

institutions and private enterprises can make recommendations that Government may adapt and translate into policy measures.

#### Trade Policy Implementation:

The implementation of trade policy is rested with the ministry responsible for trade. However, other sectoral ministries and institutions are also invariably involved in the administration and direction of some trade aspects as is the case in the formulation process. Sectoral ministries which are involved in this process include those responsible for Agriculture and Cooperatives, Energy and Minerals and Tourism and Natural Resources. Other sectoral ministries such as, Finance, Transport and Communications and Foreign Affairs play a facilitating and guiding role in areas of tax management, communications and promotional aspects. Central ministries must therefore understand the implications of their decisions on trade while the ministry responsible for Trade must influence positive decisions from those other ministries. This has particular reference to the ministry responsible with Finance which has the responsibility for the administration of tariffs and other taxes which have a direct bearing in the development of export trade and the management of import trade.

#### Trade Laws and regulations:

The principal Tanzania laws with an impact on trade include:

- i) the Customs and Excise Act
- ii) the Exchange Control Act
- iii) the Investment Promotion Act
- iv) the Business Licensing Act
- v) the Fair Trade Practices Act
- vi) the Company Ordinance

### 3.3. Policy instruments:

#### A. Imports:

The basic policy regarding imports of goods and services into Tanzania (mainland) is formulated by the Government of the United Republic of Tanzania in consultation with the Bank of Tanzania. The regulations in regard to payments for imports and allied financial transactions fall under the sphere of Foreign Exchange Act 1992.

#### Import declaration

Normally, importation of goods into Tanzania is subject to specific import licence. Importers are advised to verify the prevailing import licensing policy and law before undertaking any negotiation with foreign suppliers or their agents. In its desire to evolve an efficient and competitive market economy, the Government has introduced effective 1st July 1993, new import procedures under the Open General Licence Notice, 1993. The Notice stipulates that all goods may be imported into Tanzania without a specific Import Licence (IL) except for few goods specified in the Negative List (appendix 6).

Importers are required to fill in an Import Declaration Form (IDF) available from authorised dealer in six copies for every consignment imports into the country irrespective of magnitude or value.

Preshipment inspection programme:

Imports into Tanzania are subject to compulsory preshipment inspection for quality, quantity and price comparison unless otherwise specifically exempted by the Bank of Tanzania from time to time. It involves a procedure whereby every import transaction of USD 5000 and above is submitted to preshipment inspection in the country of supply to verify the quality, quantity, price as well as customs classification code and dutiable value of the imported goods.

Importers of goods which are subject to preshipment inspection should apply to the Bank of Tanzania along with other documents i.e. copies of import declaration form, inspection form EXCI and proforma/invoices.

After satisfactory completion of the inspection, receipt of an acceptable final invoice and shipping details from the seller, the preshipment inspection agent issues a clean report of finding (CRF). This report is a necessary document for clearance at the entry points for all imports which are subject to preshipment inspection.

Tax assessment programme:

The tax assessment programme is a recent extension to the preshipment inspection programme, governed by the Ministry of Finance circular of 15 October 1992. The objectives of the new tax assessment programme are to enhance the effectiveness of duty and tax assessment and to streamline the clearance of imported goods into Tanzania. The preshipment inspection agent will issue a Tax Assessment Notice (TAN) which is assessed import duties and taxes payable on the inspected goods.

B. Exports:

Exports have been regulated under the Exports Control Ordinance CAP 293 of Tanganyika laws. Regulations governing export of goods and services in Tanzania have been changing from time to time due to its economic situation prevailing at particular period. Last changes were made in July 1993 whereby exporters are no longer required to register themselves with the Bank of Tanzania nor to have export licences from the Board of External Trade.

Instead, exporters are now required to fill in CD3 FORMs being issued by authorised dealers and Customs Department.

