

INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

TANZANIA

**Poverty Reduction Strategy Paper—Progress Report
Joint Staff Assessment**

Prepared by the Staffs of the IMF and IDA

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I. Overview

1. The government of Tanzania has prepared its third Poverty Reduction Strategy Progress Report, which outlines the progress made in implementing the poverty reduction strategy during fiscal year 2002/03 (July-June), and updates the Poverty Reduction Strategy Paper (PRSP) of October 2000, that was endorsed by the Boards of the IDA and the IMF on November 30 and December 1, 2000, respectively.

2. Tanzania is currently embarked on a major update of its Poverty Reduction Strategy. Analytical work and consultations have started to prepare a second-generation PRSP, covering the period 2004/05-2008/09. As a consequence, and with the agreement of the staffs of the Bank and the Fund, this year's Progress Report (PR) provides a fairly light update on progress. A more in-depth review of experience will emerge from the update process, as well as more specificity with respect to forward-looking policy plans, which are being re-assessed as part of the on-going update.

3. In the view of the staffs the PR accurately reflects developments in the past year. Despite a drought, real economic growth is estimated to have been about 5 percent, sound macroeconomic management was maintained, and notable progress was made in the areas of education and financial sector reform, among others. The report also, however, illustrates a number of emerging weaknesses in the PRS process, and these point to areas for attention in the main update. Foremost among them are the need to link the technical-level reviews with a more policy-based debate on sector strategies; strengthening the link between the PRS and budget processes; stronger quantitative monitoring, and a deeper understanding of the relationship between economic growth and poverty outcomes.

4. **The government has made substantial progress in many of the areas flagged in last year's JSA.** These included further articulation of environment and financial sector strategies, development of a national secondary education strategy, structural reforms related to private sector development and the public service, improving PRSP

costing, and updating poverty monitoring indicators. Work on the linkages between macroeconomic developments and poverty is being pursued in more depth under the main PRSP update, as is a more intensive assessment of agricultural strategy.

5. The PRSP **process** in Tanzania continues to be open and transparent. This Progress Report benefited from the deliberations of a Poverty Policy week held in October 2003 involving a wide range of stakeholders, and was reviewed at a stakeholders meeting in January, 2004 at which there was input from civil society and NGOs. The final version of the Progress Report has been posted on the national website, and is also in print for wider dissemination to the general public. A joint statement of support for the Progress Report is being issued by Tanzania's development partners.

II. Poverty Analysis

6. There exists little new survey data to track changes in income poverty over the past year; and at any rate measurable changes would not necessarily be expected over a one-year period. The drought in 2003 has slowed economic growth and had a negative impact on food consumption in many districts, so localized declines in welfare would be expected to have taken place in rural areas. The government has completed a second Poverty and Human Development Report (PHDR), which pulls together data from existing sources and looked in more depth at issues of female-headed households and the benefit-incidence of public services; as well as a Participatory Poverty Assessment (PPA) and a Policy and Services Satisfaction Survey which gauged qualitative reactions to economic reforms and policy developments.

7. The Progress Report and the PHDR reiterate the earlier findings that the growth of the past decade has had less impact in terms of reducing poverty than would have been hoped for. The PR notes however that much of this growth has taken place relatively recently, and the effects have not yet been captured in household surveys. Also the growth and poverty reduction which has taken place has been mostly concentrated in Dar Es Salaam and other urban areas. Progress in raising incomes more widely will depend on the composition of growth and require attention to rural and agricultural development. Better understanding the dynamics at work is a major part of the agenda as Tanzania moves forward to update the PRSP. Staffs recommend that this should include: (i) analytical work on growth-poverty linkages; (ii) deeper analysis of the geographic dispersion of poverty changes; (iii) better understanding of the transmission mechanisms (including rural-urban and farm/non-farm linkages), and how sector productivity changes affect incomes in some key sectors, especially agriculture; and (iv) assessment of the welfare impacts of liberalization and reform measures. Not all can be achieved in the coming year, but work is already committed to on the relation between growth, poverty and inequality; preparation of a poverty map; the impact of shocks on household welfare; and on the relation between rural income growth and nutrition.

III. Progress in Sectoral and Policy Reforms

8. In **education**, the Progress Report notes the continued impressive expansion of the primary system: enrollments for 2003 again exceed PRS targets. The PR rightly places increased emphasis on quality; some improvements have been cited, but more needs to be done to improve completion rates. The Primary Education Development Program has been successfully implemented, and the Public Expenditure Tracking Study shows that about 95 percent of funds allocated to schools were used for the intended purposes. However, there are still challenges in the area of capacity building, particularly in transforming the Ministry of Education into an agency that focuses on policy, technical support and monitoring and evaluation, linked systematically to the local government institutions responsible for delivery of primary education. The PR correctly reflects the increased attention being placed on **secondary education**. Government has met its target of developing a national strategy for the sub-sector during FY2003/04, and implementation of the strategy has started. It is expected that the priority for education in the second-generation PRS will be broadened from primary education to include post-primary education and training more widely.

