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# Economic Integration in Southern Africa: Towards Cost and Benefit Analysis in Tanzania

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**TITLE:**

*Economic Integration in Southern Africa: Towards Cost and Benefit Analysis in Tanzania*

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**EXECUTIVE SUMMARY:**

*The African Development Bank (ABD) has undertaken a study on the Economic Integration of Southern Africa which lays out the case for integration, analyzes the broad country characteristics by sector including the complementary and cross-border linkages, as well as the institutional framework for integration. It then proposes a strategy for the economic integration of Southern Africa. The publication of the three volumes of the ADB study constituted phase one of the project while phase two involves the holding of national seminars in core countries. In this second phase the ADB study is being presented to audiences in the subregion during national seminars organized for the purpose of discussing it intensively and extensively. These national seminars are expected to enhance the process of internalization of the contents of the ADB study.*

**KEY WORDS:**

*Economic Integration, Intra-Regional Trade, Regional Integration, Macro-Economic Policies, Implications of Uruguay Round, Non-Tarrif Barriers, Southern African Region*

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| | | |
|---|---|---|
| ADB | - | African Development Bank |
| AJAS | - | African Joint Air Services |
| ANC | - | African National Congress |
| CMSA | - | Capital Markets and Securities Authority |
| COMESA | - | Common Market of Eastern and Southern Africa |
| CRDB | - | Co-operative and Rural Development Bank |
| DBSA | - | Development Bank of Southern Africa |
| DFI | - | Development Financial Institutions |
| EAC | - | East African Community |
| EACSO | - | East African Common Services Organization |
| EADB | - | East African Development Bank |
| ECA/MULPOC | - | Economic Commission for Africa/Multiprogramming Cooperation |
| EPA | - | Environmental Protection Agency |
| ESAMI | - | East and Southern Africa Management Institute |
| ESAMI | - | Eastern and Southern Africa Management Institute |
| ESAP | - | Economic and Social Action Programme |
| ESRF | - | Economic and Social Research Foundation |
| GIS | - | Geographic Information System |
| KBA | - | Kagera Basin Authority |
| MIE | - | Multinational Industrial Enterprises |
| MINTEK | - | Sub-Regional Centre for Mineral Technology |
| NTB | - | Non-Tariff Barriers |
| OAU | - | The Organization of African Unity |
| PTA | - | Preferential Trade Area for Eastern and Southern Africa |
| PVC | - | Plastic Vynil Cable |
| RBA | - | River Basin Authority |
| RCTB | - | Road Customs Transit Declaration Document |
| RDB | - | Regional Development Bank |
| REC | - | Regional Economic Cooperation |
| REI | - | Regional Economic Integration |
| REXSTAB | - | Regional Exchange Rate Stabilization Fund |
| RPFB | - | Rolling Plan and Forward Budget |
| RSA | - | Republic of South Africa |
| SADC | - | Southern African Development Community |
| SAF | - | Structural Adjustment Facility |
| SAFAR | - | South African Centre for Cooperation in Agricultural Research |
| SALB | - | Southern African Land Bureau |
| SAMMIC | - | Southern Africa Mineral and Mining Board |
| SAP | - | Structural Adjustment Programme |
| SAPP | - | South African Power Pool |
| SAR | - | Southern Africa Region |

| | | |
|---|---|---|
| SARCCUS | - | Southern African Regional Commission for the Conservation and Utilization of the Soil |
| TAHI | - | Tanzania Hotels Investment |
| TANZAM | - | Tanzania Zambia Highways |
| TAZAMA | - | Tanzania Zambia Pipelines |
| TAZARA | - | Tanzania Zambia Railways |
| TCU | - | Tourism Organization in the Caribbean |
| THA | - | Tanzania Harbours Authority |
| TIB | - | Tanzania Investment Bank |
| TRC | - | Tanzania Railways Corporation |
| TRIMS | - | Trade Related Investment Measures |
| TRIPS | - | Trade Related Intellectual Property |
| UNIDO | - | United Nations Industrial Development Organization |
| UNISA | - | University of South Africa |
| URT | - | United Republic of Tanzania |
| WTO | - | World Trade Organization |
| ZBR | - | Zambia, Burundi, Rwanda |

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Any remaining errors are mine and highly regrettable.

Samuel Wangwe
Executive Director
ESRF
September 1995.

# 1. INTRODUCTION

The African Development Bank (ABD) has undertaken a study on the Economic Integration of Southern Africa which lays out the case for integration, analyzes the broad country characteristics by sector including the complementary and cross-border linkages, as well as the institutional framework for integration. It then proposes a strategy for the economic integration of Southern Africa. The publication of the three volumes of the ADB study constituted phase one of the project while phase two involves the holding of national seminars in core countries. In this second phase the ADB study is being presented to audiences in the subregion during national seminars organized for the purpose of discussing it intensively and extensively. These national seminars are expected to enhance the process of internalization of the contents of the ADB study. This paper is a contribution to this second phase.

The national seminars are expected to focus on the costs and benefits, to the host country, of economic integration, propose agenda for the integration process and modalities of implementation of this agenda at the country level. This is in turn expected to ensure adequate dialogue and consultations with representatives from all sectors of the economy on the implementation of the study findings and recommendations.

This paper is supposed to stimulate that process of internalization and discussion on the costs and benefits of economic integration to Tanzania. This paper introduces issues which we think are important for that discussion to start. Considering the time available to us and the data situation in Tanzania on the costs and benefits of integration, this paper does not purport to undertake a fully-fledged cost-benefit analysis in quantitative terms, but rather constitutes a modest curtain raiser on issues which will need to be considered when fully-fledged cost benefit analyses are being carried out in specific sectors or specific aspects of regional cooperation or regional integration. A full cost-benefit quantitative analysis should be done in greater detail at sectoral level with each subsequent paper devoted to a specific sector. In other words, this paper provides the building blocks for that process.

The organization of this paper is as follows: Section 1 is the introduction presenting a brief summary of the structure of the Tanzanian economy and its policies in the context of the ADB study on the integration of Southern Africa. Section 2 presents an overview of broad sources of benefits and costs of regional integration. Section 3 raises issues of costs and benefits, to Tanzania, and of integration in respect of specific sectors. Section 4 addresses the agenda for the regional integration process and the modalities for its implementation.

## 1.1. The Tanzanian Economy: Structure and Policies

### 1.1.1. Characteristics of the Economy

Tanzania is a large country covering 945,203 sq. km., a population of 27 million people and a population growth of 2.8% per annum. With a GDP per capita of some $120 per annum Tanzania is one of the poorer countries in the world. Even by the low standards of the Southern Africa Region (SAR) Tanzania is one of the three countries which have a per capita income of less than $250 per annum[1]. Tanzania has a Human Development Index of 0.306 ranking 148th out of 173.

The socio-economic situation in Tanzania is characterized by a large subsistence sector (agriculture, fishing and livestock keeping) in the rural areas where the majority of the population live, and industry (mainly import-substitution) which is largely based in the urban areas. Agriculture is the main activity in the economic structure of the country, employing 85 per cent of the labour force (90% women and 78% men).

The structure of the economy is dominated by agriculture and services (49% and 33% of the GDP respectively during 1992-94). Industry accounted for 17.8% of the GDP of which 7.6% was manufacturing[2].

The main exports during 1994 were coffee (21.9%), cotton (20.0%), tea (7.5%), cashewnuts (9.7%), tobacco (3.9%), gold (5.3%) and manufactured goods (14.6%)[3]. The dominance of traditional exports in the export basket has been one issue of policy concern. In practice, however, the trade policy has not been directed to the restructuring of the export sector. Non-traditional exports responded quite positively to the liberalization measures of the mid-1980s but by 1990 that dynamism was beginning to lose steam. This suggests that the increase in non-traditional exports after 1986 may be a reflection of channelling part of the formerly smuggled exports into official channels following trade liberalization. It is also likely that exporters spring up but do not sustain their efforts in export market. What is clear is that sustained efforts towards restructuring the export sector have not been put in place. Principal imports are machinery and transport equipment (46%), chemicals and other manufactured raw materials (27%), crude oil and fuels (13%), other manufactures (10%) and foodstuffs (4%)[4].

### 1.1.2. Policies and Policy Changes

With the promulgation of the Arusha Declaration in 1967 Tanzania adopted a philosophy of self-reliance. One form which the implementation of this philosophy took was the nationalization of what were regarded by then as commanding heights of the economy[5].

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1. The other two countries are Mozambique at $60 and Malawi at $210 in 1992 (World Development Report, 1994).

2. These figures are given in 1976 constant prices as published in the Economic Surveys of 1995. In this context, "Industry" consists of mining, manufacturing, construction and electricity and water.

3. Source: Economic Survey for 1994. United Republic of Tanzania, Planning Commission, June 1995.

4. Figures for imports refer to 1990 as published in "United Republic of Tanzania: Statistical Abstract for 1992. Bureau of Statistics, Planning Commission, February 1994".

5. UNDP Human Development Report, New York, 1994.

Since then the public sector has played a leading role in the economy until the 1980s. Following the economic crisis of the 1980s, economic reforms were introduced which represented a shift from socialism and administrative control of the economy towards liberalization of the economy and encouragement of private sector development.

Economic reforms in Tanzania date back to 1981 and cover four main programmes: the National Economic Survival Programme (NESP) of 1981/82; the Structural Adjustment Programme (SAP) 1982/83 - 1984/85: The Economic Recovery Programme (ERP) 1986/87 - 1988/89; and the Economic and Social Action Programme (ESAP) 1989/90 - 1991/92. Since 1993/94 the three year Rolling Plan and Forward Budget (RPFB) has replaced the Five-Year Plans of the 1960s and 1970s and these former economic recovery programmes are the principal programming instrument of the government. Since the RPFB was introduced three years ago, progress has been made towards articulating sector objectives, strategies and priorities within the overall macroeconomic policy framework.

Economic reforms have been carried out since 1986 in various areas. In the area of price reform, with a view to "getting prices right", action has been taken in the exchange rate, interest rates and price decontrol. The exchange rate action has been substantial over the reform period with the shilling being devalued from Tshs. 17 to the US dollar in March 1986 to about Tshs. 600 to the dollar in August 1995. The premium in the parallel market has been reduced to insignificant levels (less than 5%). The price of capital has been raised with real interest rates rising from negativity in the 1980s to positivity in the 1990s. Prices of other goods and services have been decontrolled and distribution has been liberalized.

Some aspects of economic performance have responded favourably to the reform effort between 1986-94 with the rate of economic growth averaging about 4 per cent, up from the 2 per cent achieved between 1981-85. However, the effectiveness of the growth performance on poverty alleviation has been put to question, and questions are being raised as to whether living conditions have improved. About half of the population, the majority of whom live in rural areas, still lives in poverty. Since independence, the Government has been committed to reducing poverty and improving equity. The basic goal of the Economic Recovery Programme (1986-89) has been to reduce poverty by encouraging a more rapid economic growth while the Economic and Social Action Programme (1989-1992) took on board the social dimensions of adjustment.

The Government is determined to continue with the agenda of structural reforms and macroeconomic stabilization with the view of generating strong economic growth in order to combat poverty and deprivation[6]. Against this background, the overall macroeconomic objectives for 1994/95-1996/97 are: to raise the annual rate of GDP growth from the current 4% to 6 percent in 1996/97; to reduce the average rate of inflation from the current 25-30% to 10%; to increase government current savings; and to reduce the current account deficit.

Over the period 1994/95-1996/97, it is envisaged that structural policies will continue to focus on various reforms: consolidating and extending reforms in the financial sector; removing barriers to private sector investment and creating an enabling environment for private sector development; continuing to enforce reforms in the public sector (parastatals and civil service); completing the liberalization of the external payments' system with full current account convertability, and further progress with trade reform; continuation of

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6. This is quite explicit in the Second Rolling Plan and Forward Budget (RPFB-II), which was approved by Parliament during the 1994/95 budgetary session.

agricultural marketing reforms; and ensuring that an increased share of public expenditure is directed towards the improvement of social and physical infrastructural services and the protection of the environment.

