporting mechanisms, internal processes and procedures, eliminate the discretionary application of the regulatory framework, and ensure transparency and agency compliance with the EPZ Act. It is also crucial that NDC staff clearly understands the operating procedures and participates in their preparation. In order to ensure standardization in the internal operating processes, a staff manual, forms and templates should be prepared for all staff to follow. Training on how to implement these standard operating procedures will also be necessary.

NDC should ensure that their SOPs:

- Provide an overview of NDC structure and reporting lines
- Standardize internal operating processes and procedures
- Set out methods for reviewing licensing applications, lists qualifying conditions, and contains evaluation criteria
- Include checklists, letters, and memo templates
- Summarize and highlight the EPZ legislation and legal documents in a manner that can be easily implemented by staff
- Create transparency, predictability, and promotes easy access to information
- Inhibit corruption by publishing clear and simple operating rules
- Help brand the Export Processing Zone Program (see discussion later on branding) and create a business-friendly environment

Development Regulations should contain, but not be limited to: (i) a general overview of the development objectives of the EPZ Program; (ii) density limit; (iii) height limits; (iv) property line setback requirements; (v) rear and side yard setback requirements; (vi) site access requirements; (vii) minimum turning radius'; (viii) minimum infrastructure requirements; (ix) minimum utility requirements; (x) fire access requirements; (xi) parking requirements; (xii) signage requirements; (xiii) landscaping requirements; (xiv) environmental requirements; (xv) security requirements; and (xvi) building material requirements and standards.

Health and safety regulations should contain, but not be limited to: (i) a general overview of the health and safety objective within an EPZ; (ii) reporting procedures for an accident or serious illness; (iii) rules for the collection of domestic waste; (iv) disposal of domestic sewage; (v) disposal of industrial waste; (vi) violation categories; (vii) public health requirements; (viii) evacuation plan; (ix) fire requirements; (x) toxic fume requirements; (xi) unauthorized entry into the EPZ; (xii) maintaining safety records; (xiii) violations/penalties for unauthorized entry; and (xiv) dispute resolution mechanisms.

Brand the EPZ Program

The Tanzania EPZ Program is similar to other programs in the region in respect of incentives and regulatory regimes. Tanzania should brand its EPZ Program to set it apart from the other programs. This means that NDC should develop a strong and aggressive marketing strategy/plan and create a new image for the program so it is highly identifiable. The strategy would require, that, first, Tanzania clarifies the sectors that qualify for EPZ status, and second, that Tanzania markets its competitive advantages.

Clarify EPZ sectors. Tanzania's EPZ Act does not contain a formal list of sectors which are eligible for EPZ status under the program. NDC approves EPZ status on a case-by-case basis and in a laissez-faire manner. Although this is common practice in many EPZ programs in the region, it is advisable that the NDC develop a positive or negative list of permitted uses (a negative list would be more flexible and would be used to identify hazardous industries or restricted activities not appropriate for EPZ status). This will signal to investors that there are clear guidelines and criteria for evaluating and licensing EPZ projects. In a competitive global market, a defined eligibility list, guidelines and criteria will be a benefit to Tanzania's regime and help them attract new investors to the country.

Currently the EPZ Program is unofficially promoting low level manufacturing and processing activities within existing EPZ facilities. For the long-term, the NDC should be targeting more value-added activities and services which provide further backward and forward linkages. Such activities and services could include: re-labeling, re-packaging, stripping, pick and pack, and logistics, to name a few. Table 6.6 provides a comparative list of the sectors being unofficially promoted in Tanzania, Kenya and Uganda's EPZ programs.

Table 6.6: Main sectors promoted in Tanzania, Kenya and Uganda's EPZ

Tanzania	Kenya	Uganda
Agro-processing Textiles and garments Leather products and goods Gemstones and jewelry Wood products Electrical appliances and electronics ICT	Textile and garments Leather products and goods Food processing Printing and publishing Wooden products and furniture Automotive parts, assembly, reconditioning Electrical appliances and electronics Shared services	Agro-processing Textiles and garments Pharmaceutical and health supplies Gemstones and jewelry Leather products and goods Wood products

The NDC should (a) assess the existing industrial sectors that are unofficially being promoted—agro-processing, textiles and garments, leather goods, gemstones, wood products and electronics, and (b) identify their short and long term benefits, to determine, expand (add value), and diversify the existing list of industrial activities permitted in the EPZ Program.

Marketing Tanzania's competitive advantages. Tanzania has a number of physical and economic attributes that make it competitive in the global market. These competitive advantages need to be packaged and marketed for the EPZ Program to help attract new investment to Tanzania. Tanzania's advantages are:

- *Political stability.* Tanzania has enjoyed a stable government structure for nearly 40 years.
- *Government will.* For the past 10 years, GOT has been committed to institutional reform of their trade and investment policies, including making the EPZ Program a priority initiative in the country to encourage export led investment.
- *Access to regional markets.* Through the RTAs that it has signed onto—EAC and SADC—Tanzania has good trade relations with Uganda, Burundi, Rwanda, Zambia, Malawi, Kenya, Mozambique, DRC, and RSA. Together, these countries have a population of more than 285 million people, which constitute a sizeable market.

- *Preferential trading agreements*. As discussed in Chapter 4, Tanzania has many preferential trade agreements with other countries (the major ones being AGOA and EBA) which an investor can benefit from, and which Tanzania has yet to fully utilize.
- *A low inflation rate.* Tanzania has steadily reduced its inflation rate since the mid-1990s to around 4 percent in the last couple of years. This is an attractive investment attribute for potential investors.
- *An abundance of natural raw materials.* Tanzania has an abundance of raw materials which, to date, have been under-exploited, including minerals (gemstones), forestry, and marine resources. Through the EPZ Program, local raw materials can be processed and manufactured in a value-added manner to expand export oriented activities and attract new investment into the country.
- *Three international airports.* Tanzania has 3 international airports—Dar Es, Salaam, Mwanza, and Kilimanjaro.
- *Three major seaports.* Tanzania has 3 major seaports situated in Dar Es Salaam, Tanga, and Mtwara.

Based on the sectors clarified and the list of competitive advantages, a marketing strategy could then be developed to "brand" Tanzania's EPZ program. This strategy should include: (i) sectors and markets to target based on the sectors clarified; (ii) marketing goals and objectives; (iii) marketing techniques; prerequisites, tools, activities, support, and plan reviews; (iv) proposed timelines for implementation; and (v) an indicative budget for the various marketing tools and activities. As part of this strategy, marketing materials and brochures should be developed and distributed to make investors aware of the program. These efforts should be dovetailed with other investment promotion activities being undertaken in the country. They should also

Build consensus for the EPZ Program

This entails coordinating with other agencies in the public sector to ensure that all EPZ issues and concerns are dealt with in an effective manner. It also entails strengthening the public-private dialogue. The private sector currently has limited involvement in the planning, development, implementation and promotion of the EPZ Program. The public sector should encourage: (i) private sector representation on its EPZ Council; (ii) the creation of an EPZ developers/operators organization or business forum to monitor the concerns of the investors; and (iii) greater private sector investment, development, and management of EPZ facilities.

Develop EPZ facilities

Although NDC has been given the mandate to develop EPZs in the country, they have not yet been able to erect any facilities due to financial constraints. NDC should investigate opportunities to enter into concession agreements, management contracts, as well as, Build-Operate-Transfer (BOT), Build-Own-Operate (BOO), and Build-Own-Operate-Transfer (BOOT) options with the private sector. These arrangements entail having NDC enter into an agreement with the private sector to finance, design and build a facility at their own cost, operate the facility for a specified time period—receiving revenues from the operations, and then transfer or sell the facilities back to the NDC. (This was the anticipated mechanism to be employed with MBP).

Best practice shows that private sector development and management of EPZ facilities can be beneficial to an EPZ Program. Private sector involvement can bring specialized development expertise that is often not available within the public sector. However, even with private sector participation, NDC must prepare development guidelines for EPZ facilities to ensure that they are getting the quality of design and construction that they require.

Place the Special Economic Zone (SEZ) initiative on hold

GOT is currently considering a SEZ policy for the country, which is based on the Chinese model. GOT anticipates that the existing EPZ Program would then be a sub-component of this larger framework.

The Chinese SEZ model is geared towards developing large scale regions of a country for promoting export-oriented, processed goods which integrate science and industry with trade, and benefit from preferential policies and special managerial systems. SEZs traditionally include the following activities:

- *Free Trade Zones*: allow duty exemptions for goods destined for export and duty deferrals for goods destined for the domestic market
- *Export Processing Zones*: intended for the manufacturing and processing of goods for export
- *Manufacturing under Bond*: extends wider benefits to the existing Bonded Manufacturing Warehousing scheme
- *Technology Parks*: intended to facilitate the development of information technology and other related industries, whether or not for export
- *Industrial Parks*: offer a range of limited incentives to the development of export and/or domestic oriented manufacturing industries
- *Tourist and Recreation Parks:* offer a range of limited incentives to the development of tourist and recreational facilities
- *Virtual Zone*s**:** single factory free zones.

At this time, the SEZ concept is overly ambitious. Although it may be beneficial for the country to allow for a wider range of activities usually found in SEZs, a higher level of governmental regulations and oversight is required to properly implement such a program. The government will need to ensure that SEZ investment is truly value-added, does not cause leakages, and that new investors do not exploit the incentives offered. Under the current conditions in Tanzania, it is not clear that the government or the existing EPZ regulatory agency-the NDC, has the scope or expertise to implement or manage such a program properly. As such, it is advisable that GOT focuses on improving the EPZ Program's institutional framework and expanding its activity sectors before a SEZ initiative is introduced into the country.

7. SANITARY AND PHYTOSANITARY (SPS) STANDARDS

As Tanzania seeks to expand and diversify its food and agricultural exports, the country will increasingly encounter more stringent regulations and private standards in relation to food safety and plant and animal health. Such issues were of little importance for Tanzania's trade in the past given the structure of its agricultural exports—that is, mostly commodities. With the decline in commodity exports and the emergence of non-traditional exports, such issues have become more important. In particular, restrictions on Tanzanian exports of fish and fishery products to the European Union during the late 1990s[94] brought to the attention of Tanzanian officials and private sector exporters the potential challenges and opportunities posed by the evolving system of food safety standards in international markets generally, and more specifically in certain focal markets for Tanzanian non-traditional exports.

Tanzania successfully responded to the challenges posed by the EU ban and has been able to expand its fish and fishery product exports in recent years. In a few other areas, Tanzanian producers and exporters are beginning to adopt and benefit from higher international food safety and quality standards. Yet, these developments still represent outliers and Tanzania's overall capacity—in both the private and public sectors—to manage food safety and agricultural health risks remains extremely limited both in the context of international trade and domestic markets.

In certain sub-sectors, for example livestock products, this limited capacity has severely constrained Tanzania's agricultural and food exports, although other supply-side factors have also undercut international competitiveness and even the development of the domestic market. For some commodities, including groundnuts and honey, uncertainty about meeting particular food safety standards has led Tanzanian exporters to adopt a defensive posture, channeling these commodities only to markets where standards are less stringent and/or not rigorously enforced. There are some indications that Tanzania's largest non-traditional 'export', namely tourism, may be vulnerable to the risks associated with poor food hygiene and inadequate monitoring and inspection. For a broad array of traditional and non-traditional export(able) commodities, variable or sub-par quality has resulted in price discounts in international markets.

This chapter provides an overview of the emerging challenges and opportunities which Tanzania is facing in relation to food safety and agricultural health standards and trade. Primary attention is given to 'non-traditional' agricultural and food exports. The chapter does not aim to provide a comprehensive review of Tanzanian SPS management capacity in terms of in-depth strengths and deficiencies. Rather, it builds upon and extends existing analyses[95] to provide a strategic framework for Tanzanian policy-makers, donors and other stakeholders to assist in better planning and prioritizing actions and capacity-building measures in this field.

7.1 TRADE AND SPS MANAGEMENT – THE BASIC FRAMEWORK

SPS standards have become a major issue in trade in agricultural and food products. While the restriction of trade is not their primary objective, such measures can have a significant impact on trade flows. SPS standards and other measures have been traditionally promulgated and applied by public authorities and provide a minimum set of food safety and/or plant and animal health

[94] See also discussion in Volume 2, Chapter 5.

[95] Relevant recent analyses include those by Mwakinbinga and Ekelege (2004) on standards infrastructure, IFAD (2004a; 2004b) on livestock and animal disease controls and UNIDO (2003) on food controls.

standards with which suppliers must comply. Increasingly, however, private standards have become a dominant element of the standards landscape, applied by private sector buyers as a means to comply themselves with public standards and also to differentiate their products from those of their competitors. In practice, such private standards, whether promulgated on an individual firm or collective industry basis, have become an equally mandatory requirement to access high-value markets for agricultural and food products.

Having a certain minimum level of SPS management capacity is increasingly necessary for accessing high-value markets for agricultural and food products. Whereas much of the focus of SPS controls at the national level is on domestic security issues, including protection of consumers against food-borne hazards and the agricultural sector against animal and plant pests and diseases, such capacity is also necessary in order to comply with SPS requirements in export markets, particularly in industrialized countries. SPS management involves an agglomeration of basic and more sophisticated technical and administrative functions, in turn requiring a broad range of skills, physical infrastructure, institutional structures and procedures, and financial resources.[96] Some of these basic functions are set out in Box 7.1.

Both the public and private sectors have important roles to play in the management of food safety and agricultural health. Governments typically carry out many of the crucial regulatory, research and management functions, while the private sector has the following roles. First, the private sector should contribute to standard-setting at the national level, as it is typically well informed about technical options and the associated costs and benefits for business. Second, it is through the specific actions of individual producers and processors that compliance with food safety and agricultural health requirements is achieved, such as the application of HACCP by food processors or fresh produce packers. Third, capacity building in the private sector can complement—or even substitute for—public sector capacity, as with the investment in accredited laboratory testing facilities. Fourth, the private sector normally plays an important role through the pressures it places on public agencies to effectively implement their SPS management responsibilities.

The development of SPS management systems tends to be closely related to the availability of wider technical, administrative and scientific capacities, which in turn reflects broader patterns of economic development as well as specific demands for food safety and agricultural health controls. At very low levels of economic development, priorities typically include the establishment of very basic standards of hygiene through the supply chain aimed at managing immediate hazards, and the development of knowledge and understanding of fundamental SPS management principles.[97] At higher levels of economic development, the focus tends to shift towards the ability to identify SPS hazards as, and even before, they occur and to take preventative actions. In this context, export-oriented agricultural and food supply chains provide real challenges as external SPS requirements may differ sharply from those prevalent in the domestic market, especially in low-income countries. However, while many developing countries have widespread weaknesses in food safety and agricultural health management capacity, there is evidence that even low-income countries can, selectively, put in place the necessary regulatory, technical and administrative arrangements to meet demanding standards in high-income export markets.

[96] World Bank (2005).

[97] Among very low income countries, the most common source of food-borne illness is unsafe water for drinking and food preparation and poor sanitation facilities generally.

Box 7.1: Some basic SPS management functions

- Apply Good Agricultural Practice (GAP), Good Manufacturing Practices (GMP), Hazard Analysis and Critical Control Point (HACCP), and Quality Management (QM) at farm and enterprise levels
- Develop appropriate legislation and standards
- Register/control feed, agro-chemicals, veterinary drugs, etc.
- Conduct basic research, diagnosis, and analysis
- Accredit laboratories/veterinarians/other third party entities for official duties
- Develop/apply quarantine procedures, including for emergency situations
- Carry out epidemiological surveillance and information management
- Inspect/license food establishments
- Develop/maintain pest or disease-free areas
- Test products for residues, contaminants and microbiological content
- Verify/certify biological materials (seeds; embryos, semen)
- Verify/certify imported/exported products related to established risks
- Establish/maintain identity of products (for example traceability)
- Report possible hazards to treaty/trading partners
- Notify WTO/trading partners on new SPS measures
- Participate in international standard-setting processes

There is wide variation in the extent to which regulatory, technical and administrative capacities represent a significant constraint on developing country exports of agricultural and food products. In general, weaknesses in the management of plant and animal health issues are more likely to act as an absolute barrier to trade than lack of food safety controls.[98] Many developing countries lack the capability to undertake effective epidemiological surveillance and to conduct rigorous risk assessments which are acceptable to overseas trading partners. Thus, for example, even if the private sector can meet the food safety and quality requirements of overseas customers, the country as a whole might not be able to gain market access.

The array of SPS management functions and the associated institutional, technical and capacities is rather daunting for many developing countries, especially those that are least-developed. Generally, prevailing levels of capacity are rather low, while available resources are limited and the opportunity cost associated with investments in the enhancement of SPS management capacity is high—there are countless other potential uses that compete for scarce resources. There is therefore a need to prioritize capacity-building efforts. A useful guiding framework in the development of priorities is the concept of a hierarchy of SPS management functions which identify those functions that need to be put in place first and—arguably—have the overall highest payoff in terms of the efficacy of SPS management (Figure 7.1).[99] It also illustrates how the effective development of any 'higher level' SPS management function requires the prior development of 'lower level' functions. Functions towards the base of the pyramid represent the foundation stones, while those towards the top add value and sophistication to the entire system

[98] World Bank (2005).
[99] World Bank (2005).

of SPS management and gain in importance as export sectors mature and encounter increasingly complex technical, administrative and even political challenges.

The foundation of any SPS management system is broad awareness among participating stakeholders about the relevance and importance of food safety and agricultural health to the competitiveness of their country/sector/firm and recognition of their own role in this system. Where this awareness is especially weak, any system of regulatory enforcement will almost certainly be overwhelmed. Awareness of major SPS challenges and opportunities is needed at several levels. Firstly, among senior agricultural and trade officials, in order to assign appropriate priorities for public programs and expenditures. Secondly, among owners and managers of agricultural/food processing/exporting firms and the industry organizations that represent them. These people make investment, personnel and other decisions, and engage in self-policing activities, which determine the willingness and capacity of firms to meet emerging SPS standards. Finally, awareness is critical, and perhaps most difficult to build, among the large numbers of producers, and farm and industry workers, who produce and handle agricultural raw materials on a day-to-day basis.

Another core set of building blocks that proceed from broad awareness is the application of basic and recognized risk and quality management practices at the farm and processing levels of supply chains, including HACCP, GMP and GAP. This mostly involves training staff and family members in basic hygiene, the proper use and storage of potentially hazardous substances, and improved record-keeping related to production practices etc.

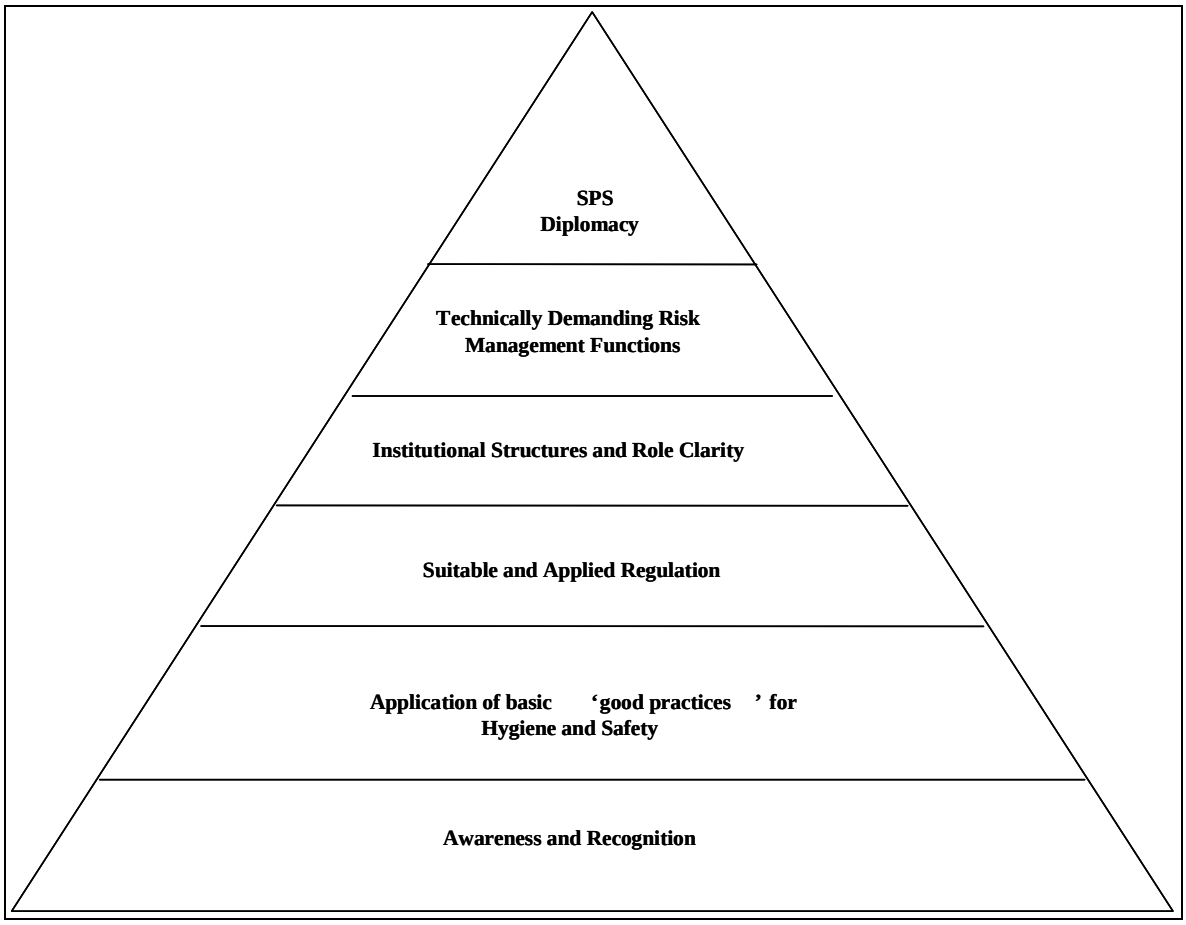
With broad awareness and common application of good practices, many potential SPS risks can be effectively managed at the enterprise (or farm) level. However, there are other risks that are more systemic in nature and cannot be fully controlled on a decentralized basis, but require broader oversight or collective action entailing basic research, surveillance systems and quarantine and emergency management systems. Many of these higher-order functions require particular technical skills, often specialized equipment and well-defined structures, supported by recurrent funding. Some of these functions need to be mandated by law to ensure that they are implemented appropriately. An effective regulatory framework and transparent institutional structures is therefore placed in the middle of the pyramid.

At the top of the pyramid is the so-called ‘SPS diplomacy’, which includes the international obligations of individual WTO members, but also relates to engagement in the technical and political realm of official and private international standard setting, negotiations with bilateral trade partners and with regional integration partners on matters dealing with harmonization, equivalence, joint programs, special considerations, and so on. The ability to have an effective ‘voice’ in such international fora is something that few lesser developed and small countries have yet perfected.

Having established some level of SPS management capacity in accordance with the above pyramid, this needs to be sustained in terms of effectiveness, scientific and technical relevance, and access to financial, physical and human resources. In turn, this requires that sufficient political and economic priority be given to the maintenance of this capacity, perhaps both from the perspective of trade promotion, and that of the welfare of domestic producers and consumers. Further, there may be a need for systems of cost recovery, for example user fees, where appropriate. This is a particularly salient issue for developing countries; there are numerous cases of SPS management systems being implemented through externally-funded technical assistance which have become redundant in the medium to long-term because of lack of access to domestic resources. Further, this emphasizes the need for SPS management capacity to be viewed from a

dynamic perspective: the efficacy of the integral functions must be reassessed and updated in the light of developments in science and technology, changes in standards applied by major trading partners, and changes in the reference points provided by the Codex Alimentarius (for food safety), World Organization for Animal Health (OIE) (for animal health) and International Plant Protection Convention (IPPC) (for plant health).

Figure 7.1: Hierarchy of trade-related SPS management functions



The overall conclusion from the above is the need to be pragmatic when examining the state of SPS management capacity in a developing (and especially least-developed) country context and realistic about the immediate scope for the enhancement of the integral SPS management functions. This emphasizes the need to prioritize SPS management functions by emphasizing first the core elements at the base of the pyramid presented in Figure 1. Further, SPS management capacity should be developed with a strategic perspective that focuses on areas with the largest potential pay-off and the related need to avoid capacity-development in a mode of 'problem-solving' or 'fire-fighting'. In developing capacity, the public and private sectors have complementary roles to play. Indeed, in the context of a very low income country such as Tanzania the private sector might legitimately take on a greater role in the development of SPS management capacity directed at compliance with standards in export markets, given that it stands to be one of the major beneficiaries.

The pragmatic, strategic approach involves:

- *Prioritization*: identifying the most immediate and/or most significant risks that the country faces from an SPS and trade perspective as well as the most immediate and/or significant opportunities for competitive or welfare gain in this area. Attention should be focused on areas involving either high risk/high potential gain or low risk/high potential gain. There can be high returns to investment in SPS management upgrading provided that these investments are properly focused. There are no universal blue prints here. What constitute high risk/high gain or low risk/high gain situations will vary by country, depending upon its patterns of trade, its current capacities, and the evolving standards in current or prospective markets.
- *Phasing*: distinguishing between short-term and medium/long-term priorities and scope for action. Some measures are simply not amenable to immediate or short-term solutions due to their technical or institutional complexity or the need to pursue certain activities in stages. Strategic planning for trade and SPS management should not be a one-off event. It needs to be re-visited on a periodic basis, taking into account new challenges/opportunities, as well as lessons from on-going implementation efforts.
- *Multi-stakeholder Participation*: a strategic outlook on trade and SPS management should be developed at the national level as well as that of individual industries/sub-sectors, enterprises and farms. While each agency, enterprise, and farm must develop its own position or strategy for using or promoting standards (as part of broader commercial or administrative strategies), there is much value in developing joint strategies and utilizing collective action to implement such strategies. This should be within the public sector, within the private sector, and between the two.

7.2 TRADE AND THE RELEVANCE OF SPS FOR TANZANIA

SPS standards are becoming increasingly relevant for Tanzania's exports in light of the large changes in export composition and the shifts in export destinations in recent years. As discussed elsewhere in this report,[100] there has been a large decline in both the levels as well as shares of agricultural crop exports. There has also been a significant shift in the destination of these exports—cashew nuts, cotton and tea are now predominantly directed to developing countries, while coffee and tobacco are the only traditional export crops still predominantly destined for developed countries. At the same time, non-traditional exports have emerged to be increasingly important, with fish and horticulture exports among the most fast-growing ones. And, as also discussed elsewhere in this report,[101] European markets are the main destinations for these exports. Among non-traditional exports, hides and skins, honey, and some other comparatively minor commodities are largely directed to other developing countries.

Tanzania has not generally faced market access constraints for its traditional agricultural commodities on the basis of either food safety, plant health or other technical requirements. Even while some international attention has being given to pesticide residues in tea and the incidence of ochratoxin in coffee, neither of these concerns have been specifically applicable in Tanzania.[102]

[100] See Chapters 1 and 10.
[101] See Volume 2, Chapters 2 and 5.
[102] The Coffee Board reports that no consignments of Tanzanian coffee have been rejected abroad for exceeding established tolerance levels for ochratoxin. Although testing for ochratoxin is not routinely done in Tanzania, the risk of its incidence is managed by applying moisture content standards for both parchment coffee and dried cherries.

In contrast, for most of Tanzania's emerging non-traditional agro-food exports, issues related to food safety, agricultural health and related standards are of comparatively greater importance.[103] For example:

- Major OECD importing countries have severely tightened their standards for product and process standards related to fish and fishery products, with increased attention to hygienic conditions at fish landing sites and in fish processing facilities and to the overall regulatory framework for fish quality and safety controls.[104]
- For fresh fruits and vegetables, some governments and private sector players have raised food safety product and process standards and also required their suppliers to adopt certain environmental and social protocols. Particular attention has been given to the use and storage of agro-chemicals and the presence of pesticide residues in fresh produce. Both in this trade and that for cut flowers, increasing attention has also been given to phytosanitary controls and the possible international transmission of plant pests.[105]
- For live animals and livestock products, there have been long-standing concerns about the possible transmission of contagious and economically significant animal diseases through trade. With the emerging links between certain animal diseases and human food and health risks (in particular Bovine Spongiform Encephalophaphy (BSE) and Avian Flu), far more stringent sanitary measures have been adopted by many industrialized and developing countries. The presence of several endemic animal diseases in Tanzania has severely restricted its trade in livestock products, especially beyond the East Africa region.
- For cereals and oilseeds, there has been growing international attention to microbiological contamination, plant health risks and, for certain markets, the need to identify and label supplies based on genetically modified varieties. Tanzania does not export these products outside of the region and thus has not faced some of the more stringent standards now being applied.
- International trade in spices was historically governed by price competition and attention to physical and other product quality parameters. However, in parallel with broader trends in the food industry, in recent years greater attention has been given to selected product safety, production system hygiene and plant health concerns.[106]
- For many other Tanzanian non-traditional agricultural and food exports there are also applicable food safety, agricultural health or other standards which may come into play when certain external markets are targeted. The picture on these standards is not uniform; for example, the levels and extent of enforcement of SPS and other standards varies between country and regional market destinations.

Table 7.1 provides a summary of the types of standards which, depending upon the direction of trade, could most affect Tanzania's major traditional and non-traditional exports.

7.3 TANZANIA'S SPS MANAGEMENT ARCHITECTURE AND CAPACITY

While Tanzania's SPS management system has the necessary basic legal frameworks, the overall level of SPS and quality management capacity remains low and basic awareness about good hygienic practices and measures for pest and disease control is limited among producers, workers, and consumers. Although efforts have been, and are being, made to develop capacity in areas

[103] See World Bank (2005) for a survey of the emerging trends in official and private standards, especially in relation to trade in higher value foods with OECD countries.
[104] See Henson and Mitullah (2004).
[105] See Jaffee (2003).
[106] See Jaffee, forthcoming.

that are considered strategically important from a trade and/or domestic health perspective, the development of capacity as a whole must be seen as 'work in progress'. Thus, there are limited pockets of well-developed capacity in both the public and private sectors alongside areas in which there is little or no capability to perform even basic management functions.

Even where capacity has developed, however, this has not generally been the product of coherent and concerted government policy. Indeed the SPS and quality management arena does not appear to be a government priority at the current time. Rather, capacity-building efforts have generally been in response to 'crises' with capacity being developed in an incremental and piecemeal fashion alongside broader processes of restructuring that have cut across the public sector. This has resulted in considerable overlaps in capacity in some areas, raising questions about the efficiency with which limited resources are being utilized.

Food Safety

On a day-to-day basis, the management of food safety risks is the responsibility of individual players within the food supply and distribution system, including farmers/fishers, food handlers, food processors, wholesalers, retailers and consumers themselves. When food is internationally traded, importers and exporters (and their foreign suppliers or clients) will be closely involved in ensuring the safety of food. Nevertheless, governments have important roles in maintaining the safety of food for consumers. These may be regulatory (mandating certain practices), educational (for example promoting good hygienic practices by consumers and food handlers), research-related (for example assessing risk levels) or involve conformity assessment (for example testing foods for compliance with certain standards).

Tanzania's official system of food safety controls and promotion rests on several pieces of legislation and involves multiple institutions, not always acting in a coordinated fashion. None of the institutions that exist monitors food for exports. There is a Tanzania Food and Drugs Authority (TFDA) within the Ministry of Health which was created by the Tanzania Food, Drugs, and Cosmetics Act (No 1 of 2003). Although the Act makes reference to exports, TFDA has no direct involvement in monitoring foods for exports, its mandate being centered on protecting domestic consumers. There is also a Tanzania Bureau of Standards (TBS) which is responsible for inspection and certifications of processed food products, but has no direct involvement in monitoring food for exports.

Tanzania's largest export of a food product with food safety concerns is fresh and frozen fish. The testing of these products and the certification of hygienic processing/handling practices is carried out by the Fisheries Department of the Ministry of Natural Resources and Tourism. In the horticultural sector, European market concerns with pesticide residues are addressed by the export companies themselves and via testing abroad. For many other products, exporters send samples to (external) certified laboratories when this is required by a foreign market regulator or buyer.

