

**UNITED REPUBLIC OF TANZANIA**



**PRESIDENT'S OFFICE, PLANNING COMMISSION**

**The Role and Impact of Foreign Resources on the  
Tanzanian Economy**

**An Extended Executive Summary**

**Submitted by Economic Research Bureau**

**University of Dar es Salaam**

**November 2009**

### **1.1. Background of the Study**

Since 1986, Tanzania has been perusing for reaching social economic reforms aimed at promoting growth through market liberalization. Notwithstanding this positive effort, the country continued to face many developmental problems. Beginning 1995 the government took initiative of preparing National Developmental Vision 2025 which was completed and launched in 1999. The Vision spells out national long term development goals priorities and direction. It is envisaged that the impact would have been much greater if it had not been poor management and inadequacy institutional capacity. The policy reforms undertaken from 1980s have to a great extent contributed in attracting a considerable amount of foreign resources in terms of Foreign Direct Investment (FDI), Official Development Aid (ODA) and remittances. These foreign resources have been used to augment the limited domestic saving and bring with them finance, managerial skills, technology, marketing expertise and market link all of which are most needed for the economic development. These benefits have thus influence the country to increasingly put in place the environment necessary for attracting their inflows.

### **1.2. Objective of the Study**

The broad objective of this study was to analyze the role of foreign resources in the economy by examining the consensus in the literature that foreign resources lead to better economic performance. External assistance is one of important sources of government revenues which accounts for about 40 percent of the national budget. Effective management of external assistance and use value of the resources for leading industries is important for growth and job creation.

Specifically the study requires to: [1] Determine the level of domestic resources in Tanzania, [2], Identify the contribution of the policy reforms undertaken from 1990s to the effective use of foreign resources, [3] Identify how much external resources are needed to supplement domestic resource in the process of developing leading industry/primary industries which will stimulate rapid economic growth and spill-over effects; and [4] Identify any success story on outwards looking policies that attracted more foreign resources to the economy

### **1.3. Study Methodology**

In view of the objectives of the study, four independent but complementary research methodologies and activities have been used. These methodologies and activities were major desk study, field research survey, internal and national consultative workshop. Researchers undertook desk review of the current issues on the role of foreign resources in both developed and developing economies. All available relevant documents were reviewed, and this included reports of the central government ministries including President's Office, Planning Commission (POPC) and Ministry of Finance and Planning. Researchers also collected secondary data and information during literature review.

## **2.0 Major Research Findings**

The following are some of major research findings based on the study. These findings are clustered on the basis of Terms Of References.

### **2.1. Major Research Findings**

#### ***2.1.1 The level of domestic resources in Tanzania***

##### ***High and sufficient levels of domestic natural resources***

The study found that Tanzania is a rich country in term of mineral natural and human resource endowments. The 2002 Tanzania Census revealed a population of 34,569,232 with an average annual growth over the last few years of 2- 3 percent. The population of Tanzania in 2008 was estimated at 41,048,532. Tanzania population has increased slowly at 2.04 percent in recent decades. About 25 percent live in urban areas and rate of urbanization has been about 4.2 percent during 2005-8. The study found that out of a labour force of over 20 million, about 90 percent are employed while 11.1 percent are unemployed. However, the majority of those employed are employed in the agriculture sector which however has disguised unemployment due to the fact that people are not engaged in agricultural activities throughout the year but rather seasonally. This implies that the unemployment rate is higher than the official 11.1 percent. The major reason for prevalence of disguised unemployment in agriculture is low investment in agriculture which hinders undertaking of agricultural activities throughout the year. Agriculture therefore is reliant on rainfall which means there are periods of the year when the people employed in agriculture have nothing to do.

It is noted that mineral resources have a big potentials to increase other domestic resource such as human and finance mobilization capacities if utilized efficiently. Mobilization of domestic resources through minerals can be largely enhanced by promotion of as much value additions as possible in Tanzania before minerals are exported as well as boosting linkages with the rest of the economy by ensuring that more goods and services used by the companies involved in mining activities are obtained from domestic firms.

The study found that Tanzania has great underutilized natural, human and financial resources. For example, Table 2.1 suggests the country only uses about a third of its land for cultivation with the other two thirds being idle. Tanzania thus is richly endowed with forestry, fish, land, livestock's and human resources which however are underutilized. The great underutilization of these resources is due to several complex problems and constraints including lack of adequate financial capital to invest in agriculture, distorted output markets, poor productivity, and poor physical infrastructure in areas where the majority of the land is located.

