

IDA AT WORK

Tanzania: “MKUKUTA,” a Home-grown Agenda for Change

Since the launch of economic reforms in the 1980s, Tanzania’s population has benefited from a gradual increase in income, driven by improvements in economic performance, implementation of structural reforms and, most recently, improved public service delivery.

Annual GDP growth has averaged between 5 and 7 percent. In 2000 only 59 percent of children of school-age in Tanzania went to primary school; today more than 80 percent are attending regularly. Under-five child mortality has declined by more than a third over the past eight years.

Country Indicators	2005	2008
GDP per capita (US\$)	336	440
Average inflation (%)	4.4	10.3
Total public debt (%) of GDP)	24.6 (2006)*	24.8
Fiscal balance (% of GDP)	-1.9	-1.6
F.D.I net inflows (US\$ millions)	32.5	696
Poverty incidence (%)	35 (2001)	33
Rural poverty incidence (%)	39 (2001)	37
Urban poverty incidence (%)	26 (2001)	24
Gross primary school enrollment rate (%)	112.7 (2006)	110.3
Under-five child mortality (per 1,000)	112 (2004)	91
Maternal mortality (per 100,000 live births)	578 (2005)	..
Population (millions)	38.3	40.4

Sources: Africa Development Indicators 2008/09; African Economic Outlook 2009; 2007/08 Household Budget Survey; Poverty and Human Development Report 2007.

*Following Multilateral Debt Relief Initiative.

The International Development Association (IDA), the World Bank’s fund for the world’s poorest countries, has continued to support Tanzania’s reforms and has committed over US\$ 4 billion between FY2000 and FY2009 to Tanzania. A close and continuous policy dialogue with government has resulted in a process of change that is driven and supported from within the country. Tanzania’s most recent poverty reduction strategy is best known as “MKUKUTA,” after its Swahili acronym. It is the Tanzanians’ agenda for change.

Within Sub-Saharan Africa, Tanzania is among the top ten performing country in the IDA portfolio as measured by IDA on the basis of macroeconomic, structural, social, and institutional criteria.



COUNTRY ACHIEVEMENTS

After independence in 1964, Tanzania pursued “African socialism.”

Following independence, Tanzania enjoyed political stability and national unity unparalleled in Sub-Saharan Africa. But the country’s economic policies proved damaging. A rural development strategy for self-reliant villages resulted in drastic falls in food production. And a thick tier of inefficient and overstaffed parastatal companies (owned or controlled by the state) in the banking, industrial and farming sectors were allocated a significant share of budget resources at the expense of the social services.

Production lagged, and goods were scarce throughout the economy. Between 1980 and 1983, GDP growth plummeted to less than 1 percent from about 3 percent, and the country’s reserves fell to an average of six days worth of imports, while inflation surged to an average of 29 percent. Service delivery weakened considerably.

In mid-1983, the World Bank froze new projects until an economic recovery program

could be put in place, while continuing to fund ongoing operations. In 1985, with conditions continuing to worsen, the donor community pushed for a plan to address the country’s spiraling economic crisis.

Beginning in 1986, steps were taken to improve economic performance.

Led by Government and in collaboration with IDA and with significant support from donor partners, the country adopted an economic recovery program that emphasized market-based producer and consumer prices, trade liberalization, and an end to controls of exchange rates and interest rates. The program was initially successful, with GDP growth recovering to an average of 6 percent between 1986 and 1990.

The gains were short-lived, however, and by 1994 economic growth had slowed to less than 2 percent. Individual reforms were implemented, but they were not always well-sequenced. For example, international trade had been liberalized, but state marketing boards still monopolized the export crop sector. Reforms in different spheres—such as

those in public enterprise, banks and courts—were not well-coordinated either.

As the fruits of reforms became less visible, support for the program weakened, with government viewing policy changes as little more than a bargaining chip to secure financial assistance. Meanwhile, Tanzania’s fiscal performance had begun to deteriorate. Tax cuts without improved tax administration or expenditure control deepened budget deficits. The government pushed for increased support, but donors wanted sustained reforms, including better fiscal management.

Embarking on a renewed reform process.