The critical medium-term challenge regarding food safety in the export sector is to build awareness and recognition of food safety matters and basic approaches in the tourist (including hotel and restaurants) industry. Except for fish, the value of the food supply to Tanzania's tourism industry greatly exceeds its non-traditional food exports. Current weaknesses in food safety management in the industry could have the most significant effect on Tanzania's external trade. For this industry, there is a need to go beyond awareness-building to develop systems for surveillance of clients (for the incidence of food-borne illnesses) and for monitoring/auditing facilities and practices within the industry (see below).

Table 7.1: Tanzania Trade in Food and Agricultural Products Illustrative Standards and Technical Requirements

Product Group	Standards, Regulations or Private Protocols Related to:				
	Food Safety	**Animal/Plant Health**	**Quality or Technical Attributes**	**Environment**	**Social**
Fresh Fruits and Vegetables	Pesticide residue limits Microbiological standards Traceability requirements Hygiene requirements	Plant material quarantine Pest risk analysis needs Fumigation requirements	Quality grades General labeling requirements Packaging standards	Pesticide use restrictions Regulations on water/soil contamination Codes for organic practices and certification	Monitoring of child labor Occupational health standards
Fish and Fish Products	Microbiological and foreign matter standards Factory hygiene standards	Bans/restrictions on antibiotic use in aquaculture	Quality grades Labeling requirements Packaging standards	Protection of specific species Fish catch restrictions	-
Live Animals and Meat Products	Vet. drug residue limits Microbiological standards	Disease-free areas Disease surveillance Restrictions on vet. drugs Traceability of animals	Quality grades Labeling requirements Packaging standards	Codes for organic practices and certification Regulations on animal waste effluent	Animal welfare monitoring
Hides and Skins	-	-	Quality attributes	Water effluent regulations Chemical use restrictions	-
Spices and Nuts	Pesticide residue limits Microbiological standards Mycotoxin limits	Fumigation requirements and restrictions	Quality grades Consumer pack labeling requirements Packaging standards	Codes for organic practices and certification	-
Cereals, Oilseeds, and Animal Feed	Microbiological standards Pesticide residue limits Mycotoxin limits	Quarantine requirements Fumigation requirements or restrictions	Quality grades GMO labeling Restrictions on animal feed ingredients Product content and nutritional labeling	Biosafety regulations (for GMOs) Codes for organic practices and certification	-
Cut Flowers	-	Plant material quarantine Phytosanitary certification Pest risk analysis needs Fumigation requirements	Quality attributes Packaging standards	Pesticide use restrictions Regulations on water/soil contamination	Monitoring of child labor Occupational health standards
Coffee, Tea, Cocoa	Microbiological standard Pesticide residue limits	Fumigation requirements	Quality attributes Packaging standards	Codes for organic practices and certification Codes to limit biodiversity loss	Monitoring of child labor
Cotton		GMO variety approval	Quality attributes	Codes for organic practices Restrictions on pesticide use	

Quality Assurance

TBS, initially established as the National Standards Institute in 1976, is the leading actor in the promotion of standardization and quality assurance within industry and commerce. TBS has four main areas of activity, namely:

- *Preparation of national standards.* TBS coordinates an elaborate system of technical committees which draft national standards in: food and agriculture, textiles, chemicals, environment, engineering, construction and general techniques. There are some 29 technical committees involved, each consisting of representatives from different government ministries/agencies, academia and industry. In practice, most Tanzanian standards are adapted or adopted from those of Codex or the International Standards Organization (ISO).
- *Product and systems certification*. TBS may issue a 'Mark of Quality', certify a product for which a national standard does not exist, undertake compulsory inspection/clearance for imported or exported goods which could affect health, safety, or the environment, or certify a company's compliance with ISO quality assurance (ISO 9000) or environmental management (ISO 14000) systems.
- *Provide testing services*. TSB has 7 laboratories that are able to undertake tests in relation to legal metrology, engineering, chemicals, textiles and food products. It is also developing a laboratory for packaging. However, at the current time none of these are internationally accredited, although there is an on-going program, supported by DANIDA, that will facilitate the accreditation of priority laboratories by the South African National Accreditation System (SANAS).
- *Training for industry in quality management and other areas*. TBS has been undertaking a limited program to train company managers and staff in ISO 9000 and ISO 14000 systems. As this represents a conflict of interest with its certification function, a decision has been made to establish an independent subsidiary to focus on consultancies and training. If there is sufficient demand, then this training would be extended to HACCP systems.

TBS is also the designated 'National Enquiry Point' for the SPS and Technical Barriers to Trade (TBT) Agreements and, through its Agriculture and Foods Section, the 'Contact Point' for the Codex Alimentarius Commission. TBS is also a member of the tripartite East African Standards Committee which has been actively seeking to harmonize standards within the region and otherwise implement the EAC Protocol on Standards, Quality Assurance, Metrology and Testing (see below).

Through end-2003, some 798 national standards had been promulgated. Of these, 205 relate to food and agriculture. Ninety-eight of the latter are product standards, all of which are compulsory. This goes against emerging international 'good practice' which emphasizes voluntary quality standards for food, except where there are potentially severe human health risks. The prominence of mandatory standards for food also creates a conflict, or at least an overlap, between the food safety oversight functions of TFDA and those of TBS. In order to enforce compulsory standards for food and certain other products, TBS maintains its own team of 50 inspectors at ports of entry and in market places. Hence, for certain imported foods, both the TFDA and the TBS may take samples for testing and clearance against quality/safety standards.

The demand for TBS services has increased substantially in recent years, reflecting a reasonably favorable reputation within industry. Testing and calibration services have been provided to increasing numbers of firms. However, besides providing the required certification for imported products, demand for certification services has remained modest. For example, as of end-2004,

only 15 companies in Tanzania have been certified to ISO 9000, compared with 140 in Kenya. As of the same date, only 4 companies have been certified to ISO 14,000, compared with 12 in Kenya. International certifying companies (that is, SGS, BVQI, and others), rather than TBS itself, have been responsible for most of this certification of Tanzanian firms thus far. Awareness about quality management systems is still not very strong in Tanzanian industry, with the exception of certain industries (or supply chains) for which certified compliance has been required.[107] There has been little demand for the TBS's pre-export product certification.

The organizational infrastructure of the TBS is currently under review. It has been recognized that its level of operation may require an increase in staffing or improved partnerships with other technical agencies. However, the Bureau faces chronic liquidity problems, stemming, in part, from the limited budgetary resources provided by government, especially for non-demand driven services such as standards formulation. Partly in response, the Bureau has substantially increased the revenues it has raised from certification and other activities. The bulk of the increased revenues has come from its mandatory certification of imported products (especially foods), a 'service' not necessarily provided to facilitate trade (see Table 7.2).[108] The Bureau's physical infrastructure has been gradually built up over time with the development of offices, laboratories, and housing estates for staff. The DANIDA-supported program is aimed at not only strengthening the capacities of selected TBS laboratories, but also enhancing various other systems and procedures through a twinning arrangement with Denmark's national standards organization.

TBS is presently working on a number of fronts to strengthen its capacities and to ensure its financial sustainability. Given its relatively strong management and staff, it will remain a very important institution in the wider drive to improve the quality and safety of Tanzanian products. Yet, there may be aspects where TBS's corporate strategy does not represent the best available national approach. At a minimum, there is a need for the much closer coordination of activities between the TBS and other agencies, especially (but not only) TFDA.

Table 7.2: TBS Budget Allocations from Government and Other Revenues from Services (Tsh. Millions)

Source	1999/2000	2000/01	2001/02	2002/03	2003/04
Government Allocation	346	393	469	423	526
Testing Fees	55	82	115	160	171
Calibration	35	25	12	16	13
Motor Vehicle Inspection*	0	0	141	180	136
Quality Certification	145	184	256	237	235
Import Product Certification*	180	141	208	277	577
Other	11	30	12	17	6
Total	772	672	1212	1310	1664
Total US$ Million	1.04	0.84	1.38	1.35	1.60

* indicates mandatory 'services'.

[107] Examples include the fish export industry, the construction industry and for suppliers to the World Food Program.

[108] Also, from 2001 TBS has also been responsible for implementing another mandatory requirement, that of motor vehicle inspection. Thus, between 1999/2000 and 2003/04, the functions associated with mandatory inspections have increased their share of the overall resources available to TBS from 23 percent to 43 percent. Discounting government budgetary subventions, these mandatory inspections have increased their share of TBS' own revenue earnings from 42 percent to 63 percent.

TBS is endeavoring to establish a subsidiary to undertake training and consultancy services related to quality and other management systems. In order for there to be no conflict of interest with TBS's certification activities, there must be no financial and staff connections between this subsidiary and TBS. An alternative approach might be for TBS to foster the development of training and consultancy services by training specialists within the private sector, assisting start-up consultancy firms and facilitating joint-ventures between experienced international firms in this area and local technical specialists or entrepreneurs. Kenya has a much more developed market for advisory and certification services featuring multiple (international and local) suppliers of such services. With its more diversified economy, the level of demand for these services in Kenya is certainly higher than is currently the case in Tanzania. Yet, demand is also picking up in Tanzania and the medium term vision should certainly be one of multiple suppliers of specialized advisory and certification services, rather than a system totally dominated by one service provider (that is, TBS).

Plant Health Protection

Two separate entities are ostensibly involved in inspections and the issuance of import permits for food/plant product imports and phytosanitary certificates for exported products—the Plant Health Service (PHS) in the Plant Health Department of the Ministry of Agriculture and Food Security, and the Tropical Pesticides Research Institute (TPRI).

PHS has some 165 inspectors based at 28 entry points, including the international airports at Dar Es Salaam and Kilimanjaro, major sea and lake ports and selected border posts. Many of these staff are generalists, without specific training in phytosanitary matters. Some 20 percent do not meet the basic minimum educational requirement of having a diploma in an agricultural field. At most of the field stations staff do not have reference materials for pest identification and have little or no direct means of communication (by either telephone, fax or computer) with PHS headquarters. Thus many staff members have to use their own personal cell phones. Only at the Dar Es Salaam harbor is there a laboratory for immediate testing[109], although PHS also utilizes other university or government laboratories. Historically, budgetary resources for phytosanitary services have been very limited, although in recent years such budgetary resources have increased somewhat,[110] and PHS has been able to raise some revenues via cost recovery fees.[111]

Weak communication between PHS and various stakeholders, coupled with a lack of appropriate reporting procedures, has resulted in a system with no regularized pest surveillance. Information exchange with external parties is also uneven and largely informal. Within PHS there is no formally designated liaison unit for enquiries from trading partners or for communications with the IPPC, WTO or others. There is no central repository for documents and data management of pest records or surveillance data. The weak information management system extends also to export documentation. While phytosanitary certificates are issued, there is no computerized system to retrieve export documentation or to trace consignments, nor a formal system for investigating cases of non-conformity in consignments.

According to the PHS, there is little awareness and/or interest amongst farmers and the private sector in matters relating to plant protection. Indeed, there is currently no structured mechanism

[109] This laboratory was renovated in 2000 with assistance from FAO.

[110] The allocated budgeted for the PHS was equivalent to US$953,000 in 2002/03 and US$1.1m. in 2004/05.

[111] The absence of proper offices and lack of own transport has exposed inspection staff to security risks when collecting fees. In 2002/03, PHS obtained some US$414,000 in fees from its services.

for raising awareness. Periodic meetings are held but these tend to reach relatively few people and close cooperation between official agencies, farmers and others only seems to occur in the aftermath of major pest outbreaks. There have been a series of such outbreaks, either related to trade or the cross-boundary migration of pests. For example, Tanzania currently faces a major challenge related to the infestation of its citrus and mango-growing areas by an exotic variety of fruit fly.[112] Large parts of the Kenyan coastal area has also been affected and an FAO-supported regional program has been launched to monitor and control (or even eradicate) this pest. Fruit fly could threaten Tanzania's regional exports in oranges and its nascent mango export trade, if not properly controlled.

Severe capacity limitations of PHS have resulted in a situation whereby prioritization of activities is dictated by pest outbreaks or other needed reactions to adverse events. In a number of cases, these specific initiatives have met with considerable success, generally supported by substantial donor support. External financing has also supported other focused programs. These include the program supported by the German Agency for Technical Cooperation (GTZ) of applied research, training and advisory services to promote the uptake of Integrated Pest Management (IPM) techniques among farmers in several zones of the country during 1992-2003. There was also a FAO-supported project (recently completed) that provided training, equipment and consultancy services to the Plant Protection Department. In addition, FAO is currently supporting efforts to address the risks posed by the fruit fly outbreak.

Nevertheless, Tanzania remains highly vulnerable to plant health risks and could run into increased problems with its trading partners if it is unable to meet certain phytosanitary requirements. Existing management systems and infrastructure are only rudimentary, with priority areas for capacity development including the following:

- Intensification of efforts to build farmer and private sector awareness of plant protection/plant health matters through regular awareness programs and more formalized mechanisms, including involvement of farmer and private sector representatives on various advisory committees.
- Enhancement of field inspection capacities (and oversight) through more regular training, provision of basic working tools for inspectors (microscopes, small incinerators etc.), applying an accreditation scheme for inspectors, and establishing an internal auditing scheme.
- Amendment or review of existing legislation to specify PHS as the National Plant Protection Organization and to bring legal instruments into compliance with the IPPC.
- Formalization of the export certification system by preparing/institutionalizing manuals and guidelines for all aspects of export certification, developing a computerized data management system, and otherwise determining and acting upon the requirements stated by Tanzania's leading trading partners.
- Development of a pest surveillance system (perhaps initially focused on selected pests) including a regular reporting mechanism, proper documented procedures, a surveillance database system, etc. Further, development of a proper pest reporting system, in line with international standards.

[112] See Jaffee et al (2005) for more examples.

With respect to Zanzibar, while there is a phyto-sanitary and control system within the plant protection division of the Ministry of Agriculture, Livestock, and Environment which inspects and certifies produce for exports, this division has serious shortages of skilled staff and post-entry quarantine facilities. Moreover, Zanzibar's island geography provides many illegal points of entry, making enforcement of regulatory mechanisms difficult. The 1997 plant protection legislation needs to be reviewed and updated to cope with this situation.

Further, Zanzibar suffers from frequent outbreaks of pests and disease due to the weak quarantine system in place. The fruit industry has been completely destroyed since 1998 by fruit flies which have invaded the Islands through unregulated importations of fruits by traders. Farmers have been deeply affected by high yield loss as a consequence, and rural poverty has worsened. Technical and financial measures are needed to help address this situation.

Animal Health Protection

The restructuring of the Tanzanian economy over the past two decades, and especially the shift from centralized government services to a 'district focus' in service provisioning, has not boded well for the management of animal health.[113] Numerous structural changes at the central government level, persistent under-funding of central government functions, and the periodic lack of clarity regarding the division of responsibilities and line of authority between central and local animal health officials, have undoubtedly contributed to severe animal health problems within the country. In turn this has weakened animal productivity, reduced farmer incomes and severely limited the scope for trade in livestock and meat.

Multiple disruptions and partially implemented reforms brought the country's animal health delivery services to the brink of collapse in the late 1990s.[114] The situation has improved somewhat since then with a clearer strategic direction, improvements in the available level of resources and through Tanzania's participation in various regional animal disease control programs, supported by the EU, FAO and others. Since 2000, livestock production and animal health matters have been shifted to the Ministry of Water and Livestock Development from the former Ministry of Agriculture and Cooperatives.

The main legislative basis for animal disease control and overall veterinary activity in Tanzania is provided by two recent Acts. One is the Animal Disease Act (2003), which has provisions related to general and compulsory animal disease control measures, measures to protect consumers against diseases found in animals or animal products, and the powers of inspectors. Many specific regulations associated with this Act are still under preparation. A second important piece of legislation is the Veterinary Act (2003), which provides for the registration of veterinarians, enlistment of para-professionals, establishment of a Veterinary Council, and regulation of animal health service delivery. There are many other pieces of pertinent legislation related to animal health or animal product quality/safety, several of which are in need of review and updating. Further, there are important areas where new legislation is needed or at least needs to be completed, including for the processing and marketing of meat, animal breeding, and regulation of the animal feed industry.[115]

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[113] A very limited review of on-going animal health measures was undertaken for this study as extensive preparatory work is currently being undertaken for the IFAD-supported Pastoral and Agro-Pastoral Livestock Development Program (PAPLIDEV). See the background document for that project for further analysis of pertinent issues.

[114] With no central government budgetary allocation for three years. See Ashley *et al* (1999).

[115] See IFAD Working Paper #4, Table 3.

The Directorate of Veterinary Services (DVS) in the livestock section of the Ministry of Water and Livestock Development is the leading agency on animal health matters, with a mandate to control (and where feasible eradicate) animal diseases, protect consumers against livestock borne diseases, and support the provision of animal health services. DVS is the Contact Point for the OIE. It has inspectors at some 22 ports of entry into Tanzania to inspect animals or animal products, although communications between these and central headquarters is weak. DVS itself only has a limited number (35) of veterinarians on its staff, with some 130 veterinarians working in local governments or regional administrations. DVS estimates that the number of government veterinarians at central or local levels is about half of that needed to properly coordinate animal health services and undertake effective disease surveillance.[116] There is also an acute shortage of trained veterinary personnel at the village level. Disease surveillance activities are intermittent, with difficult coordination between local and centrally-based officers. There is no established animal health information system. Currently, there is no academic support network to undertake risk assessment for animals, or laboratory quality assurance and animal products.[117]

Over the years, Tanzania has received support under an array of regional and national projects, including the Pan-African Program for the Control of Epizootics and Farming-in-Tsetse-Controlled Areas Project, both supported by the EU, and Private Sector Delivery of East-Coast Fever Vaccine Project supported by FAO. However, the current status of animal diseases in Tanzania continues to considerably restrict its capacity to export animals and animal products internationally, and leads to significant productivity losses or high rates of mortality in local livestock.

In particular, Tanzania is presently struggling to control (or eradicate) several of the OIE's List A epidemic diseases which are highly contagious and whose presence highly restrict a country's international market access. DVS has prioritized Rinderpest, Contagious Bovine Pleuropneumonia (CBPP), and Foot and Mouth Disease in its program of surveillance and international collaboration. For Rinderpest, it continues a surveillance program to prove the absence of the disease in Tanzania (there were outbreaks in Northern Tanzania in the early 1980s and again in 1997). For CBPP (reported in 47 of 120 districts in mainland Tanzania in 2002, and 74 reports of outbreaks in 2003), Tanzania has agreed with its SADC neighbors to pursue a five year disease control program, involving intensified vaccination, surveillance and animal movement controls. While the FAO has provided a grant to kick-start the program, provision will have to be made by Government (or the donor community) to enable its full implementation. No strategy has been devised to control Foot and Mouth Disease (FMD) (endemic in Tanzania with 96 reported outbreaks involving 11,000 animals in 2003), although the PAPLIDEV project will assist with constraint analysis and strategy identification. Subsequent resources will be needed to implement this strategy.

In order to enable Tanzanian livestock products to obtain international market access, the government envisions a policy of creating specific disease-free zones which would be recognized by the country's trading partners in accordance with the OIE Terrestrial Animal Health Code. Several preliminary plans for such disease-free zones have been developed. However, the pursuit of such a strategy requires a full feasibility study, considering the technical and commercial constraints, and implications and the overall costs and benefits (and their distribution). The PAPLIDEV project could facilitate such an analysis. Alternative (and likely lower cost) strategies should also be considered. Disease control requirements are typically less stringent

[116] There are also about 50 privately practicing veterinarians, mostly operating in urban or peri-urban areas.
[117] The Directorate of Animal Production also influences animal health and quality through its work on animal breeding, rangeland management, and technical advisory services to livestock owners.

when countries are seeking to export meat products rather than live animals. Such a trade would require (private) investment in modern abattoirs and the develop of the necessary infrastructure and procedures for animal transport, monitoring, and quarantine prior to slaughter. The feasibility of such a 'systems approach' (rather than a disease free zone approach) also needs to be examined.

With respect to Zanzibar, animal health issues are constraining its ability to exploit its potential for the exports of livestock products, especially meat, to the Middle East markets. There are serious infrastructure shortages to support exports, including lack of well-equipped laboratories and post-entry quarantine facilities; and sub-standard slaughter houses that are not adequate even for the internal market. The existing animal health legislation also needs to be reviewed and upgraded.

7.4 REGIONAL TRADE, INTEGRATION, AND SPS AND QUALITY STANDARDS

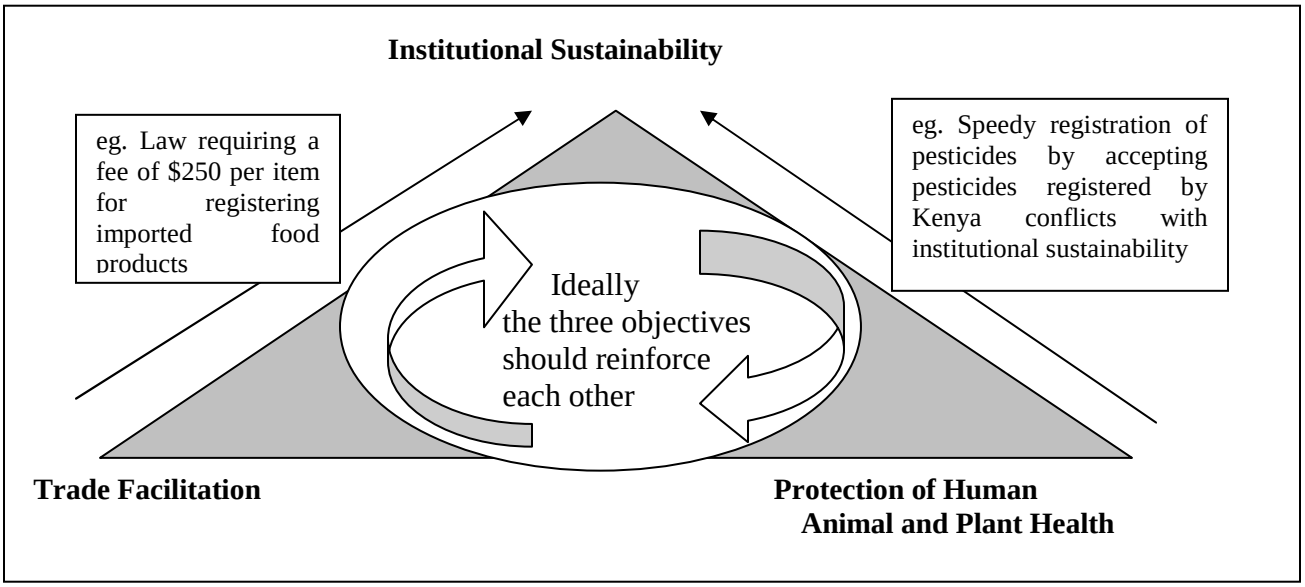
The broad trade agreements that underpin the EAC and SADC which Tanzania is signatory to include objectives for eliminating intra-regional barriers to trade, including for food and agricultural products. Further, there are ambitious objectives for intra-regional cooperation in the field of standardization, quality management, metrology and testing. Both the EAC and the SADC trade protocols call for their members to harmonize their SPS measures with international standards and to seek synergies in building up regional capacities in SPS management.

The processes of regional standards harmonization and of collaborative capacity building offer considerable opportunities to Tanzania in its own efforts to build a modern and sustainable system of standards and standards architecture which can facilitate economic growth, industry competitiveness and expanded trade (as depicted in Figure 7.2). For example, regional cooperation can:

- Facilitate expanded intra-regional trade through the harmonization of standards and mutual recognition of conformity assessment systems.
- Spread knowledge and 'good practices' about how to manage certain SPS-related risks from technical, administrative or other perspectives.
- Enable countries to better manage trans-boundary risks, such as the movement of pests and diseases.
- Serve to realize economies of scale and scope in the delivery of conformity assessment and other services, by expanding the market for these services and fostering specialization of capacities (for example through regional 'centers of excellence').
- Better enable regional enterprises or industries to comply with extra-regional market standards, where collaboration facilitates international accreditation or other recognition of regulatory, conformity assessment or other systems.

To date, however, there has been only modest progress in implementing the ambitious harmonization and capacity-building agenda laid out in the respective regional trade agreements.

Figure 7.2: Sustainability of standards infrastructure in Tanzxania



Tanzania's Regional Agro-Food Trade

The most explicit objectives in the regional trade agreements relate to removing barriers to intra-regional trade. Tanzania's current trade in agro-food products within the region of east and southern Africa is very small, and much of it occurs on an informal and not officially recorded basis. In 2003, Tanzania's officially-recorded food exports to other members of EAC and SADC were US$10 and US$12 million, respectively, representing only 5 percent of Tanzania's total food exports. Cereals, oilseeds and beverages dominate Tanzania's recorded intra-regional exports. The potential for exporting to its regional trade partners is much larger than the current official statistics indicate—Tanzania borders eight countries, and its fellow EAC and SADC members import large quantities of staple and high-value food products.[118]

Tanzania's informal intra-regional food trade is likely to be double the level of officially recorded trade,[119] including around US$27m. worth of oranges, onions and tomatoes and substantial number of cattle (at least 300,000 head and valued at some US$9m.) across the border into Kenya. An additional 100,000 head of cattle are estimated to move annually for sale in Rwanda, a likely future member of EAC. The level of informal food trade with members of SADC is not considered to be significant.

Intra-regional trade also accounts for only a small proportion of Tanzania's imports food imports (Table 7.3). Total such imports were US$189 million in 2003, with less than 20 percent provided regionally—just under US$27m. from other SADC members, and US$8m. from other EAC members. Tanzania's food imports from other EAC members have not increased in value from a decade ago, although the composition has changed.

The absence of harmonized standards and the lack of mutually recognized certification marks or other means of quality conformity assessment among countries cannot be considered a major factor explaining the limited development of intra-regional food trade involving Tanzania. Other

[118] In 2003, South Africa alone imported $1.2 billion worth of food.
[119] See Volume 2, Chapter 2.

factors include tariff barriers, poor communication linkages, underdeveloped transport infrastructure and the consequent high freight costs, similar patterns of production and specialization, limited purchasing power in certain countries and other factors all constrain this trade. However, with tariff barriers on intra-regional trade being progressively reduced, advances being made in improving the logistics for intra-regional trade, national systems for food distribution being modernized, and demographic change and income growth increasing demand for higher-value food products, there is much potential for greater intra-regional food trade.

Table 7.3: Tanzanian food imports from other EAC and SADC members (US$ million)

Commodity	**1994**		**2003**	
	EAC	**SADC**	**EAC**	**SADC**
Total Food	8.0	21.8	7.9	26.8
Sugar		10.8	0.8	10.9
Cereals		2.3	1.5	4.5
Beverages	6.4	3.9	0.5	3.3
Dairy & Eggs			1.2	1.4
Vegetable Oil	1.1		2.9	1.1
Processed fruit & vegetables		0.1	0.1	0.8
Prep. meat & fish			0.5	0.3
Other foods	0.5	4.8	0.2	4.4

Source: UNCOMTRADE and authors' calculations.

The weak alignment of standards and lack of capacities or mutual recognition of conformity assessment arrangements could inhibit the future evolution of intra-regional trade. This consideration seems to be driving some of the on-going efforts to collaborate in this field. The pooling of resources and sharing of expertise with other countries could be especially beneficial to Tanzania given its limited technical expertise and financial resources to invest in SPS management capacities. Rather than have to develop capacities in a full spectrum of areas, Tanzanian agencies and enterprises could draw upon the expertise and capacities of other entities within the region. Finally, coordination and regular information flow is needed for effective management of pests and diseases which do not recognize country borders.

Developments in the EAC

While some collaborate work related to standards did take place in the 1980s when the EAC was active, more concerted efforts to harmonize standards among EAC members began in the mid-1990s. The Permanent Tripartite Commission (PTC) for East African Co-operation that convened in 1995 agreed that the harmonization of standards in goods and services would facilitate trade and investment within the region. It directed the heads of the member state national bureaus of standards to develop a program of action to pursue this. Periodic meetings were held during the following two years. Further, an East African Standards Committee (EASC) was formed with representatives from the member states, including some private sector participation. However, while periodic meetings enabled the exchange of views on emerging issues and challenges, relatively little progress was made in the process of harmonizing standards.

In 2001, members of the EAC signed the Protocol on Standardization, Quality Assurance, Metrology and Testing (EA-SQMT) as part of a broader trade agreement signed by the three countries two years earlier. Under this protocol, the countries agreed to apply a common policy

on standardization, metrology and conformity assessment of goods produced and traded with the Community.[120]

Following the signing of the SQMT protocol, the drive for harmonization of standards gathered some momentum and EASC proceeded to develop a large number of 'harmonized' standards between the three member states. By end-2003, some 490 'harmonized' standards had been agreed to, of which 160 related to food products. Table 7.4 below summarizes the various agro-food standards which have been 'harmonized'. It is not clear on what basis these were prioritized, as the private sector has had very little input into the process. Most relate to product specifications, that is, defining food product in technical or other terms. A very limited number of these food-related standards cover sampling and testing methods, labeling or other matters that might truly affect trade. Most are based on international standards set through CODEX, ISO or OIE. These 'harmonized' standards have not been implemented or published, or shared with the private sector and major external trading partners. None have been formally adopted as national standards in any of the member states.

On other fronts, progress has been very slow. It took more than a year before committees were formed to address the agenda related to metrology, quality assurance or testing. Limited financial resources, lack of clear coordination, lack of any mandate to make resource or functional allocation decisions and the absence of a clear conceptual 'road map' and set of 'good practice' guidelines for regional collaboration have all hampered the efforts of the officials involved. In order to breathe new life into the stalled processes, in early 2004 EAC members requested the German National Metrology Institute (PTB) to intervene as facilitator and advisor. A three-year 1.5 million Euro project was launched entitled Establishment of the Regional SQMT Architecture in the East African Community. Four technical subcommittees were formed under EASC for standardization, quality assurance and accreditation, metrology and testing. PTB, in conjunction with the bureaus of standards, also identified project targets in relation to five cross-cutting thematic areas: (i) establishment of legal framework; (ii) building human resource capacity; (iii) appropriate infrastructure; (iv) awareness; and (v) networking.[121]

[120] For more details on what the protocol entails, see Jaffee et al (2005).
[121] For more details on the PTB project, see Jaffee et al (2005).

Table 7.4: Agro-food standards harmonized but not yet implemented under EAC, 1998-2004

Product and Process Area	No of Standards	Type of Standards
Processes in the food industry	2	Code of practice, HACCP
General methods of food testing and analysis	9	Specifying methods for different microbiological testing
Cereals, pulses and derived products	25	Specifications /methods of testing
Fruits. Vegetables	27	Specifications, sampling and method of testing
Milk and milk products	24	Specifications, methods of microbiological testing and analysis
Meat, meat products and other animal produce	4	Specifications/method for Nitrogen analysis
Tea. Coffee. Cocoa	5	Specifications/vocabulary
Beverages	18	Specifications/methods of testing
Sugar. Sugar products. Starch	10	Specifications /Methods of chemical analysis
Edible oils and fats. Oilseeds	28	Specifications, sampling method, determination of level of certain metals Code of hygiene for transportation of edible fats and oils in bulk
Spices and condiments. Food additives	8	Labeling of food additives, Specification Sampling and test methods
Prepackaged and prepared foods	2	Specifications, labeling
Tobacco, tobacco products and related equipment	18	Specifications, methods of testing
Animal feeding stuffs	23	Specifications, methods of testing

Constraints to progress in EAC process

A number of factors have heavily constrained on-going efforts to align standards and otherwise construct regional standards architecture within the EAC. While the participants in the process have tended to emphasize the lack of sufficient resources for the pertinent committees to meet on a regular basis, there appears to be more fundamental, structural constraints. These include the following:

- *Limited political and private sector commitment to the process.* Apart from the officials at the national bureaus of standards and perhaps others directly involved in managing agricultural health and food safety risks, there is little direct involvement of national authorities in regional standardization issues. The private sector in the member countries has also not given priority to regional matters in relation to standards, being more focused on compliance with EU or other external standards, thus providing little pressure to have regional efforts bear fruition. Relatively few private sector entities place the lack of standards harmonization near the top (or even the middle) of their list of constraints inhibiting their regional trade.
- *Limited coordination of the overall process.* Until recently, the regional standardization initiative was ostensibly coordinated by the EAC Secretariat, with various functions delegating the chairpersons of various committees. Work on the regional agenda was nobody's full-time focus and was a secondary or tertiary activity for all the officials involved. As a result, many of the planned activities were delayed. Competing national commitments normally superseded regional ones and no link was made to international standard-setting organizations.