**Table 2.1: Land Resources and Distribution in Tanzania**

Total Surface Area	94,300,000 ha
Reserves	22,000,000 ha
National parks	4,200,000 ha
Game Reserves	7,700,000 ha
Forest Reserves	10,100,000 ha
Total Arable Land	15,100,000 ha
Gross area cultivated/planted annually	5,100,000 ha
Uncultivated Arable land	10,000,000 ha
Cultivable Land in Reserves	4,000,000 ha

**Source: Tanzania National Website, 2009**

The study suggests that Tanzania is rich in mineral resources. Tanzania has become one of the fastest-emerging gold producers in Africa, and is now the continent's third-largest gold-producing country after South Africa and Ghana. Annual production of gold has increased from around 43.2 t in 2002 to about 48.0 t in 2003. Based on ongoing projects and developing mines, Tanzania's estimated gold reserves have been calculated at a conservative total of Tanzania now has proven gold reserves in excess of 36 Moz (1000 t) or valued at about US\$ 28,540,965,207.63. Consultations with stakeholders suggest that mining sector is not well linked to other domestic social economic activities and that majority Tanzanians are not benefiting from current mineral exploitations. The failure of the mining sector to create strong linkages with the domestic economy has led to the perception among Tanzanians that it has failed to have an impact on the development of the country because of being in the hands of very few people

**Table 2.2: Deposits of Major Minerals in Tanzania**

Nr	Type of Mineral Resource	Levels of Mineral Resources
1	Gold	2,222 Million Tonnes
2	Nickel	209 Million Tonnes
3	Copper	13.65 Million Tonnes
4	Iron Ore	103.0 Million Tonnes
5	Diamond	50.9 Million Carats
6	Tanzanite	12.60 Million Tonnes
7	Limestone	313 Million Tonnes
8	Soda Ash	109 Million Tonnes
9	Gypsum	3.0 Million Tonnes
10	Phosphate	577.04 Million Tonnes
11	Coal	911.0 Million Tonnes

**Data Source Geological Survey of Tanzania, 2007**

### ***Performance of Financial Sector in Resource Mobilization***

Commercial bank deposits and lending in Tanzania have increased significantly over the past several years with the former increasing by 139 percent and the latter increasing by 277 percent between 2003 and 2007 implying that the financial sector has done a good job in mobilizing resources. Although the financial sector has done a good job in mobilizing in terms of increasing levels of deposits, it has not been very efficient in allocating resources in terms of lending. The financial sector has thus been inefficient in allocating the savings it mobilizes as private sector lending growing by 243 percent while total government lending in terms of government securities grew by 340.3 percent between 2003 and 2007 with the sale of Treasury bills growing by a huge 521 percent in the same period of time.

### ***Crowding Out of Private Sector in Borrowing Market***

Although private sector lending has increased in Tanzania over the past couple of years, total government lending has been growing faster with the latter growing faster by almost 100 percent more than the former between 2003 and 2007. Higher growth of government lending relative to private sector lending implies that the Government is borrowing at the expense of the private sector and is therefore crowding out the private sector in the credit markets. The fact that financial sector lending is tilted towards government lending implies that the financial sector perceives lending to the Government especially in terms of Treasury Bills to be a less risky undertaking than lending to the private sector hence resulting in banks willing to sit on excess deposits rather than lend to the private sector.

### ***Wide Resource Gap and Misused Resources***

Working under the assumption that African countries need an additional resources between 10 percent to 20 percent of their GDPs and that a third of those additional resources should be domestic, the study assumes that Tanzania additional resource requirement are 20 percent of GDP, the study finds that the total resource gap is 2.76 trillion shillings annually of which 910.9 billion shillings must come from domestic resource mobilization. Although the overall and domestic resource gaps are wide, Tanzania has adequate domestic resources to narrow these gaps. The reduction of these resource gaps can be achieved through increased domestic resource mobilization via land, minerals, livestock, other financial resources, and financial resources as well as through reduction of the misuse of public financial resources.

Data from Annual General Report of the Controller and Auditor General for 2007/08 shows that the percentage of misstatements as a percentage of total government expenditure was 7 percent or 370 billion shillings which exceeded the pre-set materiality level of 2 percent for fiscal year 2007/08 by 5 percent or 270 billion shillings which is quite significant and results in inefficiency in achieving objectives of resource allocation.

