ICTSD Trade in Services Series

Opportunities and Risks of Liberalising Trade in Services in Tanzania

By **Daima Associates Limited**
National Consultants, Tanzania

ICTSD
International Centre for Trade and Sustainable Development

Issue Paper No. 4

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For more information about ICTSD's Programme on Services visit our website at www.ictsd.org/issarea/services.

ICTSD welcomes feedback and comments on this document. These can be forwarded to Sheila Sabune at ssabune@ictsd.ch.

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ACRONYMS

AATTA	All African Travel and Tourism Association
AfDB	African Development Bank
AQSRB	Architects and Quantity Surveyors Registration Board
BEST	Business Environment Strengthening for Tanzania
BPS	Business Professional Service
CRB	Contractors Registration Board
CTS	Council for Trade in Services
DWT	Deadweight Tonnage
EAC	East African Community
ENT	Economic Needs Test
ERB	Engineers Registration Board
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HKAT	Hotel Keepers Association of Tanzania
ICAO	International Civil Aviation Organization
ICT	Information and Communication Technology
ILO	International Labour Organization
IMO	International Maritime Organization
ISP	Internet Service Provider
IPA	Investment Promotion Agency
ITA	Information Technology Agreement
LDC	Least Developed Country
MNC	Multinational Corporation
MFN	Most Favoured Nation
MTS	Multilateral Trading System
MKUKUTA	National Strategy for Growth and Poverty Reduction
MKURABITA	Property Formalisation Programme
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organisation
NSGPR	National Strategy for Growth and Poverty Reduction
NTB	Non Tariff Barrier
NTP	National Transport Policy
ODA	Overseas Development Aid
OECD	Organisation for Economic Co-operation and Development
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SADC	Southern African Development Community
SME	Small and Medium Enterprise
SUMATRA	Surface and Marine Transport Authority
TAHOA	Tanzania Hunting Operators Association
TASOTA	Association of Travel Agents
TATO	Tanzania Association of Tour Operators
TAZARA	Tanzania-Zambia Railways Authority
TCAA	Tanzania Civil Aviation Authority
TEU	Twenty-Foot Equivalent Unit
THA	Tanzania Harbours Authority
TICS	Tanzania International Container Terminal Services

TMSC	Tanzania Marine Services Company
TNC	Transnational Corporation
TRC	Tanzania Railways Corporation
TTB	Tanzania Tourist Board
TUPE	Transfer of Undertakings Protection of Employment
TZS	Tanzanian Shilling
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

FOREWORD

Eleven years after services were included in the multilateral trading system, the WTO's General Agreement on Trade in Services (GATS) remains an unfinished project. It continues to arouse skepticism among its original proponents, given the arguably low level of liberalization attained so far, and there exists a deep concern among others with regard to the policy orientation of its provisions.

In the context of international negotiations, the GATS was the result of a complex process of political *quid pro quos* that propelled services on the agenda of the Uruguay Round negotiations. By and large, major services providers in the US and Europe acted as *demandeurs* for services rules and for a process that would lead to global trade expansion in the sector. Their counterparts in developing countries were more perplexed and their development concerns, though omnipresent in the process, were ultimately left vague. The absence of data, commercial insecurity and a crippling perception of an unfavorably tilted playing field prevailed in development circles throughout the negotiations. Broad public policy issues remained off the negotiating table. Difficult tensions — arising, for instance, from the fundamentally different approaches of diverse public law traditions to the role of the state in the provision of certain services — permeated the discussions. In short, the eight years of discussions that led to the creation of the GATS represented a hugely rich, creative and analytical effort, characterised by complexity, technicality and a high degree of politisation.

The implementation of the agreement has perpetuated this pattern. As we move into the liberalisation phase mandated as a built-in agenda in the GATS, policy-makers in developing countries, academics, civil society analysts and advocacy organisations have expressed serious reservations about the potential implications of requiring developing countries to make greater market access concessions; the need to sequence liberalisation; the lack of adequate domestic regulatory frameworks; the imperative of universal access for essential services; and institutional reform and good governance. The unresolved discussions on whether liberalisation and the further advancement of negotiations can proceed in the absence of the mandated impact assessment of implementation seems to be most troubling for practically all parties. Indeed, a comprehensive policy analysis of the implications of trade in services for sustainable development, and of the policy spaces available for implementing public policies, is still missing.

At the national level, the impact of services liberalisation on the local economy is among the most challenging and controversial issues. In many developing countries, the services sector has grown over the last two decades to comprise roughly half of their gross domestic production. At the same time, trade in services continues to comprise only a small portion of total trade flow, with most services being domestically generated and supplied, yet the sector remains largely underdeveloped, and the regulatory framework is still incomplete, ineffective and regulatory authorities lack capacity.

At the international level, most developing countries have had difficulties articulating their negotiating positions beyond rhetoric and general statements. So far, only a handful of developing countries have submitted formal requests and offers. While it is true that there may have been posturing due to the perception of deficient progress in other negotiating areas, for some it is simply a lack of genuine understanding or familiarity with the GATS and the WTO negotiating context. This is symptomatic of a lack of deeper, substantive knowledge of their interests in specific sectors and modes of supply and rules, as well as a lack of human resources in relation to negotiating capacity. However, as heavy domestic support measures in agriculture, non-tariff barriers, preference erosion and supply side constraints continue to hamper least developed country (LDC) exports to the markets of developed industrialized countries, the services trade is steadily gaining momentum as an alternative channel for providing new opportunities for diversification and export oriented economic growth.

To address this concern, ICTSD has commissioned a series of studies on the opportunities and risks of liberalising services trade in selected developing countries as part of its programme on Trade in Services and Sustainable Development. These country studies look at Bangladesh, Guatemala, Mozambique, Nicaragua, Pakistan, South Africa and Tanzania. The studies have been carried out in cooperation with local researchers and experts through a participatory process involving a wide range of domestic stakeholders. As such, these studies are intended as a practical tool for policy makers and non-state actors with an interest in services trade. They have been designed to contribute to the reality of developing countries' services economy and to identify offensive and defensive negotiating interests.

As a least developed country, Tanzania is not obliged to take on additional commitments, though it remains actively involved in the GATS negotiations by pursuing a strategy of 'critical engagement'. For Tanzania, services liberalisation can play a positive role in improving the competitiveness of the goods sector and other services, as well as increasing the efficiency of domestic services sectors and export opportunities. At the same time, Tanzania is involved in other regional and bilateral trade negotiations such as the Economic Partnership Agreements with the European Union where further liberalization in services has been high on the agenda.

Produced in collaboration with Daima Associates Limited, this present study identifies tourism, transportation, communication, construction, health and education as priority sectors for Tanzania. Possessing a significant untapped potential, the tourism sector remains the most promising as a source of future economic growth. The transport sector can also play a major role in the facilitation of the process of development given its position as a transit trade route for eight neighbouring states, most of which are land-locked.

This study comes at an opportune time for Tanzania. By implementing concerted measures for macroeconomic stabilization and structural reforms, the country looks to transform its economy towards a higher degree of openness and export orientation. In this context, the paper provides a much needed backstopping analysis for the definition of Mozambique's negotiating interests in bilateral, regional and multilateral negotiations

We hope you will find this pleasant and informative reading and an effective contribution to the debate.

Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

EXECUTIVE SUMMARY

1 Country Overview and Economic Reforms

Tanzania is one of the least-developed countries (LDCs) with a per capita income of USD370 (2005 data). Over the past two decades, Tanzania has evolved from a centrally-planned economy to a market orientated system through a wide range of economic and public policy reforms that have included successful trade liberalisation. The government promotes private sector growth through decentralisation of administrative responsibility and also by limiting its involvement in commercial activities.

The country has continued to implement concerted measures for macroeconomic stabilisation and structural reforms. These measures have opened up the economy and promoted exports with the result that Tanzania's economy is growing more rapidly and the private sector is expanding. Substantial fiscal and monetary reforms adopted by the government have also resulted in lower inflation, more stable interest and exchange rates, and debt sustainability.

Privatisation of state-owned companies, reduction of tariff and non-tariff barriers, and fiscal and monetary reforms have opened doors for business expansion in key sectors.

2 Poverty Reduction and Growth

Detailed studies and analyses confirm that about 36 percent of Tanzanians live below the poverty line, 17 percent are below the food poverty line, only about 68 percent have access to clean water, while life expectancy has declined from 51 years during the 1980s to 44 years during the early 2000s.

In its "National Development Vision 2025", the government of Tanzania aims to improve living standards over the coming two decades. To realise this ambition, different Poverty Reduction Strategies (PRS) have been formulated and are being implemented. The first PRS focused on developing the social sector: increasing government budget allocation to education, health, agriculture, roads, governance and water supply. Implementation of the first Poverty Reduction Strategy resulted in a decline in income poverty. However, non-income poverty remains a major challenge to achieve better living standards. Implementation of the second PRS started in 2005 and aims at halving poverty levels by 2010.

3 Private Sector Development

Achieving the objectives of the second PRS requires the adoption and implementation of policies that address both supply and demand. Policies addressing constraints on the supply side include private sector development (as the engine for growth), infrastructure development as well as institutional capacity building in the public and private sectors. Building a strong private sector can be achieved by formalising the large informal domestic private sector and increasing the inflow of Foreign Direct Investment (FDI) into the productive and service sectors.

To this end the government is implementing an SME (Small and Medium Enterprise) Development Policy, a National Trade Policy and an Agricultural Sector Development Strategy that aim to turn the SME sector into a primary agent for economic growth.

4 Composition of Exports

Tanzania is party to a number of regional trading arrangements, including the East African Community (EAC) and the Southern African Development Community (SADC) whose aim is to expand the domestic market and facilitate access to export markets by less sophisticated producers. Agricultural products are easier to export to regional markets and agriculture alone contributes approximately 45 percent to total output.

Traditional commodities such as coffee, cashew nuts, cotton, tea and tobacco represent a considerable proportion of Tanzania's exports and contribute significantly to poverty reduction given that over six million people, out of a working population of eighteen million, depend on them.

As of the mid 1990s, export of goods and services were the main contributors to overall economic growth. Total exports for the country have increased, although traditional exports are falling. There was a dramatic rise in non-traditional exports (e.g. minerals, manufactured goods and fish products), attributable to increased investments in the mining sector and fishing industry. The tourism sector performed equally well among the service sectors.

5 Services Sector

It is generally accepted that the services sector has the potential to make a major contribution to economic growth.

Trade in services continues to play a key role in the economies of LDCs, in particular those that are Members of the World Trade Organization (WTO) and party to the Multilateral Trading System (MTS). Heavy domestic support measures, export subsidies in agriculture and tariff escalation continue to inhibit LDC exports to developed countries and advanced developing countries.

Many countries, especially LDCs such as Tanzania, are now looking at the services sector as providing new opportunities for export-oriented economic growth.

This report takes a critical look at Tanzania's policy environment in order to make recommendations for policy reforms that will enhance the performance of trade in services and improve the contribution that the sector makes to the economy.

Tanzania needs to identify areas which attract investments in trade in services, undertake an in depth study on the trade in services sector and strengthen its regulatory framework.

There is an urgent need to expedite the implementation of suitable regulatory frameworks to ensure more efficient performance of the service sectors. While there are ongoing initiatives that look at the economy in general, it may be timely to initiate sectoral level measures.

There is also a need to carry out an assessment of Tanzania's key service sectors and to develop and implement policy recommendations in support of the leading sectors. This report seeks to stimulate such a process and to identify a few sectors that are ripe for coverage under policy stabilisation measures in the context of the WTO GATS (General Agreement on Trade in Services) agreement.

6 Services in World Trade

Trade in services currently accounts for about one third of international trade. Technological progress is increasing the importance of trade in services in the world economy. Services play an important role in facilitating all aspects of economic activity. The quality of available services determines the relative efficiency of the economic environment in which firms must operate. Up to 70 percent of added value in the production of goods comes from services.

The GATS is part of the agreements under the WTO, the international agency responsible for the Multilateral Trading System. The GATS constitutes the multilateral trade rules governing cross-border trade in services. All WTO Members are bound by the provisions of the GATS as part of their treaty obligations.

7 Services Sub–Sectors Examined

Trade in services constitutes a major contribution to employment and income generation in Tanzania, although this contribution still lags behind that from trade in goods. This report examines the institutional structure and framework, existing infrastructure, performance, prevailing constraints and policy challenges of six major services sub-sectors in the Tanzanian economy. The review attempts to identify the importance of each sector to the achievement of national socio-economic objectives and the potential role that international trade can play to enhance each sector's performance and its contribution to economic growth. The sectors reviewed are: tourism, transportation, communications, construction, health and education.

8 Recommendations and Conclusion

In the case of the services that have been reviewed in this study there is a wide array of legislation and regulations, often with inadequate coordination between institutions. In order to address this problem and establish a better regulatory environment, a major programme for legal and regulatory reforms, the Programme for Business Environment Strengthening for Tanzania (BEST), was started in 2004.

The six service sectors reviewed in this report make a substantial contribution to economic growth and have the potential to further increase this contribution, subject to policy, legal and regulatory reforms that would lead to compliance with rights and obligations emerging from the Doha Development Agenda on negotiations in trade in services. Opening up the services sector to foreign investment provides a number of benefits, including improved service delivery to the production sector, improved technological capacity and increasing exposure for domestic operators.

Tanzania is endowed with vast natural resources from which it could potentially derive significant benefits. However, doing so will depend on effective linkage with the global market through cost effective and time-efficient transport and communications networks. It will also depend on rapid service delivery to the productive sectors based on better skills and proficiency in such sectors as the construction industry. More investment in the tourism sector and the improvement of relevant ground services are factors that can contribute to attracting additional tourists to Tanzania.

Finally, transformation of the education and health sectors is critical if Tanzania is to establish a sound human resource base essential to improving its competitiveness.

1. ECONOMIC OVERVIEW

1.1 Basic Facts on Tanzania

The United Republic of Tanzania has a landmass of 956,000 square kilometres and a population of 36.2 million people, 76 percent of whom live in rural areas (National Bureau of Statistics, 2005). Tanzania shares borders with Kenya and Uganda to the north, Malawi and Zambia to the south, the Democratic Republic of the Congo (formerly Zaire), Burundi and Rwanda to the west, and is bordered to the east by the Indian Ocean. Tanzania was born out of the 1964 union between Tanganyika and Zanzibar, with the latter comprising the islands of Unguja and Pemba. The official capital is Dodoma, although substantial government functions are still located in Dar es Salaam. The latter is also the commercial centre and the most populated city (about 2.5 million inhabitants)[1] Tanzania's estimated annual population growth rate during the period 2000-2004 was around 2.1 percent (World Bank, 2005a).

Tanzania remains one of the least-developed countries (LDCs) with a per capita income of USD370 in 2005. Over the past two decades, Tanzania has evolved from a centrally-planned economy to a market-orientated system thanks to a wide range of economic and public policy reforms that include successful trade liberalisation. The government promotes private sector growth through reduced interference in commercial activities and decentralisation of administrative responsibility.

1.2 Economic Reforms

In recent years Tanzania has continued implementing concerted measures for macroeconomic stabilisation and structural reforms that have enabled it to transform its economy into one that is more open and export orientated. As a result, the economy is growing more rapidly and the private sector is expanding. Debt sustainability is one of several achievements at the macro-economic level (AfDB, 2003; Treichel, 2005). Substantial fiscal and monetary reforms adopted by the government of Tanzania over the past 10 years have resulted in lower inflation and more stable interest and exchange rates. The rate of inflation fell from 27.1 percent in 1995 to about 4.3 percent in 2005 and real GDP (gross domestic product) rose from 3.6 percent in 1995 to 6.8 percent in 2005. Although the current inflation rate has increased slightly due to high petrol prices and drought-induced food shortages, growth rates remain steady.

1.3 Growth Sectors

Privatisation of state-owned companies, reduction of tariff and non-tariff barriers, and fiscal and monetary reforms have opened doors for business expansion in key sectors.

Agriculture is the most important sector, making up nearly half of GDP between 1996 and 2005. Another sector worth noting in terms of growth is that of mining and quarrying, which grew at an impressive 15.7 percent per annum between 1996 and 2005, tripling its share of GDP (although its overall contribution remains small, at 3.5 percent of GDP in 2005).

1.4 Exports

The single largest export from the mining sector is gold. Gold exports increased from USD629 million in 2004 to USD656 million in 2005. Tourism and gold were the largest and second largest exports respectively in 2005. Other non-traditional exports, including fish and fish products and horticultural products, have also emerged and increased in importance (World Bank, 2005b). Exports of fish and fish products amounted to USD 112.8 million in 2004 and USD 141.6 million in 2005.

2. DEVELOPMENT AND POLICY OBJECTIVES

2.1 Poverty Reduction and Growth

A large proportion - 48 percent in the year 2000 - of Tanzania's population lives on less than one dollar a day. Poverty is largely a rural phenomenon with approximately 57 percent of the population depending on rural economic activities, largely subsistence farming and smallholder cash crop production (Government of Tanzania, 2000). Detailed studies and analyses confirm that about 36 percent of Tanzanians live below the basic needs poverty line and 17 percent are below the food poverty line. Only about 68 percent have access to clean water, while life expectancy has declined from 51 years during the 1980s to 44 years (National Bureau of Statistics, 2002).