In spite of the positive growth performance, many bottlenecks still exist in the economy. The major ones are: the persistent budget deficit and a persistent trade deficit with exports meeting only one third of the total import bill. Furthermore, the level of investment is not picking as expected and institutional reforms have yet to be completed. In addition, the effectiveness of the growth performance on poverty alleviation has been put to question and questions are being raised as to whether the achieved growth performance will also be accompanied by economic transformation. This raises a broader question as to whether economic reforms as they have been designed and implemented so far are consistent with the longer term development objectives. In the Tanzanian context, the most relevant long term development objective consists of revitalizing and raising the level of productivity in the productive sectors (especially agriculture, rural non-agricultural production, industry), trade restructuring especially restructuring the export sector and the realization of the potential in regional trade and human resources development. If these problems are not solved, the sustainability of the achieved growth performance may itself be threatened.

Furthermore, it is being realized that the reorientation of the economy to a position where more open, market oriented policies are adopted exerts greater demands on the necessary institutional framework that needs to be put in place. One implication of this policy concern is that there is need to place greater emphasis on institutional analysis not only at national, but also at regional level.

Economic crises and related constraints have made it difficult for national economic agents to respond more fully to the economic opportunities within the region. It is hoped that policies which would lead to the recovery of economies in the region would also create an enabling environment for the promotion of regional economic cooperation and integration in the Southern African Region (SAR).

## 1.2. Integration in Southern Africa

Tanzania has viewed economic cooperation as a step towards the Organization of African Unity's (OAU) goal of political and economic union, and towards the implementation of the Lagos Plan of Action and the Abuja Treaty on the African Economic Community. In this context, the African Development Bank's three-volume study on ***Economic Integration in Southern Africa*** (Abidjan, 1993) should be received as a major contribution in that direction.

The ADB study coincides with momentous events such as:

(i) the dismantling of apartheid and majority rule in the Republic of South Africa (RSA) in May 1994;

(ii) the liberalization, de-regulation, commercialization and privatization of national economies in the region;

(iii) increased democratization, transparency and public accountability and political liberalization in the region;

(iv) renewed interest in regionalism; *and*

(v) the recent conclusion of the Uruguay Round GATT Agreement.

In discussing the report it will be useful to take into account the implications of some important developments that have occurred since its completion. First, the study foresaw majority rule and by implication an African National Congress (ANC) led Government in South Africa, but does not seem to have expected it by May 1994. Second, the Common Market of Eastern and Southern Africa (COMESA) Treaty was signed at the Preferential Trade Area for Eastern and Southern Africa (PTA) Summit in Kampala in November 1993 and is being ratified. Third, the new RSA joined the Southern African Development Community (SADC) in August 1994. Fourth, the three East African countries signed a Memorandum 30 November, 1993 committing themselves to the revival of the East African Community, and work is on-going in this regard. Fifth, the on-going debate about rationalization, harmonization and coordination of integration institutions reached a critical stage with the SADC Summit decision of August 1994 to split the PTA/COMESA region-into two sub-regions; PTA South comprising SADC and PTA North. Sixth, the peace situation in Angola and Mozambique is still uncertain or at best fragile; and the economies of Rwanda and Burundi have been disrupted considerably since the completion of the study with adverse effects on the integration organs they hosted. The PTA Bank and the Gisenyi-Economic Commission for Africa/Multiprogramming Cooperation (ECA/MULPOC) have respectively shifted to Nairobi and Addis Ababa.

The ADB study has pointed out that there is likely to be a significant welfare gain emanating from regionalization. It is argued that regional welfare in the next ten years will accrue primarily from three sources:

(i) substantial cost savings resulting from coordinated investments in the region's physical infrastructure.

(ii) the benefits of trade creation, expansion and intensified cross-border investment which will enable the frictional losses incurred from the conduction of illicit trade to a substantial degree and the other inhibitions to a more open trade to be dispensed with.

(iii) 'externalities' or unorthodox gains from regionalization which occur when the major non-tariff barriers to enhanced regional intercourse are removed.

However, it is also acknowledged that without an in-built compensatory mechanism being designed to distribute these regional gains (i.e. a regional investment and development policy) the pattern of their accrual would mainly benefit the more developed partners. This is a very important observation considering that the unequal distribution of the ensuing benefits has been a major shortcoming in many integration schemes, including the well-known case of the collapse of the East African Community (EAC) which collapsed later on in 1977.

The ADB study essentially explores the prospects and opportunities for the economic integration of the SAR. The findings make propositions on multi-speed sector cooperation; giving priority to investment in production; seeking regional cooperation in stabilization and structural adjustment programmes; decentralizing private sector development; propagating the variable geometry approach to economic integration; and the stressing of the importance of institutional rationalization in facilitating economic integration.

As regards the route to regional integration, the message which emerges very clearly from the ADB study is that SAR countries need to proceed with Regional Economic Cooperation (REC) and Regional Economic Integration (REI) on two parallel but connected tracks without holding progress on either, or one being the hostage to the other. The two tracks are:

(a) sector coordination and cooperation in project investments and policy harmonization in specific sectors and activities; and

(b) market integration whereby progress can be made using the agenda established, for example, by the PTA at its 1992 summit meeting, but applying it on a schedule which is more realistic in the context of evolving political and economic developments in SAR.

## 2. REGIONAL INTEGRATION AND COST-BENEFIT ANALYSIS FOR TANZANIA: AN OVERVIEW

On the side of benefits, successful regional economic interaction can help Tanzania and the sub-region attain greater economies of scale, rationalize location of production units, encourage specialization in production, widen markets and enhance efficiency in various economic activities. In addition, it can reduce the sub-region's external dependency, the vulnerability of its economy and boost its bargaining power *vis-a-vis* the outside world while enhancing Pan-Africanism and the South-South "collective self-reliance".

On the cost side, economic integration could generate polarization effects and loss of sovereignty over economic policy and management. The costs configuration will be incomplete without an appraisal of the costs of holding meetings, consultations and negotiations on sub-regional integration issues. For instance, Tanzania is a member of so many regional institutions (e.g. PTA, SADC, KBA, ESAMI, EAC, EADB, and the PTA Bank) that there may be a case for rationalization in order to cut down costs associated with all those memberships.

The challenge of regional economic integration and co-operation lies in designing cooperation schemes in such a way that benefits to the member countries are enhanced, while costs are checked and continuously weighed against the benefits in the static and dynamic context. An analysis of the costs and benefits of fragmented as against integrated markets, as has been done for the European Union shows the superiority of the latter. Economic integration is a dynamic process. Countries losing out in the short-run may gain substantially in the long-run. In the case of the Southern African region a cost-benefit analysis of regional cooperation or integration needs to be addressed squarely. This should be a major initial effort and mechanisms should be put in place to make follow-up updates to cope with changing circumstances in the region.

From the point of view of one country like Tanzania, a main guide to cost-benefit analysis of regional cooperation/integration should be the national medium and long term objectives. It is hoped that regional cooperation would seek to enhance the attainment of the national objectives at an acceptable cost. Therefore a first step in the assessment of costs and benefits of regional cooperation should start with the clarification of the national goals and objectives and indicate what Tanzania wants and what it intends to achieve in the medium and long term (say 20 years). All negotiation processes and analysis of the various options to REI and REC would be guided by a clear articulation of what Tanzania wants and what its vision of development is.

Considering that the distribution of benefits (and costs) has been a major problem confronting many regional cooperation and integration schemes, appropriate mechanisms will have to be put in place. Consistent with the wave of privatization and the movement away from the administrative allocation of resources the distribution of investments in the region will be largely influenced by the quality of the supportive infrastructure. Efforts will need to be made to raise the level of infrastructure in each member country above a certain minimum which would facilitate and support a reasonable flow of investments. Continuous efforts to improve infrastructural conditions in the least attractive countries should be built into the cooperation mechanisms. The problem of distributing the benefits and costs is so important that a special study of the experiences in the more successful cooperation and integration schemes elsewhere should be done. Such a study is beyond the scope of this paper but, it is being proposed as one of the important areas for further study.

Under the new and changing socio-economic and political conditions Tanzania should learn from the East African Community experience. The three models of the EAC can provided useful insights i.e. the Kampala Agreement, and East African Common Services Organization (EASCO), and the Common Market. The Kampala Agreement had a distinguishing element of administrative allocation of regional industries - an important means of enhancing economic interdependence and promoting equity in the arrangement. The Kampala Agreement type of model should be relevant for Tanzania and all other relatively disadvantaged countries in the SAR. However under the circumstances of today, it would be necessary to deploy non-administrative levers in order to implement the model more explicitly such as acknowledging the growing role of the private sector and other non-government agencies, and making greater use of the market forces.

The EACSO had focussed on the common services (harbours, railways, aviation, research, etc) and their common administration as a means of reaping economies of scale and promoting equity through cross-border implicit subsidy.

The EACSO model is still relevant today, and desirable, for the same reasons of reaping the economies of scale and promoting equity - through implicit cross subsidization across borders. In this respect, it can also be an instrument for complementing the Kampala Agreement component.

The Common Market focus on trade and the concomitant ancillary services, supplemented with some common services, which were strong initially, but which became eroded over time.

This model is perhaps what is more relevant and appropriate for Tanzania today, given our up-bringing and exposure to regional co-operation under the EACSO, EAC, SADCC, PTA as members. Incremental development of common market, supplemented with a regional investment policy, and the development and selection of regionally administered common services, also as instruments for promoting equity in the regional arrangement, should be able to offer reasonable prospects for Tanzania in the context of the SAR.

# 3. REGIONAL INTEGRATION AND COST BENEFIT ANALYSIS FOR TANZANIA: A SECTORAL APPROACH

## 3.1. Agriculture

Although Tanzania is basically an agricultural economy with over 80% of the population engaged in agriculture, the relationship between the supply and demand of specific products exhibits surpluses of some products and deficits in others. Tanzania's objectives in agricultural development are to efficiently produce food and cash crops, generate foreign exchange, supply domestic industries with raw materials, raise rural income levels and generally alleviate poverty. In the short term, policies to induce growth in the agricultural sector will continue to focus on reversing price distortions and removing losses due to the inefficiencies of the processing and marketing industries and will pay greater attention to research and extension. Many of these objectives have yet to be realized. It is hoped that regional cooperation can be designed to enhance the achievement of these objectives.

The major factors which have constrained agricultural output in Tanzania have been identified as the inadequate supply of inputs (e.g. fertilizer, improved seeds and specific farm implements), poor facilities for research and extension services, poor transportation (wagons, trucks) and communication networks and the lack of adequate credit facilities to farmers. There is a need to explore more closely ways in which regional cooperation could be harnessed to remove these constraints.

Some of the products which Tanzanians consume in greater quantities than produced domestically include rice, sugar, wheat, edible animal and vegetable oils, and milk. The deficit is met by imports the bulk of which come from outside the SAR. There seems to be a good potential for intra-SAR trade in agricultural products. Tanzania has also surpluses which it can offer for export to countries in the region that have deficits in the same products (e.g. coffee, cotton, cashewnuts, maize, coconuts, cloves, sisal fibre, pyrethrum, beeswax).

It is essential that countries which are potential exporters to their neighbours should adopt both policy and investment strategies to facilitate this cooperation in agriculture. Encouraging cross-border investment in development of farming should become a focus for the region's agricultural integration strategy. Steps have already been taken by some SADC countries to attract displaced commercial farmers and to resettle them in countries with land surplus. As some areas of Tanzania have unutilized land and there is need to boost investment in agriculture, there seems to be a case attracting investment flows into Tanzania from other countries in SAR. In this context, the recommendation that a Southern African Land Bureau (SALB) be established to monitor land reserves on a regional basis and intermediate appropriate swaps should be pursued.