In 1995, an independent team of experts issued a report (“Helleiner Report”), which provided two overriding recommendations: (i) the government needed to deliver macroeconomic stability through a sustainable reform program; and (ii) donors needed to accept country ownership of the development agenda. The government embraced a comprehensive reform agenda for the years ahead.

Reforms aimed to produce a more efficient state and to let the private sector drive growth. To improve fiscal management, the government established an independent revenue authority with an employment system based on merit and performance. Tanzania also introduced a value-added tax and strengthened the judiciary to reduce tax evasion and leakage. The fiscal deficit declined from 7.5 percent of GDP in 1993 to 1.9 percent in 2005.

A second area of focus was the productive sector. Following the disillusionment with “African Socialism,” the government focused

on providing a policy and infrastructure framework that would encourage private enterprise.

Since 1995 the economy has responded strongly.

Growth has averaged between 5 and 7 percent. Relief under the Multilateral Debt Relief Initiative (MDRI) spread over 2007-2044 cancels Tanzania’s IDA debt. The total debt cancellation under MDRI, including the African Development Bank and the IMF, is expected to amount to about US\$3.8 billion, US\$2.8 billion of it from IDA. Following the implementation of MDRI, Tanzania’s debt burden is now sustainable.

Visible progress in some MDG targets.

Mortality rates for under-five children decreased from 147 per 1,000 live births in 1996 to 112 in 2004 and to 91 in 2008. And although in 2000 only 59 percent of children

The Poverty Challenge

The 2007 Household Budget Survey shows that the proportion of people living in poverty has decreased by 2.4 percentage points, from 35.7 percent of the population in 2001 to 33.3 percent in 2007. The reduction in the proportion of poor people would translate into a reduced number of poor people only if the reduction in the poverty ratio was strong enough to compensate for the increase in the population. The reduction in the poverty ratio indicated by the 2007 HBS data has, however, not been able to compensate for the growth rate of the population of about 2.6 percent per year. As a result, 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 from 11.7 million in 2001 to 12.7 million in 2007.

in Tanzania were enrolled in primary school⁸⁴ percent are enrolled today. Implementation of the Primary Education Development Programme (PEDP) and the removal of school fees at primary school level played a critical role in raising the enrolment rates in the country.

Tanzania is becoming a less costly place to do business. Efforts to address structural hurdles to private sector development have yielded results in some areas, such as the streamlining of business licensing and registration requirement, although more still needs to be done. The increased volume of Foreign Direct Investments (FDIs) indicates that domestic and foreign investors have reacted to the changes positively.

However, poor infrastructure in transport, communications, and energy is a major bottleneck that requires increased and sustained investment and improvements in institutions and management.

IDA CONTRIBUTIONS

IDA is Tanzania's largest source of development assistance and has provided interest-free credits and grants since 1963. Since sustained reforms began in 1995, Tanzania has received considerable support for its economic, institutional strengthening, and poverty alleviation programs.

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.

More than one-third of IDA's support has been provided through eight development policy

operations—initially focused on improving public expenditures, reducing inflation, increasing growth, and improving the delivery of social services. Later, building on the government-led poverty reduction strategy, IDA provided direct support to the overall development program. Other development policy operations have supported primary and secondary education.

In addition, IDA has conducted a wide range of studies, assessing Tanzania's economic situation, its poverty profile, the needs of various sectors, and efficient public financial management. IDA has collaborated with local academia, the government, development partners, civil society and other stakeholders to build capacity while maintaining high analytical standards.

Helping shape a country-led development program

IDA provided considerable support to the government in its preparation of its first and second Poverty Reduction Strategy Papers (PRSP) in 2000 and 2004. The second PRSP, called "MKUKUTA" after its Swahili acronym, was developed through a highly participatory process providing a framework for growth and poverty reduction. Donor activities are increasingly aligned with the plan. A revision of the current national strategy and formulation of a new one is scheduled for fiscal 2009/10.

Building capacity for macroeconomic management

To deepen the understanding and commitment to fiscal reform, IDA helped establish an annual Public Expenditure Review (PER) 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.

Harmonizing donor support

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 the government's poverty reduction priorities. Tanzania's Development Partner Group, representing more than 35 development partners, has analyzed Tanzania's development achievements and challenges, and has adopted a plan for financial and technical support extending until 2010.