In its "National Development Vision 2025", the government aims to improve living standards over the coming two decades. To realise this ambition, different strategies have been formulated and are being implemented. The first cycle of the Poverty Reduction Strategy (PRS-I) focused on social sector development. Its implementation led to an increase in government budget allocation to education, health, agriculture, roads, governance and water. The implementation of PRS-I resulted in a decline in income poverty from 38.6 percent in 1991/92 to 35.7 percent in 2000/01. Although there have been some improvements in income poverty, non-income poverty remains a major challenge to improve living standards (Government of Tanzania, 2004). The second Poverty Reduction Strategy, the "National Strategy for Growth and Poverty Reduction" (NSGPR, known by the Swahili acronym *MKUKUTA*), started in 2005 and aims to halve poverty by 2010.

2.2 Private Sector Development

Achieving the objective of the NSGPR, which is more ambitious than the Millennium Development Goal (MDG) of halving poverty by the year 2015, requires the adoption and implementation of economic policies that address both supply and demand. Policies addressing supply side constraints include private sector development measures, infrastructure development and institutional capacity building in the public and private sectors. The objective is to build a strong private sector as the engine for growth, capable of raising the rate of growth to a minimum of 8 percent as stipulated in the "National Development Vision 2025". This will be achieved through increasing formalisation of a large informal domestic private sector and increasing the inflow of Foreign Direct Investment (FDI) into the productive and service sectors.

2.3 Formalisation of the Economy

The government has adopted and is implementing an SME (small and medium enterprise) Development Policy, a National Trade Policy and an Agricultural Sector Development Strategy that hinge on the development of the SME sector as the primary agent for economic growth. For this to happen, micro enterprises must join the formal economy and two major programmes to stimulate and encourage formalisation are under implementation. The first one is the Property Formalisation Programme (known by its Swahili acronym MKURABITA) which seeks to improve the services of the land registries to ensure that all land and landed property are registered, have value and are usable as security for the purposes of underwriting economic activity. The second one is the Programme for Business Environment Strengthening for Tanzania (BEST) whose objective is to reform and streamline the legal and regulatory frameworks with a view to creating a better investment climate for micro, small and medium enterprises as well as for FDI. The BEST Programme is being accomplished through reform of a number of regulations and procedures, including those for business entry and reporting, and those for export and import. The judicial procedure for commercial conflict resolution is also being reviewed, as is contract enforcement, so as to encourage new business start-ups and foster economic linkages. Experience to date shows that liberalisation of the licensing regime that governs business entry does encourage small businesses that operate in the informal economy to surface into the formal sector, and that better contract enforcement encourages linkages between large firms (especially through FDI) and small firms (in particular indigenous investors).

2.4 Competitive Advantage and Export–Led Growth

One of the objectives of economic liberalisation is to transform and expand the supply base. This can be achieved through focusing on increasing domestic and regional demand. Tanzania is party to a number of regional trading arrangements, including the East African Community (EAC) and the Southern African Development Community (SADC) whose aim is to expand the domestic market and facilitate access to export markets by less sophisticated producers. Agricultural products for example, which are easier to export than traditional commodities in regional markets, contribute approximately 45 percent to total output.

Traditional commodities such as coffee, cashew nuts, cotton, tea and tobacco represent a significant proportion of Tanzania's exports and make an important contribution to poverty reduction given that over six million people, out of a working population of 18 million, depend on them.

Developments in the global economy show that the market for traditional commodities is mature and experiencing very low rates of growth at about 2 percent or so per annum. However, there are other dynamic and new products, such as food and services, whose global markets are growing at more than 10 percent per annum. It would therefore be prudent for LDCs to seek to expand production or delivery of such new products as part of their growth strategies. Diversification of the Tanzanian export basket to include products such as food and horticultural exports as well as services, is therefore crucial to the realisation of the goals of the "National Development Vision 2025".

2.5 Composition of Exports

Diversification into dynamic sectors and products is an important growth strategy for countries such as Tanzania. Export of goods and services were the major contributors to overall economic growth as of the mid 1990s. Total exports for the country (exports to all markets i.e. bilateral, multilateral and regional markets) as shown in Table 1 below, are on the rise except for traditional exports which are falling because of a decline in the prices of agricultural raw materials and a lack of competitiveness (Limbu and Mashindano, 2002). There was a dramatic rise in exports of non-traditional goods (e.g. minerals, manufactured goods and fish products),

Table 1. Tanzania - Composition of Value of Exports (in %)

YEAR	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Traditional exports	56.2	57.1	57.8	60.5	55.4	44.1	27.1	21.0	19.3	20.2	21.2
Non-traditional exports	43.8	42.9	42.2	39.5	44.6	55.9	72.9	79.0	80.7	79.8	78.8
GDP growth	3.5	4.2	3.36	4.0	4.7	4.9	5.7	6.2	5.7	6.7	6.8

Source: World Bank, 2005c.

attributable to increased investments in the mining sector (particularly gold which accounts for 37.8 percent) and the fishing industry which account for 13.5 percent of total non-traditional exports. The tourism sector performed equally well.

2.6 Export Markets

A comparative review of Tanzania's performance in the export market that looks at figures for the EAC and SADC regions as well as exports to the rest of the world, has also been undertaken. The graph in Figure 1 below shows that Tanzania's total exports have been increasing mainly due to the rising share of non traditional exports (particularly export of minerals, fish fillets and tourism services). Further, the graph shows that the value of exports is growing faster in regional markets (intra-regional exports) than in extra regional ones. The share of regional exports rose to 25 percent in 2005 compared with 6.2 percent in 1997, as shown in Table 2.

Figure 1. Intra-Regional (EAC & SADC) and Extra-Regional Exports 1997 – 2005

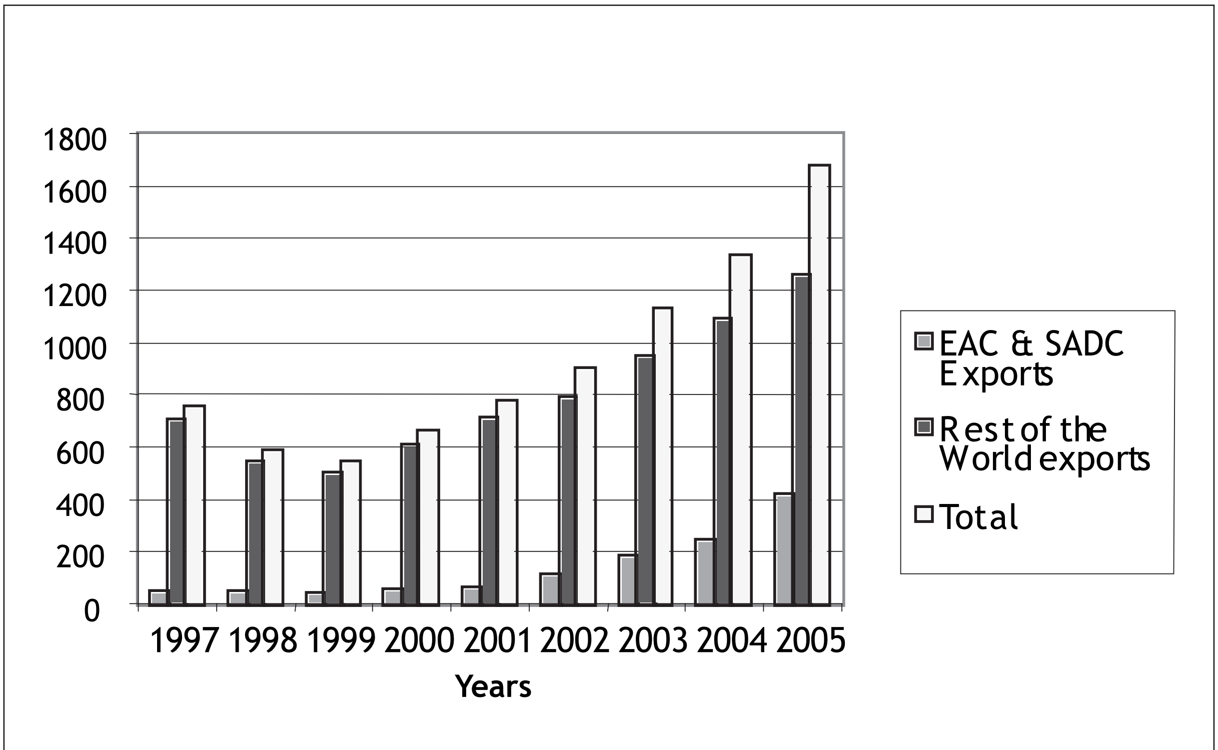

Table 2. Tanzania – Share of Value of Regional Exports Out of Total Exports (%)

YEAR	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Intra-regional exports	6	3	6.2	8.1	7.3	8.9	8.4	12.5	16.2	18.5	25
Extra-regional exports	94	97	93.8	91.9	92.7	91.1	91.6	87.5	83.8	81.5	75
Total exports	100	100	100	100	100	100	100	100	100	100	100

Source: Government of Tanzania, 2004, and own calculation.

Table 2 above shows that intra-regional exports are growing while there is a drop in extra-regional exports. The share of extra regional exports dropped to 75 percent in the year 2005 compared with 93.8 percent in the year 1997. This indicates that Tanzania is enhancing its export competitiveness in intra-regional markets. Balance of trade in goods in all markets continued to experience deficits while trade in services experienced a surplus. In 2005, there was a USD 985.5 million deficit in the balance of trade in goods, while the previous year this figure amounted to USD 866.6 million. On the other hand, trade in services showed a surplus of USD 35.2 million, largely due to the exceptional performance of the tourism sector.

2.7 The Services Sector

The services sector is important as a directly traded product but also as an input into other goods. For this reason, the services sector has performed in an outstanding manner and the government recognises that there is tremendous potential for the service sectors to make a major contribution to economic growth. The timing of this study is opportune in terms of determining the policy initiatives that are necessary to fully realise this potential.

2.8 Sectoral Performance

Except for agriculture whose growth rate declined slightly because of adverse weather, all other sectors posted higher growth rates during 2005 compared with the previous year. The agriculture sector grew by 5.2 percent, down from 5.8 percent in 2004. A drought experienced in many parts of the country in 2005 was the main cause for the slowdown in this sector's performance. Lower agricultural growth during 2005, coupled with increased growth in other sectors, has led to a decline in agriculture's share of total GDP, down to 45.6 percent in 2005 compared with 46.3 percent in 2004.

The mining and quarrying sector grew by 15.7 percent in 2005 compared with a growth rate of 15.4 percent in 2004. Growth in this sector is attributed mainly to new gold mines (notably the Tulawaka gold mine in Biharamulo) and a slight increase in diamond production. However, trade in services, including tourism, also posted higher growth during 2005 at 8.2 percent compared with 7.8 percent in 2004, consistent with increased trading and tourism activities (Government of Tanzania, 2006).

Trade in services continues to play a key role in the economies of LDCs, in particular those that are Members of the WTO and party to the Multilateral Trading System (MTS). Negotiations under the Doha Development Agenda highlight the difficulties of liberalising markets in developed countries and advanced developing countries for the agricultural products of interest to LDCs. There are also many constraints against industrial exports from LDCs to developed and more advanced developing countries. For example, domestic support measures, export subsidies in agriculture, high tariffs and tariff escalation will continue to inhibit the exports of LDCs. Where this is not the case, the lack of core competencies necessary to meet quality and delivery standards, increase the adverse impact of Non Tariff Barriers (NTBs).

2.9 Opportunities and Challenges

2.9.1 The service sector

Many countries are now looking to the service sector as providing new opportunities for export-oriented growth. Least developed countries such as Tanzania, therefore, face major challenges, including policy ones, in seeking new avenues for economic growth to meet the goal of poverty reduction.

The profile and contribution of international trade in services highlight the increasing importance and role of services in economic growth. For instance, services contribute to more than 20 percent of global trade, while 60 percent of all FDI flows are now going into the service sectors. In 2003, trade in services in developing countries contributed to an average of 48 percent share in GDP, as compared with 71 percent in developed countries. The share of employment in services for developing countries is 40 percent while that for developed countries is 70 percent.

For several countries, remittances from nationals working abroad have become a major contributor to the export basket. In the case of Lesotho, for instance, remittances provide an important contribution to the country's national budget. A similar situation exists in Bangladesh and Uganda where, in recent years, remittances have performed at levels comparable to the leading commodity exports such as coffee and cotton.

2.9.2 Opportunities for trade in services

While the particular dynamics of the service sector in LDCs still require close scrutiny owing to unreliable data on trade in services in general, it is clear that LDCs are prioritising this sector in their national development strategies. Some of the specific services that have been identified as being of key interest to LDCs include: financial services, telecommunications, transportation, construction, tourism, health, education and business services.

From the perspective of modes of supply, Modes 3 and 4 remain of particular interest to LDCs. This does not in any way belittle the potential of Mode 2 for services that are consumed abroad and the importance of tourism for many LDCs. However, Mode 3 offers new opportunities and challenges for LDCs given its potential to attract new FDI flows and given the reliance of many international investors on the GATS schedules of specific commitments as a source of information for investment decisions. Equally, Mode 4 is of importance because of the potential for remittances and also the exposure of semi-skilled personnel to working practices that lead to higher productivity and efficiency. Mode 4 has the potential to convert the "brain drain" into a "brain-gain" through transfer of skills and knowledge for LDC workers who are exposed to more efficient working practices in a developed country environment.

It is in this context that this report looks at the policy environment in Tanzania with a view to coming up with recommendations for policy reforms that will enhance the performance of services exports and improve the contribution of the sector to the economy. Tanzania has already undertaken extensive policy reforms leading to major liberalisation of the service sectors and new regulatory frameworks. However, these have not been reflected in the schedules of specific commitments under the GATS in view of exemptions accorded to the country as an LDC. Given that commitments under the GATS are generally irreversible, careful analysis is necessary to establish adequate policy flexibility for future development. However, there is room for undertaking a certain degree of commitments without prejudicing the need for such policy space. This requires rigorous analysis in terms of the contribution of specific service sub-sectors, the role of domestic and foreign private sectors in those services, emerging trends in other countries as well as Tanzania's potential in each specific sector given its natural and human resources endowment and geographical position. Available data confirm the potential of the service sectors in Tanzania. For instance, data from the Tanzania Investment Report show that the flow of FDI into the service sector amounted to 7.9 percent in 1999. Clearly there is room and potential for realising higher FDI inflows into the service sectors. Available data also shows that Tanzania is yet to realise significant earnings from remittances abroad.

2.9.3 Challenges

To support decision-making in the service sectors and sub-sectors, Tanzania needs to identify areas which attract investment in trade in services, undertake an in-depth study on trade in services, strengthen the regulatory framework and prepare a document for stakeholder discussion and input.

A more daunting challenge is that of expediting the process of putting in place suitable regulatory frameworks for more efficient performance of the service sectors. While there are ongoing initiatives that look at the economy in general, it may be timely to initiate sectoral level measures to look at high potential sectors that have not yet been covered by former or ongoing reforms depending on the level of priority that is accorded to such sectors.

To meet these challenges, it will be essential to undertake an assessment of the key service sectors in Tanzania and to develop policy recommendations for the leading sectors. This paper seeks to stimulate such a process and to identify a few sectors that are ripe for coverage under policy stabilisation measures in the context of the WTO GATS.

3. ECONOMIC TRANSFORMATION STRATEGIES AND THE SERVICE SECTOR

3.1 Changing the Structure of the Economy

Trade in services currently accounts for about USD 2.2 trillion or one third of international trade. Technological progress is leading to the rapid expansion of trade in services which is becoming more important to the world economy. Services play an important role in facilitating all aspects of economic activity and act as inputs to merchandise trade. The quality of available services determines the relative efficiency of the economic environment in which firms must operate. Up to 70 percent of added value in the production of goods comes from service inputs.

Services make up a major part of the economies of both developed and developing countries, ranging from 39 percent to 90 percent of GDP. Service industries are already increasing in importance in most developing countries, including in LDCs where they contribute to at least 45 percent of GDP. In Tanzania, services (both tradable and non-tradable) contributed to 52 percent of GDP in 1999 compared with 37 percent in 1987 and 40 percent in 1998. The share of public administration in services was 8 percent in 1987 and 11 percent in both 1998 and 1999.

The GATS constitutes the multilateral trade rules governing cross-border trade in services. All WTO Members are bound by the provisions of the GATS as part of their obligations under the WTO agreement. Any non-compliance or violation of GATS obligations or commitments may render a Member open to economically enforceable dispute settlement proceedings in the WTO.

The GATS requires WTO Members to continue negotiations with each other with the objective of achieving further “progressive liberalisation” of trade in services. WTO Members are expected to make requests or offers of commitments to their trading partners under GATS. This is intended to facilitate the provision of cross-border services in Member countries.

3.2 Role of the Service Sector and Key Economic Sub-Sectors

In Tanzania, trade in services is a major contributor to employment and income generation (although trade in goods contributes more). Services, excluding government services, contribute an average of 40 percent to GDP. In 2001, employment in trade in services (communications, transport, construction and community services) accounted for about 66 percent (see Table 3 below). Moreover trade in services acts as an input to other sectors in the economy.