Despite the range of variation in soils and climatic conditions across the region most agro-economic zones in the region cut cross one or more national boundaries. Even if both agricultural research and extension were to be organized to correspond to agro-economic zones such organization would better reflect a regional rather than national dimension. This suggests that there is much that can be done to improve the regional farming output and diversification through effective programmes of regional agricultural research and knowledge dissemination. Regional cooperation in agricultural research, disease control and training, development of resistant and improved varieties of crops, control regimens of major disease problems, conservation and land use planning, extension, forestry, plant protection and soil conversation would have a positive impact on the agricultural economy of Tanzania. It is recommended that a regional rather than a national approach to agricultural research be adopted.

The PTA/COMESA agricultural cooperation and development programme entails cooperation in research including exchange of research findings. Regrettably, as noted at the PTA Inter-governmental Committee of Experts' meeting in Kampala in November 1993, tangible benefits have been slim. In addition to SADC, Tanzania may benefit by reviving research cooperation under the relaunched EAC.

The Southern African Centre for Cooperation in Agricultural Research (SACCAR) has in association with Tanzania's Sokoine University ensured a successful joint MSc (Agriculture) programme; with substantial benefit to the country. The SADC seed variety and multiplication unit at Tengeru, Tanzania promises to introduce hybrid crops. The performance of these programmes should be reviewed with a view to adopting similar or modified approaches to other fields of agricultural research and training.

Institutional arrangements to coordinate agricultural research should start from an evaluation of the capacity of existing regional institutions in this area. It would be greatly assisted by an agency funded with sufficient resources to 'contract out' which could be an expanded SACCAR or Southern African Regional Commission for the Conversation and Utilization of the Soil (SARCCUS) or a new Southern African Foundation for Agricultural Research (SAFAR). The institutional arrangements should be designed to facilitate intensive dialogue within SAR to define and agree on a regional research agenda and to have the means to implement such an agenda.

A condition for achieving the increase in output required to meet the expanding regional market/demand both for food and cash crops will be an effective marketing, pricing and transport system capable of moving products between Tanzania and other countries in the region. Whether the costs of an efficient marketing and pricing system which is capable of moving surplus from one part of the region to another will continue be borne publicly or by private commercial operators will depend on the speed and form of marketing reforms in different countries in SAR. In any case, there is considerable scope for increased efficiency in stock-holding arrangements. Overall, it is reasonable to state that, in agriculture the proposals in favour of a regional approach to land settlement, joint infrastructural investments and regional approach to food security offer promising potentials.

### 3.2. Manufacturing

The manufacturing sector in Tanzania contributes a modest share of 7.6% to the GDP (Economic Survey, 1995). The performance of the manufacturing sector has not been very impressive for a number of reasons: the lack of an adequate physical infrastructure (especially power and water), poor back-up and maintenance facilities, and financial constraints including liquidity problems. Some industries have found it difficult to withstand the competitive pressures which have come with import liberalization. Many industries have had a limited capacity to invest in new technology and modernize their aging plant and machinery partly because of their weakened financial position and partly because of their having operated under a protected import substitution region for many years. These constrains ought to be addressed for the sustainable development of the sector and the economy as a whole. Some of these problems will need to be addressed with a regional perspective to enable the manufacturers to respond to the challenging economic opportunities in the region.

Existing manufacturing industry is in very bad shape. The question which should be posed is how regional economic cooperation can be deployed to invigorate some of the ailing industries. Options for regional joint ventures and cooperation in the field of industrial operations and the sharing of various capabilities such as marketing, maintenance and repair, technological innovations and adaptations and organizational changes should be explored case by case.

The sector has been subjected to several policy measures in recent years such as trade liberalization which has introduced competition from imports and from domestic activities. The Open General License Scheme was introduced to facilitate availability of imported inputs and spare parts for production and rehabilitation of industries. Increased competition has induced efforts towards improvement of production efficiency and improvement in product quality. However, many industries have had difficulties in adjusting to new competitive pressures as they had been used to operating under import-substitution industrialization supplying goods to the protected local market.

The performance of manufactured exports is closely associated with the performance of the manufacturing sector as a whole. For the textile industry, Valk (1992) also found that export performance is related to the total performance. Three main phases of manufactured exports' performance can be identified during 1966-90. The three phases are: the 1966-80 period characterized by rapid industrialization associated with a decline in manufactured exports; 1980-85 period of stagnation and industrialization associated with a decline in manufactured exports; and the 1986-90 period of recovery of manufacturing output and exports. The share of manufactured exports to total exports stagnated at around 14-15% during 1970-80, declined to 13.1% during 1981-85 and started rising after the mid-1980s averaging 21.1% during 1985-90 (Ndulu and Semboja, 1994). Manufactured exports consist of textiles and clothing (26%, other processed minerals and materials (19%) dominated by cement, and petroleum and industrial chemicals (20%) dominated by petroleum. The rate of capacity utilization has remained low at less than 50% in many industries as shown in table 3.1.

**Table 3.1: CAPACITY UTILIZATION OF TANZANIA'S MANUFACTURING SECTOR (in %)**

| Industry | 1980 | 1985 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|---|
| Textiles | 46.6 | 22.3 | 22.9 | 29.0 | 30.0 | 28.0 | 27.3 |
| Fertilizers | 38.0 | 30.9 | 24.7 | 13.0 | 15.0 | - | 9.0 |
| Leather & associates | 40.0 | 17.7 | 8.6 | 12.0 | 14.0 | 13.0 | 9.0 |
| Cement | 22.9 | 28.5 | 44.0 | 29.0 | 48.0 | 50.4 | 59.0 |
| Cigarettes | 80.3 | 47.5 | 58.5 | 66.0 | 68.0 | 78.0 | 72.9 |
| Soft Drinks | - | 16.0 | 29.0 | 30.0 | 17.0 | 30.0 | 24.9 |
| Beer | 75.0 | 59.0 | 42.0 | 35.0 | 41.0 | 39.0 | 41.2 |
| Metals | 63.0 | 38.0 | 51.0 | 33.0 | 26.0 | 20.7 | 38.5 |
| Cooking oil | - | 13.0 | 42.0 | 18.6 | 32.0 | 62.0 | 50.8 |
| Tyres, Tubes | - | 37.0 | 61.0 | 63.0 | 53.0 | 45.2 | 65.0 |
| Match Boxes | 61.0 | 77.0 | 51.0 | 90.0 | 111.0 | 65.0 | 25.0 |

**Source:** Ministry of Industries & Trade, 1994.

Economic liberalization has ensured a switch from an inward to outward-oriented trade policy as demonstrated by comparative figures for the effective protection rates (EPRs) for 1986 and 1989/90 (Table 7). Save for two all the ten activities experienced a lower protection in 1989/90. Experience has shown that EPRs favour import-substitution industries at the expense of (agricultural) exports.

**Table 3.2: TANZANIA: EFFECTIVE PROTECTION RATES FOR VARIOUS ACTIVITIES.**

| **Activity** | **1986** | **1990** |
|---|---|---|
| Beverages & Tobacco | 83.8 | 63.7 |
| Food products | 65.0 | 38.1 |
| Textiles & apparel | 55.4 | 36.1 |
| Tanneries & leather | 41.3 | 36.1 |
| Plastics & pharmaceutical | 45.4 | 40.1 |
| Iron, steel & metal products | 28.1 | 22.7 |
| Agriculture | 24.0 | 19.2 |
| Machines & equipment | 25.0 | 31.7 |
| Rubber, glass, wood, paper | 28.0 | 17.6 |
| Chemicals & fertilizers | 1.6 | 9.42 |

**Source:** Ndulu, et al (1994).

**Table 3.3: COMPARISON OF COST OF PRODUCTION IN TEXTILES: COST/KG IN US$**

| Product/ Activity | Urafiki | Polytex | Morogoro Canvas | Int'l costs |
|---|---|---|---|---|
| Grey Fabric | 3.53 | - | 4.09 | 3.50-5.00 |
| Finished fabric | | | | |
| - dyed linen | 8.00 | | 5.62 | } 6.00-10.00 |
| - printed khanga | 9.29 | 16.47 | | } |
| Printed bedsheet | | 7.05 | | |
| Dyed suiting | | 6.94 | | |
| Cost of yarn | | | | 2.20-3.00 |

**Source:** TEXMAT and URT Annual Trade Report as cited by Ndulu and Semboja (1994).

Trends in firm level efficiency (cost efficiency, labour productivity and capacity utilization) show considerable valuation between firms and over time. In general, however, there seems to be some improvement in most efficiency indicators as shown in table 3.4. These, however, reflect output recovery rather than sustainable investment in technology and build up of technological capabilities (Wangwe, 1993).

**Table 3.4: FIRM LEVEL COST EFFICIENCY, EXPORT ORIENTATION AND CAPACITY UTILIZATION IN 1985 and 1990[7]**

**(a) TEXTILES:**

| Firm | 1985 | 1990 |
|---|---|---|
| (Ubungo Spinning Mills) | | |
| CE | - | 103 |
| EXPOR | - | 10 |
| CU | - | 24.3 |
| LABPRD (Index 1987=100) | - | 186 |
| (Ubungo Garments) | - | |
| CE | - | 22 |
| EXPOR | - | 36.3 |
| CU | 10.1 | 47.1 |
| LABPRD (Index 1987=100) | 114 | 205 |
| (Morogoro Politex) | | |
| CE | - | 45 |
| EXPOR | - | 12.4 |
| CU | - | 42.1 |
| LABPRD (Index 1987=100) | - | 133 |
| (Tanganyika Sunguratex) | | |
| CE | 67 | 93 |
| EXPOR | 0 | 4.5 |
| CU | 43 | 14 |
| LABPRD (INDEX 1987=100) | na | 255 |
| (Urafiki Textile Mills) | | |
| CE | 164 | 61 |
| EXPOR | 5.7 | 7.5 |
| CU | 49 | 42 |
| LABPRD (Index 1987=100) | 94 | 123 |
| (Morogoro Canvas Mills) | | |
| CE | 89 | 37.7 |
| EXPOR | 27.2 | 59.7 |
| CU | 45 | 78 |
| LABPRD (Index 1987=100) | - | 119 |

7. Labour productivity and cost efficiency are measured as indices with 1987 as the base (i.e. 1987 = 100).

**Table 3.4(a) cont'd**

| Firm | 1985 | 1990 |
|---|---|---|
| (Tanzania Bag) | | |
| CE | - | - |
| EXPOR | 217 | 158 |
| CU | - | - |
| LABPRD (Index 1987=100) | 24.4 | 16.6 |
| | 70 | 47 |
| (Tanzania Sisal Pack) | | |
| CE | - | 34.4 |
| EXPOR | - | - |
| CU | - | 9.6 |
| LABPRD (index 1987=100) | - | 418 |
| (Musoma Textiles) | | |
| CE | 80 | 56 |
| EXPOR | - | - |
| CU | 6.9 | 13.1 |
| LABPRD (Index 1987=100) | 79 | 157 |

**Notes:** CE = Cost Efficiency (Unit cost/Weighted average price of inputs)
EXPOR = Ratio of exports to total sales (Export Orientation)
CU = Capacity Utilization, measured as the ratio of output to installed capacity
LABPRD = Labour Productivity, measured as physical output per worker

**Source:** Survey Data by Ndulu and Semboja (1994) and Audited Accounts.

**(b) Leather**

| Firm | 1985 | 1990 |
|---|---|---|
| (Tanzania Tanneries) | | |
| CE | 105 | - |
| EXPOR | 13.1 | - |
| CU | 30.7 | 19 |
| LABPRD (Index 1967=100) | 263 | 14.2 |
| (Morogoro Tanneries) | | |
| CE | - | - |
| EXPOR | 5.5 | - |
| CU | 15 | 5.7 |
| LABPRD (Index 1987=100) | 115 | 65 |
| (Mwanza Tanneries) | | |
| CE | 309 | - |
| EXPOR | - | - |
| CU | 3 | - |
| LABPRD (Index 1987=100) | 43 | - |
| (Morogoro Leather Goods) | | |
| CE | - | - |
| EXPOR | - | - |
| CU | - | 78 |
| LABPRD (Index 1987=100) | - | 125 |
| (Tanzania Shoe Co) | | |
| CE | - | - |
| EXPOR | - | - |
| CU | 47.8 | 10.9 |
| LABPRD (Index 1987=100) | 303 | 108 |

Notes: CE = Cost Efficiency (Unit cost/Weighted average price of inputs);
EXPOR = Ratio of exports to total sales (Export orientation);
CU = Capacity Utilization, measured as the ratio of output to installed capacity;
LABPRD = Labour Productivity, measured as physical output per worker.