9. In **health**, as the PR notes progress has been made in a number of indicators: the increased number of outpatient visits, and achievement of 90 percent DPT3 (vaccination) coverage. During the past year the government conducted a review of health sector performance and used the findings to formulate a new Health Sector Strategic Plan (HSSP). Notable achievements in 2002/03 include: (i) the expansion of pooled financing and extent to which external support is captured in the Medium Term Expenditure Framework (MTEF); (ii) wider coverage of the national health insurance fund, which can potentially reduce the inequity of public spending; (iii) the Community Health Financing scheme which allows communities to determine how funds raised locally are utilized; (iv) district planning systems which should result in more rational allocation of resources; and (v) expansion of the Integrated Management of Childhood Illnesses program, more progressive treatment regimes for malaria, and the high TB cure rate. In the view of the staffs these are all positive developments. The HSSP has many of the essential ingredients of a stronger health program, and it is important that it be a major input into formulation of the next PRSP. Critical issues in this next phase will be measures to address the human resource crisis in the health sector, and improving monitoring to get better empirical data on results. An HIV/AIDS strategy for 2003-06 was also developed, and reflected in activities under the MTEF. There are new resources becoming available, and partners are working with government to ensure resource needs are met. Paramount to this effort will be the effective utilization of existing resources, and monitoring and evaluation to both monitor the impact of financing and provide the evidence of results that will leverage additional financing.

10. The government's objective in **agriculture**, as laid out in the Agricultural Sector Development Strategy (ASDS), is to create an enabling environment for improving agricultural productivity, profitability and farm incomes. During the past year local government 'nuisance' taxes which inhibited agricultural trade have been repealed and formulation of core programs to implement the strategy initiated. The agricultural strategy has some laudable features, including greater reliance on private markets, and the

withdrawal of government from unsustainable interventions. However, the PR tends to focus on detailed reporting on publicly-supplied inputs, which while important, does not address questions of the effectiveness of policies and interventions in stimulating private sector investment and growth. In the main PRSP update it will be important to focus more on: (i) the productivity, trade and income effects of agricultural policies; (ii) the impact and cost-effectiveness of programs, with a clear delineation of public and private roles; and (iii) the right degree and mix of government intervention across the range of activities impacting on agriculture, including roads, land, and rural finance, while continuing to limit the direct role of government in agricultural markets. A number of on-going pieces of work should help inform this, including the analysis of agricultural supply chains, the rural investment climate and the review of crop boards.

11. As the Progress Report notes, accessibility has improved as the result of **road** investments during the PRS period, improving the flow of people and commodities. However, the PPA highlighted concerns with the imbalance in favour of urban over rural areas; and despite significant allocations in 2003/04, road funding remains inadequate. Insufficient funds for maintenance result in additional rehabilitation needs. Improved network management still requires enhanced capacity and autonomy of TANROADS, and a conducive framework for the management of rural roads. For the above reasons the overall condition of the network has not improved notably in 2003/04, with about 50 percent in poor condition, and still poses a major obstacle to development.

12. The PR notes the progress made in **water supply** coverage, but also points out it has been concentrated in urban areas. It describes impressive progress in a number of policy areas, including launch of the National Water Policy, and completion of the divestiture of DAWASA. At the same time the PR flags several constraints: the importance of functional user committees to maintain supplies, the proliferation of uncoordinated donor projects, and the need for greater local government capacity; which form an agenda for work in the next round of the PRS.

13. With respect to **private sector development**, the government is proposing some ambitious steps to develop a competitive investment climate. It is addressing major issues concerning labour laws to encourage more private sector employment. It plans to address constraints in the business environment and has taken major steps towards improving the efficiency of utilities and infrastructure services. Further, effort will be undertaken to strengthen the growing entrepreneurship culture in Tanzania by supporting small and medium-scale enterprises and building linkages between Tanzania entrepreneurs and international investors. In the past year notable progress has been made towards privatization of the National Microfinance Bank, reforming the National Social Security Fund, and revision of land policy. Immediate next steps should include expeditious implementation of business licensing reform, and improving access to bank credit by ensuring the recent amendments of the Land Act, which facilitate the use of land as collateral, are made fully effective. In moving forward, it will be important that the government focus on performing an effective facilitating role for private sector development, ensuring the independence of regulatory agencies in the new environment, and resisting the temptation to pursue subsidized credit policies that have proven unsustainable in the past.