### ***2.1.2 The contribution of the policy reforms to the effective use of foreign resources***

Tanzania has, in the past 15 years been undergoing social economic and political reforms, which have re-oriented the economy from a government-led to a private-sector-led one. Tanzania has made significant progressive in the formulation, implementation and performances of social economic policies intending to empower Tanzanian in managing own social economic activities. The reforms and changes in policies have resulted in the shrinking of a formal public sector contribution, which used to be the main coordinator, generator, user and consumer of resources in the formal sector.

Having been guided by socialist policies since the late 1960s, re-orienting the economy has meant making deliberate effort to promote private sector development and liberal input and output competitive market systems. The first and second generation reforms that were pursued since early 1980s up to day will be examined and linked to optimal utilization of foreign resources in an open, liberal and private led Tanzanian economy.

#### ***2.1.2.1. Adequate national development policies are in place and policy reforms are underway***

Tanzania has made significant progressive in the formulation, implementation and performances of social economic policies intending to empower Tanzanian in managing own social economic activities. Tanzanians are aware of the recent policy reforms and efforts and have knowledge and information on the policy reform processes and their contributions. However, some are not well informed on the details, systems and mechanism.

#### ***2.1.2.2 Increasing policy consistencies and linkages between long and medium term policy strategies***

Based on the experiences of implementation of first and second generation macro-reforms, the government has been conscious of the need for long term perspective development plans and has made a more comprehensive review of its micro-economic and sector policies facilitating ownership, empowerment and optimal domestic resources.

#### ***2.1.2.3 These policy reforms have definitive positive contributions to effective resource mobilization***

Tanzania has recorded significant improvement in overall macroeconomic performances since the mid 1980s largely on account of sustained policy actions on stabilization and structural adjustment. These policy reforms have initiated mobilization of both domestic and foreign resources. However, poverty levels and overdependence on foreign aid for development remained as challenging as ever and the medium-term strategy is to get out of much of it through development of a strong and expanded domestic revenue base.

### **2.1.3. External resources are needed to supplement domestic resource**

The study found that, given the magnitude of foreign aid received by Tanzania the slow economic growth record poses an obvious question of aid effectiveness. Generally, with reference to the level of aid Tanzania has been receiving relative to GDP, there is no strong feelings that aid has better growth impact now than in the early stages of the economic reform period, however, growth in Tanzania would be lower in the absence of aid. It necessary follows that slow economic growth record in Tanzania cannot be attributable to aid ineffectiveness, to this extent; aid has not failed in Tanzania. The obvious challenge is to sustain recent level of official aid while looking on the impact of foreign aid on agricultural sector which is by far the most dominant and large impact sector has relatively received a very small share of foreign aid in comparison to foreign aid favored sectors which by comparison contribute very low share in overall growth. Therefore, the lack of adequate aid flows to such high impact sectors as agriculture contributes to the generally poor overall economic growth despite high inflows of aid.

#### **2.1.3.1 Increasing but insufficient and ineffective foreign aid**

Evaluating the impact of foreign aid on social political and economic development is beset with a number of complex methodological difficulties. Nonetheless there is much prime facie evidence that aid has neither been sufficient nor effective in Tanzania. Despite the significant volume of aid received by the country the economic growth has been slow at best and this poses an obvious question of aid effectiveness. Alongside many disappointments however, foreign aid has financed many social political and economic development projects and programmes which achieved high internal rates of return, including schools, health posts, bridges and road.