**Source:** Survey data by Ndulu and Semboja (1994) and Audited Accounts.

Tanzania labour cost is lower than that of Kenya by a factor of 1.68 in 1972, 2.10 in 1980, 1.71 in 1985 and 6.45 in 1990. The trend in labour cost real exchange suggests that Tanzania's relative competitiveness (based on labour cost) has been rising relative to the trading partners (Ndulu and Semboja, 1994). However, it may also be noted that at the global level the importance of labour cost as a basis for international competitiveness has been declining while the importance of competitiveness based on technological change has been gaining ground. The advantage based on low labour costs may not be sustainable in the longer run if international competitiveness is to be accompanied by rising standards of living.

The future of industrial development in Tanzania is likely to be influenced by three main considerations. First, the balance of agents of industrial development and investors in the sector will shift in favour of the private sector. Second, the role of market forces is likely to be enhanced while that of administrative controls declines. Third, greater weight will need to be placed on considerations of regional and international competitiveness.

Tanzania has continued to put in place an incentive framework (e.g. the investment code of 1990) for domestic and foreign investment. Other countries in Southern Africa are taking various measures to attract investments too. Regional coordination of these efforts would be more effective in attracting both domestic and foreign investments. Introduction of a series of measures such as the easing of foreign exchange constraints, reducing restrictions on borrowing by foreign companies, privatization policies and the opening up of more areas of the manufacturing sector to private investors and the establishment of investment centres by SAR would bring about considerable economic benefits to Tanzania.

Intra-PTA cooperation to increase capacity utilization in existing industries and create new capacities is a major objective of PTA/COMESA. The charter for Multinational Industrial Enterprises (MIE) has been adopted to promote the establishment of cross border investment. The wider market may allow Tanzania to expand its industries which have the potential to break into the region. These include the Songo Songo gas project, the Mufindi Southern Paper Mills pulp and paper industry, wood and clove processing factories, certain lines of the textile and clothing industry, some engineering products such as radiators and electrical goods, cement, etc. A more exact and up-to-date group of such industries could be identified in a special study initiated for that purpose.

Given the huge coal and iron ore deposits in the southern parts of Tanzania the potential exists for a major iron and steel complex. The larger PTA/COMESA market provides room for the consideration of industries which would otherwise not have been contemplated. For example sub-regional transportation industrial projects for possible establishment in Tanzania could include the manufacture of diesel engine mounted chassis, aircraft maintenance, railway rolling stock (SADC project) and the development of inland container and dry ports.

The ADB study has considered two broad approaches to industrial rationalization and restructuring in the region. First, delayed free market option could be adopted whereby tariffs would be lowered for the protected industries and non-tariff barriers would be removed. The rationalization of industries would be based on efficiency considerations within the context of national goals and objectives. This rationalization should take into account the needs of balanced industrial development. Such an approach would be useful in developing selected industries on a regionally rationalized basis. Industries such as fertilizers, steel, industrial chemicals, automobile parts and assembly, metal processing, minerals equipment, textiles and clothing, and agricultural supplies could be developed in that framework after detailed industry-specific studies had been undertaken. These, of necessity would take into account the relative measures of efficiency, existing capacity utilization levels, projected regional demand and employment effects. In carrying out these studies, technical inputs and resources from the ADB, UNIDO and the World Bank could be utilized.

There is a powerful case for Tanzania to continue making improvements in the present package of trade, financial and industrial reforms with a regional perspective. This would imply, among others, the revisiting of the PTA agenda for the removal of tariff and Non-Tariff Barriers (NTBS), and the reaching of bilateral agreements with RSA in the context of these reforms. If followed through the present reform measures would open up the manufacturing sectors of countries in the SAR to competition from imports, but this time at a digestible pace. The manufacturing sector in Tanzania would be brought into closer competition with the corresponding sectors in the region by gradually exposing Tanzania to increased regional competition.

A proposal has been made by the ADB study that a working group on the manufacturing sector's investment in SAR should be established to examine how investment in manufacturing in SAR (domestic, regional and foreign) might be harmonized and increased in order to promote the twin objectives of widening the manufacturing industry in the SAR and of increasing the volume and value of manufactured exports. This proposal is relevant and potentially useful for Tanzania and should be supported.

Before specific steps are taken on this matter it will be necessary to undertake substantive analyses of the manufacturing sector in each country to examine the factors which could have regional significance. Among the factors that could be given special attention would be the current levels of competitiveness of the main industries including the identification of the existing differences between key enterprises across the different sub-sectors and the main causes of such differences; second, the implications of implementing the agreed upon trade and economic reforms in each major sub-sector; third, establishing the current levels of capacity utilization and pinpointing the factors constraining further expansion; and the likelihood of these constraints being alleviated through regional cooperation in the medium term. RSA is the only country in the region that has carried out detailed sub-sectoral studies within the manufacturing industry to establish the current status and prospects in the competitiveness of its products. Although it was found that many products are not internationally competitive within the SAR a number of industrial activities may be competitive in terms of price; because of lower landed costs, and quality in terms of appropriateness of the product to the specific conditions in the region such as soil and climatic conditions. The competitiveness of these products should be assessed in relation to the requirements and conditions in the region. It is in this context that we agree that the special position of RSA makes it sensible to support the ADB study proposal that a credible, neutral multilateral agency should be established to prepare and provide each SADC country with a detailed analysis of the competitiveness of the different manufacturing sub-sectors in the RSA and clearly outline the landed costs of RSA products under the prevailing tariff regime and the proposed new PTA tariff regime over the next five years.

### 3.3. Trade

The import-export trade of Tanzania *vis-a-vis* individual SADC/PTA members constituted about 3-4% of the total external trade. The actual trade is probably higher considering that unrecorded trade could account for a substantial part of the total trade. Some estimates have variously put it at 15-20% of the recorded trade. In 1990 Tanzania sourced 2.1 % of all its imports from PTA countries mostly from Kenya (48%), Zambia (18.2%) and Zimbabwe (17.7%)

and exported 6.2% of all its official exports to the region mostly to Kenya (44.9%), Uganda (15.8%), Zimbabwe (13.9%), Zambia (5.6%), Burundi (3.5%), Rwanda (3.4%) and Malawi (3.2%)[8].

On trade barriers, SAR countries have agreed, under the auspices of PTA to schedule removal of tariff barriers to intra-regional trade. In practice, however, implementation has been very slow and well behind schedule. If implementation is proving to be so problematic there seems to be a need to revisit the removal of tariff barriers especially with the view of devising ways of moving more swiftly into the agreed direction (i.e. of removing tariff barriers to intra-regional trade. The reduction of intra-regional tariffs can be an effective tool for facilitating intra-regional trade on at least two conditions. First, the effective tariff barriers among member states in the region must be lower than that between the region and third parties. Second, the tariff administration must be strengthened so that the exercise to streamline the barriers in favour of intra-regional trade can prove meaningful. The establishment of a common customs of authority may be considered.

It has been shown that non-tariff barriers (NTBs) pose more serious obstacles on inter-regional trade than tariff barriers; therefore, countries in the SAR should act more decisively on removing the non-tariff barriers.

RSA is in a position to provide Tanzania with most of her imports such as machinery, vehicles, and foodstuff. However, despite global trade liberalization, issues of balance of trade do not disappear, and have to be taken note of when making decisions on the direction of trade). Given its proximity some goods from the RSA and other countries in the region may be cheaper and possibly more appropriate to local conditions than alternative European supplies; such potentials should be explored.

Furthermore, the RSA has a variety of export incentive schemes including export subsidies. Tanzania has an uphill battle in facing competition from the RSA, or making inroads into the RSA market. Taking cognizance of the pressure on Zambian industrial and agricultural enterprises from cheaper subsidized RSA imports following Zambia's massive liberalization of commercial and financial markets, Tanzania should avoid the sudden and wholesale elimination of tariffs and other trade barriers particularly when key players i.e. RSA and Zimbabwe seem to be dragging their feet. At least, the place of liberalization and elimination of trade barriers should be agreed upon in negotiations under REI or REC.

To minimize the impact on other emerging regional producers it might be more appropriate for a regional tariff regime *vis-a-vis* the RSA which restricted, for a transitional period of ten years, cuts to 50 per cent of those which apply within the PTA. However, even within the other SAR countries the relative weakness of some economies would need to be taken into account against stronger partners like Kenya and Zimbabwe.

Aid has been playing an important role in influencing the source of imports into Tanzania. The way in which existing aid flows are expended could be changed to encourage greater domestic procurement and procurement of products from the region to the extent feasible.

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8 The percentages were calculated from various tables in the Economic Survey published by the Tanzania Planning Commission in June 1993.

## 3.4. Mining

Although Tanzania's mining sector is one of the smallest in SAR, much of the potential has yet to be exploited. The mining sector in Tanzania contributes 0.9% to the GDP and 10% to official export earnings, with gold accounting for 76% trailed far behind by the diminishing diamonds. Other important mineral products include gemstones and industrial minerals like coal, phosphates, limestone, kaolin and salt.

Tanzania's mining sector is constrained by a number of factors, notably, the poor state of the physical infrastructure, the low level of exploration activities, and poor exploration, extraction and processing of mineral resources technologies. The parastatal mining companies in Tanzania, like those in many other countries in the region, lack the financial resources, research and technical capabilities, and management expertise to keep abreast of the better funded global mining conglomerates which have access to the 'cutting edge' knowledge from elsewhere in the world.

The government is determined to continue to improve its policies by providing an attractive enabling environment for investors in the mining sector such as improving the legal framework and streamlining licensing procedures. As regards minerals trading, emphasis has been placed on the monitoring of market trends and the evolving of new strategies aimed at consolidating and promoting legal trade while at the same time enforcing mineral laws in order to constrain illegal trade. Within the framework of privatization, discussions are underway with foreign companies on the possibility of running the dominantly state-owned mines on a joint venture basis.

Revived interest in the expansion of mining activities in the SAR raises the basic question of whether the exploration, extraction and increased benefits and spin-offs can be best stimulated and sustained on a national or a regionally integrated basis. The ability to remove the constraints in the mining sector at national level are limited because of the high overhead costs and other fixed costs involved in exploration, extraction and processing. If SAR is to retain and enhance its position as a major global producer of key minerals it must maintain its access to new technological developments in mining. This requires all the governments of SAR countries to provide a climate throughout the region conducive to encouraging the entry and expansion of enterprises which are at the frontiers of knowledge.

Private mining companies from the region and particularly from the RSA and the world need to be re-engaged in the SAR mining industry. Such re-engagement should obviously be on a basis which makes their participation more economically productive and beneficial for all the members of SAR than merely being financially profitable for the companies themselves.