Table 3. Composition of Total Employment by Sector and Industrial Division (%)

INDUSTRY	PRIVATE				PUBLIC				ALL SECTORS TOTAL			
	Male	Female	Young	Total	Male	Female	Young	Total	Male	Female	Young	Total
Agriculture	11	11	11	11	9	8	46	9	10	10	19	10
Mining & quarrying	1	0	-	1	0	0	-	0	1	0	-	1
Manufacturing	27	22	-	26	4	3	-	4	17	12	-	15
Public utilities	0	0	-	0	4	2	-	3	2	1	-	1
Construction	9	3	-	7	1	1	-	1	5	2	-	4
Commerce	20	20	-	20	0	0	-	0	11	10	-	11
Transport & communications	13	6	53	11	5	2	-	4	9	4	-	8
Finance	7	19	-	10	5	2	-	4	6	10	41	7
Community services	11	19	36	13	71	83	54	75	39	51	-	43
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100

3.3 Situation Analysis in Select Service Sub-Sectors

3.3.1 Major service sub-sectors

This section examines the institutional structure and framework, existing infrastructure, performance, prevailing constraints and policy challenges for six major service sub-sectors in Tanzania. The review attempts to identify each sector's contribution to national socio-economic objectives and the potential of using international trade in services in each sector to enhance its performance and contribution to economic growth. This can be achieved through a strategy that targets improved performance in service sectors to stimulate higher efficiency. The sectors involved are: tourism, transportation, communications, construction, health and education.

3.3.2 Tourism

(a) Overview

Tanzania is endowed with many natural tourist attractions which, given the country's vast size, provide a range of possible activities such as game-viewing, mountain-climbing, sight-seeing, game-hunting and photographic safaris, and swimming and other beach activities. For example, there are twelve national parks, more than thirty game reserves and unique landmarks such as Mount Kilimanjaro, the Serengeti and Ngorongoro crater. Other attractions include an extensive 800 km coastline featuring beautiful natural beaches, historical sites and rich traditions that attract cultural tourism.

The tourism industry can broadly be defined as the provision of goods and services necessary to support tourists, e.g. transport, accommodation and restaurants. Trends in the performance and growth of tourism in Tanzania show that in the last decade, tourism has grown to be an important sector (Curry, 1986; Wade *et al,* 2001). Tourism earnings increased from 15 percent of total exports in the 1980s to 40 percent in the 1990s, becoming the second largest foreign exchange earner after agriculture. Tourism earnings increased from about 1 percent in the 1986-1992 period, to over 6 percent in the 1993-98 period, one of the highest in sub-Saharan Africa (World Trade Centre, various years).

The development of the tourism industry is based on strategies that are guided by the 1996 Integrated Tourism Master Plan which covers a ten-year span. A tourism policy reflecting the master plan has been formulated and is under implementation. The mission of the tourism sector is the development of high-yield, low-volume tourism. Its primary objective is to maximise earnings while ensuring environment conservation and sustainability of resource use. The types of services offered within the tourism sector include the operation of hotels, provision of other services such as safaris that include hunting, restaurants and photographic services.

(b) Legal and regulatory frameworks

The Tourism Division under the ministry of natural resources and tourism is responsible for sector policy and planning, manpower training, licensing of hotels and tourism agencies and supervising the Hotel and Tourism Training Institute and the Tanzania Tourist Board (TTB).

The TTB is the guiding vehicle for tourism promotion and development in Tanzania. Specifically, its roles include:

- Promotion of Tanzania's tourism potential, both within the country and abroad;
- Conducting publicity campaigns (advertising, public relations, road shows, etc) with the objective of attracting more tourists to Tanzania;
- Preparation and publication of destination brochures and other promotional literature;
- Provision of tourist information through the establishment of a tourist information centre in Tanzania; and,
- Undertaking market research to establish an up-to-date tourism database.

Other regulatory authorities include the Tanzania Licensing Authority and the Wildlife Division.

Because of the tourism industry's cross-sectoral linkages, there are other sector laws and regulations that affect the performance and development of this sector. Three laws that have a direct impact on the sector are:

- The Tourist Board Act;
- The Hotel Act;
- The Tourist Agents Licensing Act.

Other laws with a more indirect impact include: the Tanzania Investment Act, the Land Legislation and Village Land Act, the Wildlife Conservation Act, the Antiquities Act and the Marine Parks Act. The corresponding regulations include: the National Park Ordinance, Ngorongoro Conservation Area Ordinance and the Forest Ordinance. These laws and regulations are enforced through regulatory licensing, notably:

- Game licences (hunting tourism);
- Commercial game photography permits;
- Concession licences/permits (National Park Ordinance);
- Tourist agents licences;
- Permissions for access and regulated use of National Parks;
- Permissions for access and regulated use of Ngorongoro Conservation Area;
- Permissions for access and regulated use of Marine Parks;
- Planning consent for specified areas;
- Hotel licences;
- General business licences.

The restrictive nature and extent of the above regulatory licensing regime constitute a major constraint to both domestic and foreign investment. Private sector responses to these constraints have led to the emergence of a number of business associations focusing on policy advocacy between the business sector and the government. These include: the Association of Travel Agents (TASOTA), All African Travel and Tourism Association (AATTA), Tanzania Hunting Operators Association (TAHOA) and Hotel Keepers Association of Tanzania (HKAT). These associations operate under an umbrella body, the Tanzania Association of Tour Operators (TATO).

(c) Sector performance

Tanzania's tourism sector is the lead contributor to exports and has the potential to make an even greater contribution to economic growth. Over the last decade, the country registered an average growth of six percent per annum in tourist receipts. In 1997, tourism contributed 15.8 percent to GDP (USD 2,263 million) and 54 percent of the country's export earnings (USD 717.7 million (Government of Tanzania, 1998). Sectoral trends show remarkable changes in terms of the number of visitors and the number of employees in the tourism industry. For instance, 326,168 international tourists visited Tanzania in 1996 compared with 612,754 in 2005. In 1996 the industry employed about 100,000 people compared with 198,557 in 2004 (Ministry of Natural Resources and Tourism).

(d) Economic input

Tourism also contributes effectively to poverty reduction notably through increased asset ownership and community benefits. The impact of tourism on the economy through tourist expenditure on different (mostly non-traded) goods and services is huge (Kweka, 2004). Tourism also serves to build local capacity to meet better quality standards, particularly in food products.

The tourism sector has positive outcomes on growth strategies through the following mechanisms:

- Stimulation of backward and forward linkage within the economy;
- Employment and income generation;
- Improvement in the balance of payments;
- Stimulation of transfer of technology (including development of skilled and semi-skilled personnel) based on increasing demand for goods and services;
- Improvement of wages and working conditions as income flows increase.

The contribution of tourism to the economy is significant as demonstrated by the figures in Table 4. In 2005 alone 612,754 tourists visited Tanzania and contributed USD824 million as indicated in Tables 4 and 5. It should be noted that given its multiplier effect, the final impact of tourism on GDP is actually much greater (as shown in Table 4).

Table 4. International Visitor Arrivals and Receipts in Tanzania, 1995- 2004

YEAR	NUMBER OF VISITORS ARRIVALS	ANNUAL CHANGE (%)	RECEIPTS (USD MILLION)	RECEIPTS (TZS MILLION)
1995	295,312	12.89	259.4	155,663.00
1996	326,188	10.46	322.37	194,220.00
1997	359,096	10.09	392.39	235,446.00
1998	482,331	34.32	570.00	370,500.00
1999	627,325	30.06	733.28	586,624.00
2000	501,669	-20.03	739.06	628,201.00
2001	525,000	4.65	725.00	665,115.00
2002	575,000	9.52	730.00	705,618.00
2003	576,000	0.17	731.00	759,070.40
2004	582,807	1.18	746.02	812,676.89
2005	612,754	4.8	823.59	909,415.50

Source: Ministry of Natural Resource and Tourism/ Statistical Bulletin (no year).

Table 5. Tourism Business Trends, 1996 - 2004

YEAR	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of International tourists in the country	326,188	-	360,000	627,325	501,669	525,122	575,296	576,198	582,807
Number of International tourists in hotel	296,193	345,000	457,331	564,593	479,652	501,081	550,000	552,000	562,332
Earnings in USD million	322.37	392.41	570.00	733.28	739.06	725.00	730.00	731.00	746.14
Average number of days per tourist	7.30	7.50	7.60	7.70	8.00	8.00	11	11	11
Total tourist bed nights (in 000)	880	1,479	1,695	2,534	1,888	1,955	2,146	2,153	2,193
Average room occupancy per year (%)	56.40	56.30	59.90	63.7	54.02	58.6	51	47	53
Number of employees in tourism industries	100,000	110,000	132,000	148,000	156,050	156,500	157,200	198,000	198,557

(e) Performance constraints

Four factors have underpinned the sector's development to date: private commercial gain, macro-economic growth objectives, environmental and/or cultural conservation and rural development. These factors are influenced by the following conditions and constraints:

- Adequacy and quality of hotels and ground services;
- Access to basic infrastructure services at competitive prices and tariffs including water and power supply, transportation and communications;
- Balance between commercial tourism undertakings and the demand for environmental sustainability;
- Perceptions of welfare benefits to local communities from tourism earnings;
- Limited development of ground and supporting services for the tourism sector culminating in non-competitive prices for tourism facilities at the regional level;
- Lack of suitable training facilities for tourism sector workers and operators;
- Limited and/or difficult access to resources, including finance for marketing and inadequate land management for the development of tourism.

Increased private sector investment in different segments of the tourism industry is the key to developing its largely untapped potential. Some areas, such as training for the delivery of higher quality services, should be developed through public investment. However, increased private sector investment, both through domestic and foreign investment, and the stimulation of greater linkages between foreign and domestic investors is the only way to exploit the sector's potential. Growth in foreign investment in the hotel industry combined with increased domestic investment in sub-sectors that support the hospitality industry, could increase this sector's regional competitiveness. Another way to raise the quality of services involves the training of Tanzanian personnel abroad which also serves to increase their exposure to more demanding environments.

Clearly there are advantages for both Mode 3 and Mode 4 services negotiations for the future development of the industry. However, policies to attract such trade flows in the tourism sector require consensus-building on the part of public and private sector stakeholders, informed by experiences emerging from successful economies.

3.3.3 Transport

(a) Structure of the sector

The transport sector is critical to Tanzania's development as it is a supporting service to the productive sectors as well as a traded service with vast potential for income generation. Four modes of transport make up Tanzania's transport system: ground (road and rail), air, marine and pipeline. The country's transport system is a natural transit trade route for eight neighbouring states, most of which are land-locked. Tanzania is the main gateway for countries in the East and Central African region including Uganda, Rwanda, Burundi, the Democratic Republic of the Congo and Zambia and has links with island nations in the Indian Ocean.

(i) Ground transport

Road Network: The road network consists in a total of 85,000 km, of which 10,300 km are trunk roads, 24,700 km are regional roads, 20,000 km are district roads, 2,450 km are urban roads and 27,550 km are community roads. Only 5 percent of the road network is bituminised.

The medium and long-term objective is to bituminise all trunk roads and to ensure that all regional and key district and urban roads are sufficiently rehabilitated and maintained to ensure smooth flow of traffic. The National Transport Policy (NTP) underlines the need for private sector participation, including by local communities, in the planning and rehabilitation of the roads that pass through their areas.

Railway Network: The Tanzanian railway system has a total track length of 3,685 km (on the mainland) out of which 2,715 km are operated by Tanzania Railways Corporation (TRC) and 970 km by Tanzania-Zambia Railways Authority (TAZARA) (970 km within Tanzania). Together, the two railway systems link 14 of the 20 regions on the mainland and neighbouring countries including Zambia, the Democratic Republic of the Congo, Burundi, Rwanda, Uganda and Kenya. Tanzania Railways Corporation is fully owned by Tanzania and Zambia on a 50/50 basis.

The role of railway transport is extremely important for efficient inter-modal transit traffic. The National Transport Policy underlines the need for further development of modal and inter-modal interface facilities and institutions. For this to happen, involvement of the private sector in infrastructure development and operation of railways is considered necessary.

(ii) Maritime

The major seaports of Dar es Salaam, Tanga and Mtwara are managed and operated by Tanzania Harbours Authority (THA). Tanzania has a vast network of inland waterways served by ports located in lakes Victoria, Tanganyika and Nyasa that are managed by Marine Services Company Ltd. Smaller ports along the Indian Ocean coast include Kilwa, Lindi, Mafia, Pangani and Bagamoyo. The port of Dar es Salaam, which is the country's largest, has 11 berths of which eight are for break-bulk with capacity to handle 6,400,000 tonnes and three are for containers with the capacity to handle 120,000 TEUs (twenty-foot equivalent units) per annum. The port also has an oil jetty with the capacity to handle larger tankers of up to 40,000 DWT (deadweight tonnage). The challenge for the port of Dar es Salaam is to attract greater traffic from its hinterland in Tanzania as well as from neighbouring land-locked countries.

Major seaports in Zanzibar are Malindi and Mkoani, managed and operated by Zanzibar Ports cooperation. Other smaller ports include Chake-Chake, Wesha and Wete in Pemba Island and Mkokotoni in Unguja Island.

Inland shipping is currently undertaken on lakes Victoria, Tanganyika and Nyasa. The major ports are Mwanza, Bukoba and Musoma on Lake Victoria, Kigoma on Lake Tanganyika and Itungi on Lake Nyasa. There is potential for navigation in Lake Rukwa and along some of the larger rivers such as river Kagera. However, inland waterway transportation remains to be fully exploited. Major constraints include lack of sufficient vessels, port facilities and navigational aids.

The National Transport Policy recognises the need to further restructure ports to improve infrastructure, safety and security, and efficiency. Private sector involvement will be important to this restructuring.

(iii) Air transport

Air transport is served by three international airports, i.e. Dar es Salaam, Kilimanjaro and Zanzibar. Major domestic airports include Mwanza, Mtwara, Dodoma, Tabora and a total of sixty other government airports or airstrips. Presently, domestic airports do not generate enough traffic to make all destinations commercially viable.

Domestic air travel is important in view of the long distances between regional and major production centres for the export market. The domestic services also serve to satisfy business and tourism markets. The number of licensed domestic charter operators has increased from 16 in 1992 to 31 in 2001. International scheduled services are governed by bilateral air agreements concluded between Tanzania and other states. However, under the current regional groupings, the challenges that lie ahead include: progressive liberalisation, harmonisation of national air transport policies to ensure regional compatibility, more competitive delivery of services and the integration of national airlines within worldwide air services. Implementation of the Yamoussoukro Decision could provide the best way forward.

(iv) Pipeline transport

There is only one pipeline for petroleum products i.e. the TAZAMA pipeline which transports crude oil products from Dar es Salaam to Ndola in Zambia, a distance of 1,750 km. The Tanzania Harbours Authority operates a single buoy mooring for offloading of crude oil from incoming ships to the TAZAMA pipeline.

In addition, the Songo Songo to Dar es Salaam pipeline transports natural gas. The construction of a third pipeline from Dar es Salaam to Mwanza to transport petroleum products is being considered.

(b) Regulatory framework

Major weaknesses in the regulatory framework for the road sector include poor coordination between authorities and poor governance (corruption and limited enforcement). Therefore, the challenge is to streamline functions, increase coordination and to link policy formulation, regulation and implementation oversight. The authorities involved in the regulation of road transport sector and their functions include:

- Ministries of Communications and Transport (road transport licensing);
- Works (axle-loads control, safety control);
- Home Affairs (traffic law and regulations enforcement);
- Finance (motor vehicles registration, road toll);
- Regional Administration (regional transport licensing);
- Vice President (environment);
- Planning Commission (key transport utilities);
- Trading and Industry (vehicle licensing).

The regulatory framework for the railway transport systems is meant to ensure smooth, safe and reliable services. Yet these objectives are far from being achieved due to infrastructural limitations and the need for major investments in modernisation of both the railroad and the rolling stock. While there are rigorous regulations on engineering, operations and communications procedures, there are little or no regulations governing inter-modal transport relationships. A regulatory body for marine transport (the Surface and Marine Transport Authority – SUMATRA) is operational. Maritime transport is guided by both national and international regulatory regimes. The current Merchant Shipping Act is supplemented by international conventions, treaties and codes of conduct that ensure that the national rules and regulations conform to international standards on practices, procedures and safety as per International Maritime Organization (IMO) regulations. However, there is considerable inadequacy in safety and waterways procedures.

Regarding air transport, Tanzania abides by the International Civil Aviation Organization (ICAO) standards and practices. The Tanzania Civil Aviation Authority (TCAA) regulates this sector.

The National Transport Policy aims to develop an efficient, well integrated and coordinated transport system comprising infrastructure and operations that are economically, financially, socially and environmentally sustainable.

Road transport is all the more important in the context of the national priority of poverty reduction, given that poverty is primarily a rural phenomenon.

(c) Sector performance

(i) Urban commuter services

The number of commuter buses in urban centres continued to increase in 2005 with their numbers in Dar es Salaam, reaching 7,000 up from 6,600 in 2004 (a 6.1 percent increase) (see Table 6).

Table 6. Number of Commuter Buses in Regional Towns, 2003 - 2005

TOWNS	NUMBER OF COMMUTER BUSES		
	2003	2004	2005
Dodoma	150	170	220
Arusha	1,118	1045	837
Moshi	220	720	143
Lindi	3	11	18
Tanga	120	169	136
Morogoro	312	300	300
Pwani	-	130	143
Dar es Salaam	5,801	6,600	7,000
Sumbawanga	-	-	-
Mtwara	35	29	14
Songea	52	76	
Iringa	97	113	154
Shinyanga	-	-	-
Mbeya	355	475	544
Singida	-	9	17
Tabora	15	37	44
Kigoma	66	472	507
Bukoba	19	21	10
Musoma	49	47	48
Mwanza	660	776	886
Manyara	-	47	59
Rukwa	13	32	43

Source: National Bureau of Statistics (no year).