14. With respect to **governance**, a Public Service Reform Program has been implemented which in fact goes beyond what is described in the PR, including measures to improve transparency and create a more meritocratic environment, the introduction of performance management, and a greater focus on service delivery (including clients' charters and service delivery surveys); all of which contribute to reducing resource leakage and increasing the focus on delivery of services to the poor. The PR notes that the original plan for local government reform has been phased to allow for more flexible adoption depending on the degree of readiness of local governments. Implementation of the Legal Sector Reform Program has also been initiated, and government has introduced quantitative indicators to measure progress in implementing the National Anti-Corruption Action Plan. The PR confirms government's awareness of the importance of **gender dimensions of development**, and outlines specific measures, such as the proposed business incubators for female entrepreneurs, and plan of action for combating violence against women. It will be important to more explicitly examine the gender aspects of growth and poverty in the full PRSP update.

15. Tanzania has made significant progress in institutionalizing **environmental management** capacity during the past year. Accomplishments include formulation of environmental framework legislation; initiation of strategic environmental assessments; launch of an Environmental Public Expenditure Review, and steps to mainstream environmental indicators into the poverty monitoring system. In order for environmental management to contribute meaningfully to the agenda for growth and poverty reduction, the staffs recommend a focus on the following strategic areas over the next four years: (i) strengthening capacity at the district and local level, with the priority placed on areas of highest poverty and environmental vulnerability; (ii) greater emphasis on health and environment linkages; (iii) deeper understanding and use of economic instruments and incentives for the private sector to adopt voluntary mechanisms for environmentally sustainable development; and (iv) strengthening ongoing efforts to improve information and monitoring systems to identify and manage environmental risks such as global change, droughts, flooding and fluctuations in renewable resource availability.

IV. Macroeconomic and Public Expenditure Developments

16. **Overall macroeconomic performance.** Since its last PRSP Progress Report, Tanzania has maintained macroeconomic stability and made further progress in structural reforms. Real GDP growth continued to be strong while inflation remained below 5 percent. Nevertheless, the drought in 2003 is expected to have adversely affected agricultural output. Hence, the growth rate of 5.7 percent for 2003 projected in the Progress Report appears to be optimistic. The Tanzanian authorities' commitment to prudent fiscal policies, which has been the foundation of macroeconomic stabilization, is evidenced by containing domestic borrowing in line with the agreed program target for net domestic financing under the PRGF arrangement. Tanzania's continued success in economic reform has attracted rising inflows of donor assistance, which contributed to a sizeable reserve build-up, despite rising demand for imports. On the structural side, considerable progress has been made in the areas of tax reform, financial sector reform, and the creation of an environment conducive to private sector development. However,

more efforts are called for in the improvement of the business environment, as noted in paragraph 13. It would also be important for the authorities to follow up on their efforts with Tanzania's East African Community (EAC) partners to harmonize investment incentives in the EAC.

17. **Financial and related developments.** As noted earlier, substantial progress has been made in the past year in financial sector reform; the Progress Report, however, does not deal in any depth with either the financial sector nor trade issues. Given the importance of these sectors to growth and poverty reduction, it would be desirable to better integrate both trade and financial sector issues into future PRs.

18. **Revenue issues.** Domestic revenue mobilization is key to containing aid dependency and enhancing the robustness of economic growth. The Progress Report candidly acknowledges that there are insufficient domestic resources to meet even the needs of the priority sectors. The authorities deserve credit for their recent reform efforts in the areas of tax policy and tax administration. In particular, comprehensive measures to curtail petroleum smuggling, which more than doubled the recorded petroleum imports, proved to be highly effective. The new Income Tax Act (ITA) and the implementation of the Tanzania Revenue Authority's corporate plan are expected to further boost revenue performance. Nevertheless, the authorities will need to remain vigilant to avoid the granting of tax exemptions and the resulting erosion of the tax base.

19. Finally, while the **macroeconomic targets for 2004/05** that are quoted in the Progress Report are the same as the PRGF program targets, projections for 2005/06 and 2006/07 for the budget framework, including revenue-to-GDP ratios, differ from those in the current PRGF. The staff recommends that any divergences of macroeconomic targets from those included under the PRGF program be explained in the upcoming PRSP.