- *Large differences in capacities between member countries*. Among EAC members Kenya has significantly more capacity and better infrastructure than either Tanzania or Uganda. In 2002, for example, Kenya had 17 internationally-accredited laboratories, while the other two EAC members had none. During that year, metrology laboratories in Kenya performed 3820 calibrations, compared to 68 in Tanzania and 0 in Uganda. The development of a market in certification services is also far more developed in Kenya than in the other two countries. Coordination, communication and, most importantly, developing a consensus between EAC member countries on regional priorities is seriously hindered by these capacity differences.
- *Differences in approach to standards*. In Kenya, the vast majority of standards related to food are voluntary; in Tanzania, most registered food standards are mandatory and potentially enforced by government. This difference in orientation stems from historical and (past) ideological differences as well as disparities in the prevailing capacities of the private sector. Thus, what would be the status of 'harmonized' regional standards? Would they be voluntary or mandatory? A pre-condition for the effective adoption of any such regional standards would need to be a convergence of approaches or philosophies regarding the role of food standards themselves.
- *Lack of institutionally binding mechanisms.* A legal structure is needed if harmonization of standards and mutual recognition is to be effective for trade. The absence of a binding legal framework is a critical constraint to achieving the objectives established by the SQMT Protocol Diplomacy and cooperation should be accompanied by a legally-binding instrument to ensure that partner countries fulfill their obligations under the agreement including building capacity, adopting harmonized standards into national legislation, withdrawing conflicting national legislation or accepting conformity assessments performed in a partner country.
- *Conflicts between national interest and commitment to regional cooperation.* In many circumstances there may be tensions or conflicts between national interests and commitments made to regional capacity-building. The three EAC members do compete in certain international markets and this may inhibit motivations for collaboration on certain dimensions of standards. When resources are scarce and only limited investment can go toward physical or technical infrastructure for standardization, there is a natural tendency to want to direct resources to one's own infrastructure. One illustration of this relates to on-going efforts led by the Kenya Bureau of Standards to create a national accreditation body precisely at a time when the three EAC members have committed to establish a regional accreditation system. This is certainly not the only case where institutions have sought to create 'facts on the ground', which may or may not be compatible with regional efforts to develop capacity synergies based on areas of relative competence.
- *Conflicts between institutional sustainability and the overall agenda of fostering regional trade*. Ideally, a public agency in charge of protecting human, animal or plant health should be able to pursue those objectives in a manner that also facilitates trade and in an institutional and financial environment that also ensures its own institutional sustainability. In practice, however, certain risk management measures may unduly restrict trade or there are circumstances where the goal of institutional sustainability takes precedence over either the public good or the objective of promoting trade. Several examples of the latter phenomenon are apparent in Tanzania (Box 7.2) and there are almost certainly cases of this in Kenya and Uganda. In all likelihood, this type of institutional behavior, practiced by an array of institutions, has contributed to the slow progress of many of the regional efforts to develop synergies in capacities and programs between countries. Until recently, there has not been anybody to 'blow the whistle' on

this behavior; indeed, there is no incentive for institutions to give up any of their resources or mandate to serve a regional integration agenda.

Box 7.2 Conflicts between institutional sustainability and trade facilitation – some more examples

Recently, TFDA issued a regulation stating that all imported food items needed to be tested and registered with the Authority, at a cost of US$250 per item. While ostensibly geared toward pursuing a public health objective, this requirement appears excessive given the level of risk, limited public capacity, and strong private incentives for self-policing of quality and safety for packaged and branded food products. The extremely high proposed registration fee suggests that an objective of revenue generation may be as, or more important, than public health protection. If enacted, this regulation would serve to inhibit trade, especially in packaged foods. The supermarket chain Shoprite indicates that it or its brokers would incur an expense of US$750,000 to register all the products which it sells given that separate registrations would be needed for different sizes and flavors of the same products. A group of food-importing companies have taken TFDA to court and stalled the implementation of this measure.

Another example relates to the testing and registration of agro-chemicals by TPRI. TPRI has a responsibility for ensuring that only those pesticides which are effective under Tanzanian growing conditions and have certain properties related to environmental and worker safety and acceptable product labeling are approved for use in Tanzania. But the domestic market for pesticides is quite small in Tanzania and dominated by products used for certain crops (especially cotton, coffee and tea). TPRI charges relatively high fees to register an agro-chemical and also requires three years of field testing. It does not recognize the testing done and registration of chemicals in neighboring countries, including Kenya. Hence, there are a broad range of newer, more effective and safer chemicals which do not get registered in Tanzania because of the high cost and which are prevented from being legally imported from Kenya or other neighboring countries. The chemical registration revenue imperative of TPRI thus appears to take precedence over a feasible solution of mutual recognition of other (including more rigorous) testing and registration systems.

Opportunities and Recommendations for the Future

The misalignment or over-zealous enforcement of quality, food safety and agricultural health standards has almost certainly not been a significant factor inhibiting Tanzania's intra-regional trade in food (or other products).[122] To some extent, one could argue that standards are *under-enforced* within the region, thereby permitting some types of trade which may even be resulting in cross-border transmission of plant pests and animal diseases. How this will evolve in the future is not clear. In a few product areas, the harmonization of standards will prove relevant and beneficial to trade; the private sector is in the best position to identify these areas. It is thus critical that a stronger *demand-driven element* is introduced into the on-going process of standards harmonization. Either the standardization sub-committee should feature an increased representation of the private sector, or there should be additional mechanisms by which the

[122] Certainly, plant health or animal disease issues might have placed an absolute barrier on Tanzania's ability to export certain products to South Africa, although these same Tanzanian products are unlikely to have been competitive in that market on grounds of quality, price, supply reliability, or other grounds.

private sector can have input into the selection and prioritization of standards which are to be adopted at the EAC level.

One note of caution is needed, however, on standards harmonization. There is a perception that regional standards should provide an 'upgrade' from domestic ones and be at the level of certain international standards or those of major OECD country trading partners. In some cases, this could be appropriate. However, there are other circumstances where the adoption of international standards could have a negative impact on domestic markets, regional trade and poorer consumers within the region. A central challenge is to set standards and conformity assessment procedures that are appropriate for domestic and regional markets, given consumer preferences and ability to pay, the prominence of informal markets, and institutional capacities, without jeopardizing the international market access of certain suppliers. The determination of appropriate standards for regulating informal markets for meat, dairy and other products is a contentious issue within the region, where the direct imposition of OECD country standards will be difficult and probably socially undesirable to implement.

Rather than standards harmonization, the largest potential gains from regional collaboration would seem to lie in areas where there has been relatively little progress to date. These relate to:

- *Streamlining of regulations and achievement of mutual recognition.* The regional standards initiative should include an approach aiming to eliminate as much unnecessary regulation as possible (removing old unused standards) and increasing transparency in the standards and control measures being applied. One existing barrier is the lack of mutual recognition of conformity assessment systems in the member countries. Systems need not feature equivalent capacities, yet over a broad range of areas there is scope to introduce common procedures, record-keeping, auditing, and so on.
- *Resource pooling for synergies*. Economies of scale and functional/institutional sustainability cannot be achieved by different institutions and countries duplicating analytical, testing, and other capacities. There would be evident gains by having single 'centers of excellence' for the testing, registration or other monitoring of inputs or outputs in specialized SQMT areas (for example testing of pesticides, condoms or cosmetics). Competition is normally a good thing, yet this may result in SQMT (and private) institutions competing in the same small markets in every country and failing to make effective use of invested research, equipment and staff. The current imbalance of capacity in favor of Kenya creates both opportunities and obstacles to this regional development of 'centers of excellence'. The same applies in relation to a regional accreditation body. While certainly the largest, the Kenyan market for accreditation is probably too small to sustain a national accreditation body, although one operating at the EAC level would probably be viable.
- *Multi-country collaboration for problem solving*. Much of the effort of the regional standardization initiative has involved the member country bureaus of standards. There has seemingly been less direct involvement by other official agencies, research institutes and others who are also directly involved in work to promote the quality of food and agricultural products and to manage agricultural health and food safety risks. Such collaboration, where it occurs, is often 'forced' by an event or crisis such as an outbreak of animal disease or the infestation of a broad area by a plant pest. There is ample scope to develop, at a regional level, a variety of surveillance and contingency planning initiatives for selected priority risks. There is also scope for joint programs in a number of fields, involving applied research, pilot programs, stakeholder training and so on for challenges facing firms, farmers or regulator agencies in the three countries which relate to quality and SPS management. To provide incentives and seed capital for such multi-institutional and multi-country initiatives, a regional fund could be created to cost-share

such initiatives. The member countries, interested donor agencies, and perhaps private sources could endow such a fund whose resources would be allocated on a competitive basis.

Despite the various constraints and limitations noted above, there are reasons to be guardedly optimistic about the scope for progress in EAC standardization work in the coming years. A critical element in this will be the coordination and facilitation of activities and a major effort to sensitize both political leaders and the private sector on the opportunities and challenges associated with the regional initiative. To this end, the Council of Ministers has approved the placement of a full-time SQMT program coordinator to be located in the EAC Secretariat.

7.5 CASE STUDIES

This section presents several case studies to illustrate the importance of SPS and quality standards and related infrastructure to Tanzania's agricultural and food exports, as well as the very different ways and levels to which capacity has been developed in response to trade-related problems.[123]

Horticultural and floricultural products – using standards to foster competitiveness

Overall, challenges related to food safety, plant health or other standards do not appear to be a major constraining factor on horticultural and floricultural exports,[124] although a recent pest infestation problem could certainly inhibit the future development of cross-border and broader regional trade if not effectively resolved, as discussed below.

For trade with Europe, producers and exporters face an increasingly stringent set of official and (especially) private standards combining good hygienic practices, the safe use and storage of pesticides, other environmental management requirements, worker safety and other social standards, and greater oversight of plant health risks. In both the fresh produce and cut flower industries, these and other standards are being embodied in company and industry protocols (for example EUREPGAP, MPS, Max Havelaar etc.) which suppliers are being required to comply with and gain audited certification. Depending upon pre-existing circumstances, obtaining and maintaining such (certified) compliance may require growers and/or exporters to modify their facilities, alter their technologies, upgrade their management systems, undertake additional testing, increase record-keeping, and so on. Some of this might involve considerable investment and recurrent costs, yet compliance also normally brings tangible and intangible benefits, in the forms of improved market access, productivity gains, environmental mitigation and (sometimes) more remunerative market prices.

There are presently two major exporters of fresh vegetables who utilize 29 outgrowers, mainly medium to larger scale farms which have sought to diversify away from coffee production. The exporters provide very intensive support and oversight, covering agronomy, worker/staff training and paperwork. Many of these outgrowers have been or are being prepared to be EUREPGAP certified.[125] Both exporters have had their pack houses certified for the British Retail Consortium

[123] Note the case study on fish products can be found in Volume 2, Chapter 5, and the case study on poultry products in Volume 2, Chapter 3.

[124] See Volume 2, Chapter 2 for a more general discussion of the evolution, potential and constraints of these exports.

[125] Such farms have typically needed to improve their worker facilities, especially of toilets, water sources, changing rooms, etc. Investment costs of US$2000 to US$4000 have been typical on these farms, while EUREPGAP certification cost US$2000 to US$3000.

Technical Standard, which implies that these operations employ good hygienic practices and have in place appropriate HACCP systems. Both companies have benefited from assistance from the EU-supported Pesticides Initiative Program (PIP), obtaining technical assistance and staff/worker training related to pest management, safe use of pesticides, etc.

Neither exporter has experienced significant technical challenges to comply with official or private standards and to ensure the traceability of fresh produce back to its source. The concentrated and highly-coordinated supply chain structure has contributed to this. But this picture would change if either of the firms sought to expand by utilizing smallholder outgrowers. Indeed, one of the companies has been approached by a cooperative society, whose smallholder members produce very high quality vegetables, but in a locale some 300 km away from the packhouse and management headquarters of the exporter. That cooperative is already receiving technical and organizational support from a donor agency. The extension of such support would be absolutely necessary to enable these farmers to supply into export channels where EUREPGAP or similar technical or management system standards are being applied.

With respect to floriculture exports, sales into the main flower auctions do not obtain recognition—and hence premium—for certification gained under the Dutch MPS protocol or any other private standard. However, with some firms shifting to direct sales to supermarkets or others, the need and opportunity for certification for environmental and/or social standards has increased. The largest flower grower/exporter has obtained certification under EUREPGAP, the British Retailer Consortium (BRC), Dutch MPS, German FLP, and the Max Havellar standard for 'fair trade'. Under the latter, consumers in Switzerland pay a 10 percent premium on purchased flowers. The proceeds from this premium have gone into a 'Workers Development Fund', jointly managed by the company and worker representatives. An array of community development and other programs are being supported by this Fund.[126] Obtaining and maintaining compliance with private standards protocols has required some considerable investment and on-going commitment of management time. The firms involved consider this investment worthwhile, as it opens new market opportunities and provides the firms with much greater control over their operating systems and costs, thereby yielding efficiencies.

Neither the vegetable nor the cut flower exporters are heavily reliant upon the Tanzanian government to ensure compliance with international standards. Planting material is usually sourced from Europe or Kenya and certified by the appropriate authorities there. This material may be checked by TPRI but usually any temporary quarantine of planting materials is done by the companies themselves. TPRI issues phytosanitary certificates for exported produce, based upon periodic visits to pack houses and minimal inspection. Any testing which is done for pesticide residues is done in Europe, as is the preference of buyers of Kenyan produce.

Little information is available on the impact of standards on Tanzania's cross-border and other regional exports of horticultural products. The substantial trade in oranges to Kenya is, in part, facilitated by agronomic problems within Kenya.[127] Given the limited official recording, most of this cross-border trade seems to occur without any official inspection of produce related to quality, plant pests, etc.

However, there may be a looming threat to this trade as well as to the aspirations of Tanzanian growers and exporters in the Middle East market for mangoes. In early 2003, an outbreak of fruit

[126] Completed projects have included tree-planting initiatives, sport field development, potable water projects, equipment for local medical clinics, and training in various fields.
[127] See Volume 2, Chapter 2, for details.

fly was detected along the Kenyan coast. In December 2003, a surveillance mission also detected heavy infestation of the same type of fruit fly over significant portions of Tanzania. The *bactrocera dorsalis* is one of the most notorious quarantine pests in the world, with a capacity to infest a wide range of tropical and sub-tropical fruits and vegetables, including citrus, mango, plus, chilies, cucurbits and others. Facing a potentially significant risk to their citrus, mango and vegetable trades, Kenya, Tanzania and Uganda requested the FAO to undertake a regional program to train national staffs, identify and map out the incidence of the pest, and to develop a regional strategy to eradicate or at least manage the pest. There has been a delay in the start-up of this program.

Tourism and food safety - the need for better practices and risk management

As discussed in Chapter 1, tourism is the single most important "export" item for Tanzania. Taking a conservative estimate of tourist daily food expenditures of US $25 per tourist per day (out of a total of around US$170 tourist daily expenditures in 2003), and assuming that two-thirds of foreign visitors are indeed tourists (total number of tourists were around 575,000 in 2003), then the estimated annual tourist expenditures on food would be some US$76 million.[128] Leaving fish and fishery products aside, such expenditure approaches the total value of all other non-traditional agro-food exports combined. The hotel and restaurant trade is a very important outlet for Tanzanian agribusiness companies, especially those involved with beef, chicken and fish[129]. There are persistent problems of quality in locally-supplied foods. While in recent years the Government has adopted a number of measures to ensure the environmental sustainability of the tourism industry, parallel efforts have not been made to ensure proper food safety. Given that shortcomings in food safety could have serious implications on the international reputation of the industry (and hence its continued contribution to export and overall economic growth), this is one area that deserves a lot more attention.

There is little evident enforcement of the regulations of food safety in the hotel and restaurant sectors—these are the Hotels Act, #22 of 1963 that requires that a licensed hotel make "proper provision …for the storage, preparation, cooking, and serving of food in the hotel", and the Hotel Regulations, Government Notice #55 of 1982, that provides for minimum standards including for 'food preparation'. Tanzania's major hotels are visited once per year (at the time of licensing renewal) by inspectors from the Ministry of Health. This is clearly inadequate as a means of auditing or monitoring these hotels; indeed the leading chain hotels hire third party agencies to conduct quarterly audits of their food establishments. Even an annual audit by Ministry of Health officials does not generally take place for Tanzania's numerous small and medium-sized hotels. It is not clear whether any external audits in fact take place for such operators. While the Ministry of Natural Resources and Tourism (MNRT) is currently developing a system for the grade classification of hotels, sanitation and food safety indicators or systems do not feature in this classification system.

No data are available on the incidence of food-borne illnesses among tourists visiting Tanzania. MNRT indicates that there have been "two or three serious incidences of food poisonings in recent years' that required the evacuation of visitors, together with periodic other reports of adverse incidences. For the most part, MNRT has not critically assessed the food safety dimensions of the industry, leaving this to the hotel operators themselves or the local public health authorities. While illness data are not available, there is at least a perspective that there are some serious risks. Many of the small and medium hotels (as well as some of the larger ones)

[128] 380,000 tourists for eight days at US$25 per day.
[129] See Volume 2, Chapter 3.

may not have appropriate facilities (for example cold stores, preparation tables, water treatment systems, proper kitchens etc.), properly trained staff or management systems in place to control the potential risks associated with the preparation, storage and service of foods to tourists. Hotel food service managers indicate concerns about the safety of some locally-purchased perishable foods and about the capacity of their kitchen staff to minimize risks during the food preparation process.

There is an evident need for a joint public-private sector program in this field. This program, which could involve various government agencies (including MNRT, TBS, TFDA etc.) private entities (including the Hotel Keepers Association, Tourism Confederation, agro-industry associations and others) and technical or training institutes, would seek to:

- Build awareness among tourist industry employees about food safety risks.
- Provide classroom and on-the-job training in good hygienic practices.
- Provide technical assistance to hotel/restaurant operators to develop or refine HACCP systems.
- Develop a surveillance/monitoring program to tract the incidence of food-borne illnesses amongst tourists.
- Incorporate food service capacities in the national hotel grading system.
- Strengthen inspectorate capacities to ensure that at least minimum standards are applied in restaurant facilities and management systems.
- Develop a 'quality vendor' program, enabling farmer groups and/or agribusiness firms to improve the quality and food safety profile of goods supplied to major hotels/restaurants.

There are a number of planned or on-going donor-supported initiatives within the tourism sector for which aspects of the above program could be adopted. The next step should be a more thorough baseline analysis that characterize the current state of play in terms of official and private hotel/restaurant inspection, illustrating representative situations with regard to kitchen/storage facilities and management systems and, more concretely, outlining the industry's needs for training and technical assistance in this area. Part of this work should include references to good practices elsewhere (for example in Jamaica and Mauritius) in raising awareness, illness surveillance, and industry monitoring/auditing.

Specialty coffee—building value in a commodity market

Structural changes in the global coffee market (production innovations in Brazil, booming supply from Vietnam, and changes in the way coffee is blended) has resulted in historically low international prices in recent years. Such prices are expected to remain weak[130], placing increasing pressure on Tanzania to produce high quality coffee which will find a buyer even in an overall weak market.

Leading international 'specialty coffee' roasters frequently market Tanzanian coffee as a premium brand. Tanzania's northern and southern Arabica coffees, in particular, have certain potential advantages, including their production in high altitudes with volcanic soils and various brand images, especially that of Mount Kilimanjaro. However, international roasters have been frustrated by the uneven quality of Tanzanian coffee, and its very limited supply of products which could be marketed as specialty coffee. Most national production comes from some 400,000 smallholders who process their crop in the backyard. Until recently, little of the crop

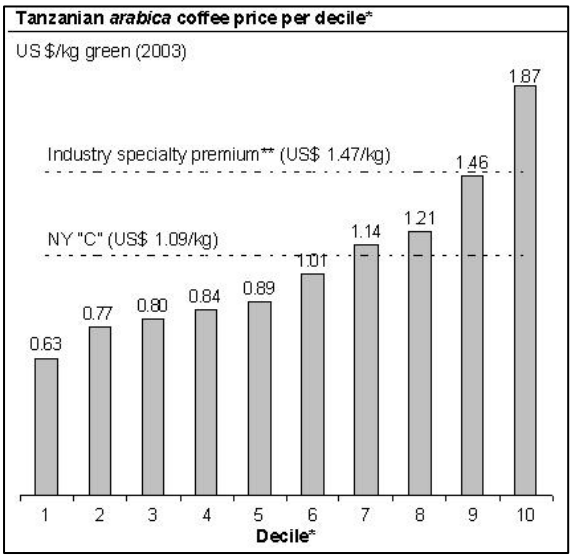
[130] See Volume 2, Chapter 1.

was brought to central pulperies where better processing techniques could be used and better quality control measures employed.[131]

There has been some progress in this area in recent years. Under a USAID-supported project, Technoserve has been working with farmer groups and the Association of Kilimanjaro Specialty Coffee Growers (AKSCG) to develop a system to generate and reward improved coffee quality and to directly market this specialty coffee to international buyers.[132] Technoserve has supported 17 farmer groups to establish village-based central pulperies and assisted AKSCG to develop its management system, marketing strategy, and capacity to inspect/audit the processing facilities and coffee quality which are part of its supply chain. This effort has yielded considerable improvements in realized prices. For example, while traditional commodity coffee sold for US$1.10-1.60 per kilogram in 2003/04, that processed through central pulperies and sold as specialty coffee earned US$2.00-2.60 per kilogram.

Box 7.3: Tanzanian specialty coffee

The strong demand for Tanzanian Specialty Coffee is demonstrated by the differentials received for Tanzania's top quality coffee. For example, during 2003, the highest 10 percent of Tanzanian coffee sold at a US$0.22 premium over the New York C benchmark for Arabica coffee. The top quality Tanzanian AA grade coffee (the largest bean size) sold in 2003 at auction for NYC plus US$0.91. In contrast, 65 percent of Tanzania coffee was sold at prices below the NYC benchmark, with an average discount of US$ 0.24. Specialty Coffee price premiums have enabled some Tanzanian producers (generally foreign-owned estates) to earn exceptional profits at a time when producers of low-quality coffee have been losing money. For example, one Tanzanian Specialty Coffee producer reported a Gross Margin of 30 percent in 2002 (when average world coffee prices were at their lowest ever) and over 60 percentin 2003.



Source: Technoserve

The major challenge is to scale up this type of activity and organization. AKSCG will account for about 10 percent of Tanzania's Arabica coffee crop in 2004/05. Only a small proportion of its product (about 6 percent by volume and 11 percent by value) is currently processed through central pulperies. Further investment and organizational development will be needed, both among this group of growers and among other coffee companies and grower organizations. A positive development on this front is the recent program introduced by the Swiss Government to establish 40 central pulperies in collaboration with AKSCG and Technoserve.

[131] In contrast, virtually all coffee grown in Kenya is brought to central pulperies.

[132] AKSCG has more than 7000 members, organized into some 79 farmer business groups in Tanzania's three Arabica growing areas—Kilimanjaro, Mbinga, and Mbeya.

Certified organic products—from niche to generic sustainable agriculture

Over the past decade, there has been strong and steady growth in sales of organic foods, providing producers and marketing agents with an opportunity for differentiation and value addition. The biggest markets for organic foods have been in North America and Western Europe, where some consumers are willing to pay premium prices for certain products which they regard as 'more safe' and/or 'grown more sustainably'. Yet, as the supply of certified organic products has increased, the price premiums paid have been eroding. As commercial growers of organic crops typically incur learning, transition and certification costs, the long-term economics of this shift in technology and farm management depend upon an array of factors.[133]

Organic foods are products derived from certifiable farm management systems using land husbandry techniques and biological and manual methods instead of synthetic inputs. While the production systems of many poor smallholder farmers are by default 'organic' because of their inability to afford or purchase most material inputs, the commercial value of organics depends upon the reliable certification of such production systems.[134] For produce to maintain its status as 'organic', particular approaches need to be used or not used in post-harvest treatment, storage and distribution. There is an array of different organics standards, some of which are private while others are set officially. Generally, private standards continue to dominate this field.

To a limited degree, Tanzanian farmers, estate owners, and exporters have participated in this emerging market for certified organic produce.[135] In early 2004, some 28,000 farmers were registered as organic producers, serving as members of cooperative societies or out-growers to agro-processors. Some 15,000 hectares of crops were certified as organic, part of this on smallholdings and part on larger estates.[136] The most significant output of organic product is for coffee, tea, and cocoa. Smaller quantities of organic product have also been developed for cashew nuts, herbs and spices, essential oils, sesame, cotton and canned pineapple. In most cases, price premiums of some 10-20 percent have been obtained, with about half of this accruing to farmers or exporters and the balance being absorbed by higher costs, including for certification.

Since the late 1990s, the production and marketing of organic Tanzanian produce has been supported by the SIDA-supported EPOPA program. EPOPA has assisted exporters through market surveys and buyer contacts, technical assistance in product quality management and internal control system development, and training support for company staff and farmers. Typically, the program has entered into three-year projects with particular companies or cooperatives, providing the necessary technical support and facilitating certification and commercial development. The pertinent certification costs are shared between EPOPA and the commercial entities.

EPOPA has supported the development of national organics standards, based upon that of the International Federation of Organic Agricultural Movements (IFOAM). Five Europe-based

[133] See IFAD (2005) for broad perspectives on the development of the international market for organics and the incentives and constraints facing producers.

[134] There may be other non-commercial benefits from organic farm production systems, including health and environmental benefits.

[135] This case study is based on Mwasha and Leijdens, the Export Promotion of Organic products from Africa (EPOPA) Program (2004), and discussions with key personnel involved in the promotion of organic production in Tanzania.

[136] For comparison, the area of certified organic crop production in other countries is India (76,000 ha.), Mexico (71,500 ha), Costa Rica (42,000 ha.), Argentina (39,000 ha.), Thailand (11,000 ha.), and Guatemala (9000 ha.).

organic certification bodies have been involved in Tanzania. In late 2003 several local NGOs got together and formed TanCert, an association geared towards promoting organic farming and commercialization. With EPOPA's assistance, TanCert has now built up a staff of 9 field inspectors and advisors. By end-2005, it is hoped that TanCert will be accredited by IFOAM to carry out organic certification. If this can be achieved, then substantial savings can be made by Tanzanian exporters/farmers in certification costs.

There remain certain growth opportunities for Tanzania in the market for organic products, although suppliers in many other countries are pursuing similar paths. EPOPA is hesitant to further promote organic coffee and tea production in Tanzania given the trend toward market saturation (and declining premiums) for these products. There is comparatively more opportunity for expanding sales of organic herbs, spices, honey and safflower, although in each case Tanzania's overall competitiveness is constrained by a variety of supply-side constraints.[137] International demand for organic cashews is still strong, although the Tanzanian company which has entered that market has experienced persistent losses due to raw material shortfalls, comparatively low factory productivity, and other factors. Hence, to have sustainable impact, the promotion of certified organic production needs to be coupled with broader efforts to promote farm (and factory) productivity. As price premiums for organic products erode, the primary rationale for supporting organically-based farm management systems center around issues of sustainability, risk management and worker safety.

The underlying economics of certified organic production have not yet been fully tested in Tanzania due to subsidies underpinning its emergence. However, the production techniques being promoted and product traceability components of on-going projects do have a wider relevance. In a global trading environment in which increasing attention is being given to product safety and environmentally sustainable production systems, any promotion of 'good agricultural practices' is valuable and, because of the associated positive externalities, can be logically supported with public resources. Certified organic systems, while not a panacea for poverty reduction or overcoming major competitiveness constraints, can and should be part of the strategy for promoting market development and the promotion of 'good agricultural practices'.

Livestock and livestock products - overcoming major competitiveness challenges

Tanzania has the third largest cattle herd in Africa, trailing only Ethiopia and the Sudan, and also a relatively large population of sheep and goats.[138] Yet, the country features a relatively low per capita consumption of beef and other meat and of dairy products. Tanzania's livestock is used predominantly for supporting the subsistence of rural households through the provision of food, manure, draught power, supplementary income and a convenient means for savings. Commercial activity is relatively undeveloped, with most meat and milk consumed in rural areas or traded through informal and generally unregulated channels. Tanzania's participation in international trade for livestock and livestock products has been very limited and the trade which does exist mainly takes place on an informal, unrecorded basis. Despite its large animal population and the large numbers of people involved (in one form or another) with livestock, the livestock sector accounts for only a modest proportion of Tanzania's GDP (about 6 percent in recent years) and has contributed little to GDP growth.

[137] See, for example, Volume 2 Chapter 4 for a discussion of the potential and constraints for Tanzanian spice exports.

[138] While the last animal census was in 1984, it is estimated that Tanzania's cattle herd includes 17.7 million head and that its goat and sheep populations are 12.5 and 3.5 million, respectively.

Tanzania's large livestock resource could be a basis for a competitive set of industries that service the domestic, regional, and international markets. Demand for high-quality meat products and quality hides and skins continues to grow in regional and international markets, while there is presently an unmet (and growing) local demand for higher quality meat, including for tourism businesses.[139] There is also scope to increase the incomes of producers, even in the more informal distribution channels that service much of the domestic market. However, in order to increase the commercialization of livestock and livestock products and to realize the trade potential in this area, Tanzania (and its producers and processors) must overcome a series of fundamental constraints:

- *Animal health status and animal disease management.* As highlighted earlier, a number of trans-boundary or productivity-depleting animal diseases are either endemic to Tanzania or whose incidence has been significant in recent years. At least for the OIE List A diseases, without better control measures and the recognition of such improved control (and/or disease eradication), Tanzania will not obtain official access to international (and some regional) markets for its livestock or livestock products.
- *Low quality and low productivity*. More than 98 percent of Tanzania's cattle are Shorthorn Zebu selected by herders and the natural environment to survive drought, food shortages, and disease. The remaining 2 percent are improved cattle. The selection process has generally resulted in small cattle with low growth and reproduction rates and a herd of relatively old animals.[140] Almost all of Tanzania's goats are indigenous types, much smaller in size than those in demand in international markets (that is, in the Persian Gulf). The respective hides and skins derived from Tanzanian animals are thus much smaller in size than those from competing international suppliers. Similar dominance of unimproved breeding stock exists in Tanzania's poultry and pig populations. By regional (let alone international) standards, productivity levels are low and pre-mature mortality levels high. Some commercial operations exist that do apply improved technologies and management practices, yet these constitute only a small proportion of their overall sub-sectors.
- *Underdeveloped livestock marketing system*. Over the past decade increased attention has been given to strengthening the physical and other infrastructure and privatizing parastatal operations involved in livestock product marketing in Tanzania. Under the Tanzania Livestock Marketing Project, supported by the African Development Bank, significant numbers of livestock markets, holding grounds and other physical infrastructure were put in place. Under this project a relatively small but modern abattoir was also constructed, together with an adjoining training center for meat handling and processing. Some of this infrastructure, including marketplaces near border areas, is not currently being used and there are serious concerns about the sustainability of some of this investment. The government is looking for a private buyer for the (as yet non-operational) abattoir, although it is not clear that such a buyer would have ready access to a supply base which would enable it to reliably meet domestic demand for high-quality meat products. A livestock market information system was devised although there are questions about its usefulness, both from a commercial point of view and for the purpose of market monitoring by government. In each livestock sub-sector there are problems associated with fragmented supply chains and limited use or enforcement of quality standards.[141]

[139] See Volume 2, Chapter 3.
[140] Small and older animals are expensive to transport and derive saleable product from.
[141] See, for example, the recent review of the dairy sector by Kurwijila and Boki (2003) and the report of the Department of Animal Production (2004).

Under various initiatives, including PAPLIDEV, efforts will be made to address various underlying constraints related to animal productivity and to improve the efficiency and equity of the marketing chain for livestock and selected animal products. Several on-going initiatives are seeking to address animal diseases issues, although, as noted above, additional resources might be needed in the near future for Tanzania to fully implement its commitments related to the control of CBPP and FMD. More systemic issues related to animal health management include the need to review or complete pertinent legislation (and associated regulations) and to facilitate the private provision of animal health services in rural areas.