(ii) Railway Transport

Tanzania Railways Corporation: In 2005, TRC transported 1,128,508 tonnes of freight cargo compared with 1,333,249 tonnes in 2004, equivalent to a decrease of 15.4 percent. Similarly, in 2005 a total of 674,029 passengers travelled through TRC compared with 627,969 in 2004, equivalent to an increase of 7.3 percent. Performance for 2006 is bound to be lower in view of the closure of the Dar es Salaam to Dodoma segment of the central railway line. In 2005, TRC faced serious problems that included deterioration and shortage of its rolling stock and deterioration of the telecommunication network systems. The Trans African Railway Company (a private sector operator) transported 103,100 tonnes of freight cargo in 2005 compared with 111,712 tonnes in 2004, equivalent to a decrease of 7.7 percent.

Tanzania Zambia Railways Authority: In 2005, a total of 632,478 tonnes of freight cargo were transported by TAZARA compared with 610,286 tonnes in 2004, equivalent to an increase of 3.6 percent. In 2005, a total of 933,439 passengers travelled with TAZARA, compared with 929,000 in 2004, equivalent to an increase of 0.5 percent. Moreover, earnings from the services rendered by TAZARA totalled TZS 30.4 billion in 2005 compared with TZS 33 billion in 2004.

(iii) Air Transport

The number of domestic passengers increased from 1,950,383 in 2004 to 2,162,538 passengers in 2005, equivalent to an increase of 10.9 percent. Likewise, the number of international flights increased from 102,739 in 2004 to 109,585 flights in 2005, equivalent to an increase of 7 percent.

In 2005, domestic airports transported between 30,971 and 35,734 tonnes of cargo compared with 33,734 tonnes in 2004, equivalent to a 13 percent decline. This was attributed to a decrease in the number of aircrafts involved in direct haulage of fish exports from Mwanza due to poor airport conditions. Parcels and letters increased from 1,573 tonnes in 2004 to 1,978 tonnes in 2005, equivalent to an increase of 26 percent (see Table 7).

Table 7. Number of Flights, Passengers and Cargo Handled by Domestic Airports in 2004 and 2005

DESCRIPTION	2004	2005	% CHANGE
Number of flights	102,739	109,585	7.0
Number of Passsengers	1,950,383	2,162,538	10.8
Cargo (metric tonnes)	35,734	30,971	-13.0
Parcels (metric tonnes)	1,573	1,978	26.0

Source: Tanzania Civil Aviation Authority (no year).

In 2005, TCAA earnings rose to 17 billion from 16.05 billion in 2004, equivalent to an increase of 6 percent. This rise was attributed to a government decision, made in 2005/2006, allowing TCAA to retain 100 percent of its revenue from services offered to passengers.

Air Tanzania Company Limited (ATCL), one of two scheduled flight operators (the other being Precision Air), is owned by the Tanzanian government. The company operates flights between eight domestic urban centres and international destinations, i.e. Dar es Salaam, Zanzibar, Kilimanjaro, Mwanza, Mtwara, Johannesburg, Entebbe and Hahaya. In 2005, ATCL carried a total of 263,751 passengers compared with 268,168 passengers in 2004. The decrease in number of passengers was attributed to intense competition at the domestic and regional levels. Other airlines carried a total of 961,985 domestic passengers compared with 803,333 in 2004, equivalent to an increase of 15.4 percent. Table 8 shows the growth in the number of domestic passengers for the period 2002 to 2005.

Table 8. Domestic Air Transport Passengers, 2002 - 2005

AIRLINES COMPANIES	NUMBER OF PASSENGERS			
	2002	2003	2004	2005
Air Tanzania Company Ltd.	134,370	149,540	268,168	267,329
Precision Air	174,926	248,375	314,720	334,630
Coastal Travel	64,762	76,856	90,277	118,828
Regional Air Services	30,241	23,179	29,353	38,512
Eagle Air	4,799	-	-	-
Air Excel	14,220	-	17,773	19,950
Flight Link	1,357	413	173	-
Zan Air	30,044	35,372	45,641	54,806
Other Companies	31,015	45,372	37,228	125,925
Total	475,734	579,101	803,333	961,985

Source: Tanzania Civil Aviation Authority (no year).

(iv) Maritime transport:
In 2005, the port of Dar es Salaam handled 6,372,000 tonnes of cargo compared with 5,761,000 tonnes in 2004, equivalent to an increase of 10.6 percent. Out of this, 2,551,000 tonnes, or 40 percent of total cargo, was handled by the Tanzania International Container Terminal Services (TICS). A total of 4,446 ships called at the port compared with 3,897 in 2004, equivalent to an increase of 549 ships or 14 percent. In 2005, a total of 708,000 passengers travelled through Dar es Salaam port compared with 652,000 in 2004. In 2005, Tanga port handled 307 ships with 399,509 tonnes compared with 241 ships with 374,000 tonnes in 2004, while Mtwara port handled 131 ships with 147,618 tonnes compared with 144 ships with 156,000 tonnes in 2004. In addition, 29,000 passengers travelled in 2005 through Mtwara compared with 28,000 in 2004.

The Tanzania Marine Services Company (TMSC) continued to provide its services on major lakes, handling 213,358 tonnes of cargo in 2005 compared with 167,177 tonnes in 2004. A total of 477,520 passengers used TMSC services in inland waterway transportation compared with 483,619 passengers in 2004. This compared well with the company's target to handle 154,121 tonnes of cargo and 475,094 passengers in 2005. The level of implementation was above target by 38 percent for cargo and 1 percent for passengers. The company earned TZS 6.7 billion compared with TZS 5.6 billion in 2004: 18 percent above the target of TZS 5.7 billion.

(d) Constraints

Increasing deterioration of the transport sector contributes to a growing trend in unsatisfactory performance. This is attributed to a combination of poor infrastructure as well as other factors that include:

- Limited coordination in a transport network whose functional responsibilities are shared by a large number of institutions with different objectives. These include the ministries responsible for infrastructure, home affairs, regional administration and local government, finance, and industry, trade and marketing;
- Limited human resources with adequate training and experience in transport logistics and strategic transport planning;
- Deteriorating infrastructure and facilities across all transport sub-sectors;
- Inappropriate regulatory framework and regime.

3.3.4 Communications

(a) Role of communications

Communication services provide links between producers and markets and are critical for efficient operation of production and supply chains at the national and international levels. They serve to link different phases of an efficient production chain that includes actual production operations, commercial transactions, advertising and marketing, procurement, sales, payments and delivery activities. The telecommunications network, comprising land-based and cellular digital technology, is the heart of the system.

(b) Structure of the sector

Communication services include telecommunications, postal, courier, radio, television broadcasting services and the Internet. Telecommunication is both a tradable product and a facilitating medium for efficient economic activities in the productive and service sectors.

By 1999, Tanzania had a telephone density of 0.5 percent with a total of 170,000 lines for a population of 30 million. Estimates at that time revealed a hidden and unmet demand of more than 250,000 lines. More recent (2003) estimates raised that demand to 800,000 land lines. The restructuring and divestiture of the public sector monopoly in the communication sector and the registration of five cellular operators have contributed to recent rapid growth of the mobile telephony sector.

One area that needs consideration is the linkage of the rural sector to the national telecommunications network. The introduction of modern and cheap communications should be part of a rural development strategy with the establishment of more tele-centres based on a model established in Sengerema in 2000.

Other dramatic developments in the electronic media sub-sector include the establishment of ten television transmission stations, 15 radio transmitters and the rapid expansion of facilities for Internet connection. By the end of 1999, access and connections rested on the licensing of 13 Internet Service Providers (ISPs) and 158 Internet hosts. The prospects for wide use of electronic commerce in economic activity and business are high when taking into consideration the extent of the coverage of this infrastructure in comparison with other sub-Saharan countries.

There is high growth potential for electronic commerce, i.e. the "*Production, advertising, sale and distribution of products via telecommunication networks*" (WTO, 1998) which greatly simplifies business transactions. It involves all forms of transactions in commercial activities based upon the processing and transmission of digitised data, including text, sound and visual images. It encompasses all activities ranging from advertising, marketing, purchasing, procurement, payment and delivery amongst and between governments, firms and consumers. For a developing country like Tanzania, the services most suited to electronic commerce include Internet access, web site hosting, marketing and advertising, financial and brokerage services, travel and tourism, leisure and information services, distance learning and tele/video-conferencing. Current developments include medical treatment through tele-medicine and even the resolution of civil cases through video conferencing.

(c) Legal and regulatory frameworks

An Information and Communication Technology (ICT) policy is in place in Tanzania to help stimulate the application of existing facilities in the promotion of international commercial undertakings.

The Tanzanian policy identified three factors for a thriving ICT sector. The first is the need to facilitate broad-based access to computer hardware. Second, is the establishment of a suitable legal and regulatory framework to facilitate the application of e-commerce, focusing on such aspects as contractual obligations, payment modalities and security considerations. Finally a strategy needs to be developed for the application of e-commerce in agriculture and the rural setting with emphasis on the provision of extension services and market/price information on the domestic and international markets. Work on the legal framework is ongoing.

(d) Sector performance

From the global perspective, the telecommunications industry is experiencing rapid growth in view of recent technological innovations leading to increasing capacity and declining costs. However, growth in the Tanzanian telecommunication sector is constrained by four factors: high tariffs, inadequate transmission facilities, obsolete equipment and poor management/maintenance of facilities leading to inefficient operations.

The postal courier services include the pick-up, transport and delivery of letters, publications, printed matter, parcels and packages. These remain largely in the hands of Tanzania's Postal Services, a state-owned corporation. However, deregulation of the communications sector has brought about intense competition with the increasing emergence of several private sector courier providers at a time when the demand for local and international postal services is stagnant and declining. There is still room for higher efficiency in the sector. A review of the responsibilities and roles of regulatory versus operating institutions will also facilitate the development of the sector in the right direction.

3.3.5 Construction

(a) Role of the construction sector

The construction industry transforms various resources into infrastructure that supports the delivery of services essential to economic growth. The industry covers the whole process for the development of such infrastructure, ranging from planning and design, to actual construction and maintenance. Such infrastructure includes:

- Buildings;
- Transportation systems and facilities including airports, harbours, highways, subways, bridges, railroads, transit systems, pipelines, and transmission and power lines;
- Structures for fluid containment, control and distribution systems such as water treatment and distribution, sewage collection and treatment, sedimentation lagoons, dams, and irrigation and canal systems; and
- Underground structures, such as tunnels and mines.

(b) Structure of the construction sector

The construction industry in Tanzania includes companies and firms working as consultants, contractors and sub-contractors, material and component producers, plant and equipment suppliers, builders and merchants. The industry has a close relationship with clients and financiers. The government is involved in the industry as a major client as well as financier, regulator and operator.

A substantial part of construction work also takes place in the informal sector. The informal construction sub-sector comprises unregulated and unprotected individuals engaged in economic activities that include the direct supply of labour and materials, as well as the provision of actual construction work.

Worldwide, SMEs account for 90 percent of all enterprises in the construction industry. In developing countries this figure is more than 99 percent. These SMEs are mostly owned by local entrepreneurs and firms. According to data from 2000, in Tanzania, 86 percent of the 1091 registered local building contractors were SMEs capable of undertaking works with a maximum value of about TZS 250,000,000. Seventy four per cent of 531 registered civil contractors were eligible for contracts with a value of up to TZS 375,000,000 and 97 percent of these were local firms or entrepreneurs.

(c) Policies and regulations in the sector

(i) Major Players

The major institutional players in the construction industry are:

- The Ministry of Infrastructure Development representing the government;
- The National Construction Council and other regulatory bodies i.e. registration boards such as the Engineers Registration Board, the Contractors Registration Board etc;
- The Tanzania Bureau of Standards;
- Local government authorities under the Prime Minister's Office, local government and regional administration as well as district councils;
- Training and research institutions;
- Professional associations;
- Bilateral and multilateral development partners and other funding agencies that extend support to the construction industry.

(ii) Registration boards

The registration boards are the most powerful institutions in the sector, empowered to regulate the construction industry, and register and de-register operators on the basis of adherence to a code of conduct that is supported by legal fiat. There are four registration boards with such legal mandate:

- The Contractors Registration Board (CRB) whose mandate is vested in the Contractors Registration Act No. 17 of 1997;
- The Architects and Quantity Surveyors Registration Board, (AQSRB) whose mandate is vested in the Architects and

Quantity Surveyors Registration Act No 16 of 1997; and
- The Engineers Registration Board (ERB) of 1997.

Other key legislation that provides additional guidelines to the sector includes: the Public Procurement Act (2004), the Architects and Quantity Surveyors By-Laws (2000) and the Professional Surveyors (Registration) Act, Section 19(1), No. 2 of 1997.

(iii) Professional and business associations

Currently there are a number of professional and trade associations that focus on administering codes of conduct, performing advocacy roles with the government and other member-driven services. These include:

- Association of Consulting Engineers of Tanzania
- Institution of Engineers of Tanzania
- Engineers Registration Board
- Architects Association of Tanzania
- Tanzania Institute of Quantity Surveyors
- Contractors Association of Tanzania
- Tanzania Association of Civil Engineering Contractors

(d) Performance status

(i) Overview

The construction sector has experienced extraordinary growth over the past 10 years. Its average growth rate increased from 1.3 percent in 1994 to 12 percent in 1998. The contribution of the construction sector to employment creation amounted to 8.9 percent. In 1999 and 2000, the growth of the construction sector averaged 8.5 percent while its contribution to GDP averaged 4.6 percent. The average contribution to total capital formation during the period 1988 to 1997 was 57 percent. In 2005, the construction sector grew by 11.9 percent compared with 10.8 percent in 2004. The growth was mainly attributed to maintenance and rehabilitation of bridges, construction of residential houses, land development and construction of primary and secondary school buildings. The sector's contribution to GDP increased to 5.7 percent from 5.4 percent in 2004.

Informal sector participation is extremely significant since it provides housing and other infrastructure to the rural economy. It accounts for approximately 80 percent of shelter to the rural population and around 50 percent to the urban population.

(ii) Performance of the public sector and status of the road network

The government remains a key player in investment in the sector through the construction of public works, particularly in the road sector. This included routine maintenance of 5,968.4 kilometres of main roads and 906 bridges undertaken in 2005 compared with 6,341 kilometres and 699 bridges maintained in 2004. Also, it was responsible for the maintenance of 10,062 kilometres of regional roads in 2005 compared with 8,674 kilometres in 2004.

The quality of the national and regional road networks attests to the performance of the public sector. In 2005, a total of 5,446.1 kilometres of main roads were in good condition, compared with 4,792.6 kilometres in 2004, equivalent to an increase of 17.8 percent. Likewise, a total of 3,178.1 kilometres were in moderate condition compared with 3,603.4 kilometres in 2004. During the same period, 1,124.1 kilometres of roads were in bad condition compared with 1,538.3 kilometres, equivalent to an improvement of 20.9 percent. Likewise, in 2005, 9,118.4 kilometres of regional roads were in good condition compared with 7,601.1 kilometres in 2004, equivalent to an improvement of 20 percent. A total of 6,436.9 kilometres of roads were in moderate condition compared with 6,595.8 kilometres during 2004. Also, 3,364.5 kilometres of roads were in bad condition in 2005 compared with 4,760.6 kilometres in 2004, equivalent to an improvement of 29.3 percent. Table 9 below presents the status of the major road networks in Tanzania in 2005.

Table 9. Condition of Road Network in Tanzania in 2005

ROAD TYPE	GOOD (KMS)	FAIR (KMS)	POOR (KMS)	TOTAL (KMS)
Trunk Roads				
Tarmac	2,720.1	1,213.3	227.0	3,913.7
Gravel Roads	2,926.0	2,390.2	897.1	6,020.6
Sub-Total	5,646.1	3,603.4	1,124.1	9,934.3
Regional Roads				
Tarmac	250.5	65.5	11.1	327.5
Gravel/Earth Roads	8,867.9	6,371.4	3,353.4	18,629.9
Sub-Total	9,118.4	6,436.9	3,364.5	18,957.4
Grand Total	14,764.5	10,040.3	4,488.6	28,891.7

Source: Ministry of Infrastructure Development (no year).

(iii) Contractors performance status

The CRB registered a total of 3,958 contractors in 2005 compared with 722 in 2004, an increase of 448.2 percent. Out of the total registered, 161 contractors were of foreign origin. A total of 7,688 contractors have been registered since 1999, when the system of registering contractors started (see Table 10).

In 2005, allocation to the "Special Fund" for supporting contractors was increased to TZS 1,180 million from TZS 891 million in 2004, an increase of 32.4 percent. In 2005, CRB conducted a training course for improving the capacity of local contractors in Tanzania's mainland. A total of 1,374 have participated in this programme since its inception in 2001.