Under section 7(1) of the Foreign Exchange Act 1992, the Bank of Tanzania is empowered to regulate the exportation of goods from Tanzania and to prescribe the terms and conditions of payment. The Governor of the Central Bank has delegated powers to the Commissioner of Customs and Excise to allow exportation of goods subject to compliance with certain requirements.

Exports from Tanzania except border trade exports, irrespective of whether they are made on outright sale or on consignment sale basis and irrespective of whether they are sent by land, sea, air or post parcel should be declared correctly and completely by exporters on a prescribed form known as CD3 form. The CD3 form is however, not applicable for transit goods, tourist purchases of up to USD 3000, diplomatic goods or personal effects.

All shipping documents including Bill of Lading, Air Way Bill, Bill of Exchange, certificates i.e. origin/consular relating to a particular export should be routed only through banking channels.

The shipping documents should clearly indicate terms of delivery, i.e. either, FOB or FAS, CIF etc. In all cases of consignment exports, freight is payable by the Tanzania consignor.

#### Taxation system related to trade:

The customs duty system in the country is intended mainly to raise revenue for the Government but also assist in the checks of unnecessary imports by use of the nations scarce foreign exchange; as protective purpose of the local industries and to encourage local manufacture of high value added items. In this connection, duty is high on luxury - conspicuous consumption items and low or nil on necessities like basic raw materials. The rate range from 0-30 per cent. Classification has been based on the Customs Council Classification Nomenclature and to resort to the current international system known as Harmonised System.

Excise duty, is also levied on some imported as well as locally manufactured goods.

Sales tax, this is a tax which yields more revenue than any other and is levied on some imported as well as locally manufactured goods. Just like the customs duty, sales tax rates are lower or exempted on necessities and higher on luxurious goods. Sales tax is not payable on exported goods.

VAT: the Government has undertaken studies on the establishment of a value added tax system in the country. The VAT will be operational in July 1998.

Export tax, was reinstated in 1996 on exports of non traditional products and minerals at a rate of 2 per cent for revenue purposes and enhancement of the Government's efforts/ability to serve better the agricultural sector.

#### 3.3.1. Problems in trade development:

The analysis above reveals numerous problems in Tanzania's efforts in trade development. Obstacles to trade development include; limited range and poor quality of products for exports, poor knowledge of markets and changes in requirements of the market; poor direct business contacts and weakness in production and export management. Others include absence of analysis of costing and pricing for export, import dependence for raw material and components for export production and small producers either not organized or poorly organized.

#### 3.3.2. Assessed technical assistance needs:

In the area of trade development technical assistance can be identified in the following packages among others:

- creation of new potential export opportunities;
- gradually eliminate export sector dependence on import of raw materials and components;
- promotion of local resource based export sector (manufacturing);

- fostering the knowledge of market evolutions. Needs in the areas of institutional capacity building include the reform of the regulatory system to align it with the WTO rules and strengthening of the private sector institutions and Government departments for more active trade policy formulation and improvement of coordination.

#### 3.4. Compliance with WTO Agreements:

The signing of the Uruguay Round Final Act (WTO) in Marrakesh (April 1994) created a need for signatories including Tanzania to search for methods that would allow their respective economies to adapt their institutional framework to the new environment created by the implementation of the WTO Agreements. Such measures could be tailor-made to suit specific country economic situation and finding fresh and closer forms of mutually beneficial global cooperation.

A general overview of the WTO Agreements indicates that the results of the round would provide a substantial improvement in the market access opportunities for the signatories, with tariffs being reduced worldwide by an average of 40 per cent. The results also included a set of new rules covering, *inter alia*, Government support for industry, anti-dumping, dispute settlement, services, intellectual property rights and investment measures.

In agriculture "tariffication" would replace the package of protective measures by a single tariff which will form the basis of liberalization commitments.