The ADB study has proposed that a regional Southern African Minerals and Mining Commission (SAMMIC) be established whose membership would comprise the SAR countries and Zaire. SAMMIC would have two principal roles:

(i) within the region it would be the main data-gathering and information exchange body on the mining industry;

(ii) outside the region it would promote and attract foreign investment in the development of the region's mineral resources.

With time the role of SAMMIC could be expanded to include advisory functions regarding the harmonization of mining policies, the provision of incentives and legislation based on the rigorous analysis of national gains vs regional losses, the initiation of country and mineral studies to examine the costs/benefits of regional integration and mineral-specific regional operations across countries. The ADB study recommends that a feasibility study be undertaken to determine what sort of body SAMMIC should be, how it should be constituted, staffed, financed and governed and how its role and functions should evolve. The study would require extensive consultations with governments and private mining companies in the RSA, the SAR and Zaire. In line with the benefits indicated above, Tanzania would benefit from the establishment of a new Southern Africa Mineral and Mining body (SAMMIC).

Potential benefits should come from the sub-regional centre of mineral technology (MINTEK) that would provide training of government sponsored candidates and techno-economic planning, metallurgical advice, and engineering and process design services at an appropriate discount.

Tanzania would benefit in economic integration in mining activities for the following reasons: First, research and development activities aimed at reducing the costs of production and improving the quality of mineral commodities would enhance its competitiveness in mineral products. Second, cooperation in the building of efficient systems of gathering and transmission of comprehensive, reliable and up-to-date information that would allow Tanzania to evaluate market opportunities, techniques including greater use of mineral commodities exchanges and future training. Action should be taken to alleviate the lack of knowledge across SAR and on the part of potential investors about changes that countries are making in their mineral legislation; investment codes, depletion allowance and royalties; and controls on foreign exchange use. Third harmonization of mineral production policies and marketing strategies would avoid large market imbalances and waste of source financial resources.

### 3.5. Energy

The energy projects in Tanzania aim at supplying power services to the people by using electricity, gasoline, fuel wood, coal, biogas, solar energy and natural gas. The major sources of energy in the country are biomass (90% of the total), oil (8%) and electricity (2%). However, oil and electricity dominate in many modern sector activities.

The national energy policy aims at supplying reliable power to the majority of the people at an affordable cost. To establish an efficient energy production, procurement, transportation, distribution and end-use system in an environmentally sound manner, the government strategy aims at exploiting the abundant hydroelectric sources and development of other indigenous energy resources such as natural gas, coal biogas, solar and wind based energy in collaboration with the private sector. The Government is undertaking a comprehensive review of the power sector to determine if all or parts of it should be and can be privatized. It will also continue the process of streamlining Tanzania Electric Supply Company Ltd (TANESCO) and putting it on a viable commercial footing. The Government has already brought the average tariff rates in line with the long-term marginal cost.

The energy sector perhaps the greatest immediate potential for visible medium-term pay-offs from closer regional cooperation. Progress in SADC has not yet embraced investment in regional facilities for the supply of energy. The orientation of investment remains nationally focused and exhibiting more examples of hesitation and reversals rather than of clear cooperation. Although TANESCO's power generation capacity additions are well planned ahead of time, the record of implementation has been marred by the limited ability to finance the planned installations. For instance, the Pangani Falls Redevelopment Scheme (69 MW) which was planned for 1992 and the Lower Kihansi (162 MW) which was planned for 1995 have both been delayed by two and four years respectively due to the lack of finance (Daily News, 30th November 1994).

Despite the obvious mutual economic benefits of cooperation in energy development, opportunities for realizing significant cost-savings with a regional approach have been foregone in the electricity, liquid fuel and coal sub-sectors. As the threat of destabilization diminishes, SAR countries should become less concerned about national self-sufficiency and control. SADC utilities have formulated a Southern African Power Pool (SAPP) which was supposed to provide access to generation capacities in the region to member countries. This would tap the economies of scale and promote intra-regional trade in energy. The recent commissioning of the 132KV power line from Uganda to supply power to Northern Tanzania is a commendable start in the right direction. As the current power crisis of power shortage in Tanzania persists, the urgency of exploring sources of power from other countries in the region such as Zambia may be more pertinent.

Despite the obvious potential for intra-SAR cooperation in energy, operational problems remain. One problem is associated with the need to settle power bills and other cross-border shipments of power. Most electricity companies derive revenues in local currency while their costs are largely in hard currency. Hence power importation is paid for in hard currency basis which only a few importers in the region can afford. However, the demand for foreign exchange *per se* is likely to be reduced as exchange rate policies in the region reduce over valuation of local currencies.

In the oil and petroleum sector, studies conducted so far indicate the existence of a considerable potential for savings if SAR countries were to develop joint procurement strategies for their oil and petroleum needs. In addition, joint efforts for investment in exploration could be made on a regional rather than a national basis.

### 3.6. Transport and Communication

The transport sector grew by 2.9 percent from 1,697 mH in 1990 to Tshs. 1,747 million in 1991 and by 6.5 (1992) and 6.9 in 1993 at 1976 prices. The Tanzania Road Network constitutes 55,500 kms, 3660 kms of which are paved. The railway system is operated by Tanzania Railways Corporation (TRC) and Tanzania Zambia Railway Authority (TAZARA). The rated capacity of TRC is 2.6 million tons of cargo as against the actual demand of 1.8 million tons, while TAZARA's planned target is 1.3 million tons of freight cargo and 1.5 million passengers (1991). Although the 1,860km TAZARA railway was designed to carry 2.5 million tons a year, it has exceeded 1 million tons only in rare instances. Traffic has declined in recent years from 1,227,630 tons in 1986/87 to 825,123 tons in 1991/92. Passenger traffic declined from 1,161,000 passengers in 1985/86 to 883,000 passengers in 1989/90; with more passengers coming from the Tanzanian side. The performance of the air transportation sub-sector is seen to be declining. While the available ton-km's increased by 102.9% from 34.8 Mn (1990) to 70.6 Mn (1991) by Air Tanzania Corporation, and the Ton-Km in use also rose from 19.3 Mn in 1990 to 29.7 Mn in 1991, the actual utilization fell slightly from an average of 55.6% in 1990 to 42.0% in 1991. Nevertheless, the slightly rising passenger transportation is largely attributed to the launching of intercontinental flight operations to Europe, the Middle East and India, and local private operators. Tanzania provides cargo and passenger handling services at the major ports of Dar es Salaam, Tanga and Mtwara as well as the small ports of Kilwa, Lindi and the ports around Lakes for e.g.. Victoria, Nyasa and Tanganyika. The Dar es Salaam port handles transit freight cargo to and from Zambia, Zaire, Malawi, Burundi, Rwanda and Uganda.

As a coastal, strategically located country with a big catchment area, Tanzania has extensive rail, road, pipeline, water and air transport inter-connections with Southern Africa. This is in the form of the Tanzania-Zambia rail, highway and pipeline linkages (the TAZARA Corridor) and the Malawi Northern Corridor. However, we could mention the Central Corridor to the countries around the Great Lakes countries (Rwanda, Burundi and eastern Zaire); and the inter-connections with Uganda (through lake transport) and with Kenya (through Isebania, Namanga and Taveta).

The transport and communication sectors still continue to face various basic problems including the scarcity of transport equipment, a lack of spare parts and the deteriorating basic transport and communications infrastructure.

Locomotives and wagons procurement/acquisitions to adequately meet the demand is at an average of 51%. The railway system is facing problems mainly attributed to intensive competition from road trucking, a decline in industrial production in Tanzania and a change of trade patterns; Zambia mostly imports from or through South Africa. The decline of air transportation is caused by poor airport services, a lack of spare parts, the deterioration of buildings and runways, aged navigational aids and liquidity problems. The financial performance of the airline sector in SADC is poor with most operators reporting annual losses despite receiving various hidden subsidies such as the low interest rates, free use of air crafts, low charges for airport services and handling facilities. The lack of profitability may be attributed to low fares especially on domestic flights, low load factors and utilization, a shortage of skilled personnel and costly maintenance. The shipping services rendered are adversely affected by the shortage of operating vessels, higher operational costs, a shortage of navigational aids and other working tools and lack of skilled personnel.

Substantial progress has been achieved in improving the management, financing, rehabilitation and maintenance of the infrastructure, particularly in the area of road transport under the first phase of the multi-donor-financed Integrated Roads Project. The government continues to emphasize the maintenance and rehabilitation of infrastructure, while undertaking new investments on a selective basis.

Following upon the first phase of the Integrated Roads Project, the second phase is focused on the strengthening the administration of the transport sector, particularly through the separation of policy making and regulatory functions from management of operations; improving commercial operations of road transport parastatals; strengthening of organizational, management and financial arrangements for the road network, including increasing road charges to the levels necessary to fully fund all the maintenance costs by 1995/96; and the rehabilitation and upgrading of the trunk, regional and rural roads network.

In the past the balance of costs and benefits, especially the foreign exchange considerations with respect to road, rail and port facilities were considered only insofar as the earnings met their own import and capital service costs. It is now time that Tanzania regarded transport facilities as net foreign exchange earners. Tanzania should recover the costs and make a profit on its invisible (transport) exports.

Another PTA project which would clearly benefit Tanzania is the African Joint Air Services (AJAS) project on the joint use of wide body aircraft for intercontinental and regional routes. The AJAS project initiated by Tanzania, Zambia and Uganda Airlines (now joined by South African Airways) may be a prelude to the establishment of a sub-regional airline.

Following the recent liberalization of air transport services to allow for more competition, efforts are being directed towards the introduction of private sector participation in the ownership and/or management of Air Tanzania by commercializing the management of at least the major international airports and establishing an independent regulatory body for air systems by December 1995.

The costs and benefits of the TAZARA are shared equally. Given that its construction was originally basically dictated by projected Zambian copper shipments, and given a stronger economy, Zambia should have paid more or given a loan to meet the construction costs, as it did with the THA. The Dar-es-Salaam harbour would not have been expanded to such an extent without TAZARA. This has involved big capital, as well as operational and dislocational costs to Tanzania. This raises the issue of Zambia's use of both THA and TAZARA, its costs and problems of its recoupment. While Zambia's need for the TAZARA, TAZAMA and TANZAM Highway was both immediate-to ferry the copper, and rather short-term (as evidenced by the reopening of the Southern routes) Tanzania's principal stake in these joint projects is in terms of the long-term development benefits. While Zambia has reaped at least short-term benefits, the net benefits particularly to Tanzania are uncertain for they are dependent on an unguaranteed Zambian traffic. Potential users of TAZARA should continue to be identified through aggressive marketing efforts supported by efforts to increase cost efficiency in the operations.

**Table 3.5:** **TAZARA FREIGHT TRAFFIC FOR VARIOUS COUNTRIES**

| Export | 1986/87-1989/90 | Annual Average | % of Total |
|---|---|---|---|
| Zambia | 1,630,173 | 407,543 | 36.5 |
| Zaire | 122,030 | 30,507 | 2.7 |
| Malawi | 15,007 | 5,002 | 0.5 |
| Zimbabwe | 9,796 | 2,449 | 0.2 |
| Sub-Total | 1,777,006 | 445,501 | 39.9 |
| Imports | | | |
| Zambia | 1,234,722 | 308,680 | 27.8 |
| Zaire | 27,313 | 6,828 | 0.6 |
| Malawi | 11,367 | 2,841 | 0.2 |
| Zimbabwe | 4,990 | 1,247 | 0.1 |
| Sub-total | 1,278,392 | 319,596 | 28.6 |
| Local | | | |
| Tanzania | 1,187,969 | 296,992 | 26.7 |
| Zambia | 213,551 | 53,387 | 4.8 |
| Sub-total | 1,401,520 | 350,379 | 31.5 |
| TOTAL | 4,456,918 | 1,115,476 | 100.0% |

**Source:** TAZARA.

As is clear from Table 3.5 the TAZARA serves not just Tanzania and Zambia but also Zaire, Malawi and Zimbabwe. Malawian traffic increased following the completion of the Malawi Northern Corridor altogether with Malawi Cargo Centres at Dar es Salaam port and rail/road transit facilities in Mbeya.