Table 10. Registered Contractors in 2005

<table>
<tr><th rowspan="3">PROFESSION</th><th colspan="10">GRADE</th></tr>
<tr><th colspan="3">1</th><th rowspan="2">II</th><th rowspan="2">III</th><th rowspan="2">IV</th><th rowspan="2">V</th><th rowspan="2">VI</th><th rowspan="2">VII</th><th rowspan="2">TOTAL</th></tr>
<tr><th>Local</th><th>Foreign</th><th>Total</th></tr>
<tr><td>Buildings</td><td>29</td><td>22</td><td>51</td><td>11</td><td>11</td><td>54</td><td>192</td><td>183</td><td>1,156</td><td>1,658</td></tr>
<tr><td>Civil works</td><td>10</td><td>20</td><td>30</td><td>11</td><td>19</td><td>46</td><td>117</td><td>344</td><td>871</td><td>1,498</td></tr>
<tr><td>Electrical</td><td>7</td><td>8</td><td>15</td><td>1</td><td>2</td><td>17</td><td>54</td><td>31</td><td>248</td><td>368</td></tr>
<tr><td>Mechanical</td><td>5</td><td>3</td><td>8</td><td>1</td><td>1</td><td>4</td><td>8</td><td>3</td><td>34</td><td>59</td></tr>
<tr><td>Temporary contractors</td><td>0</td><td>45</td><td>45</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><th rowspan="2"></th><th colspan="3">1</th><th colspan="3">II</th><th colspan="3">III</th><th rowspan="2"></th></tr>
<tr><th>Local</th><th>Foreign</th><th>Total</th><th>Local</th><th>Foreign</th><th>Total</th><th>Local</th><th>Foreign</th><th>Total</th></tr>
<tr><td>Special contractors</td><td>41</td><td>21</td><td>62</td><td>0</td><td>31</td><td>31</td><td>226</td><td>11</td><td>237</td><td>330</td></tr>
<tr><td>Total</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>3,958</td></tr>
</table>

Source: Ministry of Infrastructure Development (no year)

(e) Constraints

In spite of its dramatic high growth rate the sector is constrained by problems that affect primarily the performance of SMEs and the informal sector and prevent formalisation and growth. There is general concern that most of the new contracts resulting from a dynamic and growing economy are going to foreign firms. The major constraints are:

- Low capacity and capability of local contractors and consultants due to a weak resource base and inadequate skills and experience;

- Inadequate and erratic work opportunities emanating from contracts that favour foreign firms, particularly in the case of large donor-funded public investment and infrastructure projects. This impediment can be addressed through reducing dependence on donor funding and increasing public expenditure in infrastructure projects;
- Inefficiencies in the public procurement system that lead to rent-seeking and financial mismanagement in public/private sectors;
- Lack of supporting institutional mechanisms to facilitate easier access to key inputs in the industry including access to finance and equipment. For instance, introduction of leasing arrangements for heavy construction equipment is the key to increasing the capacity of SMEs to undertake larger jobs;
- Stringent donor conditionalities for infrastructure financed by development partners;
- Poor working environment, including low safety standards and occupational hazards on construction sites;
- Weak and constraining policies and regulatory framework; and
- Low productivity and quality of domestic firms due to a low technology base and limited skills and experience.

The performance of the construction sector is affected by both internal and external factors that constrain the extent to which the benefits of high growth reach a large, domestic and informal construction sector and an even smaller group of emerging SMEs operating in the formal sector. The regulatory framework, intense competition against well-funded and well-equipped foreign operators, and lack of access to finance and equipment, as well as inexperienced management, are all issues that should be addressed to reverse this situation. Can these problems be addressed through further liberalisation or through a more restrictive regime? Experience from emerging economies shows that economic opening will lead to the introduction of new financing instruments that can increase SMEs' access to critical assets and expose the labour force to skills and management experience that are critical for the growth and consolidation of domestic operators. That is the challenge that the industry's stakeholders must face to embrace the potential opportunities that the services commitment schedules offer.

3.3.6 Health services

(a) Prioritisation of the health sector

The health and education sectors as well as physical infrastructure development, have been given priority in the strategic focus on economic growth and poverty reduction and are the largest recipients of resources under the first PRSP. This priority is reflected through continued emphasis under the second PRSP, although this time, there is additional focus on the productive sectors.

Today the health sector receives 11 percent of total government budget, a figure which is set to rise to the target level of 14 percent, proof of the importance that the government grants this sector. The "National Development Vision 2025" identifies health as a core priority sector in line with the objective of achieving and sustaining high quality living standards for all Tanzanians. This objective translates into the following goals:

- Access to quality primary health care for all;
- Access to quality reproductive health service for all individuals of appropriate age;
- Reduction in infant and maternal mortality rates by three quarters;
- Universal access to clean and safe water;
- Achieving life expectancy comparable to levels attained by middle-income countries;
- Achieving food self sufficiency and food security; and
- Gender equality and empowerment of women in all health parameters.

In seeking to meet these goals, the ministry of health develops and implements policies and programmes that stimulate and facilitate the delivery of efficient, effective and quality curative, preventive and rehabilitative health services at all levels.

(b) Institutional structure

The institutional structure for the delivery of health services follows a hierarchical model that is based on two premises: the primary responsibility for individual health services lies in the hands of households at the grassroots level and the delivery of curative and preventive health services are part of the government's role at the national level. Emphasis is on community health services at the bottom and delivery of referral services at the top.

(i) Community health services

It is the responsibility of each individual and/or household to take care of their own direct health requirements. Village communities have primary responsibility for their own health and participate in addressing and solving health issues at their level using available local resources. Communities have the mandate to choose their own community health worker who is the main link between the community and the nearest health facility. The community health worker's responsibilities include health education and assisting in relevant public health interventions.

(ii) Dispensary services

This is the first and lowest level of formal institutional structure for the delivery of health services. It is the primary facility offering outpatient services including reproductive and child health services, and diagnostic services. A dispensary caters for approximately 5,000 people and oversees all the village health services. The ministry of health standardises these units in terms of staffing levels, equipment, drugs, medical supplies and approved building plans. Dispensaries are managed by a Dispensary Committee and Dispensary Management Teams and provide comprehensive primary health care services that include the following:

- Health education for people served by the dispensary;
- Treatment of diseases;
- Reproductive and child health services and family planning;
- Integrated management of childhood illnesses;
- School health services including HIV/AIDS, immunisation services to children and others;
- Ongoing treatment for tuberculosis, leprosy, mental and other diseases in collaboration with higher level facilities (rural health centres in particular), twenty outreach services and mobile clinics with a special focus on nomadic communities;
- Preparing dispensary health plans and monitoring their implementation;
- Reference of patients with complicated conditions to higher levels; and
- Collecting and using data for feedback between the community and higher levels of the health system.

(iii) Health centre services

Health centres are the third formal health units of "level one" health services. They are a primary health facility, which offer outpatient and in-patient services, maternity care, laboratory, dispensing and mortuary services. A health centre caters for 50,000 people and supervises all the dispensaries in a division. Where the population is higher than 50,000, the level of service is increased to accommodate a higher throughput. The ministry of health standardises staffing levels, equipment, drugs, medical supplies, dental health and building plans. These standards are revised according to need. The health centre operates under the local government authority through the health centre committee and management team and its primary functions include:

- Providing preventive, curative and rehabilitative services;
- Acting as the first referral centre for dispensaries in its catchment area;
- Maintaining health service data and records according to given guidelines; and
- Providing feedback to other levels, including dispensaries.

Each health centre has a communication facility as well as appropriate transport for referral of patients to hospitals. Lack of transport/ communication undermines the services especially when it comes to lowering the high rate of maternal and infant mortality.

(iv) District Hospital Services

District hospitals and other level one hospitals provide the following services at the district level:

- Providing out-patient and in-patient care;
- Acting as a second stage referral level for primary health care facilities in the district;
- Performing general surgical and obstetric operations;
- Teaching and training middle and operational level health cadres as well as undertaking research programmes; and
- Supervising and inspecting lower health facilities in the district, and referring patients to regional hospitals.

The ministry of health determines the criteria for establishing and standardising all parameters of district hospitals including: staffing levels, equipment, drugs, medical supplies and approved building plans. For those districts that do not have public hospitals, the government continues to collaborate with the designated voluntary hospitals.

(v) Regional hospital services

Regional hospitals provide "level two" (secondary) referral services for level one hospitals. The regional hospital, under the management of the regional secretariat, serves the following functions:

- Providing all services offered at district level hospitals but at a higher level of expertise;
- Delivering second level referral services for level one hospitals;
- Teaching and training middle and operational level health cadres;
- Conducting health research programmes, including operational research of health systems at the regional level;
- Providing technical skills to lower health facilities in the region and offering specialised treatment in surgery, obstetrics, ophthalmologic, dental, paediatric and psychiatric services.

The regional hospital has a communication and transport system suitable to its functions and services. The ministry of health determines the criteria for the establishment and standardisation of all parameters of these health service facilities including staffing levels, equipment, drugs, medical supplies and approved building plans.

(vi) National, referral and specialised hospital services

National, referral and specialised hospitals are at "level three" and represent the highest level of hospital services in Tanzania. They serve as referral centres for level two hospitals. At present, the country has four referral hospitals that include the Muhimbili Medical Centre – the national hospital which is supervised by the ministry of health via a board. The other three are: Bugando Medical Centre in Mwanza, the Kilimanjaro Christian Medical Centre in Moshi and the Mbeya Hospital. The first two are owned by the private sector and the last one by the government. Finally, there are two specialised hospitals: Mirembe Hospital in Dodoma, specialised in mental illnesses and Kibongoto hospital in Moshi, specialised in tuberculosis. Diseases and cases that require specialised treatment that cannot be delivered by this system are referred abroad.

(vii) Health facilities

By the end of 2005, there were 4,408 dispensaries and 434 health centres compared with 3,037 dispensaries and 347 health centres in 2004. In addition, the number of hospitals in the country reached 217 in 2005. These health facilities include government, private sector and religious organisations. Table 11 below presents the number of medical facilities available country-wide for a population of 35 million people.

Table 11. The Number of Hospital Beds in Tanzania, Data for 2001

TYPE OF FACILITY	OWNER					TOTAL
	Govern-ment	Parastatal	Religious institutions and NGOs	Private	Others	
Special/Referral hospitals	1,775	0	1,328	0	0	3,103
Regional hospitals	5,589	0	0	0	0	5,589
District hospitals	7,801	421	3,256	70	0	11,548
Other hospitals	299	609	7,811	893	81	9,693
Health centres	6,205	24	361	233	30	6,853
Dispensaries	553	3	736	173	0	1,465
Special clinics	0	0	0	0	0	0
Nursing homes	0	0	0	15	0	15
TOTAL	22,222	1,057	13,492	1,384	111	38,266

Source: Ministry of Health and Social Welfare (no year).

(c) Health sector legal and regulatory frameworks

A combination of public and private sector institutions offer health services and training of health sector personnel. An elaborate legal framework guides the operations of stakeholders in the sector. Relevant laws include:

- The Occupational Health and Safety Act (2003);
- The Community Health Fund Act (2001 - Act No.1);
- The National Health Insurance Fund Act (1999);
- The Health Laboratory Technologists Registration Act (1997);
- The Private Health Laboratories Regulation Act (1997); and
- The Muhimbili University College of Health Sciences Act (1991 - Act. No. 9/91).

The sector is regulated by a combination of public and private sector institutions that include the ministry of health, the Tanzania Medical Association and the Pharmacy Board. The latter two have the power to register and de-register practitioners in the fields of medicine and pharmacology based on compliance with a well established code of conduct.

(d) Contribution to the Economy and Performance Status

(i) The challenge

A number of infectious diseases, especially malaria, pneumonia, tuberculosis and HIV/AIDS, are prevalent in Tanzania. Malaria continues to be the main fatal sickness. The health sector's strategic approach emphasises strengthening preventive services which include: the improvement of specific health programmes such as national plans to control malaria, tuberculosis and leprosy, HIV and AIDS, and improvement of reproductive and child health services. Yet infectious and non-infectious diseases constitute a major problem for the sector.

(ii) Advocacy of health sector reform programmes, health education and promotion

Advocacy, information, education and communication are fundamental to improving Tanzanians' health. In particular, the promotion of positive health behaviours and lifestyles, focusing mainly on the individual, the family and the community, is important. The presence of epidemics, endemic, emerging and re-emerging diseases and pandemics such as HIV/AIDS, call for more interventions in health education, promotion and advocacy. Moreover, it is of paramount importance to inform stakeholders and the community about new developments and changes in the health sector in order to solicit support, create demand, increase knowledge and understanding about available services.

In view of this, advocacy for health sector reform programmes, health education and promotion is provided at all levels using a mix of media. The ministry of health continues to emphasise the use of various methods of advocacy and health education to address amongst other issues: environmental sanitation, prevention and control of communicable and non-communicable diseases including all endemic, epidemic and pandemic diseases such as malaria, cholera and HIV/AIDS, nutrition, reproductive and child health, school health services and issues related to reforms in health to stakeholders and the community at large.

(iii) Information, education, communication and the HIV pandemic

The use of information, education and communication in addressing the health challenge is particularly important in the context of the HIV/AIDS pandemic, which continues to be a major threat to national performance. It is estimated that urban areas have the highest rate of HIV infections with 12 percent compared with 5.8 percent in rural areas. People in the age range of 20 – 49 of both genders are the ones most affected by this pandemic. The overall infection rate is estimated at approximately 12 percent of the population.

The data for utilisation of available medical facilities is captured by the number of patients who visited different health institutions for the period 1995 to 2005 as presented in Table 12 below.

Table 12. Utilisation of Health Facilities - Number of Patients

YEAR	OUT-PATIENTS			IN-PATIENTS*
	HOSPITALS	DISPENSARIES	RURAL HEALTH CENTRES	
1995	355,483	6,785,925	545,921	240,707
1996	604,023	9,530,361	927,606	541,781
1997	711,222	10,003,245	1,052,326	559,949
1998	750,465	10,112,305	1,134,242	-
1999	812,891	10,321,654	1,242,354	626,700
2000	989,101	13,697,988	1,874,346	626,700
2001	1,167,139	17,218,371	2,511,624	680,263
2002	1,328,395	19,695,356	3,258,520	701,568
2003	1,491,909	22,935,688	3,659,615	1,390,273
2004	1,532,028	23,552,460	3,758,027	2,125,388
2005	1,619,700	24,900,276	3,973,085	2,237,146

Source: Ministry of Health and Social Welfare (no year).
** Includes patients admitted in hospitals, dispensaries and rural health centres*

(e) Constraints

The weaknesses and constraints in the development and management of the sector include:

- Shortage of skilled and specialised personnel and poor strategic planning for human resource development and investment;
- Inadequate and weak regulatory regime;
- Insufficient dialogue between the public and private sectors and lack of advocacy, appropriate information, education and communication services;
- Limited indigenous and community participation in investment activities within the health sector;
- Financial mismanagement in public and private institutions; and

- Poor working environment, including low safety standards and occupational hazards in hospitals.

The inadequacy of facilities and lack of skilled personnel in referral and second level hospitals has led to extensive referral of patients to regional and international hospitals in India and South Africa. This highlights the need for a strategy that includes staff training and attracting investment into the health sector. One option to support capacity building is to place medical personnel with health institutions in more efficient environments. It is to this end that more effective participation in WTO negotiations in the services sector and further liberalisation should focus in relation to the health sector.

(f) Strategic policy perspectives for the health sector

The future of health care services in Tanzania depends primarily on continuing investment in developing human resources including through training schools. Table 13 below presents trends in the levels of manpower in the health sector since 1996 and highlights the need for a dramatic increase in skilled manpower. Measures to transform this situation are part of a wider campaign to expand the outreach of professional education and training.

Table 13. Number of Medical Personnel

CADRE	1996	1997	1998	1999	2000	2001	2002
All medical doctors (including foreigners)	1,314	1,364	1,414	1,464	-	-	
Tanzanian medical doctors	1,107	1,157	1,207	1,257	380	1,358	1,419
Assistant medical officers	3,170	3,282	3,372	3,490	308	3,758	3,888
Pharmacists	-	-	-	-	110	-	
Assistant pharmaceutical officers	-	-	-	-	55	-	
Medical assistants	5,617	6,093	6,557	7,093	2,306	8,319	8,958
Rural medical aids	912	1,127	1,360	1,360	2,368	-	-
Health officers	2,795	2,876	3,018	3,074	875		
Assistant health officers	2,339	2,381	2,431	2,478	-	2,493	2,535
Nurse/midwives Grade “A”	5,777	6,006	6,307	6,649		7,419	7,679
Nurse/midwives Grade “B”	8,754	9,632	10,620	11,561		7,419	7,679
Village midwives	3,757	3,380	3,389	3,020	-	-	-

Expansion of tertiary and post-secondary education also focuses on health workers. In-spite of the shortage of staff in health delivery institutions, the government cannot absorb all the graduates coming out of training institutions.

The quality of services, particularly in private hospitals, should become more competitive. This requires innovative policies that should encourage training of additional workers in the health sector, focusing on meeting national and regional demand in the short-term, while improving the quality of health services.

The exposure of Tanzanian health workers to health-care standards in other countries (both within the region and beyond) can contribute tremendously to the improvement of health-care services in terms of both prevention and cure. Policy-makers need to view temporary migration of health workers to other countries in the SADC region and beyond as a means of helping increase proficiency of the workers involved, creating opportunities for further studies on a part-time basis in host countries and even more importantly, generating additional wealth through remittances and savings. Tanzanian negotiators in regional and international trading arrangements should undertake deliberate measures to open up opportunities for migrant employment for health workers through Mode 4 services negotiations with key trading partners.

3.3.7 Education Services

(a) Sector objectives

Tanzanian traditional education emphasises the principles of good citizenship, acquisition of life skills, customs and traditions. In contrast, modern conventional education focuses on imparting the knowledge and skills necessary for proactive participation in a dynamic knowledge-based and market-oriented society.

The objectives of the Tanzanian education and training sector include:

- Development and improvement of human resources and effective utilisation of those resources in bringing about individual and national development;
- Promotion of the acquisition and appropriate use of literary, social, scientific, vocational, technological, professional and other forms of knowledge, skills and understanding, for the development and improvement of society; and
- Enabling and expanding the scope of acquisition, improvement and upgrading of necessary skills to meet the changing needs of industry and the economy.