In the near-term, the most significant trade opportunities for Tanzania lie in the continued informal, cross-border trade of cattle into Kenya and Rwanda, and in substantially raising quality and adding value in its exports of hides and skins. The cross-border trade, at least the larger one with Kenya, is two-way, depending upon seasonal conditions and prices. This is perhaps not a major SPS control issue; the animal disease situation is likely to be quite similar on both sides of the border. Further, imposing formal border controls would be difficult to enforce, would certainly impede this trade and would almost certainly be welfare-reducing for producers, traders and consumers. Given the extensive border area, controls and the associated higher transaction costs would likely be skirted by further informality of trade (that is smuggling). A set of workable measures should be identified and negotiated between Tanzania and its neighbors to balance and pursue considerations of animal disease control, trade facilitation and the welfare of supply chain stakeholders.

Hides and Skins—from discounts to adding value

Despite its sizable cattle herd and population of sheep and goats, Tanzania has never developed a large and competitive trade in leather products or semi-finished hides and skins. For the most part, hides and skins have merely been a by-product, accruing little or no value to animal owners/sellers. Both the size and overall quality of Tanzanian hides and skins have generally been poor, attracting relatively little international buyer interest.[142] Trade has occurred as much on an informal basis as a formal one. Although Tanzania once had a highly-protected footwear and leather goods industry, this was not efficient and did not survive the entry of international competition.

According to FAO statistics, Tanzanian (recorded) hides and skins exports have varied between US$7 and US$9 million in recent years. The actual level of trade may be closer to US$20 million as large quantities of raw materials are sold informally across the border in Kenya and Uganda. Hides and skins from these countries generally receive a 10-20 percent premium over those from Tanzania due to reputation for quality. Much of the formally recorded trade goes to China (hides) and India (skins). This is of raw product rather than 'wet blue' or other semi-prepared products.[143] Technically, Tanzanian raw hide is banned in China due to concerns about the spread of FMD and other livestock diseases. However, this trade has continued, with hides generally channeled through Hong Kong.

The supply chain for hides and skins is characterized by the following shortcomings:

- Very low 'off-take' of hides and skins, perhaps with only 50 percent of these reaching the market.

[142] Ethiopian sheep skins generally realize double the price as those from Tanzania. Cow hides from Zambia and Botswana generally obtain double the price (per sq foot) as hides from Tanzania.

[143] In 2003, a 15 percent levy was imposed on the export of raw hides and skins. This was designed to encourage domestic processing and to raise funds for industry improvement initiatives.

- Low quality of raw material due to branding practices, poor livestock husbandry, and endemic animal diseases, and the lack of commercial incentives for farmers to change practices.
- Poor slaughtering methods (and apparent long-term loss of knowledge of 'good practice') which results in damaged hides/skins.
- Commercial practice of buying hides/skins in mixed lots with no differentiation for quality.
- Minimal enforcement of existing legislation and regulations.
- Large underutilization of existing tanning capacity for the production of wet blue hides/skins.
- Absence of chemical effluent discharge standards within the tanning industry.

Efforts are being made to strengthen the hides and skins supply chain and enable Tanzania to realize more effectively its potential in this area. The levy on rawhides and skins has generated some US$800,000 for a Livestock Development Fund. Additional resources have been provided by the Common Fund for Commodities. A strategy has been developed to increase quality and value-addition within the industry through a joint private-public sector program involving awareness-raising and training, the establishment of a grading and pricing scheme, the establishment of hide/skins auctions, introduction of effluent treatment standards and other measures.

7.6 CONCLUSION AND RECOMMENDATIONS

The overall picture regarding SPS management capacity and the ability to comply with food safety and agricultural health requirements in export markets is of a generally low level of capacity development within both the public and private sectors. Alongside, however, there are pockets of enhanced capacity that have evolved in response to particular problems complying with export market requirements (for example for fish and fishery products) or the emergence of acute SPS problems (for example outbreaks of animal disease or plant pests). In most cases these pockets have been induced by immediate market access problems (again the case of fish and fishery products is notable here) or with funding from bilateral and/or multilateral donors. Indeed, it is evident that Tanzania's program of capacity development is very much driven, and reliant upon, donor support.

Although basic legislative frameworks are in place, a more extensive and updated framework of regulations needs to be promulgated and institutional structures strengthened across both the public and private sectors. Mechanisms through which management measures are implemented and enforced also need to be strengthened; there is an evident tendency for actions to be taken when problems arise but for these to fade once the immediacy has faded and other issues arise. This emphasizes the need for the sustainability of the system to be underpinned through appropriate levels of resourcing and/or more effective management of those resources that are made available. Relating to this latter point, it is evident that cases exist where functions are duplicated and/or there is a lack of coordination of functions and responsibilities. This creates significant scope for the inefficient use of resources, a situation that Tanzania cannot afford given the evident resource constraints under which public agencies operate.

As discussed earlier in this chapter, SPS management capacity should be developed strategically, focusing on the opportunities to exploit export market opportunities in a manner that engenders competitive advantage and/or minimizes the associated costs. This requires that Tanzania positions itself such that capacity-building occurs not in a reactive mode, but as part of a longer-

term strategy aimed at enhancing capabilities in a prioritized manner. Further, the focus should be as much on establishing the core elements of SPS management capacity (building awareness and recognition and 'good practice'), as on institutional frameworks and 'hard' equipment such as laboratories. In pursuit of this, it is recommended that:

- *A formal mechanism be put in place to achieve greater coordination of national efforts related to promoting quality and managing SPS risks.* One possibility is the creation of a National Quality and SPS Council, with senior representatives from pertinent government agencies, the private sector, and research and professional organizations. This Council would work to more clearly define and demarcate the roles and responsibilities for different governmental and other agencies, promote the establishment of technical agreements among them, and establish and monitor the implementation of pertinent policies and strategies.
- *A concerted campaign is launched to raise both awareness and recognition of the importance of SPS management capacity to Tanzania's competitiveness in international markets for agricultural and food markets and ability to exploit potential opportunities*. This should be directed at both the political and administrative levels of the Tanzanian government, key elements of the private sector and other interest groups. This might take the form of seminars and workshops, at least initially, although more decentralized campaigns, at industry and local levels should be pursued.
- *The government of Tanzania enhance the budget available to the development and maintenance of SPS management capacity.* There needs to be a fundamental shift from reliance on donor support, which is inevitably linked to the donor's own agenda, to the establishment of at least an adequate baseline budget that will ensure a certain minimum level of capacity prevails. While cost-recovery measures may form part of the sustainable resourcing of SPS management systems in Tanzania, these should not be at a level which would weaken the competitiveness of Tanzanian suppliers, and should not be a major driving force behind the prioritization of regulatory and technical services provided by government agencies.
- *The enhancement of SPS management capacity should be incorporated into broader efforts to build the competitiveness of agricultural and food exports and to enhance the productivity of the agricultural and food processing sectors.* This emphasizes again the need for SPS management capacity-building to be viewed strategically and as an integral element of efforts to utilize trade in agricultural and food products as a means to agricultural and rural development and poverty alleviation. In several fields—including in horticulture/floriculture, for animal products, etc.—complementary measures will also be needed to enhance international competitiveness.
- *Tanzania must make concerted efforts to encourage and participate in the development of SPS management capacity and sharing of resources at the regional level.* The concept of regional 'centers of excellence' could provide a very useful model is this regard. In so doing, the government needs to identify areas of common interests in the region that will act as a sustainable locus for collaborative efforts. A related issue is the need to explore areas where the SPS control measures of neighboring countries night be accepted as equivalent in terms of the 'level of protection' to comparable controls in Tanzania. The case of pesticide registration is a clear example.
- *The government of Tanzania should enter into a dialogue with private sector leaders on collaborative efforts to enhance SPS management capacity*. This might include the scope for cost-sharing and/or identification of areas in which the private sector can take a lead in developing capacity either on a collective basis or through individual private enterprises. In so doing, the potential drain on the public purse will be minimized, while

the private sector will also recognize its own role in establishing and maintaining a certain level of SPS management capacity aimed at enhancing export competitiveness.

- *The government and private industry should seek to build a consensus of views regarding the most immediate risks and opportunities which the country faces in relation to SPS matters and trade as well as on important medium-term priorities*. This study has highlighted a number of these potential areas, although confirmation/revision of this requires more stakeholder dialogue. This study has noted the potential short-term risks associated with: (i) food safety/food hygiene in the tourism industry, (ii) the unimproved landing sites for Nile Perch, and (iii) the fruit fly infestation of parts of Tanzania and Kenya. If not properly addressed, these could harm the country's tourism development and its leading non-traditional export industries. Important medium-term opportunities appear to be associated with (i) increasing the quality and value-added of hides and skins, (ii) the sale of specialty and other forms of certified quality coffee, and (iii) further development of trade in certified organics products.

Alongside these rather broad strategic recommendations, a number of more specific areas in which action is required have been identified, detailed in the Action Plan. Some of these actions are in pursuit of the strategic directions identified above, while others address the specific areas of capacity weakness identified throughout this paper.[144]

In conclusion, it is not unexpected to find broad weaknesses in prevailing SPS management capacity in a least-developed country such as Tanzania given the overall level of economic development and availability of financial, technical and human resources. At the same time, the government and private sector in Tanzania as well as the international community must be realistic about what can be achieved in terms of capacity-development in the short to medium-term. Priorities need to be set and capacity developed from the 'bottom up' in accordance with the pyramid of capacity presented in this chapter and a strategic vision in terms of SPS management capacity in view of export market opportunities and the need to enhance agricultural productivity and domestic food safety. The donor community needs to support this by enabling the establishment and pursuit of a strategic approach to capacity development through the support they provide, and avoiding short-term projects which are not part of this strategic framework and which have little prospect to foster sustainable capacity.

[144] Note that these actions are complemented by those that will be supported by a recently approved project on "Enhancing the Capacities of the Tanzanian Quality Infrastructure for TBT/SPS for Trade" that will be implemented by UNIDO, with SECO funding.

8. TRANSPORT

Transport is a key bottleneck to global integration in many developing countries, and Tanzania is not an exception in this regard. Inadequate development of transport infrastructure in Tanzania poses a serious constraint to the commercialization of agricultural products and the transportation of commodities.

8.1 BACKGROUND

The overwhelming majority of international transport (that is, transport of exports, imports and transit goods) in Tanzania is by ocean freight. Air freight transport made up only 0.4 percent of the total volume of international transport in 2003 (Table 8.1).

Table 8.1: Volume of international transport, tons

	2003
Via Ocean Freight	
Export from Tanzania	982,000
Import to Tanzania	3,511,000
Transit	1,224,000
Subtotal	*5,717,000*
Via Air Freight	*23,000*
Total	**5,740,000**

Source: compiled by the World Bank based on official statistics from the Ministry of Communications and Transport (MCT), Tanzania Harbor Authority (THA) and Tanzania Railways Corporation (TRC) and Tanzania Zambia Railway Authority (TAZARA). Air freight numbers are not complete because data from the Kilimanjaro Airport Authority has not been available since its concession in 2000.

Ocean Freight

Of the four major ports in Tanzania, the port of Dar Es Salaam is by far the most important, handling 84 percent of exports and imports by ocean freight (57 percent of such exports and 92 percent of such imports go through Dar). The other main ports in Tanzania are Tanga (handling 10 percent of ocean freight), Mtwara and Mwanza (handling around 3 percent each of ocean freight) (Tables 8.2 and 8.3).

Table 8.2: Exports from Tanzania via ocean freight, 2003 (in tons)

Port of exit	**Type of cargo**	**Volume**	**Road**	**Railway**
Dar es Salaam	Dry cargo	520000	420000	100000
	Refined oil	34000	34000	
	Liquid cargo	5000	5000	
Sub-total		*559000*		
Tanga		214000	214000	
Mtwara		67000	67000	
Mwanza - Uganda		142000	142000	
TOTAL		**982000**	**882000**	**100000**

Source: compiled by the World Bank based on official statistics from MCT, THA and TRC/TAZARA.

Table 8.3: Imports into Tanzania via ocean freight, 2003 (in tons)

Port of exit	Type of cargo	*Volume*	Road	Railway
Dar es Salaam	Dry cargo	1829000	1469000	360000
	Crude oil	1222000	982000	240000
	Liquid cargo	166000	131000	35000
Sub-total		*3217000*	*2582000*	
Tanga		219000	219000	
Mtwara		75000	75000	
TOTAL		**3511000**	**2876000**	**635000**

Source: compiled by the World Bank based on official statistics from MCT, THA and TRC/TAZARA.

Much of the international transport via ocean freight is by roads. As Table 8.4 indicates, fully 75 percent of such transport is by roads (90 percent of imports and 82 percent of exports), while 17 percent is by rail (10 percent of exports and 18 percent of imports), and 7 percent by pipeline. The dominance of road transport can be explained by the fact that a large share of imports coming in through the Port of Dar Es Salaam is destined for areas around the capital, which requires only short haulage. However, the serious infrastructural and operational problems in the railways (see discussion later in this chapter) also contributed to this outcome. Finally, the much larger volumes of imports than exports for both road and rail transport also result in idle outgoing capacity and higher transportation costs.

Table 8.4: Modal split of International Transport via Ocean Freight in 2003 (in tons)

	Road	Railway	Pipeline	Total
Export from Tanzania	882000	100000	0	982000
Import to Tanzania	2876000	635000	0	3511000
Transit	570000	244000	410000	1224000
TOTAL	**4328000**	**979000**	**410000**	**5717000**

Source: compiled by the World Bank based on official statistics from MCT, THA and TRC/TAZARA.

Transit

Tanzania is an important provider of transit traffic for its neighbours, including Burundi, the Democratic Republic of Congo, Malawi, Rwanda, Uganda, and Zambia. Transit traffic made up around 21 percent of Tanzania's total international transport in 2003.

Road transport also dominates in transit traffic, although not as overwhelmingly as for exports and imports, given the large share that is transported by pipeline. In 2003, road transport made up 46 percent of transit traffic, while pipeline made up 33 percent and 20 percent by rail (Tables 8.4 and 8.5). Of the 6 countries for which transit traffic data is presented, it is only for Burundi and Uganda that transit by railway exceeded transit by roads. For the rest of the countries, road transit traffic dominated.

Given the large volumes of traffic flows and long distances in Tanzania, promoting Tanzanian railways and raising its modal share in international transport should lower transport costs. This option will be addressed in more detail later in this chapter.

Table 8.5: Transit Traffic 2003 (in tons)

Origin-Destination	Total	By road	By railway	By pipeline
Crude Oil				
Dar – Zambia	410000			410000[145]
Dry Cargo				0
Dar – Zambia	72000	43000	29000	0
Zambia – Dar	122000	73000	49000	0
Total Zambia	194000	116000	78000	0
Dar – DR Congo	112000	68000	44000	0
DR- Congo – Dar	4000	2000	2000	0
Total DR Congo	116000	70000	46000	0
Dar – Burundi	63000	28000	35000	0
Burundi – Dar	25000	11000	14000	0
Total Burundi	88000	39000	49000	0
Dar – Rwanda	51000	27000	24000	0
Rwanda – Dar	6000	3000	3000	0
Total Rwanda	57000	30000	27000	0
Dar – Uganda	52000	23000	29000	0
Uganda – Dar	17000	8000	9000	0
Total Uganda	69000	31000	38000	0
Dar – Malawi	29000	23000	6000	0
Malawi – Dar	0	0	0	0
Total Malawi	29000	23000	6000	0
Dar – Other	11000	11000	0	0
Other – Dar	66000	66000	0	0
Total Other	77000	77000	0	0
Mwanza – Uganda[146]				
Uganda – Mwanza	43000	43000	0	0
Mwanza – Burundi	117000	117000	0	0
Burundi – Mwanza	24000	24000	0	0
TOTAL	**1224000**	**570000**	**244000**	**410000**

Source: compiled by the World Bank based on official statistics from MCT, THA and TRC/TAZARA.
Note: All transit traffic data refers to dry cargo, with the exception of crude oil via pipeline destined for Zambia.

Air Freight

Air freight is transported through five airports in Tanzania (Table 8.6), with Dar and Mwanza handling the bulk of such freight. Since 2000, air freight handling at the Mwanza airport had consistently exceeded that at the Dar airport, with the gap between the two narrowing

[145] Part of this presently transported by truck.
[146] Included in Dar-Uganda segment.

substantially in 2003 when Mwanza handled 52 percent while Dar handled 47 percent of total air freight. (It should be noted that these figures exclude airfreight handled at the Kilimanjaro airport, for which such data have not been available since 2000 after the concessioning of its operations). In 2003, the airport of Dar Es Salaam handled 67 percent of the international passengers in Tanzania, while Kilimanjaro Airport and Zanzibar handled 16 percent each.

Table 8.6: Air freight transport in main airports in Tanzania 1998-2003(in tons)

Airport	1998	1999	2000	2001	2002	2003
Dar	12,305	10,705	13,503	13,294	11,326	11,176
Kilimanjaro	1,785	2,320	n.a.	n.a.	n.a.	n.a.
Mwanza	11,283	4,333	19,562	21,063	17,420	12,311
Arusha	0	0	0	0	194	275
Mtwara	323	189	150	177	123	86

Source: Tanzania Airports Authority (TAA).

8.2 MAIN ISSUES IN TRANSPORT

The main problems of transport in Tanzania are inadequate rehabilitation and maintenance of both the road and rail networks; a lack of efficiently operating intermodal connections; and high transport costs. Transport costs are much higher than in South Africa, though around the same as in Mozambique and lower than in Zambia (Table 8.7). The quality of road transport services is also poor—and poorer than that in Kenya, which is one of Tanzania's main competitors for transit trade to the landlocked countries in central Africa.

Table 8.7: Comparative transport costs for road and rail

Country	Road	Rail
Mozambique	0.045-0.09/tonkilometer	0.027-0.074/tonkilometer
Tanzania	0.06-0.085/tonkilometer	0.045/tonkilometer
Zambia	0.08 USD/tonkilometer	0.045-0.08/tonkilometer

Source: Data for Zambia and Mozambique from Transport and Trade Facilitation Audits for the two countries, World Bank (2004). Data for Tanzania see Volume 2, Chapter 4.

The main reasons for high transport costs are imbalanced freight flows as mentioned earlier; long distances; long trip times due to deficient rolling stock in the case of railways; low capacity transport infrastructure (inadequate roads and low speed of trains); inefficient operation of service providers; and red tape and bureaucracy in part due to the lack of experience and capacity among the main stakeholders in transport infrastructure and transport services and operations (transport operators and forwarders).

Private sector participation (PSP) can help address some of these issues. GOT has also stated its intention to have PSP in the transport sector, and has earmarked most of the public enterprises in the sector for privatization, including the Air Tanzania Corporation (ATC), THA, TRC, TAZARA, the Regional Transport Companies (RETCOS), the public transport company Usafiri Dar es Salaam (UDA), and Kilimanjaro International Airport (KIA). The container terminal at the Dar Es Salaam port, ATC, KIA and most of the RETCOs have already been privatized.

However, outdated legislation and regulations have been hampering the concessioning of the remainder of the main transport infrastructure network, transport services and operations. Transport legislation, in particular for road and railway transport, is still largely a legacy of the country's socialist past and does not reflect the new socio-economic reality of free market

competition and increasing involvement of the private sector. There are also problems with control and enforcement which are important for the establishment of a level playing field for all traders and transport operators.

Further, there is lack of an integrated approach towards transport and trade facilitation. There is no national platform where both the public and the private sector discuss in a structural way the problems facing trade and transport in Tanzania. There is also lack of capacity to monitor the performance of transport, transit and border crossings.

In addition to the above cross-cutting issues, there are issues that pertain specifically to individual transport sectors. These are discussed, in turn, below.

Roads

The preceding section highlighted the importance of road transport in Tanzania's international trade. However, until the end of the nineties, road infrastructure was not a priority in setting expenditure priorities for the central budget. The institutional framework was also not appropriate for improving the condition of road infrastructure in Tanzania.

Rehabilitation and Maintenance

Of the total road network of 85,000 km, only 27 percent are in good and fair condition, while the remaining 73 percent are in poor condition. The conditions of trunk and regional roads (two-thirds of the total road network) are better than those of urban, district and feeder roads (one-third of the total road network), with 51 percent of the former being in good and fair condition, while only 14 percent of the latter are in the same condition (Table 8.8). Feeder roads are in fact mostly tracks in poor conditions.

In an effort to address this situation, the Ministry of Works has planned for the Urgent Road Rehabilitation Program for the trunk and regional roads and the Ten Year Rehabilitation Program. About 9 Road Transport Corridors have been identified embracing a total road network of 10,300 km, 40 percent of which is bituminized. According the plan the remaining 60 percent need to be bituminized by 2012. The nine transport corridors are:

1. TANZAM corridor: Dar es Salaam – Morogoro – Mikumi (with a link to Ifakara and Mahenge) – Iringa – Mafinga (with a link to Mgololo) – Makambako – Mbeya (with a link to Itungi Port and Malawi) – Tunduma (1324 km). This corridor facilitates agriculture, tourism, mining and trade.
2. Northeast corridor: Dar es Salaam – Tanga – Arusha – Namanga (950 km). This corridor facilitates production of both subsistence and cash crops, promotion of tourism and mining.
3. Southern coastal corridor: Dar es Salaam – Lindi – Mtware (508 km). Improvement of the road infrastructure of this corridor would promote economic activities in the southern part of Tanzania.
4. Central corridor: Morogoro – Dodoma – Mwanza (on Lake corridor) – Rusumo (Rwanda border) and Kobero (Burundi border) in the West (1584 km). This corridor facilitates extensive farming and mining.
5. Lake circuit: Sirari (Kenian border) – Musoma – Mwanza – Bukoba – Mutukula (border with Uganda) (1019 km). The lake circuit is to attract manufacturing and processing industries and promoting agriculture, mining, tourism, fishing and trade.

6. Southern corridor: Lindi – Mtware – Songea linking to Makambako and Mbamba Bay on Lake Nyasa (1326 km). The corridor promotes agricultural production including livestock and fishing, mining, and trade.
7. Great north corridor: Iringa – Arusha – Namanga (1024 km). The northern corridor serves agricultural schemes, mining and tourism.
8. Western corridor: Tunduma – Sumbawanga – Mpanda – Uvinza – Kigoma – Nyakanazi – Nyakahura (1286 km). Economic activities along this corridor include agriculture, tourism, mining, timberworks, fishing and gold smiting.
9. Mid-west corridor: Iringa – Dodoma (266 km)[147]. Possible development activities are forestry, tourism and mining.

Table 8.8: Tanzania: Condition of road network, February 2004

	Good and Fair Condition (km)	Poor Condition (km)	Total (km)
Managed by TANROADS			
Trunk Roads	5563	4371	9934
Regional Roads	9276	9682	18958
Subtotal	*14839*	*14053*	*28892*
Share of Total Road Network	*65.8%*	*22.5%*	*34.0%*
Share of Subtotal in terms of conditions	*51.4%*	*48.6%*	*100.0%*
Managed by Local Governments			
Urban Roads	1715	735	2450
District Roads	5000	13658	18658
Feeder Roads	1000	34000	35000
Subtotal	*7715*	*48393*	*56108*
Share of Total Network	*34.2%*	*77.5%*	*66.9%*
Share of Subtotal with respect to conditions	*13.8%*	*86.2%*	*100.0%*
Total Network	**22554**	**62446**	**85000**
Share of Total with respect to conditions	**27%**	**73%**	**100%**

Source: TANROADS, February 2004.

According to World Bank estimates[148], 44,000km of the total road network is required for poverty alleviation—this is the network that provides reliable access to the majority (90 percent) of the rural population. An estimated US$3bn. is needed over the next 10 years to get this core network into maintainable (good and fair) condition (that is, around US$300m. per year), which in turn is necessary to unlock the agricultural potential in the regions and facilitate the commercialization and transportation of the produce. However, only about US$100-150m. is currently spent on the

[147] The most likely link meant is the one between Iringa and Dodoma. The National Transport Policy document (2003) mentions the mid-West corridor as extending from the Central corridor in the East to the Tanzam corridor in the South-west.
[148] Project Appraisal Document for the Central Transport Corridor Project, March 2004, the World Bank.

road transport sector, which is less than half of the estimated need[149]. Insufficient funds for the road transport sector have trapped the sector in a vicious cycle: insufficient money allocated to rehabilitation increases the need for immediate spot improvements and emergency works, which had been financed by funds earmarked for maintenance, leaving insufficient resources for the proper maintenance, leading to a further deterioration of the network, which requires further rehabilitation, for which no financial resources are available, and so on.[150]

Rural roads

Rural roads, in particular, suffer from inadequate rehabilitation and maintenance. The Tsh 5 bn. (US$5m.) earmarked for the President's Office Regional Administration and Local Government (PORALG) for rehabilitation/construction from the 2002/2003 development budget was not released. This renders difficult the implementation of the plan envisaged in the Poverty Reduction Strategy Paper of rehabilitating 4,500 km. of rural roads in 12 of the poorest regions by 2003. Further, only around half (7049km.) of the planned 13,727km. of rural roads received routine and periodic maintenance. The main reasons for not achieving the plans are partial and late release of Road Fund allocations; inadequate capacity of local government authorities to manage district, urban and feeder roads; and lack of competent contractors.

A recent study surveying 7 main regions of agricultural production (Mtwara and coastal regions, Tabora, Shinyanga, Kilimanjaro, Kagera, and Morogoro) found that all villages with poor roads are less served by commodity and public transport (Table 8.9).[151] In particular, there is less traffic arrival to these villages; they are served by trucks with lower tonnage (poor road villages are served by light trucks of 7-10 tons while large trucks of 12-15 or more tons haul crops in villages with fair roads); and more pronounced seasonality of traffic. Poor road villages in Tabora and Shinyana, for example, do not have regular transport and are only accessed by transporters during high season for crop marketing, thus denying farmers the opportunity to benefit from early and late season high prices.

The same study found that, by and large, farmers in villages with poor roads receive lower producer prices than their counterparts in villages with fair roads (Table 8.10). The price differences could be as high as 50 percent for pineapple farmers in Morogoro, 18 percent for coffee farmers in Kilimanjaro, and 17 percent for cotton farmers in Shinyanga. There are two reasons for the price differences. First, there is less competition among crop buyers in the poor road villages as evidenced in fewer crop buying agents and export companies operating in villages. In the Urambo district of Tabora, for example, tobacco marketing days are held less frequently in the village with the poor road (once per month) compared to the village with the fair road (twice a month). Second, the higher transport costs in poor roads are being passed onto farmers in the form of lower producer prices. In Kagera, for instance, the Karagwe District Cooperative Union pays rural coffee transporters Sh220 per ton kilometer for poor roads and Sh200 per ton kilometer for fair roads. In Morogoro, private traders pay Sh167 per ton kilometer for poor roads, and Sh153 per ton kilometer for fair roads. Regardless of whether the roads are fair or poor, transport costs in these ranges of Sh150-Sh220 per ton kilometer are very high.

[149] It should be noted that in this regard Tanzania is performing much better than some other countries in the region, such as Mozambique and Zambia, where the road sector is allocated only about 10 to 20 percent of what is needed.

[150] "Maintenance" refers to regular maintenance, while "rehabilitation" entails more structural repairs involving much higher costs.

[151] Nyange (2005), background paper for the Tanzania DTIS.

Table 8.9: Comparative traffic patterns: villages with fair and poor roads

		Maximum Tonnage		Regular vehicles		Vehicle Departed yesterday		Seasonality of traffic	
Region	Road	Fair	Poor	Fair	Poor	Fair	Poor	Fair	Poor
Coast-cashew	Kitomondo	<15		6-10		6		All weather	
	Kizapala		7		14		3		Seasonal
Mtwara-cashew	Chikundi	<15		20		15		All weather	
	Chigugu		15		20		15		All weather
Tabora-tobacco	Itundu	<15		4		20		All weather	
	Sipungu		7-12		0		1		Occasional
Shinyanga-cotton	Kishapu	<15		5		5-10		All weather	
	Nyenze		10		0		0-2		Occasional
Kilimanjaro-coffee	Lyamrakana	15		<10		12		All weather	
	Mowo		10		10		10		Seasonal
Kagera-coffee	Chonyonyo	15		4		every 10 min		All weather	
	Kibwera		7		0		0		Seasonal
Morogoro-pineapple	Tandai	15		8		8		All weather	
	Mtamba		15		2		13		All weather
	AVERAGE	15	11	8	7				

Table 8.10: Comparative producer prices: villages with fair and poor roads

		Actual producer price		% price difference	Number of buying agencies	
Region	Road	Fair	Poor		Fair	Poor
Coast-cashew	Kitomondo	600		0	4	
	Kizapala		600			1
Mtwara-cashew	Chikundi	693		6.1%	4	
	Chigugu		653			4
Tabora-tobacco	Itundu	882		3.4%	1(market days 2 per month)	
	Sipungu		853			1(market days 1 per month)
Shinyanga-cotton	Kishapu	254		16.5%	7	
	Nyenze		218			3
Kilimanjaro-coffee	Lyamrakana	740		18.4%	4	
	Mowo		625			3
Kagera-coffee	Chonyonyo	225		2.3%	5	
	Kibwera		220			3
Morogoro-pineapple	Tandai	150		50.0%	unregulated (5 trucks per day	
	Mtamba		100			unregulated (5 trucks per day

Lower crop prices in less accessible villages (that is villages with poor roads) in turn have a negative effect on revenues, at least for 5 of the 6 regions surveyed (Table 8.11). The clear conclusion is that improving rural, district, and regional roads along with the ongoing improvements to trunk roads would benefit agriculture by lowering transport costs, in turn increasing producer prices and rural incomes.

Table 8.11: Comparative crop revenues: prices: villages with fair and poor roads

		Crops revenue (Sh.)		Planted area (acres)		Production (kgs)		Revenue/production (avg price)		Revenue/acre	
Region	Road	Fair	Poor	Fair	Poor	Fair	Poor	Fair	Poor	Fair	Poor
Coast-cashew	Kitomondo	359,333		3.21		592		607.0		111,942	
	Kizapala		163,833		2.42		617		265.5		67,700
Mtwara-cashew	Chikundi	210,000		3.25		313		670.9		64,615	
	Chigugu		237,000		3.75		380		623.7		63,200
Tabora-tobacco	Itundu	1,039,014		2.53		1204		863.0		410,677	
	Sipungu		1,158,200		2.93		1354		855.4		395,290
Shinyanga-cotton	Kishapu	266,351		6.71		1028		259.1		39,695	
	Nyenze		321,059		3.87		1583		202.8		82,961
Kilimanjaro-coffee	Lyamrakana	287,400		2.80		522		550.6		102,643	
	Mowo		75,750		1.13		87		870.7		67,035
Kagera-coffee	Chonyonyo	136,350		n.a		607		224.6			
	Kibwera		330,000		n.a		1500		220.0		
Morogoro-pineapple	Tandai			4.00		2500				0	
	Mtamba				3.75		1500		0.0		0
	AVERAGE	383,075	380,974	3.75	2.98	967	1,003	339.7	325.6	102,153	128,058

Axle limitations

GOT has agreed on harmonization of gross vehicle weights within SADC countries, which has now come into effect. This implies that the maximum gross vehicle weight has been raised from 52 tons to 56 tons. This decision would mean that the lifespan of the road network could be reduced by 20 percent if road haulers start to drive with this new permissible weight. To address this issue, TANROADS, the road agency in charge of regional and trunk roads in Tanzania, has introduced a maximum number of authorized axles on trucks and trailers in such a way that commercial vehicles could not reach the 52 tons weight limit. This regulation would make it difficult for Kenyan (and other) road haulers to operate in Tanzania as they are used to maximum gross vehicle weight of 56 tons.