#### **2.1.3.2 Complex constraints of foreign aid**

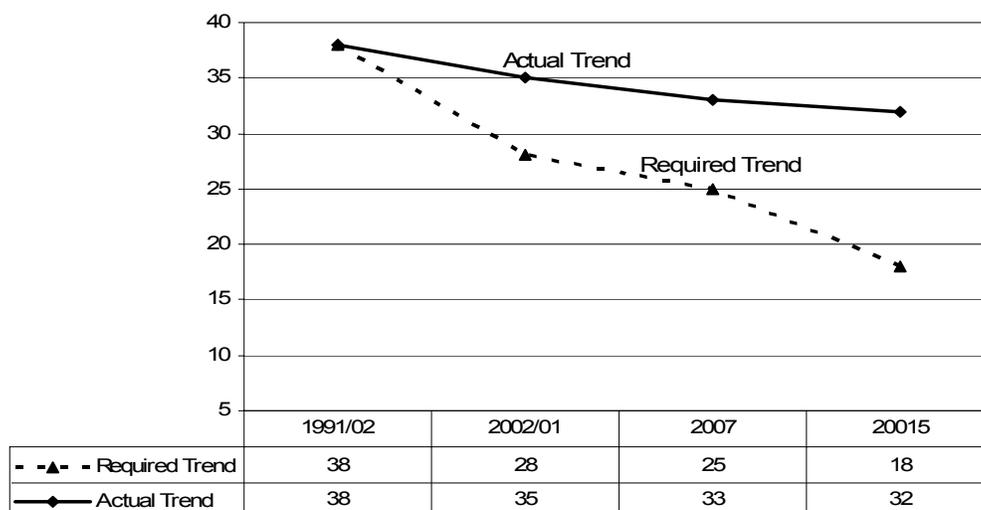
There are factors which seem to determine development success and failure of foreign aid in Tanzania.

*First*, the macroeconomic environment in which development efforts take place has a powerful impact on their likelihood success. Aid is far less likely to be successful in the context of fiscal crisis and economic instabilities. Macroeconomic variables such as inflation and the degree of openness have certainly improved in Tanzania. However, control variables such as the government budget surplus/deficit tend to hamper the effectiveness of aid and thus, affect the growth of the economy negatively. *Second*, foreign aid is more likely to be effective when it is fully integrated into a sound development strategy established by the government. *Third*, the nature of the donor-recipient relationship has been critical impact on the effectiveness of aid utilization. Particularly, the sustainability of aid requires that the recipient have a full sense of ownership over the programme and projects that are formulated and implemented.

### 2.1.3.3 Pro poor foreign aid modalities

Basing on the current official aid situation in Tanzania, one would assert that aid has failed because it has not eradicated poverty. This though is far too lofty an expectation for aid as it assuming that these flows have potential to offset factors which cause poverty. No one factor can be reasonably expected to do this. Moreover, it is particularly interesting in analysis of possible links between aid and real GDP. Widely circulated empirical studies find that economic growth would be lower in the absence of aid. Also it has been noted that aid is associated with higher public expenditures than would otherwise have prevailed. Included in these expenditures are those that are pro-poor in orientation. One can reasonably infer from these findings that poverty would be higher in the absence of aid.

**Fig. 2.1.3.1 Poverty Incidence Relative to MDG Trend line in Tanzania**



Source: Development Partner’s Group, 2008

### 2.1.3.4 Complex challenges of foreign resources

The obvious challenge is to utilizing aid and capital inflows in ways which complement rather than replace domestic resources, efforts, and initiatives. It is the interaction between the monetary policy and fiscal policy in response to aid flows that determine the macroeconomic impact of aid. Importantly, there are reasons to give much emphasis to domestic resources mobilization. *First*, greater reliance on domestic resources is vital to elevating economic growth, accelerating poverty reduction and underpinning sustained development. In addition, *secondly*, domestic resources mobilization is potentially more congruent with domestic ownership than external resources. Foreign aid invariably carries restrictions and conditionality. *Third*, domestic resources mobilization is critical to strengthening economic linkages between domestic sectors (e.g. agricultural – non-agricultural) and regions (e.g. rural-urban), which is a prerequisite for successful external integration into the global economy.

## ***2.1.4 Roles and Impacts of Foreign Direct Investments )and Remittances to the Economy***

### ***2.1.4.1 Limited Linkages***

The study found that, mining and manufacturing sectors holds first place in FDI stock attraction due to their potentiality in investors' point of view (see figure below). Yet the sectors still register low contribution to the overall GDP and general employment. Meanwhile, the study findings show that there has been less than proportionate FDI recorded in the agricultural and tourism sectors, despite their greatest importance and potential for foreign exchange earnings, employment, economic growth and development. This proves that FDI has limited backward and forward linkages with key sectors of the economy.

### ***2.1.4.2 Impressive Export Performance***

On other hand, despite of the FDI's limited backward and forward linkages with key sectors of the economy, the study found some relatively impressive performance in various aspects of Tanzanian economy to have a link with FDI flows into the country. These aspects include relative improvements in country's exports performance, domestic direct investments borrowing behaviour, human resource development and domestic market development.