(b) Structure and institutional framework

(i) Key actors

Tanzania's education and training sector can be divided into a formal and an informal system. The two systems are made up of institutions and organisations that support the realisation of their objectives. In this regard, education and training in Tanzania is one of the functions of all ministries. Nonetheless, the key actors are: the ministry of education and vocational education, the ministry of science, technology and higher education and the Prime Minister's Office (department of regional administration and local government). There are other ministries involved in sector-specific professional education and training. In addition, formal and informal education is provided by communities, non-governmental organisations (NGOs) and individuals, under the coordination of central government ministries.

(ii) Delivery channels

Tanzania's education and training system is delivered through three channels, namely: vocational, professional and informal.

Formal education and training system

The formal education system focuses on the provision of academic education, ranging from primary school to university or graduate and post-graduate levels. The basic features of Tanzania's formal education system include two years in pre-primary education, seven years in primary school, four years in ordinary secondary education, two years of advanced level secondary education and three or more years at university level depending on the discipline chosen. The two years in pre-primary school are not mandatory.

Vocational education and training

Vocational training supports the acquisition of skills for wage employment, self-employment or further vocational and professional advancement. It covers the commercial and technical work-study and training programmes undertaken by ministries, NGOs and private organisations. The national mandate for vocational education is largely in the hands of the National Vocational Training Authority with training centres at the regional and/or district levels, folk development colleges, technical secondary schools and private vocational schools. In addition, the system includes trade schools and polytechnics.

Table 14 below presents the number of formal educational and training institutions in the country for the period 2003 to 2005. In addition, the number of teachers available to man these institutions demonstrates the quality and outreach of education services in a country with an adult working population accounting for about 50 percent of the total population which is currently at 35 million (see Table 15).

Table 14. Number of Education Institutions, 2003 – 2005

TYPE OF INSTITUTION	2003			2004			2005		
	Govt	Private	Total	Govt	Private	Total	Govt	Private	Total
Primary School	12,649	166	12,815	13,533	156	13,689	14,053	204	14,257
Secondary	649	434	1,083	828	463	1,291	1,202	543	1,745
Teacher Training College	34	7	41	34	11	45	34	18	52
Total	13,332	607	13,939	14,395	630	15,025	15,289	765	16,054

Source: Ministry of Education and Vocational Training (no year).

Table 15. Number of Teachers in Training Institutions, 2004 and 2005

LEVEL	2004			2005		
	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
Diploma	3,148	1,931	5,079	4,016	2,266	6,282
Grade A	12,605	12,268	24,873	7,974	8,784	16,758
Grade B	-	-	-	-	-	-
In-service training	492	448	940	814	709	1,523
Total	16,245	14,647	30,892	12,804	11,759	24,563

Source: Ministry of Education and Vocational Training (no year).

(c) Informal education and training

Informal education can be defined as out-of-school education as opposed to formal education, which is in-school education. Out-of-school education includes literacy, distance learning, continuing education and the Open University system. Essentially, in informal education, it is the student who sets the pace for his/her studies.

(d) Legal and regulatory frameworks

The principal legislation in the education sector is the Education Act of 1962 which regulates the provision of education in Tanzania with, amongst others, the following objectives:

- Abolishing racial discrimination in education;
- Streamlining the curriculum, examinations, administration and financing of education to provide uniformity;
- Promoting Kiswahili as a national language; and
- Making local authorities and communities responsible for the delivery of primary education.

Between 1967 and 1978, the government took several steps and enacted several laws in order to legalise actions taken to fit the “Education for Self Reliance” policy adopted in 1968. These include:

- Education Acts of 1969 and 1978;
- National Examinations Council Act of 1973;
- Universal Primary Education Act of 1974; and
- The Institute of Adult Education Act of 1975.

These pieces of legislation led to the following specific reforms which affected the education system:

- Changes in the school curricula in order to meet national needs;
- Introduction of universal primary education;
- Introduction of post-primary technical centres;
- Abolition of foreign examinations and the introduction of national examinations in the formal school system;
- Primary and secondary education were made relevant to the needs of the country.

The Education Act of 1978 was enacted in the context of private sector development. However, following the adoption of major socio-economic and political reforms to introduce a market economy, there have been major changes in the education and training sector with a shift of emphasis from training based on manpower allocation between sectors to responding to the needs of the private sector and the formalisation of a large informal sector. The objectives are to meet the demand for a large pool of trainable manpower for a private sector that has to compete in a global economy, build the skills necessary to improve productivity in private sector operations as well as stimulate and promote self-employment at the post secondary level.

(d) Performance status

A current policy objective is to shift the number of graduates from primary to secondary school levels, supplemented by tertiary education depending on the needs of the private sector (including the informal private sector). This has culminated in measures for the dramatic expansion of secondary schools with the achievement of a transition ratio of more than 50 percent for primary school graduates of 2006. Data made public by the Ministry of Education in January 2007 reveals that 1,524 new secondary schools have been established since 2004 while the total number of available secondary school teachers is 23,783. There are only 232,162 places for Form I in public schools compared with a total of 470,000 eligible students. This is equivalent to a transition ratio of 50 percent compared with the national objective of 70 percent. The extent to which this ambitious objective is realised depends on continuing success in raising the quality of primary education as evidenced by the increase in the pass ratio from an average of 35 percent before 2005 to twice that level at 70 percent in 2006. The objective of increasing the transition ratio also applies to post secondary education, including universities and polytechnics.

(e) Constraints, policy challenges and emerging perspectives

Improvements in the education sector remain essential if the country is to benefit from globalisation and liberalisation. However, several constraints have to be addressed. These include:

- The shortage of appropriate and specialised core and skilled personnel, as well as poor planning for human resource development and investment;
- Limited coordination and consultation among principal actors in the public and private sectors;
- Lack of a regulatory regime that encourages competition, fair operational practices and complementarity of services;
- Budget constraints that affect the operations of primary, secondary and higher learning institutions and limit the establishment of new institutions or expansion of existing ones;
- Emigration of qualified labour in search of better employment opportunities abroad.

Tanzania is rapidly reorienting its educational sector to enable it to support the development and growth of a robust private sector. Education is at the root of private sector competitiveness in a knowledge-based economy that requires a large pool of trainable manpower with post-secondary academic qualifications. The challenge is to ensure that such an education system is inclusive and broad-based without losing quality. The rapid expansion of secondary schools in 2007 alone, exemplifies the extent of this challenge and the need to come up with supportive policies.

It is important to look at the education sector in Tanzania from a regional and global setting rather than from the sole perspective of national considerations. Policy-makers in Tanzania's education sector will need to consider the potentially high contribution that the service sectors can make to economic growth based on trade in services at the national and regional levels. In this regard, the quality of the education sector will determine the position of Tanzania as a net importer or exporter of services and therefore, the contribution that the sector can make to the economy.

Such policy reorientation has to take into consideration the need to encourage foreign investment in the education sector rather than follow past trends whereby Tanzania was sending substantially large numbers of students to neighbouring countries. The same situation prevails at the post-secondary education level. The key to the success of widening the outreach of post-secondary education is to ensure that the economy creates more jobs and to disseminate information about the sectors in which such jobs are located. It is also necessary to undertake deliberate measures to negotiate policies that accommodate the employment of Tanzanians in other neighbouring countries and other trading partners as part of measures to promote growth of trade in services. The temporary migration of Tanzanian workers ultimately serves to expand national expertise as the majority of people eventually return to the country. The challenges are to encourage and promote temporary migration of skilled workers and make effective use of returnees as well as to adjust the legal and regulatory frameworks accordingly.

4. THE WTO GENERAL AGREEMENT ON TRADE IN SERVICES

4.1 Provisions of the GATS for Least Developed Countries

The significance of the services sector in Tanzania has not been matched in terms of participation in international trade, largely because of its low competitiveness and possibly because of a failure to take full advantage of the provisions in the WTO GATS. For countries like Tanzania to benefit from the GATS, they have to be fully conversant with its provisions. Tanzania has an opportunity to benefit from the current round of negotiations taking advantage of full and effective implementation of modalities for the special treatment of LDCs in the services negotiations, as agreed by ministers in Hong Kong during the Ministerial Conference in December 2005. This chapter examines the relevant provisions of the GATS which should form the basis for tapping potential benefits.

4.2 Architecture of the GATS

The architecture of the WTO GATS is based on two fundamental concepts. The first concept is that of categorisation of services according to the mode by which the service is traded.

Four modes of services delivery have been defined as follows:

i. *Mode 1 - Cross Border Trade:* where trade takes place between country A and country B but only the service itself crosses the border, e.g. passing information by fax or e-mail;
ii. *Mode 2 – Consumption Abroad:* where a national of country A consumes a service in country B, e.g. tourism;
iii. *Mode 3 – Commercial Presence*: where a service supplier of country A establishes a presence in country B and provides a service in country B, e.g. establishment of a wholly owned subsidiary in country B;
iv. *Mode 4 – Movement of Natural Persons:* where a person stays temporarily in another country in order to supply a service, e.g. the self employed and the employees of service suppliers.

The second concept is that of categorisation of services into twelve broad groups and the sub-division of these groups into a total of 120 sub-sectors. The twelve major service sectors identified under GATS are:

- Business services;
- Communication services;
- Distribution services;
- Construction and engineering services;
- Educational services;
- Environmental services;
- Financial services;
- Health and social services;
- Tourism services;
- Sports, culture and entertainment services;
- Transportation services; and
- Other services

4.3 Overview of the GATS and Services Negotiations

The GATS is the first and only set of multilateral rules governing international trade in services. Negotiated in the Uruguay Round, it was developed in response to the huge growth of the services economy over the past 30 years and the greater potential for trading services brought about by the communications revolution. Negotiations since then have produced additional legal texts such as the Information Technology Agreement (ITA), services and accession protocols. New negotiations were launched at the Doha Ministerial Conference in November 2001. The GATS negotiations focus on three main areas:

- Negotiations on specific commitments on market access and national treatment;
- Negotiations on the unfinished agenda from the Uruguay Round on rules;

- Implementing Article IV relating to increasing the participation of developing countries in world trade in services.

The Hong Kong Declaration mainly reiterated the principles and objectives of the GATS negotiations: the right to regulate, the right to flexibility for developing countries and the special situation of LDCs. However, a new element was introduced in the form of Annex C that relates to measures to "intensify" the negotiations and to improve the "quality" of commitments. This element presents both opportunities and threats for developing countries. On the one hand, it may put pressure on countries to liberalise before having put in place the necessary policy framework. On the other hand, developing countries could use these approaches to secure commitments that have real economic value from their trading partners.

All services are covered by GATS. The most favoured nation (MFN) principle applies to all services, except the one-off temporary exemptions. Regarding transparency in regulations, Members must notify the Council for Trade in Services (CTS) of new or changed laws, regulations or administrative guidelines that significantly affect trade in sectors subject to specific commitments (WTO, 2004). These transparency obligations are particularly relevant in the services sector where the role of regulation as a protective instrument and /or as a domestic policy tool tends to feature more prominently than in most other segments of the economy.

The negotiations have highlighted the link between efficient services and growth in the rest of the economy. Negotiations have also exposed the weaknesses in collection of services trade data and the difficulty in assessing regulatory frameworks without having legal, regulatory and administrative documents readily accessible. International negotiations on trade in services require intense preparatory dialogue and consultations at the national level.

4.4 Negotiations Modalities and Their Implications

In line with the objectives of the GATS, as stipulated in the Preamble and Article IV, and as required by Article XIX, negotiations shall be conducted on the basis of progressive liberalisation to promote the economic growth of all partners and to meet the development objectives of developing countries, based on recognition of individual Members' right to regulate and to introduce new regulations on the supply of services. The negotiations aim at achieving progressively higher levels of liberalisation of trade in services through the reduction or elimination of measures that affect market access.

Liberalisation is advanced through bilateral, plurilateral or multilateral negotiations with the main method being the "request-offer process". There is flexibility for individual developing country Members to open fewer sectors, liberalise fewer types of transactions, progressively extend market access in line with their development situation and, when making access to their markets available to foreign service suppliers, to attach conditions that stimulate higher involvement from developing countries.

Modalities for Special Treatment for Least-Developed Country Members in the Negotiations on Trade in Services

Article XIX of the GATS mandates Members to give special treatment to LDCs during negotiations. These "modalities" cover both the scope of the special treatment and the methods to be used. The least-developed countries began discussions in March 2002, Members agreed to the modalities on 3 September 2003 and these were adopted by the Special Session of the Council for Trade in Services, in document TN/S/13.

Objectives and principles

In pursuance of the objectives of the GATS and as required by Article XIX:3, priority shall be granted to LDCs in the implementation of paragraphs 1 and 2 of Article IV of the GATS. Particular account shall be taken of the difficulties of LDCs in undertaking negotiated commitments in view of their special economic situation and their development, trade and financial needs. The importance of trade in services for LDCs goes beyond pure economic significance due to the major role services play in achieving social and economic development objectives.

Together with the Guidelines and Procedures for the Negotiations on Trade in Services (S/L/93), the Modalities for the Special Treatment for LDCs in the GATS negotiations seek maximum policy flexibilities for the LDC group. These flexibilities constitute the main benefits that countries like Tanzania stand to gain from proactive participation in the negotiation process. However, such participation requires careful analysis and decision-making in view of the irreversible nature of WTO commitments. These flexibilities offer the following opportunities:

a) Members shall take into account the serious difficulty of LDCs in undertaking negotiated commitments in view of their special economic situation and therefore, shall exercise restraint in seeking commitments from LDCs. In particular, they shall generally not seek the removal of conditions that LDCs may attach when making access to their markets available to foreign service suppliers, to the extent that those conditions are aimed at achieving the objectives of Article IV of the GATS.
b) There shall be flexibility for LDCs to open up fewer sectors, liberalise fewer types of transactions and progressively extend market access in line with their development situation. LDCs shall not be expected to offer full national treatment, nor are they expected to undertake additional commitments under Article XVIII of the GATS on regulatory issues which may go beyond their institutional, regulatory and administrative capacities. In response to requests, LDCs may make commitments compatible with their development, trade and financial needs, and which are limited in terms of sectors, modes of supply and scope.
c) Members shall, as provided for in Articles IV and XIX of the GATS, give special priority to providing effective market access in sectors and modes of supply of export interest to LDCs, through negotiated commitments pursuant to Parts III and IV of the GATS. LDCs should indicate those sectors and modes of supply that represent priority in their development policies so that Members take these priorities into account in the negotiations.
d) Members shall work to develop appropriate mechanisms with a view to achieving full implementation of Article IV:3 of the GATS and facilitating effective access of LDCs' services and service suppliers to foreign markets.
e) Members shall take measures, in accordance with their individual capacities, to increase the participation of LDCs in trade in services. Such measures could include:
   - strengthening programmes to promote investment in LDCs, with a view to building their domestic services capacity and enhancing their efficiency and export competitiveness;
   - reinforcing export/import promotion programmes;
   - promoting the development of LDCs' infrastructure and services exports through training, technology transfer, enterprise level actions and schemes, intergovernmental cooperation programmes and, where feasible, financial resources; and
   - improving the access of LDCs' services and service suppliers to distribution channels and information networks, especially in sectors and modes of supply of particular interest to LDCs.
f) It is recognised that the temporary movement of natural persons supplying services (Mode 4) provides potential benefits to both the supplying and recipient Members. Least-developed countries have indicated that this is one of the most important means of supplying services internationally. Members shall, to the extent possible and consistent with Article XIX of the GATS, consider undertaking commitments to provide access in Mode 4, taking into account all categories of natural persons identified by LDCs in their requests.

g) Least-developed countries shall be granted appropriate credit for their autonomous trade liberalisation. In addition, Members shall refrain from requesting credits from LDCs.
h) In developing any multilateral rules and disciplines, including under GATS Article VI:4 (domestic regulation), Article X (emergency safeguard measures), Article XIII (government procurement) and Article XV (subsidies), Members shall take into account the specific interests and difficulties of LDCs.
i) Targeted and coordinated technical assistance and capacity building programmes shall continue to be provided to LDCs in order to strengthen their domestic services capacity, build institutional and human capacity and enable them to undertake appropriate regulatory reforms. In pursuance of Paragraph 14 of the "Guidelines and Procedures for the Negotiations on Trade in Services" (S/L/93), technical assistance shall also be provided to LDCs to carry out national assessments of trade in services in overall terms and on a sectoral basis with reference to the objectives of the GATS and particularly Article IV.

The Special Session of the Council for Trade in Services shall review, as necessary, the implementation of these modalities under the standing item on "Review of Progress in the Negotiations".

4.5 The GATS Principles and Schedules of Specific Commitments

One outcome of negotiations is individual countries' commitments to open up markets in specific sectors. The commitments appear in "schedules" that list the sectors being opened, the extent of market access being given in those sectors (e.g. whether there are any restrictions on foreign ownership) and any limitations on national treatment (whether some rights granted to local companies will not be granted to foreign companies). For instance, a market-access commitment is when a government commits itself to allow foreign banks to operate in its domestic market. On the other hand, a market-access limitation exists if the government limits the number of licences it will issue. An exception to the national treatment principle exists if a government only allows foreign banks to open one branch while domestic banks are allowed numerous branches. These clearly defined commitments are "binding". Like bound tariffs in the case of trade in goods, they can only be modified after negotiations with affected countries. Because "unbinding" is difficult, the commitments provide the stable conditions necessary for foreign exporters and importers of services and investors in the sector to do business. Government services are explicitly removed from the agreement. There is nothing in the GATS that compels its Members to privatise service industries run by governments. Governmental services are defined in the agreement as those that are not supplied commercially and where there is no competition with other suppliers. These services are not subject to any GATS discipline, they are not covered by the negotiations, and commitments on market access and national treatment do not apply to them.

