

United Republic of Tanzania: Poverty Reduction Strategy Paper—Annual Implementation Report—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) on the National Strategy for Growth and Reduction of Poverty (MKUKUTA) for the United Republic of Tanzania, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's MKUKUTA Annual Implementation Report 2006/07 to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its National Strategy for Growth and Reduction of Poverty (MKUKUTA).

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

THE UNITED REPUBLIC OF TANZANIA

**Joint Staff Advisory Note on the National Strategy for Growth and Reduction of
Poverty (MKUKUTA) - Annual Implementation Report 2006/07**

Prepared by the Staffs of the International Monetary Fund (IMF) and
International Development Agency (IDA)

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I. OVERVIEW

1. The Government of the Republic of Tanzania issued its comprehensive National Strategy for Growth and Reduction of Poverty (commonly referred to as MKUKUTA) for the period 2005–2010 in June 2005. As part of the monitoring strategy, the second MKUKUTA Annual Implementation Report (MAIR) covering 2006/2007 was issued in November 2007. The MAIR provides an overview of the performance, challenges, lessons learned, and the next steps within each MKUKUTA cluster: (i) growth and reduction of income poverty; (ii) improved quality of life and social wellbeing; and (iii) governance and accountability.
2. The production of the MAIR was coordinated by the Poverty Eradication Division of the Ministry of Planning, Economy, and Empowerment (MPEE) in collaboration with a wide range of stakeholders, including government ministries, departments, and agencies (MDAs), local government authorities (LGAs), research and academic institutions, as well as non-state actors (NSAs). The MKUKUTA Technical Committee provided oversight. This preparation involved information gathering from a range of sources, including studies for the public expenditure review (PER), the MKUKUTA Status Report (2006), the Bank of Tanzania's Economic Survey, sector reviews, and reports by the ministries. The MAIR was discussed with stakeholders during both the Annual Review of General Budget Support in late October and during Poverty Policy Week in November. The MAIR, however, does not provide budget outturn information classified according to MKUKUTA, because current budget execution reporting is not fully aligned with MKUKUTA strategic goals and outcomes. In addition, data from the 2006/07 Household Budget Survey (HBS) will not be available until 2008.
3. The IMF and IDA staffs concur with the MAIR overall evaluation that Government has made significant strides in addressing issues within each of the MKUKUTA clusters. In

the absence of data from the 2006/07 HBS, however, no definitive conclusions can be made regarding trends on income poverty. The MAIR highlights some of the major challenges ahead and identifies areas for improvements, including the need to strengthen monitoring and evaluation systems, sustain efforts to tackle corruption and improve governance and accountability, and focus efforts on drivers of broad-based economic growth, notably in agriculture and natural resources sectors.

II. IMPLEMENTATION OF POVERTY REDUCTION STRATEGY

A. Growth and Reduction of Income Poverty

4. In the period covered by the MAIR, economic performance remained strong, although inflation trended slightly higher—exceeding the MKUKUTA target of 4 percent. Real GDP growth was robust and, despite the rising trend, inflation was held to single digits. Tanzania’s external position improved, notably through debt cancellations under the HIPC and Multilateral Debt Relief Initiatives, and a further buildup of international reserves was achieved, however, import growth outpaced exports, mainly reflecting higher fuel costs and strong demand for capital goods, which resulted in a widening of the external current account deficit. This deficit was more than financed by donor support, foreign direct investment, and other capital inflows.¹

5. The MAIR recognizes that while supply shocks were responsible for some price increases, strengthened implementation of monetary policy by the Bank of Tanzania (BoT) is needed to return inflation to a downward trajectory. In this context, the MAIR could also have pointed out that the need to sterilize large amounts of liquidity generated by donor-financed government spending poses a significant challenge for monetary policy. Rather than issuing government securities for sterilization purposes, the BoT intends to rely more on sales of foreign exchange obtained from the budget support. Improving liquidity management is also needed to enhance stability in the domestic financial markets, particularly the T-bill market.