20. **Public Expenditure Management and Allocation.** As the PR reports, there has been a continued increase in spending on education, roads, and agriculture in 2002/03; while overall fiscal discipline was maintained. The Tanzania Progress Report does a laudable job of linking the PRSP and public spending – particularly in presenting budgets and actual expenditure outcomes in each of the main sectors. In addition the gap between PRSP costing presented in the PR and the projected future budget framework is less than in previous years, although there is still a disconnect. Moving forward, there is a need for further work to harmonize PRSP program costs with realistic projections of likely resource availability. Equally important will be the better integration of the various expenditure programming exercises in Tanzania: the annual PRSP review, Public Expenditure Review, and MTEF, so there is a single set of expenditure numbers, firmly located in the context of the annual budget process. In the next cycle, the authorities intend to address this issue by strengthening the role of the Budget Guidelines/MTEF as a clearer statement of government's budget strategy, linking the PRS, projected budget framework and salient aspects of proposed monitoring within a single framework.

V. PRSP Process and Monitoring System

21. As part of the PRSP process, Tanzania has developed a well-designed Poverty Monitoring System (PMS). During the past year the PMS group has updated the set of indicators for tracking PRS implementation to make them more consistent with policy targets, and to better reflect the availability of data. Major new data is being generated by the Agricultural Census and National Population Census of 2002, and will be analyzed over the coming year. However, implementation of the monitoring system is proving more difficult than was originally foreseen. It is not yet generating timely routine data to track changes in outcomes, nor even intermediate outputs – as is evidenced by the limited reporting on outcomes in this year’s Progress Report. In addition the dissemination and use of the data generated in policy-level debate is limited, as is the involvement of local-level institutions in the monitoring process. Government recognizes these weaknesses. In the main PRSP update it will be critical to lay out the steps needed to strengthen the system, and commit to a program to implement them.

22. In the context of updating the PRSP a debate is taking place - within government and with the donor community - on the appropriate future role of the PRS. Tanzania is one of the first countries to enter the second phase of the PRSP cycle, and this debate is a natural function of the evolution of the PRS instrument. The discussion revolves around: (i) widening the scope of the PRS, which to date has mostly focused on social sectors and agriculture, to cover the whole range of public policy; (ii) expanding the role of the PRSP as an instrument for formulation of overall public policy in government, in addition to serving as a tool for external accountability; and (iii) the need to rationalize the multiple processes that exist in Tanzania, including the annual Public Expenditure Review, Tanzania Assistance Strategy, Budget Support Reviews, MTEF, annual preparation of an Poverty and Human Development Report, and of a PRSP Progress Report.

23. The **consultative process** underlying this year’s Progress Report was relatively light. While these consultations have informed this year’s PR, the government has embarked on a more comprehensive and wide-ranging set of consultations with civil society across the country in the coming year for the major PRSP update. The consultations are planned in phases, starting with collection of the views of stakeholders at grassroot level during May/June 2004. This will be followed by consultations at national level prior to finalization and approval by Cabinet, the President and National Assembly. Of equal importance is integrating public consultation on a more continuous basis into on-going processes: for example on public expenditure in the budget cycle, on policy formulation, and through local government.

VI. Conclusion

24. Tanzania continues to make significant progress in the implementation of the PRSP, and the policy measures of the past year represent a credible set of reforms. Furthermore, the PRSP process now firmly forms the basis for government-donor dialogue in Tanzania. The expectations laid down at the time of the last JSA have largely been met, in terms of progress in private sector and financial sector policy, development

of the secondary education strategy, and environmental institutions, as well as more realistic costing of programs.

25. This year's Progress Report was intentionally limited in scope, with the government focusing its efforts instead on the forthcoming full PRS update that has already started. It is important that the authorities take advantage of the opportunity offered by the update to frankly assess the impact of policies over the past five years or so: to critically examine what is working, what is not, and what the government would like to do differently in the next PRSP period as a result. Taking into account the issues noted in this JSA, the staffs suggest that work in the coming year should include: (i) better feeding the sound technical analysis produced by the PRS review process into formulation of policies and programs at the national strategic level; (ii) strengthening the monitoring and evaluation system to better track results quantitatively; (iii) a greater focus on growth, and examination of the productivity and welfare impacts of sector developments, policies, and programs, especially in agriculture; (iv) aligning public interventions with the stated policy of private-sector-led growth; and (v) strengthening the link between the PRS and budget processes.

26. In conclusion, the staffs of the World Bank and the IMF consider that, based on this PRSP Progress Report, Tanzania's poverty reduction strategy remains a sound basis for Bank and Fund concessional assistance. The staffs recommend that the Executive Directors of the World Bank and the IMF reach the same conclusion.