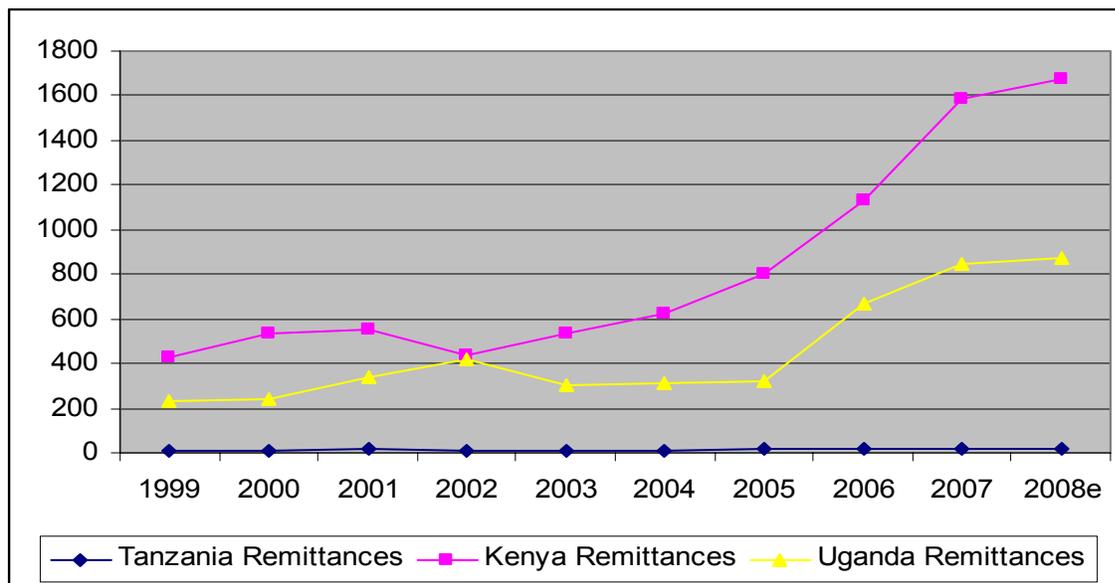
### ***2.1.4.3 Low remittances inflow***

The study found that there is a very low level of remittances flow to the economy as compared to other foreign resources and neighboring countries (see figure below). This is mainly explained by a small number of Tanzanians working abroad, limited dissemination of data and information about the international job opportunities, and high number of unskilled labors in the economy (ERB-POPC Survey, 2009). However, other possible challenges include the country's stable peace and security, Tanzanians' culture of having strong ties to relatives and families altogether discourage them to move and work out of their home country, and Tanzania's remittances data capturing system is generally ineffective and therefore very obvious to leave out significant amount of informal remittances unrecorded

### ***2.1.4.4 Remittances are important to the economy***

The study found that despite receiving very low remittances, the public (sampled stakeholders) appreciated some benefits that are accruing to the economy via remittances. Such benefits/importance includes income increase of the recipients (mainly households) as pointed out by 32.33% of the sampled population during the field survey. About 24.30% mentioned poverty reduction, 11.15% mentioned remittances as among the important sources of forex in the economy, whereas 9.03% appreciated remittances' contribution to the economy's capital formation (ERB-POPC Survey, 2009)

**Fig 2.1.4.1 Remittance inflow in EAC 1999-2008**



*Source: ERB own calculations based on IMF Data*

### **2.1.5 Success story on “outwards looking policies” that attracted more foreign resources**

#### ***Objectives of outward-looking development policies***

Tanzania has put in place a number of sector specific national development and outward looking policies which have had an impact on the foreign resources. These include the National Investment Policy, National Mining Policy, National Tourism Policy and National Trade Policy. Literature distinguishes between inward and outward looking developing policies. Outward-looking development policies encourage free trade and the free movement of the factors of production, while inward-oriented development policies encourage greater self-reliance and at times restricting trade and optimal utilization of domestic resources. By contrast inward-looking policies stress the need for developing economies to develop their own style of management, national development and to control their own destiny.

#### ***Impact of outward-looking development policies***

The study suggests that the effects of outward-oriented policies in developing countries have identified openness with international trade, foreign investments and multinational production activities. However, openness involves much more than just trade. This report considers the relationship among export trade, foreign direct investment and effective utilization of domestic natural resources. Benefits of outward looking policies include increasing specialization, economies of scale, economic growth and increased competition, incentives to cut costs and

increased revenue generations. The recent policy reforms and contributions have significantly transformed the Tanzanian policy framework from inward looking to outward looking policy directions.