Non-tariff measures will be eliminated while minimum market access opportunities would be provided and trade-distorting subsidies reduced. More generally the first disciplines in agricultural trade would in the medium and long term stabilize food import bills and provide potential trade opportunities for agricultural countries. However, in the short term Tanzania and other net food importers would face higher import bills for food. This may increase between 5-10 per cent for particular cereals.

An observation can also be made on the market access opportunities whereby they will be reduced since the preferences to developing countries exporters under Generalized System of Preferences (GSP) and other arrangements providing tariff preferences would be reduced by the cuts in MFN tariffs. Africa alone may lose about USD 2.6 billion annually (Tanzania estimated at USD 15 million).

In the case of textiles, the gradual phasing out of the MFA meant that in the short term Tanzania may not expect positive effects.

#### The Challenges:

As a result of accepting the multilateral trade agreements, Tanzania is confronted with the following challenges. First, Tanzania has to prepare legislations consistent with the commitments under the WTO. This will require changes in existing legislation or regulations or new ones where there is none. The transitional arrangements allow for time to take these domestic adjustments as long as early advantage is taken of these provisions. Secondly, in order to meet transparency obligations for a number of agreements, inconsistent legislations or regulations have to be to the WTO. Thirdly and more importantly, Tanzania has to undertake an assessment of the Uruguay Round results in order to identify trading opportunities and determine the policy responses and strategies required to benefit from them. Fourthly, Tanzania has to prepare for participating in trade negotiations on an ongoing basis. Fifthly, Tanzania will have to devote efforts to the strengthening of her institutional and human resource capacities and trade-related information management.

The Uruguay Round has produced a profound institutional reform of the world trading system. Yet Tanzania, like many other African countries has a long journey to fully participate in the global economy which has been shaped by the Uruguay Round. Tanzania must endeavour to meet its export potential in an increasingly challenging global context. The pressure that global interdependence has placed on nations to compete for their own market as well as that for others, is enormous and growing every day. The pressure has a double edged sword, however. On the one side, it can have very positive impacts on economies such as Tanzania's. For instance, competition can be an effective force for modernization, especially when firms have access to industrial endowments such as skilled workers, physical infrastructure, supplier networks, and industrial maintenance and service facilities. Tanzania, however, must build up its industrial endowments before it can use competition to the fullest advantage as a tool of industrial policy.

### 3.5. Assessed Needs:

#### 3.5.1. Development of infrastructure and support services:

A strong need exists for the establishment of information system about market access opportunities, concessions etc. This need includes also establishment of database for customs to assist in the valuation process. Trade financing schemes should also be considered as an important trade support service.

#### 3.5.2. Knowledge and information dissemination on the WTO agreements:

A strong need exists for increased awareness of the WTO Agreements, both to those concerned with their implementation as well as to the general public. The following elements may be considered:

- improvement of awareness of Uruguay Round Agreements including the rights and obligations for public, private institutions and enterprises;
- development of training forums, contents of which are tailored to suit Tanzania needs (e.g. customs, marketing personnel, quality etc);
- training in negotiation techniques with emphasis on analysis of the various clauses;
- sensitization of private sector operators and the general public;
- preparing and providing relevant information kits.

## IV. TRADE DEVELOPMENT

### 4.1. Supply constraints:

According to the latest National Accounts Statistics, real Gross Domestic Product (GDP) at 1985 prices increased by 4.5 per cent in 1995, compared with a target of 5 per cent for the period and an actual growth rate of 3.0 per cent recorded in 1994. The real per capita income on the mainland therefore increased by 1.7 per cent in 1995, given that the annual population growth rate was 2.8 per cent. The real per capita by 0.2 per cent in 1994.

The increase in economic growth during the year under review was largely accounted for by the good performance in the agricultural sector. The good rains during the 1994/95 planting season, and improved producer price incentives resulting from liberalized crop marketing system, constituted

the main factors which boosted growth of output in the sector to reach 7.0 per cent during 1995 compared to the rate of 2.0 per cent achieved in 1994.