A government may not want to make a commitment on the level of foreign competition in a given sector because it considers the sector to be a core government function or indeed for other reasons, such as economic empowerment. In this case, the government's obligations are minimal, for example to be transparent in regulating the sector. The following is a summary of the position on each of the basic principles of the GATS negotiations:

i. *Transparency*: Governments must publish all relevant laws and regulations and set up enquiry points within their bureaucracies. Foreign companies and governments can then use these inquiry points to obtain information about regulations in any service sector. Governments have to notify the WTO of any changes in regulations that apply to the services that come under specific commitments.

ii. *Regulations*: Objective and reasonable domestic regulations are the most significant means of exercising influence or control over services trade. The agreement says that governments should regulate services reasonably, objectively and impartially. When a government makes an administrative decision that affects a service, it should also provide an impartial means of reviewing the decision (for example a tribunal). The GATS does not require any service to be deregulated. Commitments to liberalise do not affect governments' right to set levels of quality, safety or price, or to introduce regulations to pursue any other policy objective they see fit. A commitment to national treatment, for example, would only mean that the same regulations would apply to foreign suppliers as to nationals. Governments naturally retain their right to set qualification requirements for doctors, lawyers and other professionals and to set standards to ensure consumer health and safety.

iii. *Recognition*: According to the GATS, when two (or more) governments have agreements recognising each other's qualifications (for example, the licensing or certification of service suppliers), other Members must also be given a chance to negotiate comparable pacts. The recognition of other countries' qualifications must not be discriminatory and must not amount to protectionism in disguise. These recognition agreements have to be notified to the WTO.

iv. *International payments and transfers*: Once a government has made a commitment to open up a service sector to foreign competition, it must not normally restrict money transfers out of the country as payment for services supplied ("current transactions") in that sector. The only exception is when there are balance-of-payment difficulties and, even then, the restrictions must be temporary and subject to other limits and conditions.

v. *Progressive liberalisation*: The Uruguay Round was only the beginning of liberalisation. Under the Doha Development Agenda, the GATS is now continuing these negotiations. The goal is to take the liberalisation process further by increasing the level of commitments in schedules.

In short, GATS Article IV requires developed country Members to negotiate commitments that will help developing country Members to increase their participation in world trade in services, by:

- Strengthening developing countries' capacity to supply domestic services;
- Improving developing countries' access to distribution channels and information networks; and
- Liberalising market access in developed countries in sectors and modes of supply of export interest to developing countries.

4.6 Impact of Services Liberalisation

The supporters of GATS argue that effective implementation will speed up the expansion of trade in and movement of services from one country to another. Accordingly, this will ease trade imbalances in the world and therefore, benefit developing countries. On the other hand, GATS critics have pointed out that opening up of trade in services to competition by transnational corporations will not lead to greater equity among nations nor will it eradicate poverty in the South. Instead, GATS will, in the long run, deepen the inequality between rich and poor countries and widen the wealth divide between the North and the South.

Many developing countries have benefited from growth induced by trade in services. For example, India has benefited from its export of computer software, while the Philippines has benefited from the movement of labour and resulting remittances. However, these benefits need to be seen within the larger context of the global economy and the global trends in trade in goods and services.

In general, countries of the North continue to enjoy a more advantageous and dominant position in international trade, in both goods and services. The economies of developed countries of the North are themselves transforming into service economies. Trade in services that are considered more valuable and more highly priced in the world market, i.e. those that require the use of more sophisticated technology, continues to be dominated by countries of the North. Given their overall and overwhelming economic advantage, the countries of the North will stand to gain the most from further liberalisation of trade in services through GATS.

Developing countries in the South can benefit more from the export of services through enhancement of productivity and competitive access to markets. It is in this context that LDCs and other developing countries have to develop and implement strategies that will enable them to proactively benefit from the special concessions granted to them in the GATS negotiations. The next section examines the opportunities for such gains inherent in the GATS negotiations.

4.7 Opportunities for Developing Countries and Least Developed Countries in the GATS Negotiations

When making requests, developing countries should bear in mind that there is no requirement for reciprocity from developing countries. According to GATS Article XIX:2 *“there shall be appropriate flexibility for developing country Members for opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their development situation.”* This flexibility is important given that GATS commitments cannot be reversed without the risk of having to pay costly compensation (GATS Article XXI). The Hong Kong Declaration states that negotiations *“shall have regard to the size of economies of individual Members, both overall and in individual sectors.”* It recognises the special situation of LDCs and explicitly acknowledges that they are not expected to undertake new commitments.

Developing countries can also benefit from the following provisions in the GATS negotiating guidelines:

- Rules negotiations should be completed before those on specific commitments (Paragraph 7). Strategically, developing countries stand to gain in areas where they have greater interest, such as developing rules and a safeguard mechanism on subsidies, or to resist the pressure from developed country Members to adjust commitments;
- An assessment is required of how far negotiations achieve the objectives of the GATS, and particularly the objective to increase participation of developing countries in services trade (Article IV, Paragraph 14). Subsequent negotiations must be adjusted in light of its results;
- The CTS must consider the extent to which Article IV and Article XIX:2 are being implemented and suggest ways to promote the goals of these articles (Paragraph 15);
- An evaluation of achievement of Article IV objectives must be carried out before the completion of negotiations (Paragraph 15).

The GATS Article XIX:2 allows developing countries and LDCs to attach conditions to liberalisation commitments to increase their participation in world trade. Such conditions can be useful to safeguard and implement development policies. The GATS makes clear the importance of development aspects of services trade, the right to regulate and the importance of respecting national policy objectives (for example, Paragraphs 2-6 of the preamble). The LDC modalities further state that Members shall not seek the removal of conditions that LDCs attach to market access to the extent that these are aimed at achieving the GATS Article IV objectives. Examples of conditions that are not prohibited by the GATS and that might be useful to developing countries in this respect are:

- *Standards such as service targets*: performance requirements, specification standards (for example to use local labour or to provide technology transfer), competition law (for example preventing price fixing);
- *Price controls:* usually to ensure affordability of essential services;
- *Entry controls:* professional and educational requirement restrictions on marketing and use, e.g. zoning laws as well as prior authorisation requirements and licensing;
- *Information regulations:* certification and labelling requirements for the benefit of consumers.

Given that Article XIX: 2 conditions have a separate status in the GATS, they should be seen as independent of Article XIV exceptions which are available to all WTO Members and which are limited in scope. Conditions are also different from domestic regulations covered by Article VI (thus not governed by criteria and disciplines under this article, including those yet to be negotiated).

4.8 Potential Opportunities for Foreign Direct Investment through Policy Stability

Foreign Direct Investment is one of the major driving forces in the integration of developing countries into the globalisation process. Although most FDI is concentrated in developed countries, developing countries have made the biggest gains in the 1990s in terms of FDI inflows which rose from USD 34 billion in 1990 (17 percent of global inflows) to USD 149 billion in 1997 (37 percent of global inflows). However, a small number of developing countries in Asia and Latin America (notably China and Brazil) have received the largest share of these inflows. The majority of low-income developing countries, which are defined, as those with a per capita GDP of less than USD 1,000 have received small, if any, amounts of FDI. Nonetheless, recently some LDCs (such as Angola, Bangladesh, Uganda and Tanzania) have received significant inflows, relative to the size of their GDP. These countries have generally received resource-seeking FDI in mining and tourism or export processing zones, though they may also have received some market-seeking investments.

In the case of Tanzania, the mining sector has been the largest beneficiary of FDI inflows with the gold mining industry receiving the lion's share. At the end of 1998, total cumulative FDI in mining was estimated at USD 370 million (WTO, 1998, p.94) equal to 50 percent of inflows. The sectoral composition of the largest projects, based on total value for the 1997 to 2000 period, is as follows: mining (65 percent), services (19 percent) and manufacturing (16 percent). The data underestimates the share of the services sector because they do not include several large foreign banks present in Tanzania. Yet the service sector is the second largest recipient of FDI after mining.

The contribution of FDI to the economic development of the host country depends not only on its volume but also on its quality. The type of investment, the sector of destination, the kind of assets brought by the Multinational Corporation (MNC) and the role played by the affiliates within the global network of the MNC, are important determinants. At the same time, the characteristics of host countries affect not only the amount and kind of FDI that is attracted but also its contribution to growth, competitiveness and sustainable human development. These features include the macroeconomic, trade, competition, sectoral and specific policies towards foreign and domestic enterprises, economic performance (GDP growth, price stability, etc) and structural factors (market size, the availability of natural resources, the quantity and quality of human resources, the physical and technological infrastructure, business ethics, the legal systems, etc, see: Dunning, 1994). The characteristics of indigenous entrepreneurs (i.e. the sectors in which they operate, their corporate structures, strategies, innovative capabilities, organisational procedures, risk attitudes, etc) are also a major determinant of FDI contribution.

Although FDI may play a positive role leading to economic diversification and higher exports, generating employment and strengthening innovation, it may also play a negative role. This is the case for example, when FDI leads to the exploitation of natural resources through bad environmental practices, when foreign affiliates take advantage of their proprietary assets to crowd out local competitors or when it leads to market distorting practices. Profit flows from FDI operations are remitted abroad as dividends and, sometimes, as royalty and interest payments and through transfer pricing of merchandise imports and exports. Moreover, MNCs may have a greater propensity to import than local firms, as documented in several studies. Thus, in the long term, many FDI projects make a negative contribution to the balance of payments of host countries.

Foreign direct investment has both benefits and costs to recipient countries and it is important that the benefits exceed the costs. A careful assessment of the impact of FDI must be made in order to design and implement national and international policies that promote and maximise the benefits of FDI inflows and minimise the inherent or potential costs. The following is a checklist of ten issues to be considered in developing a policy framework for attracting more FDI into the service sectors. These issues constitute the policy challenges that must be addressed if LDCs and other developing countries are to benefit from FDI inflows into the service sectors. Each issue is accompanied by a brief narration of the key elements that can be used to guide the development of relevant strategic policy positions:

i. *Determine whether and how FDI fits in with development objectives:* Foreign direct investment is not a solution to all development problems, nor is domestic investment, aid or government expenditure. However, in order to find solutions to development issues, it is important to realise that FDI is different from local investment, external aid flows or portfolio inflows. Such differences require a country to examine how FDI fits in with its development objectives. For instance, while FDI can lead to capital-intensive projects that embody state-of-the-art technology with regards to the extraction of resources, FDI in the garments and textiles industry is likely to lead to production processes that are employment-intensive, but technologically less advanced.

ii. *Think in terms of quality, not quantity:* According to UNCTAD, Africa, (excluding South Africa), attracted USD 8,198 million in FDI inflows in 2000: representing 0.65 percent of total FDI flows and 3.4 percent of total developing country FDI inflows. The main recipients were Angola (USD 1,800 million), Egypt (USD 1,235 million) and Nigeria (USD 1,000 million). Given the low share of FDI flows, there are concerns that "Africa is marginalised" in the global economy. However, there are various reasons why a low share in total FDI flows should be of little concern to policy-makers. Essentially, what is more important is the impact of FDI rather than the volume of the inflows themselves.

iii. *Good preparation:* There is ample evidence that FDI is associated with faster economic growth in developing countries. This evidence also suggests that the impact of FDI on development is a process characterised by information-oriented market failures requiring policy interventions. It is important to improve local capacity through education and technology in order for the economy to absorb positive spill-overs and to mitigate the negative aspects of FDI inflows. The experience of East Asian countries (Taiwan and South Korea) shows that good domestic policy (e.g. providing the right type of education) permits countries to benefit from trade liberalisation.

iv. *Reduce conflict and corruption:* Research suggests that conflict and corruption deter foreign investment (e.g. Wei, 2000). Corruption and conflict are important elements of political risk assessments, which in turn determine investor perceptions of the business climate in a country. With only limited available information, such perceptions are difficult to change once they become entrenched.

v. *Provide appropriate infrastructure and appropriate skills:* If there is no proper infrastructure, investors have to build their own in order to produce, transport, sell or export their products. With a more skilled workforce and better infrastructure (e.g. ports, roads, water, pipelines, electricity and telecommunications), local firms can more easily capture knowledge spill-overs, for instance by becoming local suppliers. The state of the infrastructure and school enrolment rates in Africa compares unfavourably with those of other regions and the situation has worsened during the past decade. Some African countries have relatively good infrastructure facilities (e.g. South Africa and Mauritius) but many do not. While the provision of good quality and appropriate basic education is important, attention should also be focused on high-level, specialised training in technical subjects to meet the needs of the industry. However, training is more effective when basic skills are already available.

vi. *Implement FDI policies consistently and actively:* A simple change in the law to allow foreign ownership in certain industries may do little to attract foreign investors. If a country really wants to attract FDI, a change in law needs to be followed by the consistent and active implementation of a range of FDI policies. This involves the setting-up of an effective and aggressive Investment Promotion Agency (IPA) that targets particular firms and industries that fit in with the FDI strategy. The targeting of major transnational corporations (TNCs) has served to successfully attract FDI in Costa Rica, Ireland and Singapore. Investment Promotion Agencies in these countries have played a major role in strategically promoting and supporting FDI.

vii. *Understand the pros and cons of international investment agreements:* The past decade has seen rapid changes in the international regulatory framework for FDI in Africa. Almost all African countries have signed bilateral investment treaties aimed at protecting and promoting FDI and clarifying the terms under which FDI can take place between partner countries. The conclusion of double taxation treaties, has also risen sharply, but appears to be concentrated in countries such as Egypt, Mauritius, South Africa and Tunisia. The international regulatory changes should make African countries more attractive for investors by offering contract stability.

viii. *Facilitate trade:* Foreign investors are usually more trade-intensive than local firms. Transnational corporation affiliates may depend on capital goods imported from their parent's network, they may export natural resources overseas or they may use cheap labour to produce competitive products for export. For these reasons, TNCs are relatively sensitive to conditions that facilitate trade: ports, customs regulations, tariffs and roads. In order to facilitate FDI inflows in the presence of a weak infrastructure, African governments have set up export processing zones (EPZ). These zones offer special tax incentives, streamlined customs procedures, low tariffs and specialised infrastructure. Costa Rica, Singapore and Malaysia have all successfully used the EPZ instrument to diversify their industry.

ix. *Provide a transparent and appropriate incentive and regulatory framework:* Governments have offered various incentive schemes to attract investors, ranging from corporate tax holidays, tax exemptions and exemptions from import/export duties, to offering straightforward grants. Tax experts indicate that many TNCs are interested in predictable tax regimes, especially in low-income countries, rather than unpredictable tax rates. With respect to grants, research indicates that offering grants is questionable in terms of efficiency and effectiveness and, for many governments, beyond their budgetary means. On the other hand, governments can improve the regulatory framework by removing unnecessary regulations

x. *Promote linkages:* Linkages between TNCs and SMEs can have positive impacts on SMEs. These may be direct, through employment or indirect, through technology and skills transfer and access to export markets and finance. However, various other options still exist for government policy to strengthen

TNC-SME linkages. These include national linkage programmes and support services that help to upgrade technology and skills in SMEs through such instruments as matchmaking, organising fairs and training. It is noted, however, that WTO agreements may limit the means available to governments to strengthen TNC-SME linkages.

In the final analysis, the key to success lies in the ability and diligence of developing countries to determine and influence the extent to which FDI fits into their development agenda and objectives. Ultimately, FDI, domestic investment, aid or expenditure when considered in isolation, cannot be the panacea for development. One type of FDI cannot always serve separate development objectives. Foreign direct investment in the extractive industries may help to achieve the objective of exploiting natural resources for economic development. Attracting FDI in the textiles industry helps to achieve the objectives of creating low-skills jobs and increasing exports while FDI in the high-tech industry can lead to further innovation, higher exports and the creation of high-skills jobs. The current level of development and national strategies for development will determine which type of FDI is best suited to achieve national priorities.

Depending on a country's endowments (e.g. skills, natural resources and capital) and its development objectives (e.g. poverty reduction, growth, job creation, financing a current account deficit), governments should determine what type of FDI is needed and the policy responses necessary to stimulate the inflows of such FDI. The WTO's specific schedules of services commitment can be seen as one of the instruments for facilitating such policy responses.

5. FINDINGS AND RECOMMENDATIONS ON SERVICES POLICIES

5.1 Overview

This study has reviewed the status of six service sectors in Tanzania: tourism, communications, transportation, construction, health and education. The review has taken the following approach for each sector:

- A situation analysis;
- Identification of the existing legal and regulatory frameworks including the institutional set up;
- Current policy thrust and performance status; and
- Mitigating constraints and the resultant policy challenges that have to be addressed.

This analysis focuses on providing the necessary background for stakeholders who are involved in the multilateral trade negotiations in services – as well as those who are not involved in the primary negotiations – to appreciate the need for using the Doha Development Agenda on trade in services to increase domestic and foreign investment in the service sectors. The rationale is that improved efficiency and effectiveness in trade in services is the key to raising national competitiveness in the productive sectors. The other reason is the need to build upon the potential for growth based on services. The current section draws upon the findings of the study to come up with policy recommendations on the way forward.

5.2 Findings and Recommendations on Policy Instruments

The essence of a legal framework is to create the basis for a government to implement policies. In the case of the service sectors reviewed in this study there is a wide array of legislation serving this purpose. Some primary legislation has been enacted ostensibly to fulfil such a need. In addition, secondary legislation, i.e. legislation in other sectors, may also have a major impact on the target sector. Often, there is inadequate coordination between a multiplicity of institutions that have different legal mandates as is the case, for example in the transportation sector.