Outward looking supported by liberalized market, national investment and export promotion development strategies require a more dynamic and outward-looking approach, as domestic producers need to respond to regional and global opportunities, challenges and demands. The fiscal investment incentives contained in these outward looking policies are good indicators which can be used for regional and international comparisons.

### ***Botswana as a good performer***

Botswana has maintained one of the world's highest economic growth rates since independence in 1966, due to optimal utilization of diamond mineral resources. Through fiscal discipline and sound management, Botswana has transformed itself from one of the poorest countries in the world to a middle-income country with a per capita GDP of \$13,300 in 2008. Two major investment services rank Botswana as the best credit risk in Africa. Diamond mining has fueled much of the expansion and currently accounts for more than one-third of GDP and for 70-80% of export earnings. Tourism, financial services, subsistence farming, and cattle raising are other key sectors.

### ***Balanced inward, outward looking consistent policy options and strategies***

The study suggests that in nine short years Tanzania has already built a high level of macroeconomic reliance on mining in several areas in terms of FDI, Exports and even government revenues and employment.

The study notes that mining foreign direct investments have dominated the total flow of FDI in Tanzania. These have only superseded other attractions for international capital. Mineral exports have been rapidly rising to be a major share of total exports in the country even when starting from a low base. Mineral taxation has become another significant source of total tax revenues with limited tax raising capacity. Most of gold mining use modern-day mining technologies and thus is a capital-intensive industry – so it is accounting for only a small employment. That is, currently employment is also low – typically only 1-2% of formal total employment in Tanzania.

The study indicates that lifestyle, standard of livings and economic development structures have not changed in these mining nations. Most of them are still poor, highly indebted and depends on agriculture for their survival. Whereas Botswana depended on single mineral resource, political and government commitment and effective ownership, management and operation of mining activities supported with outward looking policies have transformed the economy to middle income developing country.

### **3.1 General and Specific Policy Recommendations**

The following are the general and specific policy recommendations based on this baseline study;

#### ***3.1.1 Enhancing sustainable use of domestic resources***

##### ***The need to enhance pro-poor optimal domestic natural resource utilization***

The study recommends the need to enhance optimal domestic natural resource utilization and in particular the mining development as the route to economic transformation and poverty alleviation objectives set in a number of government policy documents such as the Mining Policy, 1997; Investment Policy, 1997; National Development Vision, 2025; and MKUKUTA.

The objective of sustainable mining development is to contribute to human development and create employment opportunities through increasing a sustainable production capacity in the economy. This will ensure availability of basic needs goods for the majority of the population. Sustainability of employment opportunities would increase effective demand through increased income.

As experiences in many rich mineral resources countries have shown, the most important action for poverty alleviation at the initial stage of their mining development is the creation of jobs and support to PRSP priority sectors. There are views that these have often been done through increased linkage between the mining sector and the building of labour-intensive and export-oriented industries, the development of agriculture and the processing of agricultural products, the development of consumer goods and services, and the raising of investment for education and health care.

For poverty reduction efforts, the main challenge facing Tanzania is to uplift, transform and build strong, diversified and resilient modern sectors, which can produce efficiently for the domestic market and supply competitively to regional and world markets.

##### ***Encourage local driven large scale mining development***

Tanzania is blessed with almost all the minerals and natural resources needed for self-sustainability and development, yet we are behaving like wretched lepers incapable of harnessing resources and potentials for our own survival and development. For large-scale mining development, the country needs to mobilize, manage and utilize own natural and additional capital resources through increased national economic governance, local private sector participation, competitive and liberalized market systems and public-private partnerships. Indeed, there is a need for a joint governance approach to development finance, which seeks synergies between domestic capital, and natural resources, private capital inflows, and all forms of foreign

aid. In Tanzania, the notion of public-private partnership needs to be emphasized over a much longer time horizon, especially *where the indigenous population needs to take the driver's seat*.

The government should create an environment where more local and foreign investors invest in the large-scale gold, gemstone and industrial mining sub-sectors, which have proved to be of high growth mining potential. This can be achieved by extending the generous investment packages given to local investors in mining to the would-be investors in the large-scale operations. There is a need for prioritization of domestic entrepreneurs by positive discrimination, with the aim of fostering domestic investment to establish locally- based economic growth and mining development.