In terms of sectoral contribution to real GDP the primary sector (comprising of agriculture, forestry, fishing, mining and quarrying) contributed the largest share of 58.2 per cent followed by the services sector (trade, finance, administration, transport, storage, communication and hotels) which accounted for 36.2 per cent, and the secondary sector (manufacturing, electricity, water supply and construction) 12.4 per cent.

#### Savings and investment:

GDP at market prices increased by 26.7 per cent TZS 2,398,996 million from TZS 1,894,088 million recorded in 1994. Similarly, the gross disposable income increased by 14.4 per cent, from TZS 2,144,477 to TZS 2,453,951. Investment as measured by the gross fixed capital formation (GCF) increased by 14.8 per cent during 1995.

Domestic savings financed only 28.6 per cent of investments in 1995. In particular, the ratio of investment to GDP declined from 26.5 per cent in 1994 to 24.0 per cent in 1995. However, savings as a proportion of GDP increased from 2.6 per cent in 1994 to 4.6 per cent in 1995. The widening gap between savings and investments continued to be financed by foreign savings.

#### Manufacturing:

The performance of the manufacturing sector recorded a real annual decline of 1 per cent in 1995 compared with real decline of 4.9 per cent in 1994. In line with this performance the sector's share to GDP declined slightly from 6.8 per cent in 1994 to 6.5 per cent in the period under review. The sector continued to suffer from shortage of industrial inputs due to inadequate working capital and stiff competition from imports. The economic liberalization measures and the parastatal sector divestiture programme pursued by the Government are expected to enhance private sector participation in the sector, thereby boosting growth in the sector to 6 per cent in real terms, during the year 1997.

#### Mining:

During 1995/96, several companies continued with their mineral prospecting activities particularly for diamond, gold and gemstones. A number of Canadian, Australian and South African companies were engaged in gold prospecting in Kahama, Nzega and Tarime districts.

Production of diamonds rose sharply from 22,654.0 carats in 1994 to 49,538.1 carats in 1995 following the rehabilitation of the Mwadui mine. Production of gemstones also picked up from 48,507.0 Kgs in 1994 to 93,795.7 Kgs in 1995. At the same time the Bank of Tanzania closed many of its gold buying centres during 1995/96 leading to a decline recorded production of gold. Nevertheless, contribution of the mining sector to GDP recorded a slight increase from 0.87 per cent in 1994 to 0.89 per cent in 1995. The Government is currently preparing a new mining policy which will put more emphasis on private operators' participation in the production and marketing of various minerals. It is expected that, upon implementation of this policy, real growth rate of the sector will reach 10.1 per cent by the end of 1996.

#### Energy:

During the 1995/96 financial year, there was a marked improvement in the performance of the energy sector, recording an increase of 14.5 per cent in total electricity generation, from

1,727.7 million Kwh in 1994/95 to 178.8 million Kwh in 1995/96. Despite the spell of drought experienced in 1995, hydroelectricity supply increased by 22 per cent to 1,669.9 million Kwh in 1995/96, compared to 1,374.2 million Kwh realized in the year before. In particular, power generation increased at the New Pangani Falls and Kidatu stations. The good rains received in the second half of last year were the major contributing factor towards this impressive development. As a result, the Emergency Power Plant (EPP) and the Ubungu Gas Turbines were closed in the last quarter of 1995/96. Thermal electricity generation declined by 12.6 per cent to 308.9 million Kwh in 1995/96 from 353.5 million Kwh in 1994/95. With regards to petroleum refining, output declined, owing to technical problems at the refinery, by 9.0 per cent, falling from 640,000 tonnes in 1994/95 to 582,200 tonnes in 1995/96.

#### 4.2. Trade promotion facilitation and competitiveness:

Enhancement of Tanzania's export and her share in global trade has been the major focus of trade policy. Instruments including trade promotion; facilitation and financing measures have been put in place to supplement liberalization exercise.