Providing budget support

Since 2003 IDA and 13 donors¹ have directly helped to finance the Tanzanian budget, while providing policy advice. This approach has contributed to doubling per capita spending in education, health, water, agriculture, roads, judiciary, and HIV/AIDS, as identified in the poverty reduction strategy.

1. The other 13 donors currently providing budget support include: the African Development Bank, Canada, Denmark, the United Kingdom, the European Commission, Finland, Germany, Ireland, Japan, the Netherlands, Norway, Sweden, and Switzerland.

In the right country context, direct budget support for key expenditures provides greater potential for domestic ownership of programs, strengthens those programs' accountability to parliament and the public, and helps concentrate procurement, financial management, accounting and auditing around a single budget process.

Budget support is the Tanzanian government's preferred aid modality and is now provided by 14 development partners, up from five in 2000.

Supporting public service reform

In 1999, IDA started funding the first of three phases of the government's public service reform program. IDA's long-term commitment to the program (1999-2010) has been instrumental in mobilizing a common approach by five development partners as well as a joint basket fund from donors.

The End of Stand-alone Project Units

Under the Joint Assistance Strategy, a number of steps are being taken to better manage development. Some have to do with procurement; others with monitoring and evaluation, coordinating technical assistance and increasing aid predictability. One of the more bold ideas is to do away with parallel Project Implementation Units (PIUs).

PIUs have been in use for decades to strengthen implementation of World Bank projects and other externally funded projects. But because they often exist outside a country's institutions, they often do little to build in-country capacity. The World Bank, in keeping with international commitments to harmonize and make aid more effective, is working to phase out stand-alone implementation units.

The combination of programmatic rather than project lending in support of a single government reform program and strong partnership between government and donors have already contributed to positive results. Notable among others is a performance improvement fund—currently being replicated in other countries—to support strategic and capacity development initiatives in addition to salary enhancements for public servants in ministries, departments, and agencies.

Encouraging financial and private sector development

Tanzania has transformed its financial sector from the sole preserve of state-owned financial institutions to a system with increased private activity, efficiency, and competition. In 1997 the bulk of credit went to the public sector, while credit to the private sector amounted to only 3 percent of GDP. By 2007/08, credit to the private sector had expanded to 44.6 per cent of GDP, exceeding the Bank of Tanzania's target.

In partnership with four other development partners (Denmark, the Netherlands, Sweden, and the UK), IDA has increased its support for changes that strengthen Tanzania's business climate.

Tanzania has become an easier place to operate an enterprise: license fees for small and medium enterprises have been removed; companies use a central computer system for tax registration; imports take less time to clear customs, and the court process has become less time-consuming.

While Tanzania is on the right path, its stagnating standing in the *Doing Business* indicators (127th out of 181 countries in the 2009

rankings) underscores the need for further regulatory streamlining.

IDA's impact in Tanzania is felt across many inter-connected sectors.

Rural development. The rural economy accounts for about 45 percent of Tanzania's overall GDP and livelihood for nearly 87 percent of its poor. Since the late 1990s agriculture has been growing, despite intermittent droughts. IDA has supported enhanced agricultural research, management, access to extension services, and technology improvements.

Beyond agriculture, other IDA interventions have had a positive impact. For example, the rehabilitation of trunk and feeder roads under the supervision of the national road agency (Tanroads) has increased the connectivity between urban centers and rural areas and improved farmers' access to markets and the delivery of social services to rural communities. However, rural roads under the supervision of local authorities remain a significant challenge.

Another example is the increased competition in the mobile phone market illustrated by the surge in cell phone ownership (from 38,000 mobile phone subscribers in 1998 to almost 10.3 million mobile subscribers in 2008.) Improved communications in the countryside has had a significant impact on agricultural trade and marketing.

Transportation. IDA has channeled more than US\$100 million since 2000 to improve transportation. It supported the creation of the Tanzania Road Fund to mobilize resources for road maintenance and helped establish a road agency. During this period the percent-

age 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 December 2006, the percentage of trunk and regional roads in good and fair condition had increased to 78 percent (40 percent in good and 38 percent in fair condition) from 51 percent in 2000.

Education. IDA investments in education—through projects and budget support—have focused on sustainable reforms to widen access to schooling while improving quality and relevance. 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 support has also included analytical work and expenditure reviews with recommendations for increasing efficiency and ensuring sustainability of education programs.