6. The MAIR appropriately notes that diversifying the economy and further strengthening the supply side will help solidify recent gains and underpin long-term macroeconomic stability—key ingredients for creating employment opportunities for new entrants into the labor market, especially outside of the agricultural sector. The implementation report also correctly emphasizes the need to enhance agriculture sector performance through commercialization and value-addition and to address key impediments to growth through improved mobilization and efficient use of public resources, sustained financial sector reform, and improving the business environment, including infrastructure development. A coherent and integrated growth strategy that identifies the drivers of growth, in the context of lead sectors and sequencing of public sector interventions and corresponding private sector and civil society responses, is still missing. As noted in the

¹ For better consistency with the current macroeconomic framework, the MAIR could have usefully incorporated the most recent economic statistics, such as the revised National Accounts which were released in September 2007.

previous JSAN and discussed during the 2007 General Budget Support Review, the development of an operational growth strategy would provide a more coherent framework for key investment decisions.

7. A sound fiscal stance has been the bedrock for Tanzania's macroeconomic stability in recent years. Impressive increases in government revenues, together with substantial donor support, allowed for strong increases in government spending, without excessive recourse to domestic borrowing that could create pressures on monetary policy or crowd out private sector borrowing. Looking ahead the staffs support the authorities' plan to continue to limit domestic borrowing and to contain pressures on aggregate demand arising from fiscal operations. There are also fiscal risks that need to be contained. First, going ahead with public-private partnerships (PPPs) should be contingent on achieving adequate value-for-money on the envisaged projects and on careful assessment of the potential fiscal obligations involved. Strong institutional and regulatory frameworks are essential for successful PPPs. Second, increases in the wage bill have to balance the need to retain an adequate cadre of civil servants with preserving macroeconomic stability. Third, increasing the share of infrastructure spending needs to take into account the future recurrent costs associated with that spending.

8. The MAIR adequately highlights the challenges in the area of fiscal management associated with implementation of MKUKUTA. The staffs concur with the need to continue expanding domestic revenue. To this end, the efforts to improve tax administration, including by broadening the tax base, need to be sustained, as well as greater emphasis placed on enhancing collection of non-tax revenue. Staffs welcome the initiative to develop scenario analyses to cope with the unpredictability of foreign assistance, and the recognition that further work is needed to capture all foreign assistance flows in order to improve strategic budget preparation. To ensure a smooth implementation of the budget, further work is required to strengthen cash management. In this sense, staffs welcome the creation of the Cash Management Committee and Cash Management Units, the challenge is now to operationalize them. Of critical importance, it is necessary to improve monitoring and reporting on MKUKUTA, in particular efforts are needed to develop better performance indicators and to institutionalize routine monitoring, evaluation, and reporting mechanisms.

9. The implementation report rightly points out that one of the main challenges ahead is translating the achievements at the macro level into sustainable development at the grassroots level. This will require continued strengthening of fiscal intergovernmental relations and LGA capacity. Devolution of spending functions requires adequate definition of responsibilities and capacity being in place. Important progress has been made in this area by further rolling out IFMS to LGAs, simplifying the intergovernmental transfer system, and improving reporting on LGA finances. However significant improvement in these areas is still needed. In addition, local government budget planning and execution remains weak and needs to be strengthened.

10. The staffs welcome the progress made in the area of energy and transport infrastructure. Key measures aimed at bringing the energy sector back on a sustainable track after the 2006 crisis included changing the management of the state electricity company

(TANESCO), the development of a Financial Recovery Plan, and the rolling out of an investment plan to expand capacity and enhance service delivery. The staffs encourage the authorities to pursue the adoption of a new Electricity bill that would provide a sound institutional framework for the sector, including opportunities for private investment. In the transport sector, the MAIR presents some important achievements, such as the approval of a new road bill, the full funding of road maintenance, and the completion of preliminary work to prioritize and align the Transport Infrastructure Investment Plan (TIIP) with the medium-term expenditure framework (MTEF). Concerns remain, though, with respect to the management and autonomy of the road agency (TANROADS), the ability of the ministry to effectively prioritize the TIIP, and the smooth execution of the budget.

11. The MAIR does not provide information on the evolution of poverty indicators due to the lack of recent income and consumption data at the household level. Notwithstanding the relatively high GDP growth, the MAIR notes that reduction of income poverty might have been marginal due to the relatively modest growth in the agricultural sector – an indicator presumed to be correlated with reduction in rural poverty.