Within the scope of export promotion measures, the Government in collaboration with other institutions responsible for trade development set export targets for a particular year and determine various promotional means to achieve them. Some specific promotion measures applied include the following:

- (i) Trade information services - whereby efforts have been made to strengthen available information on markets and disseminate the same to potential exporters.
- (ii) Export Retention Scheme - whereby exporters of non traditional and now even traditional products have been allowed to retain up to 100 per cent of their export proceeds.
- (iii) Duty draw back scheme - whereby exporters are refunded part of the import duty paid on the imported input which is a component of the export product. However Duty Draw Back Scheme has unrefunded claims amounting to T.Shs. 3,514.4 million remaining outstanding for lack of resources. A new approach is needed and a Tax Credit Scheme is under way to address the issue of this incentive on a more workable and reliable way.
- (iv) Trade Fairs - participating in trade fairs has the objective of offering prospective buyers of Tanzanian goods an opportunity; to conclude deals, display their products, to create awareness, and assess potentials for trade and investments. The Dar es Salaam International Trade Fair is held annually.
- (v) Export incentives administration - Tanzania has other incentives to promote exports like the Presidential export award, concessionary interest rate, credit guarantee, exchange rate adjustment etc.
- (vi) Trade facilitation - perhaps one of the bottlenecks to export performance in Tanzania had been the bureaucratic procedures and documentation. Through Trade Facilitation Council, the Government has managed to simplify and standardize as well as reduce trade documents.

#### Export financing problems

The National Bank of Commerce in Tanzania offers export finance facilities at different stages of export operation, both at pre-shipment and post-shipment stages.

The bank offers/credit facilities to exporters at the preshipment stages to enable the exporter procure raw materials, covering of processing costs and pay for packing, freight and insurance.

In Tanzania, as the case may be for some developing countries with similar characteristics, financial support to exporters is not enough. This constitutes one of the most serious constraints to export development. Problems exist at all levels covering the mobilization of equity capital, and term loan finance, short term working capital, their cost and guarantees.

The problems involve the following areas:

- (i) Difficult access to source of finance both for imports of essential manufacturing inputs and for exports in preshipment and post-shipment phases.
- (ii) The banking sector in particular development finance institutions are insufficiently developed to finance export operation. The collateral condition are generally prohibitive.
- (iii) Ineffective and inadequate financing schemes and credit insurance and guarantee scheme.

The most important contribution from the Government is the provision of an unshakable policy commitment for export financing. This is accompanied by a host of policy and operational measures which would set strategic alliances between the Government and the private sector of the economy.

A national export financing programme should be drawn up and must be flexible and adaptable to balancing the interest of different stake holders (Government, savers, exporters and lending institutions).

The Government need also operate a fiscal and monetary policy conducive to giving incentives to exporters. Specific institutions may be established to deal with financing and credit and insurance guarantee schemes.

#### Telecommunications constraint:

Telecommunication services are essential if businesses in Tanzania are to effectively compete in domestic, regional and international markets. With a telephone density of 0.31 per cent, run down network and inadequate telephone lines Tanzania is extremely inadequately supplied with telecommunication services. There is a need to bring about sustained improvement in the availability, reliability and quality of telecom services sufficient to ensure trade is facilitated. The Government is soon to adopt a national telecommunication policy which is expected to upgrade the current situation.

#### Support Institutions:

Effective public sector institutional support for the trade system is imperative to facilitate export development. Global experience has shown that such support is most effectively rendered when it is provided under the leadership and stewardship of a single institution which provides the overall guiding vision for export development. While there are many institutions in Tanzania which play a role in either directly or indirectly supporting trade, none of these has stewardship over the export development function. The roles being played by the various institutions in the trade system are, in some cases, inherited functions from a time when the Government had not yet committed itself to a strategy of private sector led growth, and therefore they are out of alignment with the new vision of economic development. Yet in other cases, many of the stated functions of various departments within different