**Table 3.6: TRC CENTRAL CORRIDOR TRANSIT TRAFFIC BY COUNTRY (TONS)**

| Country | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|
| Ugannda | 4147 | 24323 | 83942 | 77566 | 73810 | 69539 | 57918 |
| Burundi | 100747 | 93229 | 82281 | 107780 | 101863 | 92732 | |
| Zaire | 65767 | 44940 | 43430 | 40921 | 26588 | 17503 | 145187 |
| Rwanda | 5978 | 22931 | 5368 | 8098 | 16413 | 3561 | |
| Zambia | 3901[a] | | | | | | |
| Total | 176889* | 185493* | 215021 | 234365 | 218674 | 183335 | 203105 |

* A small discrepancy in the totals.

[a] All modes.

**Source:** Tanzania Railway Corporation.

Table 3.6 shows transit traffic through the Central transport corridor and the land-locked countries served. Specific institutional arrangements to facilitate Zaire, Burundi and Rwanda (ZBR) transit traffic are governed by the Belbase Agreement that ensures for AMI exclusive use of Dar-es-Salaam port's Berth 1, Kigoma port, concessional port charges, etc. Goods are hauled under a "transit pass" - a relaxed transit facilitation system. Given that concessions to AMI (which monopolizes ZBR traffic) are not accorded to other Clearing and Forwarding agents, this may undermine competition and distort tariffs and modal-route choice. Some analysts have shown that there is a net loss to Tanzania in this AMI set-up. Attempts by THA to take over AMI's premises at the port have not borne fruit.

With European Union (EC) assistance a transit depot has been established at the TRC rail terminal at Isaka from where Rwanda-bound traffic can then be ferried by road (through Lusahanga and Kobero) to Rwanda (and Burundi). Both countries are to benefit from this facility. Both countries had, before they descended into chaos, been considering making a contribution to the rehabilitation of Tanzanian roads relevant to their transit traffic. This relates to the need to prevent overloaded trucks damaging Tanzanian roads. The PTA-imposed harmonized transit charges are heavily transited countries such as Tanzania are not compensatory enough for the levels of wear and tear inflicted on Tanzanian roads.

The PTA has done a lot of work to remove the non-physical barriers to traffic flow and to introduce various traffic facilitation schemes geared to the development of a multi-modal transit regime that ensures cheap, efficient and smooth flow of traffic. The PTA schemes include the reduction of documentary work by consolidating relevant information (in various documents) into few and/or single document e.g. the Road Customs Transit Declaration Document (RCTB) now in use; the establishment of the PTA multinational third party motor vehicle insurance scheme now in operation; the homogenization of road tolls, transit charges, axle loads and vehicle technical specifications; the coupon system for payment of road transit charges, etc. Save for the harmonized road transit charges most of the schemes are beneficial to the heavily transited Tanzania.

The Communication Services consist of postal services, telephone services and telex services. The postal services show a commendable improvement in handling letters and parcels for both surface and airmails. The telephone service, are enhanced though rehabilitation and expansion within and outside the country.

The telephone system is facing some problems of shortage of tools and materials particularly internal PVC, drop-wires and telephone sets.

Like transport, communications costs in SAR are exceptionally high. They have not as yet been influenced by the global revolution in deregulation and enhanced competition. Market size in national SAR economies is limited; transport modes and telecommunications are characterized by natural monopolies; controlled entry of private operators into these sectors has enhanced monopolistic powers and restricted competition, thus breeding inefficiency and resource wastage. A key general recommendation of the ADB study is that priority should be given to widening the market in regional rather than national dimensions with obvious advantages expected from the introduction of greater competition and reducing high capital and operating costs. Achieving this outcome should be the main focus of regional efforts in SAR with the view of taking advantage of the on-going technological revolution in communication.

The creation of a substantial new transport and communication infrastructure may not be the key priority for the SAR in the 1990s. Continued emphasis on infrastructural investment would distract attention from more urgent needs of achieving standardization, harmonization, regional institution-building, deregulation and de-politicization of transport services, greater privatization and creating more competition to ensure the better use of the infrastructure and lowering the costs for services.

Regional cooperation in transport and communications should attempt to coopt rather than resist or ignore the competitive pressures imposed by global operators of services who are not making rapid inroads into the RSA.

## 3.7. Construction

The critical importance of the construction industry throughout SAR has generally gone unrecognized. The sector has more capacity than most others to generate employment; create backward and forward linkages through sub-contracting; and development of indigenous enterprises and indigenous building materials industries. It has a pervasive impact on the economy as it forms a key component in every other sector.

To meet the gravity demands for housing and other construction it is recommended that arrangements be made on at least three fronts.

First, there is a need to encourage the sharing of experience among SAR countries through appropriate regional and institutional arrangements (e.g. SADC) in the development of regional building codes and standards. Second, it is important to encourage cross-border construction work by removing and rationalizing barriers such as licensing and permit requirements. Third, it is pertinent to explore the possibility of developing regional equipment-leasing industries with widespread national retail locations for reconstruction equipment together with the putting into place of a supporting legal and regulatory framework.

### 3.8. Finance

The financial sector in Tanzania is undergoing changes in the context of the on-going economic reforms. The major components of financial sector reform as proposed by the report of the Presidential Banking Commission (1990) are the enactment of new banking and financial institutions legislation; the enhancement of the autonomy of the banks, and of competition and free entry into the financial sector. Major institutional changes in Tanzania's financial landscape have included the establishment of the Capital Markets and Securities Authority (CMSA) in 1994 and the establishment of private sector banks and other financial institutions. The high minimum deposits required by these new banks and their exclusive location in Dar es Salaam suggests that these banks have so far targeted corporate deposits and deposits from high income groups in urban areas rather than catered for the needs of the small businesses and other low income earners in urban and rural ares. The institutional development of capital markets is still in its infancy stages while the securities market is still confined to government securities.

The Banking and financial institutions face a number of problems including a shortage of working tools and equipment (eg. computer facilities), inadequate transport facilities, a shortage of skilled manpower and in addition, repayment for loans issued to companies has been difficult on account of the country's overall poor overall economic situation.

Financial reforms in Tanzania are expected to focus on securing major improvements in competition in the sector to facilitate the needed mobilization of domestic savings and the efficient allocation of available resources. The restructuring of financial institutions, such as the NBC, TIB and CRDB, has been in progress in recent years with a view to developing a more competitive, autonomous and solvent financial system. An essential precondition for the effective functioning of the financial sectors of SADC countries is the restoration of macroeconomic balance at the national level followed by the resumption of economic growth with sustainable increases in real per capita income. To achieve those two objectives countries need to continue implementing key structural and policy reforms to reduce fiscal deficits, limit the expansion of money supply; curb inflation; stabilize exchange rates, reduce the extent of government intervention in the productive and financial sectors; revive domestic savings in financial form; and improve the quality of investment.

There is a strong case for the regional harmonization of national reforms (e.g. in such areas as tax policy, monetary policy, investment-incentive regimes, bank portfolio reconstruction, and exchange rate policy) in order to achieve progressive macroeconomic convergence. At the same time, regional harmonization in these areas may help SAR accelerate the rate at which progress is made on achieving key national objectives. Two regional initiatives can play a particularly useful role: First, establishing a regular regional forum for central bank governors, finance ministers and officials, and private bankers to discuss national reforms and developments and work towards common regional approaches where appropriate. Second, creating a regional research and policy analysis capability in the area of finance to provide the inputs required by regional policy-makers and to enable the pursuit of a structured agenda for regional cooperation on financial sector issues.

Policies toward the financial sector in SAR need to aim at strengthening the role of commercial banks in domestic resource mobilization and improving their capacity to allocate resources more efficiently by requiring them to rely more on market signals and less on administrative direction.

SAR countries should avoid proliferation of too many specialized financial institutions, relying more on multi-purpose banks which are capable of long term lending and providing risk capital. There is a special problem related to the development of financial institutions (DFIs) which are in acute financial distress and in urgent need of 'financial repair' within SADC. SADC governments should not succumb to the temptation of recapitalizing their DFIs on an institution-by-institution basis at the expense of the broader and in-depth financial restructuring needs. DFIs in SAR should clearly not be bailed out by public cash injections without having to make reforms. Distinction need to be made between DFIs that are liquid and those that are insolvent.

The region wide DFI problem provided an opportunity for the achievement of closer regional integration, investment financing through privatization designed to encourage cross-border shareholding and facilitate the restructuring process.

Building an efficient banking system in the region should be accompanied with reviving development financial institutions both at national and regional level. The guiding principle should be the regional and national complementarily of these financial institutions in a larger, competitive regional market environment.

The fragile formal financial markets do not satisfy some important demands for credit especially development finance and credit to small business and the informal sector. Some of the demands of the informal sector's activities are met by informal financial markets. But these are very weak and depict a missed opportunity in sharing information which could reduce transaction costs and improve efficiency in both markets.

Contrary to the efforts of SAR governments, which often equate `informal' with `illegal', the regional strategy for dealing with financial dualism should be to avoid discriminating against the informal sector in the short run while aiming as its absorption into the formal sector in the long run through:

(a) liberalizing macro-financial policies and interest rates;

(b) improving the efficiency and 'reach' of the formal financial sector;

(c) forming better linkages between informal and formal financial systems;

(d) creating a greater exchange rate convertability on the open market; *and*

(e) revamping taxation regimes and harmonizing them on a regional basis.

The presence of the PTA Clearing House reduces the volume of monetary reserves that central banks of member countries must maintain abroad in order to make regional payments. The costs of trading transactions are reduced, as are the fees and commissions that the foreign banks formerly collected. Interregional payments are speeded up. The clearing arrangements give exporter, importer and commercial banks some guarantee against the dangers of non-convertability and the inability to transfer the value transactions.

However, its level of utilization leaves much to be desired. With the trade towards the liberalization of foreign exchange markets the role of PTA clearing house may need to be restructured to cope with the new situation. The option of re-orienting the PTA clearing house towards issues of monetary union should be explored.

Through monetary co-operation there is a possibility of alleviating various monetary crises such as devaluation, fluctuating or floating exchange rates, worldwide inflation, lack of international liquidity, exchange rate restrictions and/or tariff wars within the region. Monetary cooperation would facilitate regional cross-border investment in three dimensions; counteracting trade imbalances, importing skills and technology and increasing extra export capacity.

The development of efficient trade finance systems to support intra-regional trade, in particular through helping to ease foreign exchange constraints and through supporting Tanzanian initiatives to establish efficient trade-financing systems is of crucial benefit to Tanzania. Other measures include these aimed at restoring macroeconomic stability as well as the proposals for an exchange rate stabilization fund (REXSTAB). The establishment of a bank-based system of trade finance and development of the market for pre-shipment export finance (up to one year) with market pricing mechanisms is also recommended. A Regional Exchange Rate Stabilization Fund (REXSTAB) is recommended and aimed at pegging the nominal values of non-SACU currencies to an appropriate numerical value and achieving stability in regional parities. Further analytical and design work needs to be done to develop REXSTAB and outline its size, its *modus operandi*, its governance and the rules concerning eligibility for its support.

Reforms in regional cooperation such as the harmonization of financial regulation or the development of a regional exchange rate stabilization mechanism can facilitate the economic progress of Tanzania. Through the development of capital markets for stock exchanges as a means of mobilizing savings, facilitating privatization and adding to the momentum of marketization. Stock markets can facilitate cross-border investments and regional ownership of ventures. This will require a conducive legal and institutional framework for the operation of capital markets and stock exchanges to be put in place.