However, in practice, commercial vehicles overload, which makes enforcement of the regulation necessary. Therefore, TANROADS is planning to make use of weighbridges in ports, terminals and along the main transport corridors to control gross vehicle weight. The investments in weighbridges are estimated to be considerable: the cost of one fixed weighbridge ranges from US$50,000 and US$75,000. When other civil works at the weighbridge station are included, the costs go up by a further US$400,000 to US$800,000. The average operational cost for one weighbridge is about Tsh 24m. (US$24,000) per month. These planned investments are extremely costly, and their benefits not immediately apparent, given that there are already too many weighbridges in place (for example, there are 5 weighbridges on the Zambia-Dar road).

There is a need to reflect on the policy with respect to weighbridges with respect to their objectives.

There also appears to be problems with the application of rules and procedures regarding the weighing of vehicles. Different weighbridges are used which are not all calibrated and which vary in lifetime and brand. This leads to differences between the results of one weighbridge and another. With the abolishment of the previous fault tolerance of 5 percent which allows for differences in calibrations between weighbridges, fines are now levied for overloading for even, say, 300 kilograms. The business community in Tanga goes even so far as to state that this is one of the reasons why the port of Tanga is being avoided by importers.

The Federation of Tanzania Haulers, which is also represented in the Road Fund, and thus aware of the importance of the preservation of the road network in Tanzania, has carried out a campaign to persuade road transport operators in Tanzania not to overload their vehicles. Although one of the arguments is that overloading damages the road infrastructure, it also has negative effects on the tires, the motor and the fuel consumption of the trucks.

Transport Costs

As mentioned earlier, road transport costs at US$0.07 per ton-kilometer are high in Tanzania, and much more so than in South Africa, although more or less the same as the average in some other countries in the region such as Mozambique and Zambia.

Transport of 20' feet and 40' feet is even more expensive. The rates charged for containers to Kigali and Bujumbura are between US$3,800 to US$ 4,200 for a full load truck. With the axle limitations imposed by TANROADS, this implies that by road only one 20' feet container can be transported instead of two 20' feet containers or one 40' feet. This is much more expensive than transportation by trains, which can carry 30-50 containers on average, and which would cost around only one-third as much. However, the poor state of railways and in particular their unreliability have made rail transport not a feasible alternative (see discussion in the next section on railroads).

Management

Administrative restructuring over the last few years has greatly enhanced road management and the financing capacity of the sector. The restructuring included creation of a Road Fund Board in 1999 and TANROADS in July 2001, and refocusing the role of the Ministry of Works on policy formulation, strategic planning and regulation in the road sub-sector.

However, there still remains an issue with respect to overlapping ministerial responsibilities for road infrastructural management that could easily lead to insufficient accountability, resulting in inefficiency in both management, planning and administration of the road sector. Specifically, the responsibilities for the pan-territorial road infrastructural management are vested in the Central Government through the Ministry responsible for Works, while the Ministry of Communications and Transport is also involved at policy, planning and regulatory levels, the Ministry of Home Affairs involved in enforcement of regulations, the Ministry of Finance involved in licensing, and Local Governments hold responsibility for an important segment of the road infrastructure network.

Regulatory Framework

Road transport is currently regulated by the Transport License Act (TLA) of 1973, which is outdated[152]. The TLA stipulates conditions for obtaining a license for transporting goods and passengers, but does not include any criteria for good repute, financial standing or professional competence for the road transport operators. In practice, it is very easy to obtain a license, both for domestic and foreign trucks. The fees for a Goods Vehicle License range from Tsh 35,000 (US$35) for a one-year license for a truck with a load capacity of 2 to 5 tons, to Tsh 195,000 (US$195) for a truck with load capacity of more than 30 tons for a Tanzanian operator; the corresponding fees for a foreign operator are US$52 and US$250.

The liberalization of the economy and the increasing involvement of the private sector in the transport industry require new licensing systems and hence modifications of existing transport laws and regulations. In this regard, it is recommended that the qualitative criteria for obtaining an operator's license be revised by introducing requirements of good repute, financial standing and professional competence of road transport operators, and that separate laws are drafted for road freight and road passenger transport.

Data

There are no data on road transport since liberalization of the sector around a decade ago. Neither the National Bureau of Statistics nor the Ministry of Communications and Transport include road transport data in their annual statistical publications. Since having reliable data is important for the development of the road sector—for instance feasibility studies for construction or rehabilitation of roads should be based on existing and forecasted traffic flows—it is recommended that the Ministry of Communications and Transport together with the National Bureau of Statistics carry out road haulage surveys on a regular basis. Another way of collecting data, at least for the operators registered in Tanzania, is to directly link the issuance of road service licenses to the obligation to provide statistics on a regular basis to the issuing agency, and creating a legal basis for this obligation.

Railways

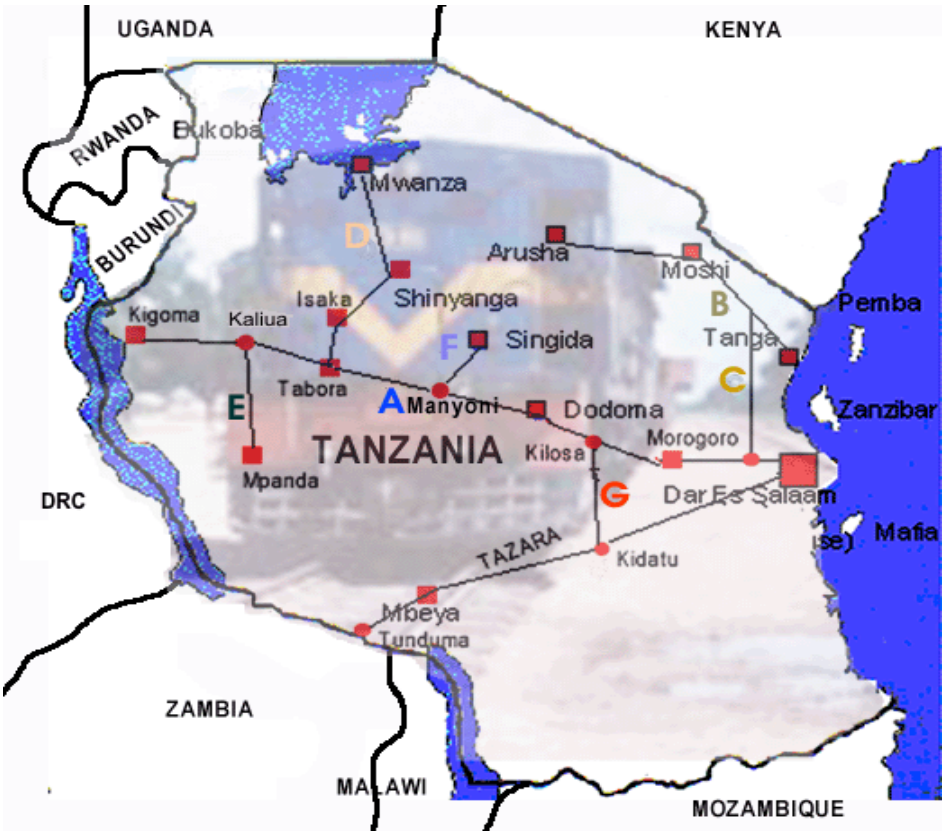
The Tanzania railway system has a total length of 3,676 km, of which 2,706 km is operated by Tanzania Railways Corporation (TRC) and 970 km by Tanzania-Zambia Railway Authority (TAZARA). Together, the two systems link 14 of the 20 regions on the mainland, and neighboring countries including Zambia and Kenya.

TRC, established in 1977 after the collapse of the East African Community, consists basically of two main lines: the Central Line running from Dar Es Salaam to Tabora (840 km) and from there to Kigoma (411 km) and Mwanza (378 km); and the Tanga Line starting from Tanga to Moshi and Arusha with a total length of 438 km. These two lines are connected by a link line between the Ruvu Junction Station on the Central Line and Mruazi Junction on the Tanga Line (188 km). There are also four branch lines: Kilosa-Kidatu (107 km); Kaliua-Mpanda (214 km); Manyoni-Singida (115 km); Kahe-Border (16 km) (Figure 8.1). The rolling stock of TRC consists of 120 diesel locomotives, of which 103 are older than 20 years, and only 85 can be considered as

[152] The adoption of the Surface and Marine Transport (SUMATRA) Regulatory Act in 2001 to regulate land and water transport assigns all regulatory powers to SUMATRA but does not change the content of the Transport License Act.

working fleet. The wagon fleet is 1,847, of which 1,514 wagons are older than 20 years. Around 70 to 75 percent of the locomotives and wagons are functioning.

Figure 8.1 : The Tanzanian Rail Network



A = Central Line
B = Tanga Line
C = Link Line
D = Mwanza Line
E = Mpanda Line
F = Singida Line
G = Kidatu Line

TAZARA operates a railway line between the port of Dar Es Salaam and New Kapiri Mposhi in Zambia over a distance of 1860 km, of which 970 km is on Tanzanian territory. The rolling stock of TAZARA consists of 79 diesel locomotives, of which 52 are older than 20 years, and only 46 can be considered as working fleet. Around 50 percent of the locomotives and wagons are functioning.

The TRC network has a gauge[153] of 1,000mm, while the TAZARA network has a gauge of 1067mm. This means that the TRC and TAZARA networks cannot connect, although the latter can connect with other southern African railways which have the same gauge.

Freight carried by TAZARA rose steadily between 1999 and 2003, while that carried by TRC rose then declined such that by 2003 freight carried by TRC was lower than that carried in 1993 (Table 8.9). In both cases, the installed capacity is much higher than the actual freight carried due to the unreliability of the railways arising from constant breakdowns. The unreliability of the

[153] The gauge is the distance between the two rails.

railways can be seen in the actual average number of days for rail transport between different locations compared to the targeted time (Table 8.10)

Table 8.12: International Railway Freight 1999-2003 (in thousand tons)

Year	TRC Freight	TAZARA Freight	Total International Freight
1999	483	296	779
2000	493	361	854
2001	525	338	863
2002	458	388	846
2003	445	437	882

Source: TRC and TAZARA.

Table 8.13: Actual versus targeted time for railway transport

	Number of days	
From Dar Es Salaam to:	**Actual average**	**Target**
Kapiri Mposhi	9	4
Mwanza (to Kampala)	4	3
Kigoma (to Bujumbura)	4	3
Isaka (to Rwanda)	3	2

The poor performance of railways in meeting targets is due to the huge backlog in rehabilitation and maintenance that has resulted in a very poor rail infrastructure; very old rolling stock; and lack of spare parts such that cannibalizing methods are resorted to in repair practices. The concessioning of railway operations could provide financing to address these needs, but there needs to be a clear policy framework regarding railways for concessioning to proceed.

Private sector participation

The Railways Act of 2002 provides the legal framework to concession TRC to the private sector, a decision that was taken by the Government of Tanzania at the end of 1997. The process of pre-qualification of potential concessionaires is completed, with 7 companies[154] being approved to bid for a 25-year concession of TRC.

The concessioning of TAZARA is also foreseen for the next future. The joint owners of TAZARA, the governments of Tanzania and Zambia, have made a decision to involve private sector participation in TAZARA's management and operations. A grant[155] has been arranged to undertake the necessary studies to identify and evaluate the various options for private sector participation in the operations; to make recommendations for the institutional arrangements for the rail asset holding entity and the regulator; and to propose necessary changes in the legal and regulatory regime.

In order that concessioning can go ahead and the private sector can actually engage in operating the railways, there is first a need to elaborate a comprehensive Railway Code which clearly

[154] These 7 companies are: New Limpopo Bridge Projects Investments; Spoornet Consortium; Great Lakes Railways Company Consortium; Sheltan & Mvela Consortium; Dynamic Rail; Rites Limited Consortium of India; and CANAC of Canada. The first five consortia are from South Africa.

[155] Under the Public-Private Infrastructure Advisory Facility (PPIAF), a multidonor technical assistance facility aimed at helping developing countries improve the quality of their infrastructure through private sector involvement.

defines the relationship between the Reli Assets Holding Company Ltd., SUMATRA and the railway operators and their respective responsibilities.

Ports

Tanzania has several coastal ports, with three major ones in Dar es Salaam, Tanga and Mtwara, and smaller port facilities in Kilwa, Lindi, Mafia, Pangani and Bagamoyo. In addition, it has several lake ports, 3 on Lake Victoria (Mwanza, Bukoba and Musoma), 2 on Lake Nyasa (Itungi and Mbamba), and one on Lake Tanganyika (Kigoma).

As mentioned earlier, the port of Dar Es Salaam is by far the largest. In 2003, it handled 4,816,000 tons of cargo traffic, around 21.5 percent of which is transit cargo. 62 percent of the cargo handled at the port of Dar Es Salaam was dry general cargo, while 40 percent was bulk (of which 88 percent was bulk oil). The imports of dry general cargo consisted of 338,054 tons of wheat; 41,937 tons of bulk fertilizer; 414,706 tons of bagged cargo; 196,082 tons of motor vehicle tractor and trailer and motor vehicle spare parts; 1,261,341 tons of non-specified containerized cargo; and less than 100,000 tons of other cargo.

About 25 international shipping lines are presently serving the Port of Dar Es Salaam. The presence of a large number of shipping lines means that the freight rates should be competitive internationally, although because of the imbalance of imported and exported freight flows[156], the prices for imported containerized shipments are generally 20-25 percent higher than those for exported containerized shipments. Because of this imbalance in freight flows, the importer in fact also pays for the return transport of the empty container after unloading as there is not enough backload for the carrier to take out. Exporters may use this idle transport capacity at more favorable prices. The difference in the costs of imported and exported containerized shipments may also be due to differences in the value of imported and exported commodities.

The amount of containerized cargo traffic in the port of Dar Es Salaam has been increasing since 1999, from a total of 124,648 TEU (twenty equivalent unit or 20 feet containers) to 186,117 TEU in 2003. In the first half of 2004, 104,500 TEU had already been handled (Table 8.11).

Table 8.14: Containerized cargo traffic in the Port of Dar Es Salaam (in TEU)

	Imports	Exports	Transshipment	Total
1995	50,313	47,981	265	98,559
1996	48,973	49,911	22	98,906
1997	54,823	48,638	25	103,486
1998	51,003	49,627	8,916	109,546
1999	56,827	49,137	2,194	108,158
2000	62,119	60,549	1,980	124,648
2001	68,921	66,519	6,280	141,720
2002	73,090	68,297	12,409	153,796
2003	90,135	77,663	18,319	186,117
1st half 2004	46,008	45,323	13,169	104,500

Source: THA, Port Statistical Unit, September 2004.

[156] Average freight rates of exported containerized shipments from Dar Es Salaam, 2003-2004, can be found in Meeuws (2005), background chapter for the DTIS.

The experience of the leasing of the container terminal in Dar Es Salaam[157] has been very positive. Since 2000, throughputs via the terminal rose 63 percent and transshipment rose 150 percent, generating Tsh 4.5 bn. to the treasury. Importantly also, this has steadily raised the efficiency of port handling at that terminal. Between 1995 and 2003, the ship turn-around time fell from 4.1 days to 2.0 days; the waiting time fell from 0.5 days to 0.2 days; the service time from 3.6 to 1.8 days; and the overall dwell time of an imported container fell from 42 days to 12.9 days. The crane productivity of the container terminal improved from 12 to 23.2 moves per hour between 1998 and 2003. In light of these successful results, and the fact that around half of the cargo that goes through the port of Dar continues to be general (not containerized) cargo, GOT could consider following the same approach as with the container terminal regarding private sector participation in the operations of the general cargo terminal.

The good performance of the handling of the container terminal is not, however, accompanied by improved performance in the clearing of the containers in the port. The situation deteriorated in the second semester of 2004 after the replacement of Pre Shipment Inspection with Destination Inspection which makes use of high tech scanning equipment. It has been reported by importers and their clearing agents that it takes two or even three more weeks to get a container cleared from the port area than before the introduction of Destination Inspection (see Chapter 9)

The operational problems faced by both TRC and TAZARA of inadequate investments and inadequate number of trains also affect the efficiency of port operations. Both railway companies have planned to have two container trains per day in the port of Dar Es Salaam, but in practice they have only achieved in transporting together about 30 containers per day in 2003, which is less than one full train.

Finally, there is a shortage of handling and storage facilities at terminals and in ports. International shippers are also in need of more terminals, dry ports and bonded warehousing facilities. The absence in Tanzania of these facilities leads to delays.

Other transport issues

Transport, forwarding and clearing services

The transport, forwarding and clearing services in Tanzania are often below standard. The many smaller forwarders and clearing agents in Tanzania often lack international experience. Forwarding and clearing agencies do not always assume their responsibilities when cargoes are lost or damaged, either disappear, or going bankrupt and restarting their business under a different name. This is also possibly due to a poor legal framework for forwarding and clearing agencies which has not incorporated international standards.

Intermodal connections

A fully operational logistics corridor concept, integrating ports, maritime and coastal shipping, railways, road transport, terminals and warehouses and distribution centers is still far from implementation in Tanzania. Integrated modal connections and multimodal transport hardly exist, mainly due to failing operations of the railways. GOT and the Tanzania business community have recognized this weakness, and are in the process of developing the corridor

[157] The container terminal has been leased since September 2000 to Tanzania International Container Terminal Services, a company backed by the Hong Kong-based Hutchison Port Holding Development.

concept in a public-private partnership. Efforts are being undertaken in the development and promotion of the Central Corridor, the TAZARA Corridor and the Mtwara Corridor.

Transit traffic

Several international agreements have been developed to facilitate transport and trade and to promote seamless transit traffic: regional cooperation agreements, multilateral conventions and bilateral arrangements. However, implementation and proper enforcement are often lacking.

8.3 ACTION PLAN

Addressing the issues in the transport sector identified in the preceding discussion requires action in the following four areas.

First, upgrading transport infrastructure, in particular railways, intermodal infrastructure, and rehabilitation and maintenance of feeder roads. *This requires:*

- A comprehensive transport infrastructure needs assessment and development strategy. The first step in this respect has already been taken by the introduction of the Ten Year Transport Sector Investment Program 2006-2016.
- Investment in railway infrastructure and feeder roads.
- Further develop public-private partnerships for financing infrastructure investments in particular for railways and cargo terminals, and the development of the Central Corridor and the Mtwara Corridor.
- Introduce enabling regulatory framework to promote and facilitate public-private partnerships in the building and operation of (dry) ports and intermodal terminals, including for the handling and storage facilities at terminals and ports.

Second, training of transport operators, providers of logistics services, forwarders and terminal operators. This requires:

- Training for Certificate of Professional Competence for Transport Operators and Drivers.
- Training of Logistic Managers in Supply Chain Management.
- FIATA (International Federation of Freight Forwarders' Associations) training of Freight Forwarders.
- Training of Clearing Agents.
- Training of Terminal Operators.

Third, strengthening the public-private dialogue in transport and trade facilitation, transit and border crossings. This requires:

- Creating capacity at SUMATRA to carry out monitoring of performance at transport, transit and border crossings and involving all stakeholders in the process.
- Promoting the dialogue between the private sector and the public sector on trade and transport facilitation issues and strengthening the Working Group on Trade Facilitation.

Fourth, transport reform program. This requires:

- Transposing and enforcement of international agreements like SADC Protocol on Transport, Communications and Meteorology into national legislation to obtain legal enforcement authority**.**
- Elaborating new transport legislation: road freight transport act; road passenger transport act; Railway Code.

- Strengthening the implementation and control capacity of the Ministry of Communications and Transport, and avoid overlapping of responsibilities with other institutions.
- Setting up a transport information system to monitor developments of the sector.
- Further developing the technical capacity of staff of SUMATRA and related transport institutions.
- Re-assess the situation of overloading in Tanzania by balancing the interests of the road transport operators with those maintaining the roads and looking over road safety.

9. CUSTOMS

An efficient and effective Customs administration is key for facilitating trade and investment and, hence, growth. While the core roles and responsibilities of Customs administrations throughout the world have remained essentially the same for many years, the manner in which individual Customs administrations discharge these roles and responsibilities and the relative priority afforded to each has changed significantly in recent times. The drivers for this change are:

- heightened international awareness and quantification of the high transactional costs associated with inefficient, time consuming and outdated border formalities;
- increased investment by the private sector in modern logistics, inventory control, manufacturing and information systems, leading to increased expectations for prompt and predictable processing of imports and exports;
- greater policy and procedural requirements associated with the implementation of international commitments;
- increased regional and international competition for foreign investment;
- proliferation of regional trading agreements which significantly increase the complexity of administering border formalities and controls;
- increased awareness of the importance of transparency, good governance and sound integrity within Customs; and
- following the terrorist attacks of 11 September 2001, a significantly heightened awareness of the need for Customs administrations to play a more effective role in guaranteeing the security of the international trade supply chain.

In view of these developments, the Tanzanian Customs and Excise Department (CED) faces a number of important challenges in the coming years. In some areas it is well equipped to face these challenges and is performing well relative to its neighbors[158], in other areas it is currently behind regional and international best practice[159] and needs to take urgent steps to reform and modernize is systems and procedures. Fortunately, the reform and modernization process has commenced and is gaining momentum, and significant progress has already been made in some important areas. Much is still to be done, however, and the current momentum for change will need to be sustained in the coming years.

9.1 PROGRESS IN CUSTOMS REFORM AND MODERNIZATION

There have been significant reforms in both the Tanzania Revenue Authority (TRA) and CED[160] in recent years, supported by a multi-donor funded Tax Administration Project (TAP).[161] Since April 2004, when the technical assistance (TA) team responsible for the Customs component of TAP commenced work, significant progress has been made in a range of Customs-related initiatives, including the decision to implement the ASYCUDA ++ computerized import/export processing system; the implementation of a destination inspection regime; and the establishment of a post clearance audit capacity. Many of these developments will underpin the wider reform

[158] For example, in Tanzania, 137 Customs declarations are processed annually per Customs official while in Kenya the figure is 92 and in Ghana it is 49.
[159] For example, in the use of numerous customs checkpoints to control transit fraud.
[160] CED is one of 4 departments within TRA.
[161] This is a US$73m. project supported by the World Bank, UNDP, and the technical assistance agencies of the EU, Denmark, Finland, Germany, Sweden and the U.S. The UK is responsible for funding technical assistance associated with the customs component of the project.

and modernization efforts that are being undertaken. There is significant leadership and organizational commitment and support for the reform and modernization program.

An inception report[162] has been developed that provides an accurate assessment of the many challenges facing the CED and sets out a range of work plans, project activities and deliverables and verifiable performance indicators necessary to drive future developments. The work plans strongly emphasize modern approaches to Customs administration such as client self-assessment, risk management, post clearance audit based controls, compliance improvement/management and trade facilitation.

Based on the modernization strategy outlined in the Inception Report, the majority of transactions from importers/exporters and their agents, shippers, transporters and licensees will be received and responded to electronically utilizing the enhanced features of the ASYCUDA++ import/export processing system. Likewise, banks and other government departments will be linked to ASYCUDA++ and other TRA departments will have online access to its data. The treatment an individual client receives from Customs will be based on the risk associated with their transactions and their past levels of compliance. Customs will be able to demonstrate that it is accountable in its approach to compliance by managing client and transaction risks (using risk management techniques) and where appropriate by conducting post transaction audits (using specially tailored audit techniques).

The general direction, scope and content of the modernization program is realistic and soundly based. It conforms to contemporary best practice and relevant internationally agreed standards, including the Revised Kyoto Convention on Simplification and Harmonization of Customs procedures of the World Customs Organization (WCO). Of particular note is the proposed organizational restructuring which will better align the activities and resources of CED with a range of 'value added' functions necessary to support the modernization process and the adoption of contemporary approaches to Customs administration.[163]

Notwithstanding the progress made so far, some issues remain that require additional support, the addressing of which will contribute to the long term effectiveness and sustainability of the modernization effort. These are discussed, in turn, below.

9.2 CUSTOMS IMPORT/EXPORT PROCESSING

Current import procedures are extremely complex and duplicative. They are characterized by excessive documentation, repeated checking of the same information and a general distrust of the trading community. A control mentality focused on maximizing revenue collection permeates all Customs activities at the expense of meeting trade facilitation objectives. Organizational performance is assessed almost exclusively by its success in meeting revenue targets and little or no objective data is available on its performance in relation to other organizational priorities. The current systems and procedures employed by CED contribute to excessive delays in the processing of import, export and transit cargo and present a significant barrier to business activity in Tanzania and neighboring countries.

[162] By the TA team in close cooperation with CED and all key stakeholders.

[163] The new structure will include four new divisions: the Client Services and Facilitation Division, the Compliance and Enforcement Division, the Risk Management Division, and Business Support and Management Division, each to be headed by a Deputy Commissioner.

CED has established a target for clearing cargo within 48 hours and while it does not collect and maintain reliable data on actual clearance times it appears that the target is frequently not met. According to data collected in April 2004, only 45% of imports were cleared by Customs in less than two days, and the process took in excess of 10 days for up to 10% of imports. Data provided by the private destination inspection company, Tiscan, in relation to the time goods take to clear the port indicates that cargo dwell times are also excessive (Table 9.1)

Table 9.1: . From Long Room Reception to Clearance through the Gates, October 2004

No. of Days	% Cleared within timeframe
< 4 days	14.9
4-7 days	17.1
8-10 days	10.8
11-15 days	12.1
16-21 days	3.7
>21 days	3.5
Missing data	37.9
Total	100

Source: TISCAN.

The WCO Time Release Study (TRS) has recently been completed which provides diagnostic information on processing and clearance bottlenecks and clearance times, based on which reliable baseline information could be derived for later comparison. The recommendations of the TRS need to be implemented to address bottlenecks and inefficiencies in clearance procedures, and a steering committee set up to monitor their implementation.

Import Procedures

In 2004, GOT decided to move from a pre-shipment inspection (PSI) process[164] to a destination inspection regime (DI) and signed a seven-year contract with a private company, Tiscan (which is a subsidiary of Cotecna Inspection S.A.). The contract requires Tiscan to perform a range of functions traditionally undertaken by Customs officials including determining Customs value, country of origin, tariff classification, duty/tax exemptions and calculation of applicable duty and taxes. Tiscan employs its own information technology-based Customs risk management system (CRMS) to screen all Import Declaration Forms (IDF) and employs its existing network of staff in exporting countries to advise on export values of identical or similar goods.[165] The Tiscan contract also provides for the deployment of a mobile x-ray scanner (currently operational in the Port of Dar es Salaam). Outposted CED officials work with Tiscan staff to update the CRMS risk profiles and during the performance of scanning functions.

The move to DI is considered preferable to the previous PSI regime and while the business community report that a number of teething problems are currently being experienced, the overall implementation process is progressing relatively smoothly in terms of increasing revenue

[164] The PSI regime required import consignments exceeding $5000 to be inspected and contents verified by the representatives of Cotecna Inspection SA prior to loading for export to Tanzania. Cotecna prepared a Clean Report of Findings which was submitted to CED with the customs declaration at the time of importation.

[165] In this sense, the DI process is little different from the pre-shipment inspection regime it replaced.

collections. Further time will be required to allow all parties to better understand the approach that is now being employed and to make the most effective use of the new arrangements.

A recent review[166] of the import procedures for goods exceeding $5000 in value identified 24 separate steps in the import process.[167] The import process for goods under $5000 in value is similar except that documentation must be submitted to Tiscan only 5 instead of 10 days before the arrival of the vessel. During processing by Tiscan, all import consignments are accorded a risk status which is printed on the Single Bill of Entry (SBE). Low risk (green channel) goods are generally released without physical inspection, medium risk (yellow channel) goods are subject to x-ray scanning, and high risk (red channel) goods are subject to physical inspection by CED officials. While CED has the power to alter the risk status recommended by Tiscan, this is rarely done for goods under $5000 declared value.

In keeping with WTO commitments, Tanzania implemented the WTO Valuation Agreement on 1 January 2001, accompanied by an extensive client information and education program. However, as is the case with many developing countries, the introduction of the agreement has been accompanied by a number of practical implementation problems. While the agreement provides for the value of imported goods to be determined on the basis of the price paid or payable (transaction value[168]), Customs claim that there is a relatively high level of non-compliance amongst the business community leading to significant doubts about the veracity of the value declared on many Import Declaration Forms. These claims seem to be substantiated by the high level of adjustments made by Tiscan (24 steps in the import process discussed above) prior to submission to Customs of the SBE. The recent introduction of a post clearance audit regime together with improvements in Customs risk management capacity and the development of a comprehensive compliance improvement program are likely to have a positive impact on the compliance level in the medium to long term.

While the above described import procedures appear complex and time consuming, a number of the most critical processes are performed by Tiscan well in advance of the imported goods arrival in Tanzania and therefore have little impact on clearance times. Unfortunately, as the system currently operates, Customs officials routinely duplicate many of the checks already performed by Tiscan including valuation, tariff classification, and duty/tax assessment. This duplication of effort produces very little 'value added', adds significantly to delays in the processing of imports (as the Customs activities typically commence only after the imported goods have arrived in Tanzania), and contributes to private sector complaints about the move to destination inspection.

To overcome these issues, Customs will need to rationalize and re-engineer its internal systems and procedures to eliminate a range of non value-added tasks and instead employ a risk-based approach based on undertaking a 'quality control' check on a small sample of import transactions combined with a robust post clearance audit regime. All these activities are currently included in the Reform and Modernization plan and are scheduled for introduction in the next 1 - 2 years and will be greatly facilitated by the ASYCUDA ++ system once it becomes fully operational. The ASYCUDA++ system will provide for electronic transmission of manifest data (currently entered into the system manually by Customs officials), and direct trader input of import, export and transit declarations. Moreover, an agreement has been reached between Tiscan, CED and UNCTAD that will allow the transfer of information relating to IDF number, total taxes calculated for each item and the selectivity level proposed by Tiscan. This information,

[166] Conducted by the IMF.
[167] Mclinden (2005), background chapter for the DTIS, provides details of the 24 steps.
[168] Customs claim that 70 percent of all imports are valued under Method 1 (transaction value).

imbedded in an alpha numeric code, will be generated by Tiscan and printed on every SBE they produce. The code will then be transferred by importers via DTI to ASYCUDA++ whereupon it will be verified.

While this process is a satisfactory short to medium term arrangement, significant savings in time and transaction costs could be achieved if reliable and secure means were found to allow the SBE itself to be transmitted electronically between the Tiscan system and ASYCUDA ++. This would avoid the need for traders to re-enter information into the ASYCUDA system that is already held in electronic form by TISCAN and speed up the overall clearance process. It is recommended that CED should pursue as a matter of priority with UNCTAD and TISCAN the feasibility of establishing an electronic interface between Tiscan and the ASYCUDA ++ system to avoid the need to re-enter data already held in electronic form.

Export Procedures

The procedures for processing export consignments are less onerous than those for importing, although some products require specific licenses and permits to be issued by relevant government agencies. For example, a permit issued by the Agriculture Department is required for all commercial exports of food products. Once an order has been received from abroad, the exporter/agent applies for the relevant export permit or license (if required) and submits the commercial invoice and appropriate technical documents (certificate of origin, quality, weight confirmations etc) to the long room in Customs House for preparation of an SBE. For instance, there is a range of export procedure requirements by GOT for spice exports, some of which, such as the Radiation Certificate required for export, do not seem to have any market justification[169]. If an export inspection is required (principally to verify admissibility for VAT refund or duty drawback), this is then scheduled and undertaken at the exporters premises.

The current system will be improved when the ASYCUDA++ system is fully implemented in 2005 which will provide for direct trader input of export declarations. Likewise, the implementation of a robust risk management and post clearance audit capacity within the CED should reduce the number of export inspections required.

9.3 TRANSIT

The Port of Dar Es Salaam acts as a major gateway (along with Mombassa in Kenya) for transit shipments to neighboring countries. Control over transit goods is maintained by the use of Customs seals, bonds, and by forcing lorries to use approved routes controlled by Customs checkpoints.

Traders interviewed complained about the use of Customs checkpoints on the major transit corridors which impact adversely on the economic viability of transport operators. Time limits are set for particular journeys without reference to the time actually taken by trucks to pass through mandatory weighbridges. Moreover, in the case of fuel tankers (whose owners frequently do not allow them to travel after dark), the time allocations are out of keeping with existing business practices. Further, multiple weight checks for sealed transit trucks also appears to be a redundant procedure.