PO-PC should also look into the *issues of empowerment, ownership and employment* in order to ensure that the local people benefit from the large-scale investments that have been started in the country. Where the local people do not meet the standard required by foreign companies, the government should oversee their training, facilitation and acquisition rather than leaving this in the hands of the foreign private sector. Experience shows that if different forms of ownership and management of mining sector firms are employed, then results are positive. STAMICO was not necessarily bad, what should have been done was to let the economic entity to run as an independent corporate entity which was well capitalized.

### ***3.1.1 To intensify implementation of social, economic and political reforms***

We understand that the country has adequate national development policies. The study recommends that Tanzania has to intensify implementation of social, economic and political reforms. There is a need to enhance policy coordination, consistencies and linkages between long and medium term policy strategies. The most important policies which have had direct bearing and relevancies to effective mobilization of foreign resources include the National Development Vision 2025, Tanzania Assistance Strategy, (TAS) and Joint Assistance Strategy for Tanzania, (JAST) and the second generation poverty reduction strategies. The implementation of these medium term strategies such as JAST and NSGR should aim at enhancing mobilization and effective utilization of domestic resources (natural, financial and human).

The government has to ensure that these policy reforms have definitive positive contributions to effective resource utilization *for the interests of Tanzanians*. Tanzania has put a number of sector specific national development policies which have had positive impact on the foreign resources. These include the National Investment Policy, National Mining Policy, National Tourism and National Trade Policy. These policies have to have effective strategies for local empowerment in the ownership, management and operation of sustainable mineral development.

These policies should also aim at raising efficiency and widening linkages in domestic production and building a diversified competitive export sector. One of the policy objectives is to *stimulate*

*investment flows into export oriented areas in which Tanzania has comparative advantages as a strategy for inducing the introduction of technology and innovation into production systems as the basis for economic competitiveness.* Others include the need to attain [1] maximum mobilization and utilization of domestic capacity including cooperation with other developing countries [2], the encouragement of inflows of external resources to complement national efforts.

The POPC is also responsible for policy coordination of policy implementation of above investment, trade, production, foreign aid policies and strategies, monitoring, evaluating and analyzing socio- economic development trends and providing advice on macro and sectoral policies as well as broad based socio economic development issues. Equally, the Commission will have to focus on these foreign resource strategic policy issues and problems during this time of financial and economic global crisis with the view of proposing appropriate policy solutions.

### ***3.1.2 There is a need for optimal utilization of foreign resources***

#### ***Intensify implementation of pro-poor policy reforms***

There is a need to put in place a good pro-poor policy environment by intensifying the current social economic policy reforms as a necessary condition for poverty reduction; increase foreign aid mobilization and utilization. In a good policy environment financial assistance is a catalyst for faster growth, more rapid gains in social indicators and higher private investment.

Policy-based aid should be researched by POPC to nurture policy reform in the current social political regime. According to consultations, the good pro poor policy environment entails low and predictable inflation; appropriate real interest rates; real exchange rates which are competitive and predictable; stable and sustainable fiscal policy and a balance of payments which is perceived as viable. The effectiveness of increased foreign aid in the form of capital flows and investment will be greater when there is macroeconomic stability. All foreign aid can be useful if the government as the major receiver increases its aggregate demand for pro poor social economic activities. Within a good pro poor policy environment, the positive impact of foreign aid on high optimal utilization of domestic natural, human and financial resources and thus economic growth is rewarded by increasingly higher foreign direct investment flows.

#### ***Enhance implementation of foreign direct investment policy strategies***

With reference from the study findings of, the study recommends the need to enhance implementation of foreign direct investment policy strategies with the aim of effective mobilization and utilization of domestic natural, human and domestic resources. The POPC has to design actions on the FDI policy formulation, implementation, monitoring and evaluation. Precisely, for FDI to bring about significant positive effects in Tanzania there should be a policy whose major objective is to attract in FDIs. FDI that provide policy consistency and linkages with

other sector (forward and backward), as well as those finding their ways towards sectors with high potential in raising incomes and reducing poverty through the strong linkages they have to the rest of the economy. Specifically, the stakeholders prioritized agriculture sector, tourism sector, and value adding industries such as agro processing and lapidary (mining) industries.

This can be achieved through identification of all potentials in specific areas of the sector for new investments then constructions new and make improvements of existing infrastructure such as roads, railways and utilities (electricity, water, telecommunication, etc) would be a positive step towards attracting investments in the sector. Additionally, excessive incentives to FDI leading sectors, mining in particular can be cut down and raise or increase the same to sectors of interest to the economy.