### 3.9. Tourism

The number of tourists visiting the country increased steadily from 230166 in 1993 to 290,000 in 1994, i.e. an increase of 26%. There is an increase in tourist agents (tour operators) from 155 in 1992 to 195 in 1993. Rehabilitation, expanding and maintenance of tourist hotels and lodges in Tanzania has become on of the major concerns of TAHI (Tanzania Hotels Investment), a subsidiary of the Tanzania Tourist Board.

Tourism has an enormous potential given the diversity of tourist attractions. Tanzania ranks number one in Africa for the vast area set aside for wild animals and in the variety of species. What is lacking is a development policy for tourism; one that will give a sense of direction in all the efforts geared towards its development.

The problems besetting this sub-sector emanate from the overall poor performance of the entire economy such as the bad roads, a poor transportation network, poor telephone links, adverse weather conditions and inadequate accommodation facilities.

With the aim of substantially increasing revenues from tourism, the Government intends to facilitate the development of tourist attractions and to target key markets for promotion efforts. To this end, the Government will ensure the rehabilitation and construction of infrastructure such as access roads, water supply, electricity, airstrips, and telecommunications and relying, when appropriate, on private sector initiatives. The government hopes to improve the enabling legal and administrative environment so that private operators can invest in new facilities and to undertake rehabilitation of the existing infratstructure for tourism and lease arrangements as part of the parastatal sector reforms.

Given the region's resources for tourism and potential, SAR countries have not captured a significant share of the African market for tourism because of the legacy of conflict and political instability which the region's image projects. The regional potential for tourism can best be realized through cooperative endeavour among the SAR countries and the RSA. The ADB study recommends the establishment of a regional organization for tourism which will involve the full participation of the public and private sectors (modelled on lines similar to the Tourism Organization in the Carribeans). Membership of the organization should be wide and include all SAR national offices for tourism, airlines, hotel and tour operator associations, safari companies and travel media organizations. The proposed regional organization should not be added to the existing structure of organizations in SADC (SADC-TCU) and the RSA-sponsored SARTOC - these should be phased out once the new organization has found its feet.

In addition to this initiative SAR governments will need to cooperate on the standardization of immigration formalities, documentation and regulations regarding currency controls and visas.

### 3.10. Water Resources and Wildlife Resources

The principal water resource problems in SAR are those of growing scarcity and the increasing need for large-scale transfers between water-surplus and water -deficient countries. The absence of regional river basin authorities (RBAs) in SAR is a glaring deficiency. In a water-scarce region, failure to take account of the international nature of river basins may lead to the catastrophic misuse of water. The ADB study recommends that the main river basin in SAR, whose management affects a number of countries, be covered by treaties and RBAs. These RBAs would be responsible for monitoring river basin water resources; the valuation of the social and environmental impact of their development; the negotiating of compensation for adversely affected parties and the management of the river basin water transfers.

The study also recommends that a regional water resource management centre be established to assist SAR states in improving their hydrological data-gathering, basin modelling, demand forecasting, and their negotiating positions *vis-a-vis* each other. Such a body could help in the establishment and staffing of individual RBAs, supporting them with technical expertise and advice.

### 3.11. Forestry and Fisheries

The need to intensify and expand systems of agricultural production in southern Africa presents serious challenges for woodland and tree management in rural areas of the SAR. The process needs to be managed in ways which limit longer-term damage to local ecosystems and encourage the adoption of better integrated land-use systems. Agricultural expansion which encourages land clearance in conjunction with woodland and forest conservation is the appropriate strategy to pursue and there are strong arguments for the formulation of a co-ordination policy on a regional basis.

A substantial body of experience has been accumulated throughout the region in the development of effective strategies for woodland and tree management in rural areas. Regional exchange through national institutions with responsibility for agroforestry, forestry, agriculture and livestock would greatly facilitate a better understanding of how best to allocate development assistance to the sector. Such exchanges would build on those which already take place within the SACCAR and SARCCUS networks. Cooperative exchanges, particularly through regional universities and research organizations would be especially beneficial.

The region has sufficient potential to meet the growing demand for fish consumption though part of the regional strategy will of necessity include the need to export some species while importing others, a strategy already being pursued by RSA. There is scope for establishing and expanding regional joint ventures between trawling enterprises in the RSA and other coastal countries in the SAR.

### 3.12. Regional Labour Markets

About 46% of the population of Tanzania is below 15 years old, of which 45% are women and 47%, men. Tanzania has a labour force of 13.5 million of whom 85 per cent are employed in agriculture( 90% of the women and 78% of the men), 5% of whom are in industry and 10% in services. About 51.5% of the rural economically active population are women and 48.5% are men.

The rate at which the labour force is growing exceeds the rate at which new jobs are being created in the formal sector where only 0.9 million people are engaged in paid employment and of whom only 25% are women. This situation is leading to social tensions and could be major source of social exclusion in Tanzania which threatens to break the social fabric. The need to create more job opportunities and generate more broad-based employment needs to be seen as a major challenge in the direction of reducing poverty and in enhancing social integration.

Human resource development is a priority area in Tanzania. A new Policy on Education (1995) has been adopted by the Government and stresses vocational and polytechnic training with gender equity in mind. Based on the new educational policy, the provision of education and training has been reformed to include the participation of the Government, private sector, NGOs, religious institutions and individuals.

Recognition of the importance of women in development is demonstrated by the establishment of a ministry responsible for the welfare of women and children. The position of the government on women in development is presented in the National Women in Development Policy issued by the government in March 1992.

The formal wage market has always been dominated by the public sector, but its share has been declining since 1984 although its absolute number (of workers) still increased during 1984-91. The share of public sector employment declined from 77% in 1984 to 55% in 1991 (civil service 42% and parastatal sector 23%) (Boa, 1995). Employment in manufacturing was 121,374 in 1985 and increased marginally to 125,655 in 1992 and 125,787 in 1993. Private sector employment has been growing at 10% annually because of the facilitation caused by increased investments in that sector most; mostly labour intensive and employment creating (Boa, 1995).

The Civil Service which employs about 330,000 people is currently undergoing reform. The Government will continue the implementation of a program of civil service reform covering four major elements; personnel control, reducing the size of the civil service, pay reform, and a comprehensive rationalization process on the basis of the organizational reviews of each ministry.

Reform of the parastatal sector and promoting the role of the private sector in the economy continues to receive priority.

Among the more troubling questions which confront the SAR is the issue of access to the RSA's labour markets. The trend toward democratization in the SAR and especially in the RSA can only increase pressure on governments to create employment at a time when economic reforms are having the opposite effects. A further concern for regional governments is that although RSA is concerned about an influx of workers in the semi-skilled and unskilled categories it is attracting a brain-drain of highly educated and trained professionals from the SAR, a new twist to a beg-thy-neighbour policy by denuding the rest of the region of scarce human capital. To avoid such losses from reaching crisis proportions greater regional equilibration of wage rates and living conditions across SAR for highly skilled workers and professionals may need to be considered by SAR governments and donors alike.

The dearth of information on labour movements and the brain drain in the SAR region suggest that it is urgent for SADC and RSA to cooperate in establishing an information system on labour flows as a key measure for ensuring that the policies adopted are based on fact rather than suspicion and anecdotally supported fiction.

### 3.13. Education and Training

Tanzania faces severe problems in the education sector. Gross primary school enrolment rates fell from about 93 percent in 1980 to 70 percent in 1994. Completion rates are also very low. The secondary school gross enrolment rate is low at around 15 per cent. The quality of education has also been declining. The challenge that Tanzania faces now is how best it can design education sector reforms with the benefit of the experiences of other countries in the region.

There is an urgent need to upgrade the qualifications of primary and secondary school teachers throughout SAR, including RSA. A number of innovative approaches have been developed in some SADC countries (e.g. Zimbabwe) which could be applied in others. The ADB study recommends that an exchange of information in this area be organized through SADC under its human resource development programmes.

Information exchange on education policies and on various approaches to the delivery of education and training services may be useful if proven cost effective methods can be adopted. In addition, sharing of specific capacities and facilities can be organized.

Students exchange programmes at all levels can be organized to instil a regional perspective to students. At the postgraduate and higher levels of training, sharing of specialized facilities and capabilities can be a more cost-effective way of delivering education and training than attempting to be self-sufficient in every discipline at national level.

Regional efforts should be aimed at utilizing the RSA's experience with the development of academic support programmes which have useful applications in SADC where effective remedial programmes, could be highly effective in covering the shortfalls in the preparation for university entrance, could be highly effective. Similar regional efforts by SADC to apply techniques employed in the RSA by UNISA for distance learning should be expanded rapidly, while adults should be its main target. There is considerable potential for regional collaboration in developing the Open University concept. It is recommended that this idea be pursued further.

Vocational training and the establishment of distance learning networks are potential areas for cooperation.

To deal with the striking commonalities in skill shortages in all the countries of SAR (including the RSA), the ADB study recommends the selection of particular tertiary institutions as regional 'centres of specialization' for particular subjects and disciplines in which well-developed human resources are in short supply. This proposal is worth exploring in more specific terms.

### 3.14. Health Care

The Government had developed a large and well-distributed health system during the 1970s that delivered basic clinical services. However, the system has deteriorated over the years, and the health status of the Tanzanian population remains poor, partly due to the country's poor economic performance and rapid population growth.

Funding in the health system is inadequate and allocation could be more effective. Annual public health spending is approximately US $ 3.50 per capita. The current situation, and the recent political developments provide strong justifications and opportunities for the development and extension of some regional health sector links. However, any attempts at extending regional integration must be judged against the strict criterion of whether or not they strengthen the capacity of individual countries or their institutions. Efforts to develop new regional links should be carefully selected, and cautiously undertaken. Cooperation possibilities in research, high technology health services and training should be explored based on some degree of rationalization/ specialization. Information exchange on health policies and strategies would be useful in designing more cost effective health delivery systems and facilitating sharing of various experiences.

Cooperation in surveillance of communicable diseases, research networking, training of specialists in various fields, manufacture of pharmaceutical products and the establishment and better utilization of regional centres of socialization in tertiary care is also desirable.

### 3.15. Environment

The Government has taken important moves toward integrating environmental concerns and conservation principles into the country's efforts towards achieving environmentally sustainable development.

A major issue concerns the impact of long-term climatological changes on the future food production potential in the SAR. Moving cereal production into the northern areas of the region could have ecological consequences which need to be carefully studied and taken into account on a regional basis. A large part of the surplus land in Zambia, Tanzania and Mozambique is infested by tsetse flies inimical to both man and domestic livestock but not hostile to wildlife. Large tracts of land in these countries have therefore become home to much of the region's wildlife. Making such land habitable and arable will pose technological, physical and veterinarian challenges of a magnitude which need to be anticipated in advance. The study recommends that regional initiatives be taken now to examine the feasibility of such a major transformation of the region's present pattern of grain production.

A second set of environmental issue concerns potential development of hydro-electric power which needs to take account of the costs borne by riverain valley users and the costs of destroying riverain ecosystems versus the benefits of reducing atmospheric pollution through emissions from thermal power stations that might need to be developed as an alternative. The ADB study recommends that capacity be built up within the SAR in order to develop a body of expertize and a data base from which to examine various options and provide a basis for rational decision-making on the part of regional policy makers.

To monitor such a regime and to calculate the costs of damage and the corresponding amount of compensation, the ADB study recommends movement on a regional basis towards common standards of industrial practices and emission control, and the enforcing of these through a regional environmental Protection Agency. The most cost-effective way for such an agency to work would be to act as an umbrella covering national EPAs which actually would do the work of ground level monitoring and enforcement. The regional EPA would coordinate the activities of its national counterparts and provide support for those that were insufficiently equipped to perform their tasks.