CED has already commenced work on several initiatives designed to streamline border controls on transit including providing longer opening hours and undertaking joint inspections. Several

[169] See Volume 2, Chapter 4.

border stations are being refurbished[170] to facilitate the implementation of joint border posts. However, priority should be given to creating the legal and institutional environment under the EAC for the operation of such posts, and the operation of single window concepts at the border.

Further, it is recommended that the current practice of making trucks wait at the national stadium for clearance documents be eliminated immediately, and alternative and more time efficient methods such as providing documents prior to departure from the port should be explored. Current regulations and procedures with respect to transshipments, including existing time limits for particular journeys, should be reviewed and brought into line with commercial reality. In the long-term, the use of Customs checkpoints should be totally eliminated with the introduction of reliable transit control measures.

The elimination of checkpoints will benefit from the implementation of the ASYCUDA ++ transit module, the development and implementation of a regional cargo tracking system, the interconnectivity of EAC Customs electronic systems and the establishment of joint border controls between EAC countries and major regional trading partners. Collectively, these initiatives[171] should result in a significant improvement in transit procedures.

9.4 RELATIONSHIP WITH THE PRIVATE SECTOR

CED has taken a number of positive steps to assist traders and increase transparency such as placing a procedural flow chart in the long room and the regular posting on notice boards lists describing the current status of individual declarations. It has also stationed an officer in TIC to advise prospective investors of any Customs related regulatory requirements. Traders interviewed in the course of the study, however, complained of inadequate consultation on a range of key procedural and administrative changes and described the current mechanisms as simply forums for one-way communication. While TRA has established a Stakeholders Forum which meets periodically, and CED officials regularly participate in the Shipping Industry Consultative Forum, consultation between the CED executive and traders is currently limited to ad hoc meetings and to official information sessions where changes/developments that directly impact on traders are communicated. While the current approach is satisfactory for dealing with a range of time sensitive, transaction-based issues, more formal and broadly based consultative mechanisms should be established to ensure CED officials meet regularly with relevant sectors of the trading community. Such meetings should go beyond merely communicating changes but should focus on consulting before defining the changes and ensuring genuine information exchange and the development of a constructive partnership approach.

While the development of memoranda of understandings with authorized traders is already on the agenda, and is regarded as a positive development, the consultative mechanisms suggested should also reach out to a much wider section in the trading community. Such consultative mechanisms should be organized in advance, follow a mutually agreed agenda, and would benefit from the development of adequate data and detailed performance information and statistics that could clear up misunderstandings with adequate follow up of the agreed upon measures.

[170] Supported by TAP.

[171] These initiatives are being pursued under a World Bank-financed Regional Trade Facilitation Project which is currently under preparation.

9.5 INTEGRITY

In common with many Customs agencies throughout the developing world, CED faces a number of integrity related challenges. TRA has taken several steps to deal with the problem, including the development of a personnel management manual that incorporates a basic code of conduct. It has also specified a range of administrative procedures and penalties to deal with allegation against its officials. However, further attention needs to be devoted to the issue. In particular, it is proposed that TRA should ensure full implementation of the National Integrity Action Plan based on the provisions of WCO's Revised Arusha Declaration on Integrity in Customs. The plan should list the individual responsibilities, obligation and accountabilities of all officials and put in place the necessary administrative procedures to identify and effectively deal with any vulnerable systems and work practices. Moreover, the plan should address the need for effective cooperation between TRA and the private sector in tackling corruption.

9.6 DUTY RELIEF SCHEMES

Tanzania maintains several duty relief schemes including Manufacturing under Bond, Export Processing Zones (EPZ), Duty Drawback and bonded warehouses. These are designed to encourage and support the development of export oriented industries. The following discusses each of these schemes in turn, except for EPZs which are discussed in Chapter 6.

Under the Manufacturing under Bond scheme tax free entry is allowed for all capital equipment and for all imported inputs used in the manufacture of exports. Verification for compliance purposes is undertaken by manual reconciliation of export declarations with import declarations.

Procedures for the duty drawback system are relatively efficient, and unlike many other SSA countries, there is no monthly limit on the claims that can be processed. CED advises that there is currently no backlog of unpaid drawback claims, although exporters interviewed for other parts of the report indicate that there are still problems regarding timely refund of duty drawbacks and VAT.

Bonded warehouses are controlled by a combination of periodic audits and a double lock system. Under the system, one key is held by the company and another by a CED official who is resident in the facility. All movements into and out of the warehouse are therefore under the direct supervision of the CED. Such a system is considered extremely resource intensive, inefficient and vulnerable to abuse and has been abandoned by most Customs administrations around the world in favor of an audit based approach. In light of the fact that an audit program is already in place, it is recommended that the elimination of the current "double lock" system be expedited and replaced by an audit-based approach.

9.7 COORDINATION OF THE OVERALL CED MODERNIZATION PLAN

While it is clear that the CED executive is strongly committed to the modernization strategy, additional attention will need to be paid to ensuring adequate direction and coordination between the various modernization activities that are currently being undertaken or are envisaged to commence in the near future. These include migration to ASYCUDA ++; developments associated with the East African Community (implementation of the EAC Customs Code, joint border posts, cargo tracking systems, interconnectivity and sharing of relevant data between members, and harmonization of Customs procedures); progressive integration and rationalization of systems and procedures provided for under the DI program; and associated activities related TAP.

It is recommended that a senior CED official preferably at the Deputy Commissioner level be appointed to oversee and effectively coordinate the various initiatives that are being undertaken as part of the modernization plan. The official should be highly regarded and credible both within the organization and the external community. The official should be empowered to take decisions, be able to communicate effectively with internal and external stakeholders, and have ready access to top TRA management.

9.8 STAFF PARTICIPATION

The introduction of the destination inspection regime poses significant risks and challenges for sustained staff participation and commitment to the modernization strategy. In effect, the move to destination inspection has 'outsourced' a number of core functions traditionally performed by government officials. However, Customs officials have not given up this function, resulting in the double checking discussed earlier and additional time taken. The work that has already commenced on re-engineering the long room processes should solve this problem. Of greater concern, however, is that by handing over these functions to Tiscan, Customs will gradually lose the capacity to perform these tasks making them more and more dependent on Tiscan and less and less capable of taking them back at the expiry of the Tiscan contract.[172] The CED modernization program should assist the organization to gradually assume these functions at the expiry of the Tiscan contract. This will require that CED prepare itself to assume the classification, valuation and elements of the risk management program presently undertaken by Tiscan. To ensure this issue is well addressed in the coming years, a deliberate and well-planned plan of action, or "Destination Inspection Exit Strategy", will need to be developed. Tiscan may contribute to some extent to this outcome, and effect some degree of skill transfer. Yet, this will not happen spontaneously, as it is not in the corporate interest of the company, and the operational modalities of destination inspection do not lend themselves well to skill transfer.

It is therefore recommended that CED implement a formal capacity building strategy that will facilitate the eventual replacement (in 7 years' time when the Tiscan contract expires) of destination inspection systems, procedures and personnel, with fully competent Customs officials supported by appropriate information technology. As an early step, consideration should be given to stationing additional CED officials in the Tiscan office in Dar Es Salaam. For example, the Head Declaration Officer and one or two of the experienced Valuation Officers currently working in the long room could work side by side with Tiscan staff and be fully informed about the reasons for revising the SBE before issue by Tiscan. In this way many of the current concerns of Customs officials will be mitigated and the CED will gradually acquire the skills that will be required to assume the valuation function. Such close cooperation will also convince internal and external stakeholders that the Tiscan procedures are conducted in partnership with the CED. With the implementation of the CED modernization plan and when segments of the import and export have achieved greater compliance, the scope of Tiscan's operations may well be redefined so as to exclude the imports of some "authorized" traders of some imports for which CED has acquired the necessary valuation and classification expertise.

[172] One of the legitimate criticisms leveled at the PSI/DI companies (not just in Tanzania but everywhere they operate) is that the incentive/disincentive mix is all wrong and that they have no commercial incentive to do any capacity building. In effect, by providing capacity building they are doing themselves out of the possibility of a contract extension. As such, and regardless of what capacity building is provided for in the contract, Customs must develop and stick to its own exit strategy backed by a solid program of capacity building.

Attention will also need to be paid to providing adequate oversight of Tiscan standards particularly those relating to client service. As the current contract essentially outsources a number of traditional Customs functional responsibilities, care will need to be taken to ensure Tiscan conforms to the same standards of ethics and service expected of Customs officials. In this regard, the development, publication and monitoring of detailed client service standards are important. Given the significant role Tiscan plays in the clearance process, the standards will need to cover its operations as well as those performed directly by Customs.

9.9 HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

When the TRA was established in 1996, over 700 staff (mostly from the former CED) were cut, and new, more qualified staff were recruited and salaries increased tenfold. While there has been some erosion of salaries relative to other civil service agencies since that time, TRA staff still enjoy a remuneration package roughly twice as generous as that provided to other government employees. The remuneration package also includes a modest pension entitlement which raises the opportunity cost associated in engaging in unethical behavior which may lead to dismissal. The large number of qualified applicants for TRA positions indicates that the salary and conditions currently offered by the TRA remain competitive.

Human resource development needs for CED are addressed at the TRA level. The TRA has developed a TRA Human Resources Development Program. It is recommended that the implementation of this Program be expedited.

9.10 WTO CUSTOMS VALUATION AGREEMENT

The WTO Valuation Agreement was implemented in 2001, and was accompanied by extensive public information and education campaign. Customs claim there is an extremely high level of non-compliance within the trading community, and traders claim Customs is non-transparent and unwilling to subject their decisions to independent appeal. Traders do, however, acknowledge that there is a problem with compliance and that a small number of traders do submit false invoices. The actual level of compliance is difficult to determine as no post clearance audit regime is in place and meaningful statistics and records are not available.

TRA frequently employs valuation methods other than the transaction price one because of its perception of a low level of voluntary compliance amongst the trader community. While the provision exists in the Agreement to allow alternative methods when there is doubt as to the veracity of the invoice price, the share of declarations in which alternative methods are employed is quite high and therefore not in complete accordance with the spirit of the agreement.

Customs uplift the value of a proportion of import declarations either during the duty assessment phase or during the Customs Clearance Audit phase of declaration processing often referring to the information contained on a database of prior import values as a guide to determining accurate import values. Where a Clean Report of Findings (CCRF) has been issued by Pre-shipment Inspection (PSI) companies, it is usually accepted as an accurate basis for valuation.

Such an approach is counterproductive and experience elsewhere suggests it leads to a self-perpetuating cycle of non-compliance and introduces an unhelpful degree of uncertainty into the system. This uncertainty is likely to increase once the current PSI regime expires in mid 2005 and Customs officials are no longer able to rely on the Clear Report of Findings to assist in the determination of value.

A specialist valuation unit with responsibility to set valuation policy, make decisions on difficult valuation cases according to ACV rules, and provide a reference point for expert advice on valuation matters would make a significant contribution to resolving some of the valuation issues confronting traders. Such a unit would also be able to provide advance rulings on valuation matters thus reducing the level of uncertainty facing many traders.

10. SELECTED SECTOR ISSUES

10.1 BACKGROUND AND RATIONALE

Addressing the issues identified in the preceding chapters will help provide an enabling economic and business environment for higher export growth, including for the diversification of exports. However, addressing cross-cutting constraints may not be enough to ensure higher export growth if there are sector-specific constraints. For this reason, the DTIS has selected certain sub-sectors for more in-depth analysis. The selection has been done in close consultation with MIT, and takes into account other sub-sector studies that are being undertaken or being planned to ensure there is no duplication. Specifically, clothing and textiles, and the leather sectors, are not covered in the DTIS, as analysis of these sectors is being undertaken in the context of Danida's Program on Market Access.

The sectors that have been selected for more in-depth analysis are agricultural export crops (specifically cashews, coffee, cotton and tea), fish, horticulture, spices, and tourism (the latter focusing on backward linkages).[173] These sectors have been selected on two basis: Tanzania has a comparative advantage in them; and they are particularly important for poverty reduction.

Tanzania's comparative advantage lies in its natural resources—agriculture (including fish), mining (gold and other minerals), and tourism assets (wildlife and beaches). Such comparative advantages are manifested in the importance of these sectors in Tanzania's exports. At their peak in 1998, agricultural crop exports made up over 60 percent of Tanzania's total merchandise exports. They fell to 21 percent in 2003. This decline has been partially compensated by the increase in other agricultural exports, the non-traditional ones of fish and horticulture, which have been rising since the latter part of the 1990s to reach nearly 15 percent of total merchandise exports in 2003. And, as mentioned in Chapter 1, tourism and gold exports are the top two foreign exchange earners for Tanzania which, together with agricultural exports (traditional and non-traditional), contributed nearly three-quarters of all foreign exchange earnings from both goods and services exports in 2003.

In addition to being sectors in which Tanzania's comparative advantage lies, the selected sub-sectors are also particularly important for poverty alleviation. In light of the large numbers of the poor that reside in the rural areas (80 percent), raising rural incomes is the key to poverty reduction in Tanzania. According to analysis of the Tanzanian poverty profile (Chapter 1), compared with food crop producers, households engaged in cash crop production have a 9.5 percent lower chance of poverty, in tourism a 10 percent lower chance, in fish a 3.6 percent lower chance, and in mining about a 1 percent lower chance.

There is potential for Tanzania to reverse the decline in the traditional agricultural crop exports; indeed, this reversal has already begun for some of them. There is also potential for Tanzania to increase its non-traditional exports of fish and horticulture. The potential is somewhat smaller for spices, although they are still important for poverty reduction. Finally, there is a lot of potential to strengthen the backward linkages of tourism—in particular the agricultural ones—which will increase their contribution to value-addition, employment and poverty reduction. More in-depth

[173] The tourism sub-sector analysis focuses on backward linkages because tourism itself has been studied extensively in other reports, including The Tourism Master Plan (1996) which was recently updated with funding from the EU, and the MIGA (2002) report.

analysis of each of these sub-sectors, the constraints and potential to higher export growth, and recommendations for addressing these constraints, are found in Volume 2. This chapter will highlight the findings of the sub-sector studies, including the cross-cutting issues that emerge from them.

Notwithstanding the importance of agricultural exports, both in light of Tanzania's comparative advantage in them, and their centrality for poverty reduction, there is a need to diversify from such exports because of the long-term secular decline in international commodity prices which has happened in the past and is expected to continue into the future. Also, according to Tanzania's poverty profile, households headed by wage workers in sectors other than agriculture have experienced large declines in poverty rates over the last decade (Chapter 1), further highlighting the importance of diversification. In particular, there should be potential for manufacturing exports to do better and sustain the momentum of their recent recovery.

The next section discusses the cross-cutting constraints to manufacturing exports in Tanzania, and proposes recommendations to address the constraints. Nonetheless, it should be borne in mind that given the natural resource abundance of Tanzania, its development—and hence export—trajectory is likely to follow those of other natural resource abundant countries, such as the Americas. Such a trajectory entails first, the strengthening of the production of primary products, followed by shifting from unprocessed to processed primary products (which are more capital-intensive), until the capital/natural resources ratio rises to a high enough level such that the comparative advantage would shift from primary production to manufacturing.[174] Hence, strengthening the primary sectors and in particular their export potential is important.

10.2 MANUFACTURING EXPORTS

Current status of manufacturing exports

At about 8 percent of GDP, Tanzania has a relatively small manufacturing sector. Mirroring the small share of manufacturing in the economy is the small share of manufacturing in Tanzania's exports. Manufactured exports were less than 10 percent of total merchandise exports in 2003.

Only about 18 percent of manufacturing firms in Tanzania export some proportion of their production. Among these exporters, at least half sell 71 percent of their output to global markets either directly or indirectly, around one-quarter export 20 percent of their output, and the remainder export nearly 100 percent.[175] The majority (nearly half) of manufacturing exporters are in the agro-processing sector. They are followed by exporters in the textile/garment, and leather product sectors, which make up the second largest group (14 percent of manufacturing exporters), then furniture and wood (13 percent), chemicals and paints (10 percent), metals (8 percent), paper, printing and publishing, and plastics (4 percent each), and construction materials (1 percent).

Constraints to and proposals for increasing manufacturing exports

There has been a pick-up in manufacturing activities in recent years. Growth of the manufacturing sector rose from 2 percent per annum during 1990-1998, to 6 percent in 1999-03,

[174] Yagci and Aldaz-Carroll (2004).

[175] Data reported and analyzed in this section are drawn from firm surveys for the 1999-2003 period conducted in the context of the World Bank's Regional Program on Enterprise Development (RPED).

and 8 percent in 2002-03. Concurrently, there has been an acceleration in manufacturing exports, which more than tripled from US$30m. in 1999 to nearly US$100m. in 2003, although the 2003 level was still below the peak of US$123m. reached in 1996.

The recovery in manufacturing exports in recent years can be attributed in part to the convergence of the real exchange rate back to equilibrium after the period of overvaluation in the mid-1990s (Chapter 2). In addition, however, this recovery can be attributed to an even greater extent to the large efficiency gains that have resulted from the wide-ranging economic reforms undertaken in the country since the mid-1990s, which accelerated production and boosted the competitiveness of the sector.

Increasing manufacturing exports would require that Tanzania's incumbent manufacturing exporters export larger amounts, and that more manufacturing firms start exporting. Compared with its neighbours in Sub-Saharan Africa and other global competitors that are low wage-high skills producers competing with Tanzanian firms in most markets, there is sufficient room for expansion, especially since the size and purchasing power of Tanzania's domestic market is limited. Tanzania's Asian competitors such as Bangladesh, China, and India export a significantly larger proportion of their manufactured output while having much larger domestic markets with higher purchasing power than Tanzania.

Recent World Bank analysis identified the following policy-related areas that are important for manufactured exports. First, the availability of workers with graduate and post-graduate education and computer literacy is important. Exporting firms demand higher education levels (graduate, technical, and vocational) and higher skills than non-exporting firms: the ratio of skilled to unskilled worker ratio in exporting firms is 3.8 compared to 2.3 in non-exporting firms. Exporters also pay a premium for higher skills; for example, the average premium for managers is about 20 percent, for professionals about 37 percent, and for technically skilled workers about 19 percent. More exporting firms (71 percent) invest in formal training than non-exporters (47 percent). A larger proportion of managers in firms that export are foreign, with more experience, especially in the export business. The proportion of workers with computer skills is, on average, five times higher than in non-exporters. However, the premium on skilled wages imposes additional costs on exporting firms relative to non-exporters, which reduces export growth.

Second, infrastructure—more manufacturing exporters have their own infrastructure than non-exporters (Table 10.1). Two conclusions can be drawn from this observation: that exporters have more resources to finance their own infrastructure, but also clearly that it is much more important to have adequate infrastructure to export, since a firm that cannot meet production and delivery deadlines would soon find itself a non-player in the global market.

Third, among bureaucratic hurdles, the time taken to clear customs is an unambiguous deterrence to export growth. There seems to be a discrimination against exporters who, on average, wait as long as 20 days compared to 7 days for non-exporters to obtain customs clearance for exports and imports.

Fourth, among the export promotion programs that help to raise exports are the bonded warehouse scheme, policies that permit the retention of foreign exchange earnings in another country, EPZs, and duty certificates. However, of the approximately 75 firms that export at least some of their output, less than 25 percent use any of the export incentives/programs (Table 10.2). The reasons for low use of EPZs are discussed in Chapter 6, as are suggestions to improve the EPZ program to enhance its use. The reasons for the low use of the other programs—export development fund (EDF), export adjustment fund scheme, and foreign inputs facility—are not

clear. In the case of at least one of them, EDF, recent World Bank analysis indicates that it has a negative contribution to exports, and may therefore be a candidate for either rationalization or closure.

Table 10.1: Status of infrastructure in manufacturing firms

	% of exporters	% of non-exporters
Location in industrial estate	66.67	60.56
Firm has its own generator	82.69	47.22
Firm has its own water well	54.90	30.00
Firm has installed its own water infrastructure	49.02	27.75
Firm shares communal water source	35.42	6.83
Firm has invested in own road	28.85	6.02
Firm provided worker transport	38.46	22.22
Firm has invested in own freight transport	34.62	14.35
Firm has invested in own waste disposal facility	55.77	36.11
Firm has invested in other infrastructure	5.77	3.7
Firm has internet connectivity	80.77	42.13

Table 10.2: Usefulness of existing export promotion programs

	No. of firms that responded	No. of firms that use the incentive	Percent of firms that use the incentive
Manufacture-in-Bond Scheme	73	5	6.8
Customs Duty Drawback	73	12	16.4
Duty suspension on imported inputs	75	4	5.3
Bonded warehouse or similar scheme	75	16	21.3
Profit tax exemption	73	10	13.7
Export Credit Guarantee e.g. Nexim	74	4	5.4
Export Development Fund (EDF)	74	2	2.7
Retention of export proceeds in foreign country	73	18	24.7
Export Processing Zone	74	2	2.7
Export Adjustment Fund Scheme	73	0	0.0
Foreign Inputs Facility	75	2	2.7
Duty Certificates	74	11	15.0
Other	57	3	5.3

In addition to the determinants of exports discussed above, higher export growth in any country today, as in Tanzania, is critically dependent on the global competitiveness of the export sector. Tanzania's manufactured exports fall into three categories: heavy industry (chemical, paints, metal products, paper, plastics etc.) based on its rich minerals base; agro-processing based on its rich natural resource base; and light manufactures (textiles and garments, furniture and wood products) that seem to be declining because of competition from other lower wage producers, and which would be exacerbated after the expiration of the Multilateral Fiber Agreement. Firms producing these three categories of manufactures need different strategies to remain globally competitive and expand exports. As heavy industry relies on locally available natural resources, public policies to support its expansion and raise productivity should be of high priority. Agro-processing is also natural resource based but of a different type. The processing of local non-

traditional produce such as fish, fruits and vegetables or even cashew is relatively new to Tanzanian firms and must comply with increasingly stringent phyto-sanitary standards to gain entry in developed country markets (see Chapter 7). While difficult, these exports also provide new opportunities for Tanzanian firms as they are unlikely to run into market size constraints in developed countries. The scope for growth is also enhanced by prospects of moving up the value chain. For example, with better technologies and higher technological capability, fish processing firms could graduate from simple fillets to higher value semi-prepared fish foods for the EU, presently their single largest destination for fish products. As is discussed in Chapter 5 in Volume 2, some of this is already happening. Expansion of light manufactures is more difficult as it entails competition with large multinational corporation-managed global supply chains with a high level of technological sophistication and keen cost competition from low wage-high skills producers. Without entry into global segments of these chains, there is little scope to expand exports for small producers like Tanzania.

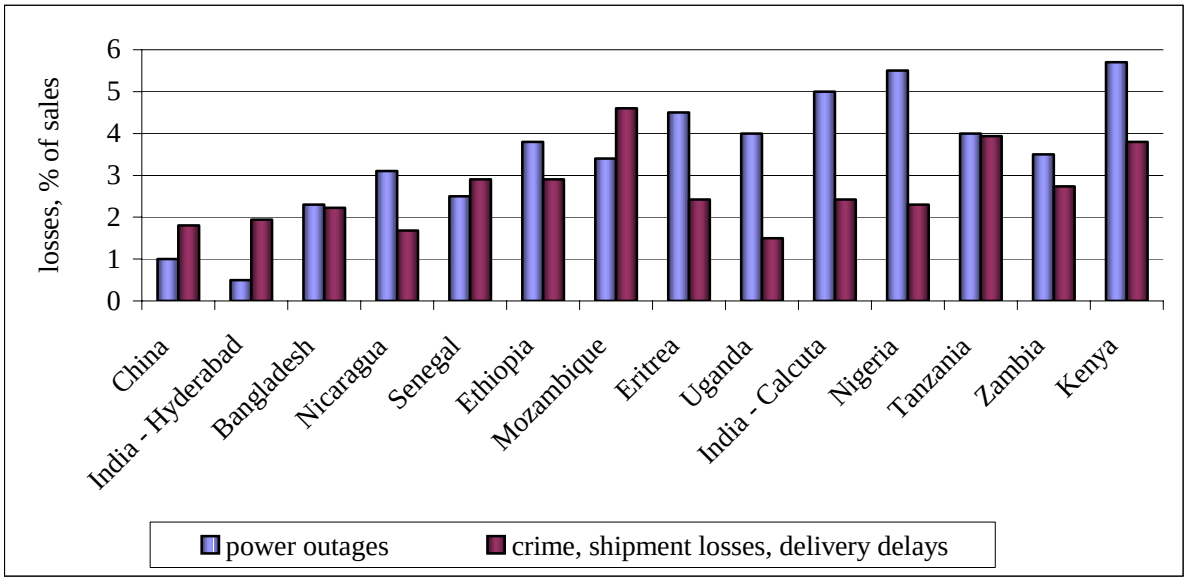
All three strategies discussed above require technological upgrading to raise productivity, attract new investment, reduce costs, continually maintain global standards, and expand exports. Two sets of measures are important for achieving this.

First are public policies that facilitate cost reductions by minimizing wastage – examples are the provision of more and higher quality infrastructure (reducing waste due to poor freight transport; improve capacity utilization through regular power supply, more roads etc.) so firms can re-allocate private resources towards investment in firm expansion instead of the private provision of public goods (infrastructure). According to a recent study,[176] the business environment-related losses in Tanzania as measured by power outage, crime, shipment losses and delivery delays are about 4 percent of sales relative to less than 2 percent in Uganda and even Ethiopia, and under 2 percent in Bangladesh, China, and India (Figure 10.1). Clearly, there is plenty of room for public policies that can contain wastage and reduce costs. Another example of this is the higher share of indirect costs of production associated with private provision of infrastructure or poorly provided public infrastructure in Tanzania—25 percent compared with 18 percent in Uganda, and 7 to 10 percent in Asia (Figure 10.2). This same point is underscored by the share of firms owing generators, which crowds out private investment in firm expansion. This is 18 percent in Tanzania, compared with zero in China, which stands out among developing countries in power provision compared with other sub-Saharan African countries as well as India (Table 10.3). This is part of the explanation of China's rapid growth miracle.

The second set of measures entails keeping up with external and global developments that define the size of the global market for a country's exports. Partnerships with global firms are important here. Maintaining the competitive edge in, for instance, the packaging of cut flowers or fish processing today is an externally driven challenge that is most efficiently achieved with external players, as is happening with the cut flower industry where European firms supply the latest technologies to flower growers in Tanzania (see Volume 2, Chapter 2).

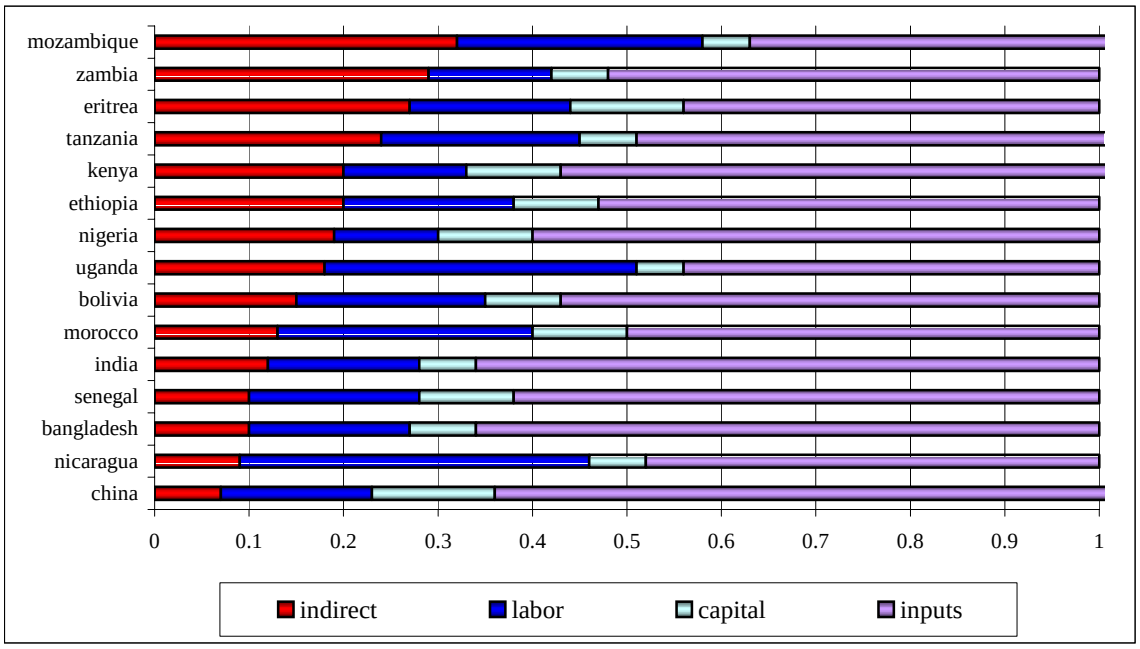
[176] Eifert, Gelb and Ramachandran (2005).

Figure 10.1: Business Environment-Related Losses (percent of sales)



Source: Eifert, Gelb, and Ramachandran (2005).
Note: The losses displayed represent the average of the 5th to the 95th percentiles of the sample.

Figure 10.2: Cost Structures: percent of total costs, average



Source: Eifert, Gelb, and Ramachandran (2005).

Table 10.3: Share of Firms Owning Generator by Size

Country	Micro	Small / Medium	Large / Very Large
Bangladesh	0.28	0.53	0.88
Bolivia	0.13	0.11	0.31
China	0.0	0.14	0.38
Eritrea	0.38	0.43	0.63
Ethiopia	0.03	0.23	0.43
India	0.23	0.76	0.91
Kenya	0.46	0.67	0.89
Morocco	0.14	0.15	0.28
Mozambique	0.20	0.23	0.63
Nicaragua	0.06	0.29	0.81
Nigeria	0.83	0.96	0.99
Senegal	0.23	0.19	0.16
Tanzania	0.18	0.60	0.89
Uganda	0.04	0.44	0.87
Zambia	0.30	0.28	0.61

Source: Eifert, Gelb and Ramachandran (2005).

10.3 AGRICULTURAL EXPORTS

The first section in this chapter discussed the importance of agricultural exports for Tanzania from both the growth as well as the poverty reduction perspectives. The very successful experience of the newly industrialized countries in East Asia strongly underlines the importance of agricultural export growth for long-term economic growth in countries which have large agricultural sectors. Korea, Malaysia, Taiwan and Thailand which have had rapid economic growth and also large agricultural sectors, have also tended to have rapid growth of agricultural exports. This has led some researchers to view export-led growth as part of an economic growth cycle that begins with exports of primary goods. Over time, economic growth and knowledge change the structure of the domestic economy, which propels the more technology intensive domestic industry to begin exporting.[177] This is in line with the paradigm outlined in section 10.1 whereby the development and trade trajectory of natural resource abundant countries starts with the primary sectors, followed by the processed primary sectors, before moving to the manufacturing sectors.

Moreover, the increase in agricultural exports not only raises the incomes of farmers directly, but can also raise the incomes of non-farm workers. For example, there is good potential for increasing the production of manually processed cashews for exports in Tanzania, which could generate significant employment for the local population (see Volume 2, Chapter 1). The increase in agricultural exports can also help raise incomes and reduce poverty through the strong linkages they have to the rest of the economy—both compared to some other African countries as well as compared to urban light manufacturing in Tanzania itself. One study of five African countries found that the average income multiplier for an increase in rural household incomes was 2.47; the income multiplier for export crops in Tanzania was even higher at 3.0.[178] Another study found that the spin-off benefits arising from the demand for consumption goods and services in

[177] Mitchell and Baffes (2002b).
[178] Delgado et al (1998).

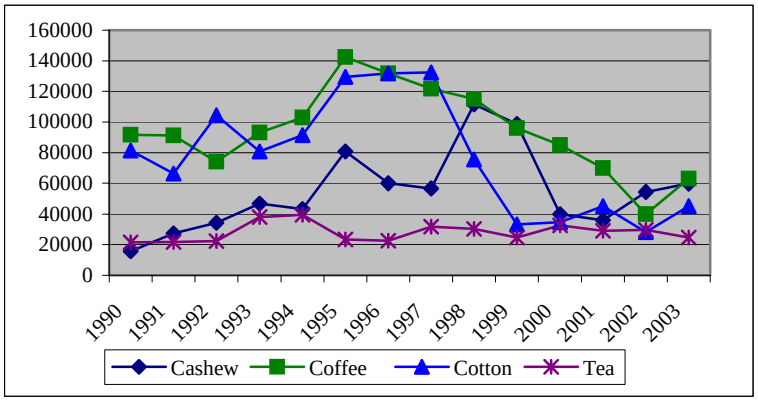
the surrounding economy, and hence employment or income-generation opportunities for others, are 80 percent for export agriculture while only 20 percent for urban light manufacturing in Tanzania[179].