Also, to gain more from both existing and potential FDIs, there must be sound and stable domestic policies designated objectively to create capacity for absorption and diffusion of skills, knowledge and technology to domestic firms. This can be achieved through human capital development (through strategic education) and technological competency of local labour force (through short and long term but focused training) and through research and development.

### ***Design and implement remittances policy strategies***

There is a need for POPC to coordinate formulation of an explicit domestic policy supporting migration and search for jobs in the international labour market. The POPC has to enhance national coordinated remittance policy efforts to ensure that the ministries of labour, home and foreign affairs collaborate on issues related to migration and the need to optimize Tanzanians and their resources in Diaspora for the development of the country.

Since we appreciate that remittance contribute to the stock of foreign resources and specifically to GDP, in addition to the public safety net and social security that they may provide for many poor families who treat migration as a strategy to address unemployment and loss of earnings at home. And the saved remittances of migrants represent a pool of funds, which can be mobilized for the development of the country. There is therefore a need to put in place the policy that will lead to increase in remittances. The specific generic policy recommendations may include

The government and concerned institutions should know who migrates, where and for which reasons. This will help to mobilize the working population (Diaspora) outside our country in order to increase the incoming remittances.

### ***3.1.3 Ensure balanced inward, outward looking and consistent policy options and strategies***

Outward-looking development policies encourage free trade and the free movement of the factors of production, while inward-oriented development policies encourage greater self-reliance and

restricted trade and movement of factors of production. By contrast inward-looking policies stress the need for developing economies to develop their own style of development and to control their own destiny. Outward looking and export promotion development strategies require a more dynamic and outward-looking approach, as domestic producers need to respond to regional and global demands.

Consultations with various stakeholders suggest that the effects of outward-oriented policies in developing countries have identified openness with international trade, foreign investments and multinational production activities. However, openness involves much more than just trade. This report considers the relationship among export trade, foreign direct investment and utilization domestic natural resources. Benefits of outward looking policies include increasing specialization, economies of scale, economic growth and increased competition, incentives to cut costs.

#### **4.1 The Way Forward**

PO-PC is the policy advisory body for formulating national long term development policies and plans of the country under the directives of the Cabinet. It explores and advises on resource allocation for economic development and works as a central agency for monitoring and evaluation of development plans, policies and programmes. Besides that, it also facilitates the implementation of development policies and programmes. Moreover, it provides a platform for exchange of ideas, discussion and consultation pertaining to economic development of the country. It also serves as an institution for analyzing and finding solutions to the problems of civil societies, non-governmental organizations and the private sector in the country. Given their mandate, this baseline study recommends that POPC to conduct detailed studies to determine the state of the specific foreign resources for development and provide generic policy recommendations to the government on the sustainable economic development through efficient utilization of those resources. Specifically, PO-PC has to;

- 4.1.1 Undertake series of policy research studies designed to device feasible strategies and appropriate measures on how to enhance pro-poor and optimal use of domestic resources and advice the government accordingly.
- 4.1.2 Coordinate determination of appropriate strategies and measures enhancing sectoral efforts and initiatives to encourage local driven large scale mining through public-private partnership.
- 4.1.3 Undertake cross sectoral study to identify policy conflicts posing difficulty in intensifying and achieving positive results in the on going social, economic and political reforms.

- 4.1.4 Coordinate policy analysis putting in place good pro-poor development environment through intensifying the current social economic policy reforms as a necessary condition for poverty reduction, increase foreign aid mobilization and utilization.
- 4.1.5 Undertake series of policy researches on the effects of foreign aid on economic growth, government expenditure and income distribution. Either parametric (econometric) or non-parametric (Computable General Equilibrium) methods are possible extensions given the objective of the policy research studies and the availability of data.
- 4.1.6 Ensure effective policy research coordination and implementation by sector ministries the entire package of strategies for enhancing effective mobilization and utilization of domestic natural, human and other resources.
- 4.1.7 Undertake a study that would give results for POPC to coordinate formulation of an explicit domestic policy supporting migration and search for jobs in the international labour market. This involves the role of POPC to enhance national coordinated remittance policy efforts to ensure that the ministries of labour, home and foreign affairs collaborate on issues related to migration and the need to optimize Tanzanians and their resources in Diaspora for the development of the country.
- 4.1.8 Undertake a policy research studies to establish appropriate strategies and measures for balancing inward and outward resources. This should provide consistency policy options and strategies.