

Unleashing Tanzania's Potential: Sustaining Transition to a Free Market Economy

Tanzania's average per capita income has increased since the introduction of economic reforms driven by improvements in economic performance, structural reforms, and improved service delivery. Growth in gross domestic product (GDP) has averaged between 5 percent and 7 percent, underpinning better development results. Access to primary education is improving, along with solid increases in net enrollment rates. Similarly, under-five child mortality has declined more than a third since 2000.

Challenge

The 2007 Household Budget Survey shows that the proportion of people living in poverty has decreased by 2.4 percentage points, to 33.3 percent in 2007 from 35.6 percent of the population in 2001. The reduction in the poverty ratio, however, has not been able to compensate for the population growth rate of about 2.9 percent per year. Consequently, the reduction in the proportion of poor translates to an increase of 1.0 million people living in poverty on mainland Tanzania between 2001 and 2007.

To address the challenge of reducing poverty, Tanzania is working to make its commercial environment easier and more sustainable. However, stagnating standings in the Doing Business indicators (131th out of 183 countries in the 2010 rankings) underscore the need for further regulatory streamlining.

Doing business in Tanzania is further challenged by the fact that only about 14 percent of Tanzanians have access to power and Tanzania's transport infrastructure remains insufficiently developed

to support growth and connect all Tanzanians with markets and services. Locally-managed roads have suffered years of neglect, with 75 percent in poor condition. The volume of goods transported by rail is stagnant and Dar es Salaam is severely congested.

Maternal mortality rates and fertility are showing only minor or no improvement and the unit cost of delivering basic health services has increased. New resources will be needed to train health workers and retain them. Maternal mortality will only be reduced if the country invests in both staff and facilities to provide emergency obstetric care. Currently, only 5 percent of adults have a secondary education, and only about 1 percent a tertiary education.

Approach

From 1995, the International Development Association (IDA) has provided more than US\$5.5 billion to Tanzania in loans and grants. A continuous policy dialogue with government has resulted in a process of change that has the potential to make Tanzania's economy take off and excel in the 21st century. More than 45 percent of IDA's support has been provided through development policy operations over the last three years focusing on improving public expenditures, increasing growth, and improving the delivery of social services. IDA has also provided direct support to the overall development program through Basket funding or project funding. Part of the financing has supported investment projects focusing on private and financial sector development, energy, roads, rail, water, rural development, natural resource management, community and local government development, and public sector reform. IDA provided

considerable support to the government in its preparation of its first and second Poverty Reduction Strategy Papers in 2000 and 2004. To deepen the understanding and commitment to fiscal reform, IDA helped establish an annual Public Expenditure Review to help set priorities within an overall expenditure ceiling, as well as to monitor progress and assess results. Based on this analysis, the government implements a strategic budget allocation system, which links budget allocations with the country's development goals. In cooperation with other development partners, IDA helped to build understanding and the capacity among non-state actors with an interest in the budget process. Since 2005 the process has been widened to also include a country financial accountability assessment and a country procurement assessment.

Results

Since 2003 IDA and 13 other donors have assisted Tanzania through general budget support, combined with policy advice. This approach has contributed to doubling per capita spending in education, health, water, agriculture, roads, judiciary, and combating HIV/ AIDS, as identified in the poverty reduction strategy. This range of support has led to significant achievements:

IDA has channeled more than US\$183 million since 2000 to improve transportation. During this period the percentage of major arteries and trunk roads in good and fair condition has increased along with regular funding provided for the maintenance of roads by local governments. As of March 2010, the percentage of trunk and regional roads in good and fair condition had increased to 88 percent from 51 percent in 2000.

IDA investments in education (through both individual projects and through budget support) have focused on sustainable reforms to widen access to schooling, while improving quality and relevance. In education, net primary enrollment is up to 84 percent in 2007 from 59 percent in 2000/01. Bank support to a series of education programs combined with removal of school fees at primary school level has played a critical role in raising enrollment rates. The government's share of the recurrent budget devoted to the education sector has reached 28.5 percent, higher than many low-income African countries.