This section will first provide a brief overview of the export performance and employment of the subsectors that have been selected for more in-depth analysis. The subsectors are: agricultural export crops (cashews, coffee, cotton, and tea); horticulture and floriculture; fish; spices; and backward linkages of tourism. This will be followed by a brief discussion of the evolution of, the prospects for, and constraints to the expansion of exports from these subsectors, as well as recommendations for alleviation of such constraints. It will be seen that the policy priorities that emerge from the subsector analyses are typical of those for natural resource-abundant countries such as Tanzania, which is the need to focus more on applying technology and knowledge to nature, strengthening government support for regional research and training in the natural-resource based sectors, stimulating investment in these sectors, and so on.

Export performance and employment of selected sub-sectors

Of the subsectors selected for more detailed study, tourism is by far the largest foreign exchange earner, although—as discussed earlier—the DTIS focuses only tourism backward linkages, which range from various agricultural products (fruits and vegetables, fish, chicken, meats) to dry goods and non-perishables, and handicrafts, furniture, machinery and ground transport. Of the rest of the selected subsectors, fish exports are by far the largest, and which have also increased the most—nearly tripling from US$56m. in 1997. The other export that has increased substantially is horticulture and floriculture, which have more than doubled since 1997 according to official figures. Conversely, all the traditional exports had experienced large declines since the mid-1990s and some had only recently begun to recover (Figure 10.3). Recovery of agricultural export crops is clearly important in light of the large numbers of people who depend on them as their main source of income (Table 10.4). Finally, spice exports are relatively small, with estimated export levels of less than US$5m. per year (excluding clove exports which in 2003 amounted to around US$11m., virtually all of which are produced in Zanzibar).

Figure 10.3: Major Agricultural Crop Exports ('000 US$)



Source: UNCOMTRADE, partner country import data, except for tea from GOT.

[179] World Bank (2000).

Table 10.4: Exports and Estimated Employment of Selected Sub-Sectors

	Exports in 2003 (US$m)	Estimated employment/ source of income for
Traditional Exports [1/]		
Coffee	63	2,120,000
Cashews	60	1,325,000
Cotton	45	2,650,000
Tea	25	265,000
Non-traditional Exports		
Fish	154	150,000
Horticulture & Floriculture [2/]	55	10,000
Spices [3/]	Less than 5	Not available
Tourism [4/]	450-730	160,500

Notes: 1/ The figures for the number of people who derive their main sources of income from the production of the various agricultural crop exports are derived based on figures of rural households/farmers that are engaged in their production multiplied by the average rural household size of 5.3.
2/ The figure for horticulture and floriculture exports are estimated based on industry interviews, and substantially exceed the US$12m. provided by Tanzanian customs.
3/ Total employment for spice production is not available; the figure provided is based on the figures of 8000 farmers for paprika and 5000 farmers for vanilla, which are the two largest exports, multiplied by the average rural household size of 5.3.
4/ Tourism figures range from US$450m. reported in the Balance of Payments to the IMF, and US$730m. estimated by the Ministry of Tourism and Natural Resources and the National Bureau of Statistics.

Evolution, prospects, constraints and recommendations

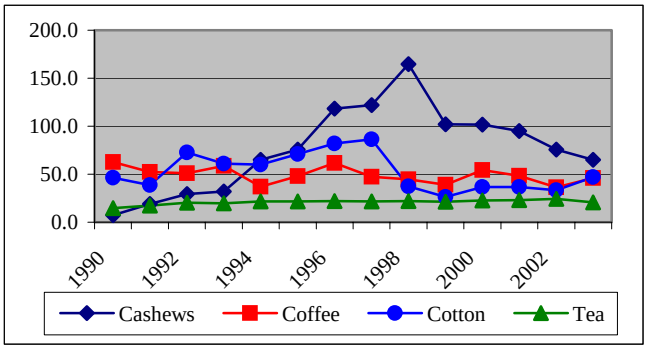
(i) ***Agricultural export crops*** (cashews, coffee, cotton and tea)

The liberalization of Tanzanian agricultural sector since the mid-1980s, with food crop marketing liberalization starting in 1985 and export crop marketing liberalization starting in 1993, together with rising international prices, had resulted in increases in agricultural crop exports during the first half of the 1990s. Since then, such exports had fallen, in part due to the decline in international commodity prices, but there were also specific problems for individual crops, such that not only did the value of such exports fall, but their volumes also (Figure 10.4).

Exports of some of these crops had begun to recover. Some of the increases appear sustainable and holds the promise of further increases (cotton and tea), while others (coffee and cashew) may signal nothing more than a good harvest, due in large part to favorable weather conditions, and a modest recovery in international prices. Policy problems remain in a number of crops, especially coffee and cashews, while policy reforms in tea and tobacco have begun to benefit smallholders. If these problems are addressed, there is potential for Tanzania to increase its agricultural crop exports even in the current environment of declining international commodity prices.

Four cross-cutting problems affect all the export crops analyzed: powerful and interventionist crop boards, high levels of taxation, weak agricultural support services, and price volatility, although there are also other crop-specific problems.

Figure 10.4: Major Agricultural Crop Exports[180] ('000 tons)



Source: Bank of Tanzania Economic Bulletin, December 31, 2003.

Crop Boards

Crops boards were formed after the marketing liberalization to replace the monopoly of Market Boards for export crops. They were expected to continue with many of the regulatory, reporting and service activities of the former Market Boards, but have retained limited responsibilities in marketing when the private sector was not active. A legislation introduced in 2001 dramatically expanded the powers of the crop boards, which now have virtually unlimited powers to regulate the industry. For instance, the latest Coffee Industry Act (2001) stipulates that "The [Coffee] Board shall have the power to do anything which in the opinion of the Board is calculated to facilitate and enhance the proper exercise of the functions of the Board…"

Crop boards have been intervening in ways that distort the markets and harm the farmers. The Cashew Board, for instance, announces indicative prices, and urges farmers not to sell at below indicative prices. In the 2000/01 season, when world prices were way below indicative prices, this led to the delay of sales of cashews by farmers to exporters, the deterioration in the quality of cashews exported, and lower prices for the farmers. Despite the detrimental effects of these earlier interferences, the Cashew Board is continuing with such behavior. It has set an indicative price, and has advised farmers not to sell cashews for less than this price. Exporters to India are currently paying the indicative price because of strong demand in India, but local processors cannot compete with these prices. Development of the local processing industry is hindered by such interferences. Further, harvesting by alternative cashew suppliers in West Africa (Guinea Bissau) in early 2005 will lead to price declines and problems selling at the indicative price.

The Coffee Board tightly controls the buying procedures of coffee, including announcing the date on which coffee buying should commence, something that should concern only the growers and traders, not the Coffee Board. The Cotton Board also announces indicative prices which—as discussed in the case of cashews—could be market distorting, and has too many roles including ones that should be left to the Government (regulation, collection of statistics), or the private sector (quality monitoring which has led to corruption). The Tea Board has denied licenses for imports of made and packed tea, which is a questionable policy on economic grounds and one that entirely ignores the issues of consumer welfare.

Funding for the crop boards is from a cess on crop exports levied on producers (which varies across commodities), but the crop boards have not always worked in the interests of the

[180] Source of data for all commodities except for tea from partner country imports, UNCOMTRADE. For tea, GOT data is used.

producers. Crop boards need to be restructured, with its functions confined to representing industry, while production, marketing, transportation, storage, processing and input supply activities should be left to the private sector, and regulation, data collection, and extension should be done by the Government.[181] It is also recommended that producers and farmers associations be strengthened; technical assistance for capacity building would be needed in this regard.

Taxation

Export crops are heavily taxed, in part because taxes are sometimes levied at points of transit, as well as original sale. Taxes on export commodities are roughly 20 percent of sales prices. Local taxes are collected as a cess on volumes, which means that per unit tax rates are a much higher percentage of total price in low-price years than in high-price years—the opposite of what is desirable. Local taxes remain high despite a directive from the Prime Minister's Office that District Cess should not exceed 5 percent. Taxes have been renamed rather than reduced to bypass this directive, and overall local taxes have not declined. Local municipalities have the authority to pass new levies without oversight from the central government. Heavy taxation has resulted in negative nominal rates of protection and hence a negative incentive to production. Taxes also vary district by district, and in the case of cashews these uneven incentives have encouraged producers to transport their products to neighboring districts to avoid high taxes. There is a need to rationalize and lower taxes, and to harmonize them across the different crops in order not to distort production incentives.

There has been a positive recent development regarding taxes with respect to the cashew sub-sector. A memorandum of understanding (MOU) has been signed in March 2005 between the government and various private sector groups to abolish unnecessary taxes and charges that increase the cost of cashew nut processing. Implementation of this MOU would be important for the promotion of cashew processing and exports of processed cashews. It is important that such taxes be reduced or eliminated for other subsectors – as a first step, a moratorium should be put on new taxes.

Agriculture support services

A third cross-cutting issue is the need to improve support services to the agricultural sector. In particular, research and extension needs to be strengthened with a view to responding to market demands.

Price Volatility[182]

All these agricultural commodities—as others—are afflicted by price volatility, with attendant effects on rural incomes. Government interventions all over the world in past decades to reduce risks in markets for internationally traded commodities had turned out to be ineffective and unsustainable. Further, many of these interventions had actually impeded growth because governments that sought to protect producers also tended to tax them. This had led to the abandonment of commodity market interventions both at the national and the international levels. However, the need for risk management remains, especially since the inability of the poor to effectively deal with shocks often lies at the core of their poverty.[183]

[181] See "Crop Board and the Future Prospects for Agricultural Exports of Tanzania", September 2004, GOT and the World Bank, for a detailed analysis and discussion of this issue. See also Mitchell (2003).
[182] Discussion in this section is taken from Larson et al (2004), and Sarris et al (2004).
[183] World Bank (2001).

The primary international markets for hedging against price movements are futures and options markets for commodities such as coffee.[184] However, significant barriers stand between these risk markets and the risks faced by farmers due to issues of scale, information, and enforcement mechanisms, among others.[185] Some mechanisms have emerged to extend price risk markets, such as warehouse receipt or inventory financing systems.[186] Under these systems, inventory owners place their crops in certified warehouses and enter into a repurchase agreement with the warehouse company, which then offers a loan based on the value of their inventories. When price futures, options, or related markets are available (as in the case of coffee, for example), warehouse companies can use the markets to hedge the value of the inventory collateral. In Tanzania, the World Bank is exploring the potential of linking small-holder coffee and cotton growers to the international financial markets by providing training and education on risk management concepts, and assistance in closing the market gap for local institutions which want to pilot the use of futures and options (Box 10.1).

Crop Specific Problems

In addition to these three cross-cutting constraints there are also crop-specific problems for cashews, coffee, and tea, as follows.

Cashews face the issue of declining quality which has been happening since the marketing liberalization of 1994/95. The decline in quality is due to two reasons. First is the abandonment of grading, with the result that nuts that would have been previously rejected are now purchased and exported. This lowers the price traders pay for them, as well as the incentives for farmers to produce high quality nuts. One solution is to have nuts graded through an auction sale, with each sale lot sampled before the auction. The second reason is poor post-harvest handling and storage, the underlying cause of which need to be understood. If farmers are unaware of proper storage procedures, extension services could help. If farmers lack proper storage areas, then primary societies might be able to help by leasing storage facilities. And if the pricing and grading system does not discourage poor handling and storage practices, that needs to be corrected along the lines discussed above.

Most of the cashew trees are old, and yields are relatively low. GOT needs to investigate the feasibility of a more aggressive replanting program using new clones that have been developed by the Research Station in Mtwara in the early 1990s. These are faster maturing than traditional varieties and yield twice as much, but they have not been widely adopted.

The large reliance on the Indian market (93 percent of Tanzania's raw cashew nut exports were destined for India in 2003) exposes Tanzania to the risk of being displaced by other cashew nut producing countries in Africa, as well as by India itself. But prospects of diversifying from the India market are limited. Development of domestic processing capacity would help diversify this risk. The world price of raw nuts compared with processed nuts indicates that it is potentially profitable to process the nuts than to sell them in raw form. However, there has been limited incentive for private capital investment in processing given the high cost of capital in Tanzania.

[184] Such exchanges also trade contracts for cocoa, maize, soybeans and soybean products, sugar, wheat, and some livestock.
[185] In the Kilimanjaro region, the World Bank has started pilot projects to explore the potential of linking small-holder coffee growers to the international financial markets via their coffee cooperatives or local agricultural credit institutions or banks.
[186] A warehouse receipt system is being introduced in Uganda, supported by the EU.

Box 10.1: Coffee/Cotton Price Risk Management at the CRDB Bank in Tanzania

CRDB, a local Tanzania commercial bank which was privatized and restructured in 1996, is one of two banks in Tanzania with a significant role in coffee and cotton financing. In these sectors commodity price volatility has an impact not only on farmers, but also on the cooperative unions and ginners who are marketing the product to the international market, and on the banks which provide financing to them throughout the season. CRDB has recognized that helping cotton and coffee borrowers mitigate risk is critical to strengthening the profitability of these sectors, and to protecting the bank's ability to maintain this agricultural lending.

In 2002 CRDB introduced a collateral management system linked to a revolving line of credit to help it deal with the considerable problems of default in the coffee and cotton sector. Under this system, the client (cooperative union or producer organization) brings the goods to a certified warehouse or curing company. A private collateral management company evaluates the quality and quantity of the goods, and sends a report to CRDB. CRDB then values the inventory based on current market prices and advances 65 percent of the cash value to the client (which can receive cash up to the limit of the loan agreement).

Starting in 2004, CRDB added a commodity hedging component to this system, with the help of the World Bank's Commodity Risk Management Group. CRDB became the first in East Africa to offer commodity hedging products to borrowers in cotton and coffee. CRDB now has the ability to hedge the exposure of individual clients by acting as a market intermediary to carry out hedging transactions on behalf of its borrowers. This service requires detailed individual risk assessment and capacity building for clients. CRDB hopes that more take-up of this service by clients will allow it to reduce interest rates, since borrowers who are effectively managing their price exposures have a lower risk profile.

The World Bank's involvement in this area is as follows. First, it is providing support to CRDB to ensure that latter has the knowledge, capacity, and materials to offer services to clients. It is also exploring support to CRDB for hedging its overall portfolio, as well as alternative hedging strategies for individual clients. Second, it is exploring entry points for price risk management at other places in the supply chain, including international cotton and coffee companies doing business in Tanzania. Third, it is implementing a strategy for local institutions to assist with the ongoing needs for training and education, including for government, commercial institutions, crop boards, producer organizations, and farmer groups. Fourth, it is continuing monitoring, evaluation, and impact assessment, particularly with respect to the delivery model of linking risk management to financing, and responding to requests for similar technical assistance from other banks in the region who have expressed an interest in replicating this program

A recent positive development on this front is the signing of a memorandum of understanding (MOU) in March 2005 between government Ministries including MOAFS, MIT, and MOF, and the Association of Nut Processors to reduce the level of taxation and to promote processing. It is important that the MOU provision is implemented by the different government authorities, from the Cashew Board to the districts. In addition, measures should be taken to attract entrepreneurs and provide business support. There is also an opportunity to promote community-based processing of cashews in conjunction with the private sector. There are already examples of home based processing with good results. A mechanism to expand that kind of low cost technology can be promoted by linking these home based industries with exporters.

A main issue facing *coffee* is the reversal of the liberalization policy with first, the suspension of the buying licenses of private traders during the 2000-01 and 2001-02 season, followed by the introduction of the 'one license regulation' just before the start of the 2002-03 season in the Western coffee zone. The 'one license regulation' limits applicants for private coffee buying, coffee processing, or green coffee export licenses to just one of these licenses (an exception is given for the combination of private coffee buying and coffee processing licenses). All these measures have been designed to support cooperative unions at the expense of private traders. The recommendation is to re-examine the Coffee Board's licensing procedures. Licenses should not be issued or suspended in response to requests by the co-operative unions or the Ministry of Co-operatives, but should be renewed automatically and subject to a modest fee to cover administrative costs, not treated as a tax tool.

The other issue facing coffee is the mandatory auction. 90 percent of coffee output is sold through the Moshi coffee auction. Direct sales of coffee are only allowed for top quality and specialty coffees. The mandatory nature of the auction increases marketing costs tremendously. The recommendation is that the coffee auction be made voluntary. This will substantially reduce the costs of vertically integrated exporters and estates that have the capacity to market the coffee themselves. It will also enable coffee traders to market Tanzanian coffee through neighboring countries, especially Kenya and Uganda (a substantial portion of Tanzanian robusta is already exported to Uganda), to allow Tanzanian coffee growers to enjoy the robust and mild Arabica premia enjoyed by their counterparts in these countries.

The main issue facing *tea* is infrastructure. Inadequate infrastructure has been a major reason for the tea sector's poor performance and an impediment to the development of the sector. Because green leaf must be processed within six hours of plucking, rehabilitation of feeder roads used for transporting green leaf from farms to factories must be given priority. But most of the infrastructure problems are not specific to the tea sector and need to be dealt with at a broader level (see Chapter 8 on Transport).

(ii) *Horticulture and floriculture*

Tanzania has a long history of exporting certain horticultural products, although it is only in the past decade that such exports have reached any considerable size. Much of this trade has been closely related to Kenya, either being spin-offs or extensions of Kenyan export operations for fresh vegetables or cut flowers, or involving sales of widely consumed fruits and vegetables into the Kenyan domestic market itself.

Tanzania's horticultural/floricultural trade has several distinct components. In volume terms, by far the largest trade involves exports to Kenya of oranges, onions, and tomatoes. For these products, Tanzanian produce is sold both domestically and over the border, depending upon seasonality and prices. Due to climatic and other factors, Kenyan suppliers are unable to meet local demand from domestic sources, with this deficit being greatest for onions. Tanzanian supplies of onions are estimated to be equivalent to half of Kenya's production and two-thirds of its marketable sales. Official trade statistics greatly underestimate this trade which is mostly conducted by small-scale brokers and trading agents. It is estimated that horticulture and floriculture exports to Kenya are around half of Tanzania's total such exports of US$55m.

The second major component of export-oriented horticulture involves sales of specialty vegetables (for example green beans, snow peas and baby vegetables) and cut flowers (primarily roses) and flower nursery cuttings to Western Europe. The vegetable trade is directed to supermarkets in the UK and selected other countries. The cut flower trade was traditionally

oriented to the Dutch flower auctions, although several exporters are now selling direct to supermarkets or specialty florists. The value of this Europe-oriented export is about US$28m.

Tanzania's export-oriented trade to Europe presently involves only a limited number of grower and exporter entities, although some 7000 are employed on farms or in pack houses. There are presently only two major exporters of fresh vegetables and seven main cut flower operations. The vegetable exporters utilize a limited pool of outgrowers, mainly medium to larger scale farms which have sought to diversify away from coffee production. The two firms combined have 29 such outgrowers. The exporters provide very intensive support and oversight, covering agronomy, worker/staff training and paperwork.

There are ongoing efforts to develop horticultural product exports. One firm has developed a small trade in canned pineapple, containing organically-grown produce. Another has sought to penetrate the European market for raspberries, targeting certain seasonal market windows. Some growers and exporters are seeking to participate in the expanding market for mangoes in the Persian Gulf and South Asian regions.

Tanzania's cut flower industry mostly emerged in the 1990s as an extension of the much larger industry in Kenya as some firms decided to hedge themselves against political or other risks in Kenya. While labor costs in Tanzania are lower, firms have found their Tanzanian operations to be at a disadvantage with those in Kenya in relation to climatic conditions, availability of experienced personnel, air-freight logistics and the costs of purchased inputs, which are mostly procured from or through Kenya. The Tanzanian industry has not attracted new FDI in recent years, although a few of the existing players have been restructuring and expanding their operations. Particular emphasis has been given to increasing productivity, using more commercially appealing varieties, direct marketing, and compliance with private standards.

The growth opportunities and supply side constraints facing Tanzanian horticultural/floricultural exports differ between the Europe-focused and the regional trading aspects, although transport and other logistical constraints are prominent in both. Overall, challenges related to food safety, plant health or other standards do not appear to be a major constraining factor on such exports, yet a recent pest infestation problem could certainly inhibit the future development of cross-border and broader regional trade if not effectively resolved (see Chapter 7).

A key issue facing Tanzania's horticultural and floricultural exports to Europe is getting more frequent dedicated air freight out of Kilimanjaro. Currently, less than half of Tanzania's horticulture exports are flown directly out of Kilimanjaro Airport—around 85 percent of which through a daily KLM passenger freight and 15 percent of which through a once a week freight aircraft. The remaining horticulture exports, more than half the total, are trucked to Nairobi for export to Europe. The latter route adds to costs and increases the risks of spoilage. Horticulture exporters would benefit if they coordinate by sending all their exports through Kilimanjaro Airport, which would attract more frequent dedicated aircraft, get their exports to the European destinations faster, in turn improving the quality of the product arriving at the destinations and hence the prices these products fetch. This option would be even more attractive if the cooperation of fish exporters (currently using Mwanza Airport) is also obtained—the air freight could stop at both Mwanza and Kilimanjaro airports before flying to Europe. This model—combination of exports of Nile Perch and floricultural exports—has been followed by Uganda with successful results.

Another issue facing Tanzania's Europe-oriented horticultural and floricultural exporters is poor implementation of measures to facilitate exports offered by the Government through the Tanzania

Investment Center (TIC): duty and VAT-free status for inputs, allowance to carry losses forward, and ease of obtaining permits. Although these measures are attractive and comparable with most of their competition, their implementation is poor, and businesses frequently have their imported inputs held up at the border points until duty was paid, despite the fact that they should be duty-free. And, although the duty could be claimed back, this is reportedly a long and often futile task. Also, exporters are meant to be VAT exempt, but some have claimed that it often took two years for reclaiming the VAT paid, which entailed a lot of management time and resources. This situation is a major disincentive to foreign direct investment, especially when compared to Ethiopia where investors get considerable help with ensuring access to such measures. Also, sometimes exporters have difficulty getting land leases correctly documented.

Another area of considerable concern to horticultural exporters is the relatively slow and costly system for the registration of agro-chemicals in Tanzania. Because the industry is small, most agro-chemical manufacturers do not register their products in Tanzania until they are sure that there is a proven significant market. They tend to register new chemicals in Kenya first because of the larger market and less costly registration process there (the cost to test and register an agro-chemical is three times higher in Tanzania than in Kenya). The result is that many newer, more effective and less toxic substances are available to the horticultural industry in Kenya yet not to that in Tanzania, unless the products are smuggled over the border. The Tropical Pesticide Research Institute (TPRI) based at Arusha does not recognize the test results and approval process undertaken in Kenya and demands that the same trials to be conducted in Tanzania. This would appear to be a clear area where collaboration between regulatory authorities within East Africa could speed up the availability of improved (and safer) technologies.

Another key constraint is the shortage of skilled and experienced Tanzanian middle-managers. Many of the exporters have to recruit Kenyan staff to fill these positions. To encourage Kenyan staff to move, they have to be offered higher salaries, which increases the cost disadvantage to Tanzania. The longer-established exporters now are starting to build up a group of competent Tanzanian middle-managers, but if there is going to be significant expansion of the industry in the short to medium-term, it will still be necessary to recruit externally. Also, if Tanzania is to develop niche products for niche markets and to overcome the climate disadvantage for the cut-roses, it is important that it does not simply continue to rely on Kenyan expertise, but it must develop its own technology and have a cadre of middle-managers who understand the issues that relate specifically to Tanzania.

Exporters are also concerned about the shortage of skilled horticultural and floricultural workers because of the small size and the relatively recent introduction of modern production technologies. Once the workforce is trained, productivity is comparable with neighboring countries, but greater emphasis had to be placed on training than a new start-up project in, say, Kenya.

Development of new areas for cultivation where the climate might be better for either improving the quality of crops or for growing other crops could also help expand horticultural exports. Improvements to infrastructure should initially be near existing pack-houses to reduce internal transport costs, but as the industry grows, more distant areas could be considered.

It is important that exporters work together to address all the above issues. The recently formed Tanzanian Horticultural Association (TAHA) provides an excellent vehicle for cooperation amongst exporters. The Dutch Government is helping to fund the CEO of TAHA, which should help strengthen the Association. TAHA could play a key role in the coordination of horticulture and floriculture exporters, and maybe even fish exporters, to attract more frequent dedicated

airfreight out of Kilimanjaro. Also, exporters could work through TAHA to lay out the scale and magnitude of the problems with respect to implementation of measures to facilitate exports mentioned above, and present clear solutions to GOT. Further, TAHA should prepare a short report that clearly identifies the agrochemicals that can be used in Kenya and that are not officially available in Tanzania. The report should state what product the Tanzanian exporters have to use instead and, if possible, quantify, the "disadvantage[187]" to the Tanzania exporter and how long Kenyan exporters have used the improved product. Also, TAHA could play a pivotal role in the establishment of a high-value crop research and training farm, based on the Tengeru Horticultural Research Station (THRS), along the lines of the Zambian Research and Training Farm which has been established using donor finance.[188] This research and training farm should give students theoretical *and* practical training in export horticulture and floriculture at the diploma level. TAHA could seek funds to commission a study to confirm that the current exporters will be pro-active in establishing this facility and that they would be prepared to have some of the students gain work experience by working on their farms. The study would also evaluate the opportunities for including regional exports and seed bean as part of the curriculum and trials program. The study would estimate the cost of establishing the facility and would discuss with GOT and donors about possibly financing it. Then TAHA would seek further funds to establish the research and training farm, and should play a lead role in the supervision of the establishment and management of the facility. Finally, TAHA could play a key role in identifying new areas for horticulture production, highlighting the new infrastructure needed, and then undertaking a cost-benefit analysis for the investment.

While exporters clearly have a central role in the development of horticultural and floricultural exports as laid out above, GOT also has an important complementary role. GOT needs to create a culture in which civil servants help and not hinder exporters. It should ensure that the measures for facilitating exports are implemented, and address the issue of registration of agro-chemicals. There should also be a process within GOT for addressing these issues quickly. Finally, GOT together with development partners could help expand horticultural production areas by providing new infrastructure where it is cost beneficial to do so.

With respect to regional exports, the main constraints are: farmers' marketing skills; long marketing chain; low trader efficiency; low value-addition; and high local taxes and cesses. Addressing these constraints require, first of all, a comprehensive analysis of the market chain for regional exports to understand where costs can be reduced and efficiencies improved. It will also require: encouragement of formation of marketing groups; introduction of a system of export market information; identifying ways and providing support to increase value-added including training to improve product quality, packaging and level of service offered to buyers; and review of taxes with a view to reduction and harmonization (see section above on agricultural export crops).

It is expected that relieving the constraints discussed above would help expand horticulture and floriculture exports from Mainland Tanzania from around US$55m. currently to US$86m. in five years' time. The estimated numbers employed for the European export market are expected to increase from around 7000 currently to 11,700 over the same period. It is estimated that currently around 3000-4000 farmers are involved in producing horticultural crops for exports to Kenya.

[187] For example, quantify the cost disparity, the toxicity differences etc

[188] Further background to the Zambian Research and Training Farm is given in Volume 2, Chapter 2. The Uganda Flower Exporters Association is seeking donor finance to develop a similar concept.

(iii) Tourism

As mentioned earlier, the contribution of tourism to economic growth and poverty reduction comes not just from the tourist industry itself, but also from the linkages that tourism has to the rest of the economy. Strengthening these linkages would be important for overall growth and poverty reduction. This implies increasing value-added of these sectors—that is, raising local production to replace imports. Strengthening linkages also addresses the concern of "leakage" regarding tourism—that is, the part of the tourist dollar that leaves the country to pay for the imports consumed by the tourism sector.

Tourism's backward linkages in Tanzania are spread out over many sectors, with the key ones being: agriculture (fruits and vegetables), livestock (beef, lamb, and pork); poultry (chicken and eggs); fisheries (fish and seafood); dairy; manufacturing (equipment and furniture), non-perishable foods and dry goods (floor, rice, sugar); ground transport (tour operator transfers and packages, and local taxis), and handicrafts.

There are significant opportunities for strengthening tourism backward linkages in agriculture, manufacturing, and services sectors. The potential to increase backward linkages is both in terms of volumes, and also through inclusion of additional sectors/industries that are currently not benefiting from these linkages. The fruit and vegetable linkage exists but most suppliers are in the informal sector with limited capacity. This makes it hard for them to be competitive and they also lose out on adding value to the product. Similarly, chicken and egg processors exist but low yields and lack of product quality are limiting their utilization of existing capacities. Again, other sectors like furniture, processed foods, and other small operating supplies could be produced and sourced locally, but there is limited access to capital and expertise.

Specifically, the potentials for increasing value-added, while simultaneously strengthening sector-to-sector linkages, are by increasing:

- the value of agriculture production through improved techniques, and processing of fruits and vegetables (see also recommendations for regional horticulture exports above);
- value of fish and seafood through improved techniques of catching, storing, transporting, and merchandising, pricing, and selling;
- value of chicken farming through increased capacity, more location options, better-trained employees, and improved quality of inputs, especially chicken feed;
- value of beef and lamb through better monitoring through the supply chain to ensure its quality;
- value of furniture through increased capacity and better-trained employees; and
- value from trading goods not produced in Tanzania through improved importing procedures, increasing variety of products, and improved communication between buyers and sellers to ensure availability and continuity of products and services.

The cross-cutting issues that emerge from the above list are as follows.

First is quality. The issue of low quality pervades through many of the backward linkages of the tourism businesses, from agriculture to fishery to dry goods. Most of the fruits and vegetables used in tourism businesses are supplied locally. However, the local markets in Dar and Arusha which supply the tourism businesses lack hygiene conditions. The meat industry has also poor quality standards, and tourism businesses have indicated they would source more of their meats locally if they can get the quality and quantities they need. Local beef is of low quality because farmers do not manage animals professionally, and meat houses are not graded. There is a lack of

standards on farms as well as storage standards for meats. There is also poor monitoring of sources of meat in the supply chain. The quality of locally produced chicken is low because of the quality of feed used. Because of poor quality as well as insufficient quantities, tourism businesses import chickens from South Africa, Belgium, Mauritius, and Kenya to meet the demand. The poor quality of chicken feed is due to the excessive use of dagga fish in the fish meal for feeding chickens, as well as the contamination of local feed with salmonella because fish ingredients are not decontaminated, and processes are not monitored. Locally produced dry goods such as spices, pulses, and beans are of poor quality—they are poorly packed and unhygienically handled. Most (70-80 percent) of the dry goods and non-perishable foods used in tourism businesses are imported.

The recommendation is to extend the implementation framework for monitoring TBS standards in agricultural and fishery supply chains to include local vendors. This may require additional staff at the local level to ensure an effective process. Also, TBS should consider including quality standards for spices and other dry goods targeted for local markets—similar to their program for export oriented products—with special emphasis on implementation and monitoring. This could be an extension of their current program on Hazard Analysis Critical Control Point (HACCP) training program for food processing industries.

Second is investment promotion. There is potential for much higher levels and quality of local production of certain goods for supplying to tourism businesses. TIC could explore introducing a focused marketing campaign to encourage local investments in products that are 'most likely' candidates for local production: dry and processed fruits and vegetables, select small machinery items, and furniture. There is already some local production of dry goods and processed fruits and vegetables, but they are of low quality. For these sectors, TIC may consider promoting re-investment and refurbishment in plant and equipment. Promotion by TIC could also entail the seeking of donor financing for the provision of small business loans to investors.