Much of the legislation formulated and enacted during the pre-1985 period in Tanzania focused on domestic and international entrepreneurs. However, the greater part of the legislation requires review and reform. This is subject to ongoing implementation under a major programme for legal and regulatory reforms, the BEST programme, whose implementation started in 2004.

One of the major components of BEST is the need to establish a better regulatory environment through measures that include the reform of regulatory licensing.

5.3 Regulatory Licensing Reforms and Way Forward

A situation analysis of the regulatory licensing system in Tanzania reveals the existence of a well-entrenched regime based on three pillars:

- A universal system of business licensing administered under the Business Licensing Act No. 25 of 1972 which incorporates elements of business registration and regulatory functions;
- Cross-cutting legislation that applies across economic sectors and sub-sectors such as those relating to employment and labour issues e.g. the “Occupational Health and Safety Act”; and
- Sixty-three pieces of sector and sub-sector legislation referring to sector-based regulatory business licensing requirements. The institutional framework for the administration of sectoral regulatory frameworks comprises a total of fifty-two regulatory agencies. The 63 laws and 52 agencies include those identified in this report and constitute an integral part of the institutional and legal framework for the six service sectors under consideration.

The three pillars provide the legal mandate and guidelines for the leading service sectors. Two approaches have been adopted for undertaking the relevant reforms. In the first place, a review of the Business Licensing Act of 1972 is in advanced stages. Also, there is progress in the enactment of a Business Registration System, based on international best practice that de-links the revenue generation and regulatory functions from the licensing system. Under these reforms the business registration system will focus solely on information generation/dissemination and on creating a legal identity and legitimacy for business operators. The revenue generation function will be confined to the taxation regime. Finally, the regulatory function will focus on the regulatory licensing regime.

Apart from limiting regulation to a new licensing regime, there is a need to streamline and harmonise the existing regime. Clearly there is need for coherence and co-ordination in the existing regulatory system. It is necessary to determine which existing regulations should be retained and to identify instances where such regulations need to be made more effective. It is also necessary to determine where recourse to voluntary compliance is more appropriate than enforced compliance.

Finally, the issues of reciprocity and national treatment will need to be considered with respect to opening up the six service sectors under consideration for FDI. The instruments for enforcement of ownership structures and involvement of nationals are embedded in the sectoral regulatory regime. This study suggests two alternatives to deal with the issues. In the first place, this study, or subsequent trade-oriented reviews, can commission and undertake a broad review of the regulatory regime as it relates to the six sectors under consideration. Alternatively, the trade objectives can be integrated into reforms that are implemented under the framework of the BEST programme. This framework involves the development and adoption of a policy on regulatory licensing and initiation of review measures for priority sectors to be adopted by the government in consultation with key stakeholders. The second approach is likely to be the most logical and effective in terms of optimising use of scarce resources and co-ordinating reforms at the national level.

It is therefore, proposed that a way forward is for the BEST programme to highlight the issues involved in trade in services and include in its agenda the review and harmonisation of the legal and regulatory frameworks for key economic sectors. For each of the various sectoral and cross-cutting pieces of legislation, it is possible to identify the specific clauses and provisions that should be addressed in a policy paper on opening up the service sectors in a manner that is responsive to national concerns and interests. Such concerns include:

- Accommodation of strategies on empowerment and affirmative actions;
- Involvement of nationals in mainstream economic activity; and
- Reserve of policy space (policy flexibility) for future development and growth strategies.

5.4 Conclusion

This study has examined six service sectors that contribute substantially to economic growth. It has also explored the potential for increasing this contribution subject to undertaking policy, legal and regulatory reforms that lead to compliance with rights and obligations emerging from the WTO negotiations under the Doha Development Agenda on negotiations on trade in services. Countries can benefit from improved service delivery to the productive sectors that results from greater technological capacities, opening up of these sectors to foreign investment and the exposure this provides to other domestic operators. Increased foreign investment can contribute to more efficient service delivery and higher competitiveness. Services are also an intangible tradable commodity with high potential for income and employment generation and therefore, a major contributor to growth. However, to achieve the levels of competitiveness required, the nation will need to adopt and implement a more dynamic policy on the issues and concerns of national affirmative action and broad-based involvement, while recognising the importance of increased FDI based on reforms that promote compliance with WTO agreements.

In this regard, the key is to build consensus on an ideal legal framework that will facilitate specific commitments on trade in services with a view to responding to national concerns while sending out a clear message on policy stability to international investors. The study ends with a recommendation that the policy review can be undertaken as part of reforms under the BEST programme. Its outcome can be used by trade stakeholders to initiate work on effective participation in the negotiations by undertaking specific commitments to the GATS.

Tanzania has the potential to benefit substantially from its natural resources endowment. However, this will depend on effective linkage with the global market through efficient transport and communication networks that are cost effective and time-efficient. It will also depend on rapid service delivery to the productive sectors based on better skills and proficiency in such sectors as the construction industry. More investment in the tourism sector and improvements to ground services and the hospitality industry are factors that can contribute to attracting additional visitors to Tanzania. Finally, the transformation of the education and health sectors is critical to the creation of a trainable pool of manpower as well as the transfer of the technical skills that underpin competitiveness. The transformation process must target, first and foremost, the education and health sectors.

ENDNOTES

1 The population of Zanzibar (Unguja and Pemba) is estimated at around 1 million.

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APPENDIX: EVOLUTION OF MULTILATERAL TRADE NEGOTIATIONS

Mode 1 (cross border services)

Information technology has enabled cross border provision (Mode 1) of an increasing number of services (health, education, etc) that previously could only be traded predominantly through Modes 3 and 4. Increasing opportunities in Mode 1 benefit developing countries that traditionally have lacked the resources to establish a commercial presence in target markets (Mode 3) or market access opportunities to export services personnel (Mode 4). "IT enabled services" is a fast-growing sector, with developing countries among the most dynamic exporters.

Technology innovations have allowed developing countries to take advantage of the opportunities created by specialisation and outsourcing of service functions previously managed in-house (customer interaction, back office, human resources, accounting, marketing, research and development). According to the OECD, the outsourcing market in business services alone was estimated at USD 6.4 billion in 2001 and is predicted to rise to USD 62 billion by 2008. Business and professional services (marketing, human resources, accounting, training, etc) accounted for around USD 3 trillion or around 10 percent of global GDP in 2001. Developing countries account for around a quarter of Business Professional Service (BPS) exports. Developing country growth of trade in (BPS) is roughly 50 percent higher than in industrial economies (10.5 percent versus 6.9 percent per year since 1990). In the period 1995-2000, India experienced 43 percent growth and Mauritius 19 percent, while Japan only had 1 percent growth and the European Economic Area 6 percent.

E-commerce has increased opportunities for developing countries by helping them to overcome their marketing and infrastructure constraints. In 2003, outsourcing services grew by 65 percent, with some developing countries moving up the value chain into such services as research and development. Although India and Latin America have led the move in outsourcing BPS, Caribbean countries in particular have flourishing back-office sectors. Kenya has a strong presence in advertising services. Bangladesh, Haiti, Mali and Tanzania have also identified potential for BPS.

Commitments and offers in Mode 1

In general, commitments are broader and deeper in Mode 3 than in Mode 1. In 2000, few sectors were amenable to electronic transactions, thus there were few Mode 1 commitments in areas such as health, education and audiovisual services. Commitments are often partial (none are unrestricted in accounting and two thirds have restrictions in data processing). Restrictions generally relate to nationality, residency, commercial presence and licensing. Few countries have improved this situation through current offers. Only Canada has made broad commitments in the business support services sector.

Barriers to Mode 1

Regulations such as certification, professional membership requirements, performance standards and insurance requirements tend to apply in Mode 1. According to the World Bank, non-tariff trade barriers in business services raised prices by 20-25 percent.

- There are signs of increasing political opposition to outsourcing in OECD countries:
- A New Jersey senator tabled a bill in 2002 to prevent outsourcing of public work to Mumbai, India. The State of Indiana already withdrew a USD 5 million contract from a US subsidiary of an Indian outsourcing firm;
- TUPE (Transfer of Undertakings Protection of Employment) deals in the EU limit opportunities through outsourcing by protecting domestic employment;
- The 1998 EU Data Privacy directive means that the EU can cut off vital data flows to countries it deems to have inadequate laws for the protection of its citizens' data.

Mode 4 (temporary movement of natural persons)

Mode 4 has been identified by developing countries as a main area of interest. This is recognised in the July Framework of 2004 and in paragraph 47 of the Hong Kong Ministerial Declaration with specific reference to the interests of LDCs in services negotiations.

As OECD countries experience low birth rates and an ageing population, the demand for labour will increase. Ageing populations will also increase demand in health, leisure and social services. There are correspondingly high levels of unemployment in low-skill labour in LDCs – an estimated 230 billion by 2010 according to ILO data.

An increase in developed country quotas for skilled and unskilled temporary workers of 3 percent would increase global welfare by USD150 billion per year (Winters, 2002). Although these do not correspond directly to Mode 4 flows (not all overseas workers are engaged in service provision), remittances totalled USD 72.3 billion in 2001, greater than the total ODA for that year (IOM 2003).

However, estimates on gains through services are notoriously unreliable (see section below). This is especially true of Mode 4 where estimates tend to be based on migration flows, not all of which will be eligible as service providers under Mode 4. The OECD also points out that the economic impact of Mode 4 will vary considerably between countries and service sectors and according to the type and skills of workers. Benefits from Mode 4 also depend on countries making politically difficult decisions.

Commitments and offers in Mode 4

Mode 4 has the least commitments of any mode and no full commitments. Mode 4 commitments tend to be limited to intra-company transfers and high-skilled/executive workers. Out of the 328 entries under ICT, which make up more than one third of Mode 4 entries, 240 are for executives, managers and specialists. Only 17 horizontal commitments cover low-skill categories. The 40 Mode 4 offers will deliver little in terms of economic benefit.

For example:

- The EU has made clarifications and some improvements on its Mode 4 commitments. These include extension of coverage to graduate trainees and independent professionals and removal of “Economic Needs Tests” for ICT and business visitors. There is greater flexibility on length of stay for some categories. However, horizontal restrictions still apply and undermine some of the very limited benefits of these improvements;
- The US has made no improvements at all on its Mode 4 commitments.

Countries have made limited commitments compared with actual levels of liberalisation, demonstrating reluctance to make firm commitments. For example, Australia, Canada, France, Germany and the UK recently facilitated the entry of high-skilled workers. Several European countries run programmes for short-term entry of less skilled workers in agriculture, tourism and construction. Arrangements are often bilateral rather than multilateral (e.g. NAFTA and US-Chile agreements).

Significant barriers remain to market access in Mode 4:

- Visa formalities, prohibitions and quotas;
- “Economic Needs Tests” (for example, France requires prior search for national service providers in construction, research and development, and higher education services);
- Procedures are often discretionary, administratively burdensome and not transparent;
- Wage parity (US requirement) which erodes the cost advantage of developing countries;
- Discriminatory treatment such as: residency and nationality requirements

and tax obstacles. For example, in the US, immigration service providers are required to pay local taxes and social security payments for which they cannot receive tax credits at home. The US requires foreign service providers of architectural services to be subcontracted through a US firm;

- Non-recognition of qualifications and requirements of members of professional organisations.

Current ambiguities (such as for example, the duration of "temporary" or the types of contracts covered) around what Mode 4 covers, could further discourage countries from making new commitments.

The Hong Kong Ministerial Text: Where are we? Where do we go from here?

The Hong Kong Ministerial Conference offered an opportunity to take stock of the Doha Work Programme, as well as inject political capital into the negotiations with a view to finishing the Round by the end of 2006. In general, ministers reaffirmed the Declarations and Decisions at Doha, the General Council Decision of 1 August 2004, and the central importance of the development dimension in every aspect of the Doha Work Programme. The main critical issue for LDCs is that ministers agreed that LDCs are not expected to undertake new commitments.

Analysis of Annex C

The objectives, approaches and timelines set out in Annex C to the Ministerial Declaration were set out as the parameters for the next phase, which is aimed at "*intensifying negotiations*" so as to expand sectoral and modal coverage of commitments and improve their quality. The objectives seek to provide Members with guidance, to the maximum extent possible, in making their new and improved commitments. They cover *Modal aspirations,* for instance binding Mode 1 market access commitments (cross-order supply) in a non-discriminatory manner, at existing levels of liberalisation, in sectors of interest to Members and removing requirements for commercial presence. *In Mode 4* (movement of natural persons), the indicators have been presented as the need for new or improved commitments in the categories of *"Contractual Services Suppliers, Independent Professionals and Others"*, de-linked from commercial presence. Here, removal or substantial reduction of economic needs tests (ENTs), indication of prescribed duration of stay and possibility of renewal, if any, are all desirable. In the category of *"Intra-Corporate Transferees and Business Visitors"*, removal or substantial reduction of ENTs, indication of prescribed duration of stay and possibility of renewal, if any, are mentioned.

From the above, it is worth noting that if these aspirations were translated into Member schedules, they would present new markets openings for LDCs in these categories. However, one cannot forget that LDCs operate in a highly competitive international services market, and at present, would be unable to beat such established markets as India in Mode 1 (e.g. outsourcing) or other developing countries that have heavily invested in their tourism sectors for Mode 2. It is therefore, critical that LDCs undertake assessments at national level and seek technical assistance to boost capacity to take advantage of these markets, while at the same time, articulating in which areas they hold a comparative advantage.

On the LDC Modalities, Members agreed to pursue their full and effective implementation. The aim is to provide beneficial and meaningful integration of LDCs into the multilateral trading system. Paragraph 9 of Annex C commits Members to develop in the course of negotiations, methods for the full and effective implementation of the LDC Modalities. Options offered for this include: expeditiously developing appropriate mechanisms for according special priority, including to sectors and modes of supply of interest to LDCs (in accordance with Article IV:3 of the GATS and paragraph 7 of the LDC Modalities) and undertaking commitments, to the extent possible, in such sectors and modes of supply identified (or to be identified) by LDCs that represent priority in their development policies (in accordance with paragraphs 6 and 9 of the LDC Modalities). In addition, Members commit themselves to assisting LDCs so as to enable them to identify their priority sectors and modes of supply, and to providing them with targeted and effective technical assistance and capacity building in accordance with the LDC Modalities, particularly paragraphs 8 and 12. Members also agree to develop a reporting mechanism to facilitate the review requirement in paragraph 13 of the LDC Modalities.

In the area of *GATS rules,* Members agreed to intensify efforts to conclude the negotiations on rule-making under GATS Article X (emergency safeguard measures), Article XIII (government procurement) and Article XV (subsidies). Least-developed countries should position themselves to follow these negotiations very carefully so as to ensure that their input is considered. It is also worth exploring how the Rules negotiations can contribute to the implementation of the LDC Modalities. For this purpose, it is proposed that discussions begin with the Focal Group and relevant resource persons such as South Centre.

On "*domestic regulations*", Members agreed to develop disciplines pursuant to the mandate under Article VI: 4 of the GATS before the end of the current round of negotiations. In so doing, proposals and the illustrative list of possible elements for Article VI:4 disciplines as attached to the "Report of the Chairman of the Working Party on Domestic Regulation to the Special Session of the Council for Trade in Services" on 15 November 2005, contained in document JOB(05)/280, are to be taken into account. Least Developed Countries should acquaint themselves with the content of this document and follow negotiations herein carefully.

On the "*Approaches for negotiations*", Members agreed to intensify and expedite the request-offer negotiations and to pursue the request-offer method of bilateral negotiations, on a plurilateral basis, in accordance with the principles of the GATS and the Guidelines and Procedures for the Negotiations on Trade in Services, extending the results of such negotiations on an MFN basis. The text details the organisation of such an approach, the highlights of which include that any Member (or a group thereof) may present requests (or collections thereof) to other Members, in any specific sector or mode of supply, identifying their objectives for the negotiations in that sector or mode of supply. A recipient of such a request would be obliged to consider it in accordance with paragraphs 2 and 4 of Article XIX of the GATS and paragraph 11 of the Guidelines and Procedures for the Negotiations on Trade in Services. This presents an opportunity for LDCs to present and build on their Mode 4 requests.

On "*Timelines*", it is agreed that any outstanding initial offer shall be submitted as soon as possible, that groups of Members presenting plurilateral requests to other Members should have submitted such requests by 28 February 2006, or as soon as possible thereafter, that a second round of revised offers should have been submitted by 31 July 2006, a final draft schedule of commitments should have been submitted by 31 October 2006.

In conclusion, progress will be reviewed by the CTS. Because of this, LDCs should ensure that they fit their actions within the timelines and continually mention their issues at the CTS, so as to retain a high profile in the negotiations.

Dar es Salaam, Tanzania

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ICTSD's programme on *Trade in Services and Sustainable Development* aims at empowering developing country policy makers and influencers at bilateral, regional and multilateral levels through information, dialogue, capacity-building, and well-targeted research, to influence the international services trading system such that it advances the goal of sustainable development. Specifically, it seeks, among others, to:

- Identify and clarify key sustainable development issues and prospects in relation to the agenda on trade in services;
- Assess systemic issues of interest for developing country policy makers and influencers in the GATS legal architecture;
- Facilitate interaction among negotiators, policy makers, policy influencers, civil society and business communities on GATS discussions and negotiations.

For further information visit: www.ictsd.org/issarea/services

About ICTSD

Founded in 1996, the International Centre for Trade and Sustainable Development (ICTSD) is an independent non-profit and non-governmental organisation based in Geneva. By empowering stakeholders in trade policy through information, networking, dialogue, well-targeted research and capacity building, the Centre aims to influence the international trade system so that it advances the goal of sustainable development.

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