IDA has supported Tanzania's efforts to increase access to and improve the efficiency of health services, with policy advice and knowledge transfers as well as financing. An innovative public-private partnership has increased the domestic production and use of bed-nets to prevent malaria. Tanzania's reductions in infant and child mortality are among the greatest in Sub-Saharan Africa. Infant mortality has fallen by nearly 50 percent in Tanzania, from 99 deaths per 1,000 live births in 1999 to 51 in 2010. This suggests that the country can reach the relevant Millennium Development Goal (MDG) by 2015. Under-5 mortality has also declined, from 146 deaths per 1,000 live births in 1999 to 81 in 2010, again bringing the MDG target within reach. The recently implemented Under-5 bed net campaign—to which the World Bank contributed 2.4 million nets—plus the increased emphasis on immunization coverage, make Tanzania's child health related MDG targets look even more attainable. Equitable access to health services relates to government's focus on improved primary health care; and to the growing volume of health basket funds

from many partners, including the World Bank, going to frontline health services.

IDA Contribution

As of June 30, 2010 IDA's lending portfolio in Tanzania consists of 24 active projects with total commitments of US\$2.70 billion, including US\$16.5 million from two projects funded by the Global Environment Facility, blended with investment operations in various sectors including among others: roads, energy, education, health, irrigation and rural development.

Tanzania has maintained a good portfolio performance that stands out in the Africa region. Disbursements during fiscal year 2010 reached US\$769.5 million (US\$ 409.5 million for investment projects and US\$360 million for general budget support) and the disbursement ratio was 34.8 percent.

- Sector Distribution of Tanzania's active portfolio (excluding a Poverty Reduction Strategy Credit):
- Sustainable Development: Water and Sanitation—US\$261.5 million (9 percent);
- Agriculture/rural development, forestry and environment—US\$385.8 million (15 percent);
- Infrastructure (energy, roads, urban)—US\$1.09 billion (40 percent);
- Mining—US\$50 million (2 percent) (Sector total: 66 percent);
- Human Development: Health, education and social protection—US\$672 million (25 percent);
- Finance and Private Sector Development—US\$162 million (6 percent);
- Economic Management and Public Sector—US\$80 million (3 percent).

Partners

The governments of Tanzania and its development partners have entered into a compact for managing development cooperation in order to achieve national development and poverty reduction goals, the Joint Assistance Strategy (JAST). The JAST includes alignment of support to government's poverty reduction priorities. Tanzania's Development Partner Group has analyzed Tanzania's development achievements and challenges, and adopted plans for financial and technical support extending until 2010. The increase in aid channeled through the country's own institutions and systems has made aid more effective by strengthening Tanzania's capacity to develop, implement, and account for its own policies. Following a 2000 assessment of IDA's Tanzania program by the World Bank's Independent Evaluation Group, IDA has been working to adopt the following recommendations: Promote balanced long-term growth; Develop strategies for private sector and rural development; Address social policy distortions; Strengthen financial management and accountability systems; Improve aid coordination. Forty-one partners disbursed overseas development assistance to Tanzania from 2003 to 2007. More than half of all disbursements came from four partners (IDA, United Kingdom, Japan, and the European Commission). Additionally, 14 partners (besides the four above-mentioned EC, United States, Netherlands, African Development Fund/African Development Bank, Sweden, Denmark,

Norway, Germany, Global Fund, Canada, Ireland) provided more than 90 percent of total disbursements to Tanzania. The Bank plays a pivotal role in Tanzania for coordination purposes, notably in general budget support but also in sectors and JAST Working Groups. The Bank is often the conduit between the government and its other partners. The Bank has a unique role in Tanzania thanks to its on-the-ground expertise (about 80 percent of "Task Team Leaders" are based in Dar es Salaam), multi-sector involvement, and financial importance.

Moving Forward

To assist Tanzania in meeting its development goals, IDA will continue to actively coordinate with partners and participate in the joint development dialogue with the government. Going forward, the lending program for the remainder of the Country Assistance Strategy (CAS) period (the current CAS ends on June 30, 2011) will largely focus on infrastructure and human development sectors. In addition the Bank will continue its strategic policy dialogue through general budget support, analytic and advisory activities, and its existing portfolio. Tanzania's next CAS will be presented to the Board in the fourth quarter of FY11. Consultations have begun and are expected to be completed by November 2010.

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