Third is TIC incentives for exporting that apply to the tourism sector. There are two such types of incentives: duty exemption on capital goods, and deferment of VAT. However, there needs to be more clarity and publicity regarding these incentives. For instance businesses are not clear when the deferred VAT payments are due, or what is on the list of capital goods approved for import duty exemption for hotels and restaurants, and what the exemption procedures are. Improvements in this area would encourage local suppliers to consider importing on behalf of hoteliers, and also increase the range of products they import. Also, while foreign investors are aware of the TIC schemes, many local investors are not, so there is plenty of room to increase its visibility through focused marketing efforts. Developing a program for TIC to effectively monitor exemptions on capital goods for tourism businesses could entail: (i) creating a list of all potential items that hotels and restaurants may require in construction, operations, and refurbishments – this list can be developed through a standard purchasing list (example in Volume 2, Appendix 7); (ii) developing a general formula to estimate how much of these quantities are required given the size and capacity of the business register; and (iii) creating other checkpoints like assessing maximum annual requirements for each type of products (in cooperation with private sector associations) to ensure that orders are for businesses' requirements only – otherwise, a manual check may be required or a physical inspection.

Fourth is communication between suppliers and tourism businesses. In the case of dry goods and perishables, local retailers are not professionally managed, with the result that there is a general lack of awareness amongst hotels and restaurants, especially the smaller properties, of the range of products that can be sourced through the traders. With respect to machinery, all of which are imported and sold locally, there is potential to increase value-addition of local suppliers by

raising the service component of machinery and equipment sales to tourism business. Currently, the service component of sales is 30 percent, but could increase to 40-45 percent if buyers are aware of the services these suppliers can provide for the installation and maintenance of machines (if there are appropriately trained staff—see next paragraph). The communication between tourism businesses and suppliers in these two sub-sectors could be improved by the organization of a "trade fair" specifically for tourism businesses. This could be organized as a partnership between the Ministry of Natural Resources and Tourism (MNRT) and the tourism private sector organizations.

Fifth is labor skills. The lack of skills is found both in tourism businesses themselves as well as in many of the linked sectors. Labor productivity is low as a result. Most suppliers and operators feel they are over-staffed by as much as 50 percent more than would be needed in competitive regions of southern and eastern Africa, like Kenya and South Africa. There is also a problem with absenteeism. If labor were more productive, salaries could go up as much as 25-30 percent. There is a need to upgrade skills through training. The recommendations are as follows.

- Consider including private sector representatives on the executive board of the Vocational Education Training Authority (VETA) to help ensure that the VETA curriculum would include relevant courses that strengthen skills required for current private sector realities.
- Ensure accreditation and coordination and consistency amongst all institutions offering training in tourism and ensure effective focus on priority areas; the private sector should be involved in this process.
- Review VETA's 6 percent vocational training levy which increases production costs yet has poor results in terms of enhancing labor skills; in the long-run, this levy could significantly reduce Tanzania's competitiveness in the regional market if other more sustainable measures for training employees are not explored. One recommendation is to explore measures that will support private technical/vocational training institutes. There are many examples worldwide where the private sector is providing these services more effectively.
- Review policy and provide incentives to encourage private colleges to supplement VETA's role.

Addressing these issues would help Tanzania maximize the economic contribution of tourism. It is suggested that priorities amongst recommendations be clearly identified by GOT, and reforms introduced progressively. For example, increasing and strengthening linkages with agriculture and farm sector will be relatively easy. Even in this sector, it would help to initiate this process by solely focusing on fruits, vegetables, chicken, and egg. Slowly, other sector supply chains could also be included in this process. The relatively less complicated initiatives like organizing a supplier trade fair will bring momentum to the process and also increase confidence amongst stakeholders. It is suggested that further more detailed value chain analyses for fruits, vegetables, chicken, meats, food processing, furniture and small manufacturing supply chains be undertaken that may reveal other gaps that need to be filled to realize their maximum linkages with tourism (and other demand) sector(s).

The impact on poverty through the above recommendations could be considerable if they are implemented. First, more people are employed in agriculture than in any other sector. Several sub-sectors (fruits, vegetables, poultry, and meat) would benefit from increased employment in supply chains that have higher value products. It will also help them access essential skills that will be transferable to farming of other similar products, making them better prepared to diversify their work. Second, these initiatives will also improve the general entrepreneurship environment and support local investment. One of the biggest challenges for Tanzania is to move from being a

trader to a producer. Increasing the production capacity of the nation will also have a significant influence on reducing poverty. And, finally, the expected increase in overall skill levels of employees will increase wages and also their ability to get better jobs, as well as overall labor productivity.

For Zanzibar, supply-side and pro-poor initiatives are needed to link tourism—a very important sector in the economy—to other sectors to increase the contribution of tourism to the economy and to promote sustainable poverty reduction. In particular, these initiatives should be focused on such linked sectors as agriculture, cultural heritage, and handicraft, all of which are labor-intensive activities. These initiatives can be accomplished through the Zanzibar National Tourism Policy and the Indicative Tourism Master Plan for Unguja and Pemba.

(iv) ***Spices***

The Tanzania spice production and export sector is small, with estimated export levels of less than US$5m. per year. Export volumes across the full range of spice crops are low and erratic, and largely the result of opportunistic activities of general trading companies, with no consistency in market destination. Regional markets, particularly Kenya, and those of the Middle East and South Asia, are important destinations for current exports, and should offer considerable scope for increased development in the short term while production volumes are raised to allow targeting of the major international markets.

Although the spice types present in Tanzania are of good intrinsic quality, and a wide range of spices are present and cultivated, and the range of climatic niches available in the country provides for good cultivation conditions for all of the spices, the overall competitive position for the production of the basic dried spice of commerce is weak, for the following reasons:

- limited areas of existing plantings and low existing production levels for most crops, resulting in long lead times (3 to 5 years) to bring significant areas of new plantings to commercial bearing for all but the annual crops;
- low productivity in the production and post harvest system due to limited use of improved technologies resulting in high effective costs of production and consequent low margins to production;
- lack of structure in the industry, resulting in a disjointed supply chain preventing the effective transfer of crop and product information and requirements between producers and exporters;
- limited number of companies having strong understanding of the products and markets;
- high costs of transport from interior production zones to export borders; and
- excessive export procedures, resulting in unnecessary cost and time penalties for exporters.

According to analysis undertaken for the DTIS,[189] the potential for spice exports from Mainland Tanzania can reach US$15-20m. The key elements of a spice development strategy necessary to achieve this export target can be divided into two groups: those that are specific to the sub-sector; and those that are cross-cutting. The sub-sector-specific elements are the following.

First, focus on paprika, vanilla, cardamom, pepper, and ginger, as these are the crops where substantial export potential can be identified. Production of these crops should be concentrated in areas best suited for crop cultivation, which are the existing crop areas.

[189] See Volume 2, Chapter 4.

Second, interventions in the production sector should focus on: improving the productivity of existing plantings and production systems; improving post harvest practices, with particular attention to drying systems; promoting commercial farms; re-involving the plantation sector in spice production; and developing irrigated production. Key interventions must be driven by the private sector—the development of linkages between buyers and Farmer Associations; the development and management by buyers of extension services for producers to promote uptake of improved technology and practices by producers; and the development of Savings and Credit Cooperative Organizations (SACCOs) to enable producers to access credit for productive investments. Donor programs to support these activities (such as the existing USAID/DAIPesa project which can work at all levels of the production and export chain) will be required to provide early operational support (technical and financial).

Third is to develop a research program focused on multiplication of planting material and the finalization of relevant production and post harvest technology packages. These are the key interventions that can make an impact on sector development in the short and medium term. Technical assistance will be needed to provide the crop and production expertise required.

Fourth is the development of an active Industry Association. Development of the sector requires a forum representing the key elements (exporters, processors, commercial farmers and Farmer Associations). The current Association (based in BET) is not functional, and industry participants have no real ownership. As a first step an Association should be established under the umbrella of the Tanzania Chamber of Commerce, Industry, and Agriculture (TCCIA)—effectively as a committee. Donor funding could be sought to provide limited financial support to cover TCCIA costs.

In addition to these sub-sector specific elements, there are also cross-cutting elements to the strategy. This includes the development of professional specialist companies with investments in post-harvest processing and handling facilities. The existence of the paprika opportunity in Tanzania is directly linked to the capability of the Spanish parent company of Tanzania Spices Ltd. The limitations in the development of vanilla in Tanzania are directly linked to the absence of a private sector company leading the development. Technical assistance programs providing specialist consultancy services to support and enable investors to identify and address the specialist requirements (production, processing, equipments, markets) of businesses in this sector—such as the services provided by IFC's African Project Development Facility (APDF)—should be maintained.

Another cross-cutting element is coherent trade promotion activities. With respect to regional markets, focused studies are required on the markets and trade routes to identify the market potential and competitive sources of supply, and the requirements to move the trade fully into the formal sector. A practical program is required to actively promote trade, delivering assistance and services to producers/manufacturers to develop trade opportunities identified in the studies, and to establish the basis for further trade growth. The program should include in-market commercial services (buyer identification, trade and regulatory affairs information), in-market promotion of Tanzanian produce (attendance at trade fairs, market tours for sector groups, promotion of Tanzania in the trade press), and technical assistance to producers/manufacturers to meet product and regulatory requirements of the market. With respect to international markets, the initial requirement is to characterize product quality in relation to established standards so that it is understood where products should be positioned in the market. Such trade promotional activities require donor support. Since any spices development will be driven by the private sector, and all major companies are or would be members of TCCIA, donor support is best routed through TCCIA which is held accountable to the industry (members).

The final cross-cutting element is a better business environment. Specifically, the issue of refund of VAT for exports has been identified as an element that needs improving, for the spice sub-sector as well as for other sub-sectors as discussed earlier.

To conclude, it should be noted that even if a spice sector development strategy that includes all the elements above is successfully implemented, and the estimated export potential of US$15-20m. is reached, that level would still be small compared to other exports from Mainland Tanzania. In this light, it is therefore important that resources allocated specifically to the spice sub-sector, as opposed to more general cross-cutting activities, be carefully considered and appraised.

Zanzibar, renowned for its exotic and abundant home grown spices,[190] has been exporting cloves, black pepper, cardamom, cinnamon, hot chillies, ginger, and so on internationally but in particular to the Gulf States and the Far East. These spice exports have been significant factors in boosting Zanzibar's economic growth, and Zanzibar intends to exploit these important natural resources through encouraging private foreign and domestic investment in increased production capacity and expanded market networks.

One area that Zanzibar is pursuing is the development of irrigated agriculture to increase its spice exports. Reflecting the Government's commitment to irrigated agriculture is the comprehensive study to identify potential irrigable lands for agriculture, the establishment of the Zanzibar Master Plan, and the creation of the Department of Irrigation. While water resources and rainfall are adequate, there is a need to emphasize water harvesting techniques and the establishment of irrigation infrastructure. 57 schemes have been inventoried with an irrigated potential area of 8,500 hectares; the 9 existing schemes in operation are expected to be extended to about 2,100 hectares through rehabilitation or improvements of such irrigation facilities as diversion weir, pump, and irrigation canal. Zanzibar requires technical and financial assistance to enable it to achieve the objectives of better utilization of water resources and improved irrigated agriculture.

(v) *Fish*

Fish and fish products constitute an important export for Tanzania. Between 1990 and 2003, fish exports rose 20 times, from US$8.1m. in 1990, to US$154m. in 2003. In 2003, fish exports made up 15 percent of the country's total merchandise exports, and ranking it the second largest export after gold. Over 80 percent of Tanzania's fish exports are fillets of Nile perch from Lake Victoria; the remainder are marine fish from the coast (shrimps, octopus, lobster, squid and crab). Europe has traditionally been, and continues to be, Tanzania's main fish export market. In 2003, 80 percent of Tanzania's fish were destined for Europe.

The comparative advantage of Tanzania in fish comes from its very rich fish resources which include salt water resources along its extended 800 kilometers coastline, and fresh water resources in three of the African Great Lakes (totaling approximately 54,000 sq. km. of fishing domain). The latter includes the world's second largest lake, Lake Victoria, which is the source of 70 percent of the country's total fish production.

The potential for Tanzania to substantially increase its fish production comes from the fact that Tanzania has just begun to exploit its offshore Exclusive Economic Zone, where significant potential exists for increased landings of saltwater fin fish such as tuna, grouper, red snapper and similar species caught on the country's continental shelf and, importantly, for investing in fish

[190] Also known as the "Island of Aromatic and Romantic Spices."

farms in the shallow waters surrounding the country's many offshore islands. In 2004 the Fisheries Department for the first time allowed export licenses for the export of salt water fin fish.

At the same time, however, there are increasing concerns about the maximum sustainable yield (MSY) for Nile Perch in Lake Victoria. The MSY for the Lake has been estimated to range between 200 KT and 290KT. The current estimated catch of Nile Perch at 235 KT falls within this range. No matter precisely where the MSY is, the industry is rapidly approaching its "tipping point" with respect to the Nile Perch resource base on which it heavily depends. The decline in perch landings has led the fish industry to consider undertaking strategic investments in value-added manufacturing in the form of ready-to-serve meals, fresh fish product packs and microwavable food products.

There is particularly strong world market demand for the two main Tanzanian fish exports—Nile Perch and shrimps—for which world demand continues to exceed world supply. The Nile perch, which is the largest Tanzanian fish export (constituting 80 percent of fish exports in 2003), has been developed as a "table fish" substitute for cod in the northern hemisphere market in the second half of the 1990s, and is today a highly-valued premium priced table fish in Europe, the Former Soviet Union, North America and Japan. Since its initial market acceptance, its price has continued to rise. Shrimp prices have also remained strong because global demand continues to outstrip new sources of supply, although Tanzania enjoys less of a competitive advantage in shrimps vis-à-vis other producers such as Egypt, Madagascar, Mozambique than it does in the Nile Perch market. There is also strong demand for the rest of Tanzania's fish exports—lobsters, crabs, octopuses—which generally fall into the highest end of the international fish market, and which markets are supply-constrained.

The fisheries industry plays an important role in poverty alleviation in the country. Small-scale artisan fishers using traditional methods account for around 99 percent of the nation's total fish catch. Approximately 150,000 artisan fishermen make their living through fish capture in Tanzania.

Two issues require attention with respect to fish exports—sanitary and phyto-sanitary standards (SPS) and taxation—to help ensure sustainability of exports as well as promote value-addition in exports.

Taxation

The fish sector has been experiencing escalating taxes over time, in part because taxes and fees can be independently imposed by multiple agencies, levels and jurisdictions of government without effective recourse or appeal. Most of the burden of existing taxes in the fish sector fall on licensed exporters who must pay royalties and fees primarily based on the weight of fish shipped. The Tanzanian Fish Processors Association (TFPA) argues that these various taxes, levies and fees which are higher than those in Kenya cannot be passed on in a competitive global market, resulting in Tanzanian fish processors being disadvantaged with respect to their Kenyan counterparts. In addition to high tax levels, fish processors are also concerned about the basis for future taxation: if the basis for royalties and fees is export value, there is a disincentive against more value-addition and job creation. It is essential that both the level and basis of future taxation be resolved before the industry will proceed to make additional investments in value-added production. It is essential for potential investors to know this so they can calculate their returns on investment in new factories and fish farms before they approach their bankers with plans for expansion.

There needs to be harmonization and rationalization of the basis for taxing, which may require a detailed study that analyzes the fiscal, investment and employment effects of alternative taxation regimes other than the existing royalty based one. The analysis should include estimates of the effects of alternative modes of revenue sharing among different federal levels of government. There should also be a clear and operationally useable definition of "value-added content" for manufactured fish products which may be exempted from royalty payments if the existing royalty regime is retained with only marginal changes. In addition, the Tanzanian Revenue Authority, the Fisheries Department, and the two industry association should work together to develop a mechanism for collecting, reporting and auditing accounts for the purpose of duty drawback, royalty payment, and other operational issues involving efficient tax administration.

Sanitary and Phyto-Sanitary Issues

Towards the end of the 1990s, Tanzanian fish and fishery product exports (as well as those of Kenya and Uganda) were subject to a series of restrictions by the EU that impacted, in particular, on the Nile perch supply chain. These restrictions related to concerns over food safety controls. In response, both the Tanzanian government and the fish processing sector were required to implement wide-ranging reforms and investments, which they appear to have done quite successfully.

The Fisheries Department harmonized its regulatory controls with those of the EU in 2000, and a Manual of Standard Operating Procedures for Fish Inspectors was prepared in October 2001. Inspection and approval of processing facilities is the responsibility of the Fisheries Quality Control and Standards Division, which has invested in a significant increase in its inspection capacity through the hiring of additional inspectors and programs of training. Between 1997 and 2004, the number of inspectors in the Lake Victoria zone (one of 4 fish quality inspection zones in the country[191]) increased from six to 21, with an associated increase in salary costs from US$11,500/annum to US$32,700/annum. Various donors have provided funding for the training of fisheries inspectors.[192] Despite this considerable investment, however, the current inspection capacity remains inadequate.

The Nyegezi Fish Inspection and Control Laboratory in Mwanza, responsible for laboratory analysis for the Lake Victoria zone, is not able to perform the full range of microbiological tests required and some of the methods are outdated. The capacity of the laboratory is also inadequate, being unable to perform chemical tests, including heavy metals and pesticide residues, with tests for pesticide residues currently being sent to South Africa.

Currently, construction of a new laboratory is nearing completion at a cost of around US$550,000. Estimates for equipping the laboratory range from around US$130,000 up to US$800,000.[193] This laboratory would be able to undertake the full range of tests required to comply with EU requirements, and aims to achieve international accreditation by the end of 2005. A remaining challenge faced by the Nyegezi laboratory is staff training. Personnel involved with laboratory analysis need continuous training in new techniques and exposure to the methods and procedures applied in comparable laboratories in other countries.

[191] The other zones are Tanga and Northern Zone, Dar Es Salaam and Southern Coast Zone, and Western Zone.
[192] UNIDO, FAO and Danida.
[193] The low figure is provided in the Master Plan on Fisheries Development, System Science Consultants, 2002, while the high figure is provided by staff at the Nyegezi Fish Inspection and Control Laboratory in Mwanza.

The one area where considerably more investment is needed is the landing sites for Nile perch. Currently, basic infrastructure at landing sites remains rudimentary, with only five percent having a banda, cold store, or electricity, and less than one-fourth of the sites featuring an all-weather road. As part of efforts to upgrade hygiene standards at landing beaches, the Fisheries Department has designated 54 sites for the landing of fish for export. To date, it has made rudimentary improvements, including a floating barge at which fish is landed, to ten of these sites at a cost of US$777,000. This suggests an overall cost of upgrading the 52 designated beaches of US$4 million. Other estimates are considerably higher.[194] Immediate access to finance remains a key constraint and, as a result, progress in the upgrading of landing sites remains slow.

Notwithstanding the significant improvements made by the Tanzanian government and fish processing sector to hygiene standards through the supply chain for Nile perch, significant capacity constraints remain which are likely to limit efforts to upgrade capacity into the future as standards continue to evolve. The main on-going lesson for Tanzania is to keep on top of emerging food safety requirements for fish and fishery products now that an enhanced level of capacity has been established in order to avoid creeping obsolescence. At the same time, this capacity might be used a 'spring board' for the enhancement of food safety controls in other sectors.

The upgrading of food safety capacity from a low level within a short period of time has been costly, and has resulted in the closure of one facility, and two others operating at very low capacity levels and facing possible closure in the near future. This illustrates the costs of a "reactive" rather than a "proactive" response to emerging food safety standards in export markets. The overcapacity, and the recent approval by the Fisheries Department of the construction of two or three new processing facilities notwithstanding this overcapacity, additionally highlights the need for more effective and coherent planning to safeguard the future of the sector in a climate of reduced fish availability.

Zanzibar fisheries and mari-culture

Zanzibar has a large potential for the development of the fishing industry which has hitherto been underexploited. Its marine fishery resources include tuna, snappers, groupers, rays, sharks, kingfish, barracuda, calamari/squids, octopus, and so on. Potential investment opportunities (such as fish processing, canning, freezing and packaging) have not been exploited although they are opened to foreign investment. The main obstacle to investment is the lack of EU market export code in Zanzibar. There is also a need to strengthen the inspection capacity of the Zanzibar Department of Fisheries and Marine Resources.

Zanzibar also has a mari-culture activity mainly in seaweed farming. Current production of the seaweed *Euchuma cottonii* in Zanzibar is too low to meet the high world demand for it. The seaweed is cultivated by coastal communities (mainly women) all over the Islands of Unguja and Pemba, mainly in shallow, stagnant and dense waters with high temperatures and unstable salinity. Communities need to shift to new areas for cultivation to increase production. This requires research to identify potential new areas (offshore and deepwater), the development of a program to establish seaweed farming in these new areas, and training for seaweed farmers.

[194] Estimates in the Master Plan for Fisheries Development include more comprehensive upgrades at three strategic landing sites including ice plants, road improvements and fish handling areas. At certain sites this would involve a cost of US$1.6 million.

Conclusions

This section highlighted the prospects for, constraints to, and recommendations for expansion of exports in a few agricultural sub-sectors. These sub-sectors have been selected because Tanzania has a comparative advantage in them as reflected in their importance in Tanzania's overall exports, and/or because of their importance in poverty alleviation.

While there are sector-specific constraints to expansion of exports of these selected sub-sectors, a few cross-cutting ones emerge. First is the need to restructure crop boards such that their functions are confined to representing industry, with other functions that should be in the domain of the private sector (production, marketing, transportation, storage, processing and input supply activities) and public sector (regulation, data collection, and extension) devolved to the respective sectors. Second is high taxes, particularly at the local level, for agricultural export crops and fish. There is a need to rationalize and lower taxes, and also harmonize them across different products to avoid distortion in production incentives. As a first step, the recommendation is that no new taxes be introduced. Third is the need for research and training. The lack of adequate skills at all levels is a serious constraint for several sub-sectors (horticulture and floriculture, and tourism operators and suppliers). This requires strengthening of horticulture research and training with donor support; and of the Vocational Education Training Authority through involvement of the private sector in designing the curriculum.

APPENDICES

Appendix 1: Statistical analyses of microeconomic determinants of poverty

Statistical analyses (OLS regression and a probit model) were carried out to study the effect of the main source of income on poverty after controlling for other observable characteristics of poverty such as region, education, and household size. In the OLS regression, the dependent variable was household real per-capita income (adjusted for adult equivalency); in the Probit model, the dependent variable is a dummy variable valued as one for a poor household and zero otherwise. Explanatory variables included indicators for the main activity of household heads, main sources of household cash income, regional dummies, acres of land owned, and the age and years of education of the household head.

Results of these analyses confirm the poverty patterns discussed earlier in Chapter 1. Among the trade-related variables, everything else being equal, incomes of households earning primarily by the sale of cash crops are on average 10% higher than in those selling livestock and livestock products, and are more than 20% higher than incomes of food crop producers. Estimates of the probability of being poor indicate that if a household obtains most of its income from selling cash crops, it has a 9.5% lower chance of poverty compared to food crop producers. Also compared to food crop producers, households in tourism are 10% less likely to be poor, fish producers are 3.6% less likely, and mining sector households are about 1% less likely.

Appendix 1 Table 1. Microeconomic Determinants of Household Welfare—OLS

Survey linear regression

pweight: hh_wt		Number of obs	6235
Strata: region		Number of Strata	20
PSU: psu		Number of PSUs	857
		Population size	2112961
		F(35, 803)	18.05
		Prob > F	0
		R-squared	0.3356

lrpc	Coef.	Std. Err.	T	P>t
Age	-0.0085	0.0049	-1.75	0.0800
Age Squared	0.0001	0.0000	1.62	0.1050
Household Size	-0.0859	0.0057	-15.09	0.0000
Share of Own Consumption	-0.1978	0.0382	-5.18	0.0000
Land size	0.0092	0.0022	4.11	0.0000
Rural	-0.0420	0.0419	-1	0.3170
Coastal	0.2820	0.0551	5.12	0.0000
Dar	0.2073	0.1078	1.92	0.0550
Lake	0.1648	0.0697	2.37	0.0180
NrnHighlands	-0.0247	0.1245	-0.2	0.8430
South	-0.0243	0.0626	-0.39	0.6990
SrnHighlands	0.2381	0.0704	3.38	0.0010
Adult education only	-0.0013	0.0588	-0.02	0.9820
Primary 1 – 4	0.1297	0.0413	3.14	0.0020
Primary 5 – 8	0.1863	0.0499	3.73	0.0000
Form 1 – 4	0.5346	0.1075	4.97	0.0000
Form 5 – 6	0.5112	0.0979	5.22	0.0000
Diploma course/university degree	0.8204	0.1216	6.75	0.0000
Course after primary	0.2738	0.1129	2.42	0.0160
Course after secondary school	0.3902	0.0785	4.97	0.0000
Other certificates	0.0115	0.2481	0.05	0.9630
Sales of livestock	-0.0589	0.1394	-0.42	0.6730
Sales of livestock products	0.1014	0.1114	0.91	0.3630
Sales of cash crops	0.2100	0.0496	4.23	0.0000
Business income	0.1677	0.0601	2.79	0.0050
Wages or salaries in cash	0.2868	0.0599	4.79	0.0000
Other casual cash earning	0.0461	0.1106	0.42	0.6770
Cash remittances	0.1170	0.0769	1.52	0.1280
Fishing	0.2401	0.2051	1.17	0.2420
Other	0.0524	0.0644	0.81	0.4160
Mining	0.1442	0.1348	1.07	0.2850
Tourism	0.1557	0.1206	1.29	0.1970
Married	-0.0894	0.0366	-2.44	0.0150
No Loan	0.1147	0.1158	0.99	0.3220
Time to nearest marketplace	0.0000	0.0002	0.03	0.9730
Constant	9.5322	0.1734	54.98	0.0000

Source: Author's calculation based on 2000/2001 HBS.

Note: Welfare is measured by household log real per-capita consumption, adult equivalent adjusted.

Appendix 1 Table 2. Microeconomic Determinants of Poverty—Probit

Survey probit regression

pweight: hh_wt	Number of obs	6235	
Strata: region	Number of strata	20	
PSU: psu	Number of PSUs	857	
	Population size	2112960.9	
	F(35, 803)	8.57	
	Prob > F	0	

Poor	Coef.	Std. Err.	Z	P>z
Age	0.0204	0.0169	1.2100	0.2260
Age Squared	-0.0002	0.0002	-0.9300	0.3510
Household Size	0.1913	0.0193	9.8900	0.0000
Share of Own Consumption	0.4666	0.1351	3.4600	0.0010
Land size	-0.0199	0.0066	-3.0100	0.0030
Rural	0.0642	0.1080	0.5900	0.5520
Coastal	-0.7942	0.1655	-4.8000	0.0000
Dar	-0.7707	0.3739	-2.0600	0.0400
Lake	-0.4247	0.1983	-2.1400	0.0330
NrnHighlands	-0.0451	0.2973	-0.1500	0.8790
South	0.0391	0.2165	0.1800	0.8570
SrnHighlands	-0.4360	0.2484	-1.7600	0.0800
Adult education only	-0.3114	0.1795	-1.7300	0.0830
Primary 1 – 4	-0.5612	0.1192	-4.7100	0.0000
Primary 5 – 8	-0.5114	0.1475	-3.4700	0.0010
Form 1 – 4	-1.4403	0.1998	-7.2100	0.0000
Form 5 – 6	-1.2012	0.4881	-2.4600	0.0140
Diploma course/university degree	-2.0457	0.3356	-6.1000	0.0000
Course after primary	-0.4175	0.4091	-1.0200	0.3080
Course after secondary school	-1.8627	0.3029	-6.1500	0.0000
Other certificates	0.4578	0.4104	1.1200	0.2650
Sales of livestock	0.2102	0.3397	0.6200	0.5360
Sales of livestock products	-0.4042	0.3452	-1.1700	0.2420
Sales of cash crops	-0.6381	0.1599	-3.9900	0.0000
Business income	-0.3139	0.1987	-1.5800	0.1140
Wages or salaries in cash	-0.8548	0.2063	-4.1400	0.0000
Other casual cash earning	-0.1686	0.2204	-0.7600	0.4450
Cash remittances	-0.3547	0.2514	-1.4100	0.1590
Fishing	-0.1790	0.3783	-0.4700	0.6360
Other	-0.1571	0.2051	-0.7700	0.4440
Mining	-0.3971	0.4647	-0.8500	0.3930
Tourism	-0.6663	0.5350	-1.2500	0.2130
Married	0.2863	0.1270	2.2500	0.0240
No Loan	-0.1988	0.5026	-0.4000	0.6920
Time to nearest marketplace	-0.0010	0.0011	-0.9500	0.3420
Constant	-1.4191	0.6466	-2.1900	0.0280

Source: Author's calculation based on 2000/2001 HBS.

Appendix 2: Methodological Framework for estimating the impact of changes in tariffs and the impact of changes in main sources of cash income or main activity on poverty

Calculating Average Tariffs

Average tariffs are computed to determine whether the existing tariff structure and the newly adopted EAC CET taxes protects the poor.

The average tariff—consumption weighted—that applies to the consumption bundle of each household is calculated as follows:

$$\overline{T_C} = \sum_{c=1}^{n} s_c t_c$$

where $\overline{T_C}$ denotes average tariff on consumption, c the consumption good ($c=1,...,n$), such as cereals, fruits, s_c the share of consumption good c in the total expenditures, and t_c the tariff rate that applies to the consumption good c.

The weighted average tariff that applies to the income bundle of each household is calculated similarly as:

$$\overline{T_I} = \sum_{i=1}^{k} s_i t_i$$

where $\overline{T_I}$ denotes average tariff on income, i the income source ($i=1,...,k$), such as income from fishing, income from wages, s_i the share of income source i in total income, and t_i the tariff rate that applies to the income source i.

Average tariff on net household income is then calculated as the average tariff on income minus the average tariff on consumption at the household level. Given the detail available in the 2000/2001 HBS, tariff calculations are used based on HS2-level tariff data.

Calculating Impact of Changes in Tariff Rates

To compute the impact of tariff rate changes on household income, the following set of equations is used:

$$\frac{dNI_h}{Y_h} = \sum_{i=1}^{k} (t_i^{'} - t_i) s_i - \sum_{c=1}^{n} (t_c^{'} - t_c) s_c$$

Perfect price transmission is assumed here between border and household prices, that is, a change in tariff rate is assumed to be transmitted fully into changes in prices paid and received by households. Ideally, imperfect price transmission should be allowed for, especially across regions due to varying transportation costs and other intermediary charges. However, there is lack of data on regional prices for a series of commodities to take this into account. Also, this simple exercise does not take into account supply responses and general equilibrium effects and provides a bound for the first short-term impact. Finally, all these exercises have been severely limited by the lack of data on detailed income sources. Hence, the analyses are based on very crude income groups: share of income from crops (grain and cash), share of income from non-farm wages (without sector-level detail), share of income from livestock related activities, share of income from own-enterprise etc.

Calculating Impact of Changes in Main Sources of Cash Income or Main Activity—the Switching Exercise

It is expected that changes in price or market access would lead to changes in income generating activities undertaken by at least some households. Similarly, given price changes, the shares of income sources may change. An exercise is carried out to estimate the effects of these changes on income and poverty.

First, the relationship between household income and the main source of cash income and main activity is determined by an OLS regressions, as follows.

$$\ln c_i = \beta X_i + \varepsilon_i$$

where c_i is the per-capita adult-equivalent adjusted total household expenditures (proxy for income), and X_i is a vector of household and household head characteristics, including education, land size, source of main cash income, and main activity. The latter two variables, given the nature of data in 2000/2001 HBS, are dummy variables indicating: whether or not the main source of cash income is: (i) sales of livestock; (ii) sales of livestock products; (iii) sales of cash crops; (iv) fishing; (v) wages and salaries, and whether the main activity of the household head is mining or tourism.[195]

Second, estimates of changes in household income are derived, based on coefficients obtained from the OLS regression above, for the following simulations:

I. Switch main source of cash income of one third of the households living in coastal areas into fishing.
II. Switch main source of cash income of half of the households involved mainly in sales of food crops into sales of cash crops.
III. Swithc main source of cash income of ten percent of the households living in Mbeya, Morogoro, Mwanza, and Shinyanga into mining, unless they are involved in cash crops, tourism, or fishing.
IV. Switch main source of cash income of one fourth of the households living in Arusha, Dar Es Salaam, and Kilimanjaro regions into tourism, unless they are involved in cash crops, mining, or fishing.

[195] Excluded dummy variable for the main source of cash income is sales of food crops.

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