The study also recommends a fusion of the efforts of SADC and CSIR in the application of Geographic Information Systems (GIS) technology for environmental monitoring in the SAR over the coming years. SADC countries need to review their legislation, administrative arrangements and other policies which have an effect on the environment. A study for this purpose needs to be undertaken by SADC for this purpose which ideally would recommend changes and harmonize the national laws and regulations and obtain a better coordinated system to manage the region's to environmental affairs.

## 4. AGENDA FOR THE INTEGRATION PROCESS AND MODALITIES OF IMPLEMENTATION

### 4.1. The Approach Towards Regional Integration

The message that comes from the ADB study, taking into account past experience and attempts to realize regional economic cooperation and integration, is that the approach taken should be incremental and not comprehensive in terms of chosen instruments.

The approach should be focused on a limited number of SAR countries to begin with but should also be open-ended rather than exclusive in terms of membership.

The approach should avoid being too ambitious too early. It may be more pragmatic to start with a limited number of particular sectors, classes of enterprise or zones and extend to new horizons. Bearing this modesty in mind, it should be possible to proceed on a sufficient number of fronts through packages of measures wherein benefits can be evaluated more comprehensively. Piecemeal approaches which might make it more difficult to reconcile optimal allocation with regional equity should be avoided.

The approach should allow for flexibility and rely on variable geometry and multi-speed paradigms. Integration will therefore need to proceed on a multi-speed basis with several focal points. The process could be aided by overcoming obstacles on payments by building on the bilateral arrangements of the sort being promoted in the RSA, in order to encourage trade expansion and rationalization within a harmonized framework of preferences and avoid distortions.

The RSA's impact on the SAR's total economies can only be moderated through a multilateral SAR framework which enhances the attractiveness of SAR markets and promotes coordination in the infrastructural development with a view to increase the RSA-SAR interdependency to the benefit of the latter.

The approach should rely more on market incentives and automaticity rather than on administrative discretion for its incentives and preferences. One implication of this approach is that public intervention should focus on policy formulation and a role which creates a regional policy environment that will enable market-based integration to work. The private sector should also be made more accessible than has been the case in the past.

In order to promote the role of the private sector in regional economic cooperation and regional trade it is important that business associations establish modalities of cooperation, create strategic alliances and exchange information.

### 4.2. Cost-benefit Analysis

Strict cost/benefit criteria should be adopted to determine the nature and extent of Tanzania's participation in the economic integration schemes. These criteria should be based on Tanzania's vision and national goals and objectives such that regional cooperation and regional integration are seen as a means to achieving national goals more effectively. One implication of this is that Tanzania will need to chart out that vision with clear national objectives in the context of which costs and benefits of regional cooperation and integration can be evaluated in a dynamic context. A more detailed analysis of benefits and costs is needed at sectoral level. It is therefore recommended that sectoral studies should be initiated. The study should be prepared for each sector as a basis for broad based discussions engaging the main actors in the respective sectors.

However, it should be recognized right from the beginning that without an in-built design of compensatory mechanisms to distribute these regional gains (i.e. a regional investment and development policy) the pattern of their accrual would most likely benefit the more developed partners. Unequal distribution of the ensuing benefits has been a major shortcoming in many integration schemes including the well-known case of the collapse of the EAC. One lesson is clear, that is, unequal distribution of benefits in the absence of appropriate compensatory mechanisms is not sustainable.

Consistent with the wave of privatization and the movement away from the administrative allocation of resources, the distribution of investments in the region will largely be influenced by the quality of the supportive infrastructure. Efforts will need to be made to raise the infrastructural level of in each member country above a certain minimum so as to facilitate and support a reasonable flow of investments. Continuous efforts to improve the infrastructural conditions in the least attractive countries should be built into the cooperation mechanisms. There is a strong case for a more systematic exploration of lessons that can be drawn from previous experiences and from the experiences of integration arrangements elsewhere. The problem of the distribution of the benefits and costs is so important that a special study of the experiences in the more successful cooperation and integration schemes is necessary.

The role of South Africa as a leader in determining the pace and pattern of regional integration needs to be revisited with a view of defining the role of the smaller member states. While the sheer size and level of development of South Africa gives it a unique place in economic cooperation, the region, place, contribution, obligation and benefits for smaller partners will need to be discussed upfront. The distribution of gains and responsibilities will need to be addressed more clearly.

## 4.3. Integrating Regional Dimensions in National Policy Making

National policy-making mechanisms and processes need to be designed so as to take into account regional implications. In this regard, there is need to establish a consistent mechanism for discussing the implications of various regional issues to national level policies and vice versa at national level or across interested parties.

Regional macro-economic policy coordination and programming will need to be adopted in order to minimize inter-state economic distortions and harmonize various national policies. To achieve regional market integration in a gradual and phased manner the missing institutional link in the SAR needs to be put in place. The institutional missing link is a regional forum for economic policy analysis on issues which need to be thought about by member governments now in order to move closer towards economic integration in the longer term. Such mechanism should have the capacity to analyse the fiscal, monetary and financial systems, the exchange rate and trade issues which affect the region, and should provide the venue for regular ministerial and technocratic dialogue necessary for the achievement of progressive convergence on macroeconomic parameters. The capacity to undertake such policy analysis needs to be created and incorporated within the regional institutional framework. At the sectoral level, there is need to evaluate the capacity and actual performance of existing regional institutions and address the question of their utilization and coordination with national level institutions more critically.

In a number of sectors, the ability to remove constraints and meet investment requirements (including access to new technology) necessary for raising the level of competitiveness may require a regional rather than a national solution. For every such sector it is recommended that a study be made to identify cases where a regional solution is superior to a national solution. Such regional solutions should be articulated and ways of integrating them into national policy making should be identified.

One important dimension of integrating regional concerns entails the more explicit participation of all actors in the development of a national policy. Private sector involvement and participation should be promoted.

### 4.4. Rationalization of Institutions

Given the proliferation of integration organs with costly duplication and overlaps Tanzania should spearhead their rationalization, with a view to reducing rather than increasing their number.

The transformation of SADCC and PTA into SADC and PTA/COMESA presents Tanzania with two organizations with basically the same mission. This is complicated by the current efforts to revive the EAC and the emerging post-apartheid organs including Pretoria's accession to SADC and other regional organs. Tanzania stands to benefits from the rationalization of these organizations.

### 4.5. Rationalization and Efficiency of the Transport Infrastructure

Extending cooperation to infrastructure development and public utility operations should be followed by the eventual establishment of regional operating authorities.

Given its coastal location and heavy investments in the port, railway and highway sector, Tanzania has a comparative advantage in providing transport services to its land-locked neighbours. However, given a post-apartheid southward re-routing of traffic, commercialization of services, improved technology and appropriate marketing strategies can pose challenges to THA and TAZARA from the RSA. In order to improve efficiency in infrastructure priority should be given to regional dimensions and to tapping the advantages of a larger regional market. Benefits would accrue in the form of savings from the various fixed costs involved. Infrastructure investment should aim at filling major gaps in the national and regional context. At the same time there is a need to pay special attention to standardization, harmonization, regional institution building, regional competition and greater commercialization. This should be done with a view to ensuring the better use of existing and newly created i`nfrastructural facilities thus lowering the costs of delivering infrastructural services.

### 4.6. Intra-regional Trade

Intra-regional trade is still very small. Major constraints are bottlenecks on the supply side which make it difficult for production to respond and meet the requirements of the export markets. In addition, other constraints include tariff and non-tariff barriers to trade flows (of goods and services). Continued efforts to remove production bottlenecks and non-tariff barriers and encourage the formalization of the already existing informal cross-border trade would go a long way in enhancing intra-regional trade.

Trade infrastructure and networks continues to favour trade developed countries. There is need to change this situation. One way of contributing to this change of orientation is to undertake studies within the region. Mechanisms should be set up to update information on supply and demand of various products and services in the region.

For all those sectors which are actual or potential producers of exports to SAR it is proposed that a comprehensive analysis be made of the competitiveness of the sector as indicated by appropriate efficiency indicators. In each sector the main sources of competitiveness (or the lack of it) should be identified. The possibility of enhancing the levels of competitiveness should be explored bearing in mind the regional perspectives to problem solving.

For trade liberalization and market integration to be fully credible in SAR, the member states should accept arrangements from which they would stand to lose heavily if they resorted to a reimposition of barriers to market integration. New kinds of external links may therefore be needed if intra-regional trade and investment and ultimately outward-oriented policies are to be promoted. A revised form of SAR association with the EU involving some reciprocal arrangements should be virtually irreversible and should encourage intra-SAR trade and cross-border investment.

Trade should be accompanied by investment flows which should be encouraged by the creation of guarantee mechanisms for cross-border investments. Appropriate investment mechanisms should be put in place incorporating some elements of a 'regional policy" which would be designed to influence, through incentives, the allocation and location of investment even at the cost of some loss from the full benefits of integration.

## 4.7. Financial and Capital Markets

Continued liberalization of the financial and capital markets including the establishment of Stock Exchanges is central to cross-border investment and the formation of regional multinational enterprises. Priority should be given to the regional harmonization of national reforms. This will require the establishment of a regional research and policy analyses capability which would feed into a regional forum for finance ministers, regional central bank governors and other bankers.

While the government is committed to restructuring the distressed development financial institutions the problem of these DFIs should also provide an opportunity for achieving closer regional integration in this area. Cross border shareholdings should be encouraged in the restructuring process.

It will be necessary to have regional investments promoted by a Regional Development Bank (RDB) or by a network of national development financial institutions (DFIs) brought together by the RDB.

Given the need for a regional development bank to complement other regional arrangements, the ADB study has examined various options and concluded that the most viable option is that of having a regional bank structured around the core of a reconstituted DBSA. DBSA has built up a combination of skills and management attributes which will need to be brought to bear on the process of internal integration in the RSA. Its role should extend to providing technical assistance to DFI management and to other financial institutions is SAR whose orientation leans towards promoting long-term investment in the region.

The presence of a PTA clearing house was supposed to have several advantages but the level of its utilization has been lower than planned. Considering the region-wide shift of policies towards liberalization of foreign exchange markets, the role of the PTA clearing house will need to be redefined so that the clearing house is restructured to cope with the changing situation in the region. The option of reorienting the clearing house towards issues of monetary union should be explored.

### 4.8. Harmonization of the Macroeconomic Policies

The harmonization of macroeconomic conditions is an important component of economic cooperation efforts in the region. The adoption of macroeconomic stabilization policies by several countries in the region is an encouraging development. Further pronouncements by some countries (e.g. by Zimbabwe) that they have accepted obligations to remove all restrictions on current account transactions should be seen as a milestone towards economic cooperation in the region.

### 4.9. Implications of Uruguay Round GATT Agreement

Implications of Uruguay Round Negotiations and Agreements on the SAR should be addressed. The extent to which anticipated difficulties in market access can be mitigated through intra-regional trade should be explored. The implications of new issues (i.e. trade in services, TRIPS, TRIMS and WTO) should be explored and their implications on the role of REI and REC in SAR be explicitly addressed. One possible implication is that the case of regional cooperation in production and delivery of services, joint investments and collaboration in technology transfer and technology adaptation efforts may be stronger with a view of enhancing competitiveness in the respective areas.

### 4.10. Implementation of Resolutions

Some economic integration organizations are reduced into talking shops with decisions and agreements reached which remaining on paper with no implementation. Success of integration schemes should be judged not by the list of resolutions passed but tangible projects. The member states should take stock of all resolutions which have not been implemented, review these resolutions and discuss openly what the problem is. One implication may be that the ramifications of regional integration will need to be much more clearly understood than they presently are by national governments, parliaments and the public. Involvement of broader sections of society in the design of cooperation arrangements and their implementation will need to be worked out more systematically.

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