Health. 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. IDA provides funding through a basket funding arrangement together with five other donors.

Over the years, access to essential medicines has increased, diagnosis and treatment of the most common killers of children (malaria, pneumonia, diarrhea, measles and malnutrition) have improved, and a larger share of the population is protected from impoverishment due to illness with the introduction of social insurance.

An innovative public-private partnership has increased the domestic production and use of bed-nets to prevent malaria.

Making a Difference in the Fight Against Poverty

“The country has established a solid track record of macroeconomic stability and good use of IDA resources over the last decade,” said Tanzania’s President Jakaya Kikwete in an interview in March 2007. “There is more access to health services, there are better roads now.”

“But we are still one of the poorest countries,” he added. “We need to do more... The major challenge for me is how to attain higher growth levels because, if we were able to get 8 to 10 percent growth, sustained over a period of 10 years, that would really make a difference.”

CHALLENGES AHEAD

Although Tanzania has taken important strides towards reversing an earlier path of economic decline, attaining its goal of fast and tangible poverty reduction remains a challenge that must be addressed with a renewed and deepened effort.

Tanzania needs robust and broad-based growth, particularly in rural areas, to ensure sustained progress on this front. Working to lessen regional disparities in terms of access to basic services, and improving their overall quality of public service delivery, will determine opportunities for the next generation of Tanzanians.

Tanzania’s poverty reduction objectives will continue to require high levels of official assistance—coupled with further reforms and stronger implementation of existing strategies.

Tanzania has moved rapidly on a range of policy and institutional reforms in the energy and transport sectors, but many challenges remain in reforming utilities more broadly.

Tackling Tanzania's energy deficit

The power sector has diversified its base, and improved its management, but still only about 10 percent of Tanzanians have access to power.

The installation of the Songas-Ubungo power station has boosted electricity generation, and plans for generating more using coal extracted from the Songwe-Kiwira and Mchuchuma-Kateweka mines are in development.

IDA is working with the government and other development partners to mobilize public and private financiers to respond to the energy crisis. A key part of this strategy involves creating the right environment for attracting investors.

Developing transport infrastructure

Tanzania's transport infrastructure remains insufficiently developed to support growth and connect all Tanzanians with markets and services. While IDA helped to improve the condition of the highways and trunk roads, locally managed roads (which include feeder roads connecting rural populations) have suffered years of neglect, with 75 percent in poor condition. The volume of goods transported by rail is stagnant. Dar es Salaam is severely congested.

Increased financing would help (a) improve strategic road links between Tanzania and neighboring countries to increase trade; (b) rehabilitate and maintain rural roads to increase access to markets and services; and (c) restore and modernize non-road infrastructure such as rails, ports, and airports.

Improving governance

Governance in Tanzania has seen major improvements since the liberalization of politics and introduction of reforms in the legal, public, local governance, and public financial management sectors in the mid-1990s. Indicators compiled in recent years by the World Bank Institute suggest progress on most dimensions of governance. The government, with the help of IDA, is eager to tackle corruption to further improve the country's standing.

Raising the educational bar

Currently, only 5 percent of adults have a secondary education, and only about 1 percent a tertiary education. Increased IDA funding for the ongoing financing of primary and secondary education, as well as for higher education, would help to improve Tanzanian's skills to compete in global markets.

Delivering basic health services

Although child and infant mortality rates have decreased, maternal mortality rates and fertility are showing only minor or no improvement.

Due to drug resistance (in tuberculosis and malaria), HIV/AIDS treatment, and the introduction of more expensive—albeit more cost-effective—technologies, the unit cost of delivering basic health services has increased.

In addition, 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.

Learning from Tanzania's development experience

Donors' increasingly common habit of channeling resources 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.

By working with development partners, IDA has continued to contribute to enhancing the synergy, coherence, and effectiveness of aid.

Country ownership of reforms is key to the creation of an environment that provides incentives for change to government, civil society, and the private sector. Similarly, domestic accountability and parliamentary and ministerial understanding of the budget process still need further support.

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 development and rural development
- Address distortions in social policy
- Strengthen financial management and accountability systems
- Improve aid coordination.

July 2009.

<http://www.worldbank.org/ida>