12. The MAIR rightly underscores the need to foster growth in the rural sectors and identifies the key challenges. The staffs concur with the need to develop an agricultural policy that is geared towards addressing the challenges faced by small-scale low productivity farms as part of the poverty reduction strategy. Further efforts to increase productivity will also be critical, including by improving the availability, distribution and affordability of agro-inputs and extension services. The MAIR also recognizes the importance of improving governance in the natural resources sector. The staffs concur with the need to curb illegal timber harvesting, enforce revenue collection targets, and strengthen forest surveillance units. Improved data collection and analysis regarding the contribution and sustainability of the natural resources sector are also needed.

B. Improved Quality of Life and Social Wellbeing

13. Most indicators of social wellbeing and quality of life have recorded significant improvement during the period under review.

14. In education, Tanzania has made good progress towards achieving universal primary education, with a significant increase in primary enrollment, and is now facing the need to expand secondary, as well as tertiary education. The MAIR recognizes that the large increase of enrollment rates raises two major challenges: safeguarding of education standards and quality at all levels, and managing the expansion of school facilities. In addressing these challenges the authorities will need to improve significantly the monitoring and evaluation procedures, as well as data reliability. Better planning and budgeting processes, notably through the availability of projections on expansions, will also be critical, allowing in particular the identification of sector financing gaps. The staffs concur with the need to address the significant gender disparities remaining in the enrollment at upper secondary and tertiary levels of education.

15. The staffs concur with the need to reverse the negative trend in maternal mortality, as well as scaling up implementation of the National HIV/AIDS strategy. In particular, the increase in maternal mortality is due partly to slow progress in improving referral care and hospital reforms, as well as difficulties created by continuing high levels of malnutrition and HIV/AIDS complications. Otherwise, health indicators have generally improved, with under-five mortality declining from 155 to 112 between 1999 and 2005. A recent external evaluation of the health reforms from 1999-2006, provides evidence that the health reforms are having an impact upon health outcomes and system performance and efficiency through better management of domestic and external financing.

16. Social protection mechanisms remain limited. The MAIR notes that the authorities are developing a national social protection strategy, although no timeframe for its adoption is given. The staffs commend this effort and recognize the challenge to develop a strategy that is realistic for a low-income country where social vulnerability and poverty are deep and widespread. One possible approach to address this challenge might be to leverage synergies with existing social programs rather than developing a specific comprehensive social protection program.

17. The staffs concur with the need to take measures to ensure the availability of skilled and motivated staffs across social services sectors. The staffs welcome Government's intention to pilot a new human resources strategy on the remuneration package and recruitment in one sector, possibly health, where the human resources gap is estimated at 67 percent.

C. Governance and Accountability

18. The MAIR details Government's sustained efforts to implement a comprehensive program of reforms in key governance areas and adequately identifies the main challenges for moving these reforms forward, in line with the recommendations of the previous JSAN. Despite considerable progress Tanzania continues to face key challenges in this area notably with respect to weak domestic accountability, corruption, uneven implementation and weak coordination of the core reforms, and wavering commitment to decentralization.

19. The staffs welcome Government's intention to advance public service reforms by focusing on results and accountability. Public service reforms have been under way for several years, and have helped create more transparent management systems and better remuneration, particularly for professional, managerial, and technical staff, who have been leaving public service at a faster pace than other groups. Still, the impact of these reforms in the executing agencies has yet to be fully felt. The staffs welcome the measures taken to improve salaries in the public service, and encourage the authorities to closely monitor their impact. The staffs urge the authorities to ensure that the impact on government finances, including unfunded pension liabilities, of any further measures on pay reform is carefully evaluated, as they continue their efforts to put in place an effective and fully transparent system of remuneration (pay and allowances).

20. The staffs welcome the substantial improvement in the National Audit Office (NAO) following investment in the external audit capacity. For the first time, external audit reports for 2006 were produced in a timely manner, discussed in Parliament, and published. A key remaining challenge is the follow-up on audit recommendations. Domestic accountability would also be strengthened by enhancing the capacity of the legislature. The MAIR could have also noted the authorities' ongoing investigations into highly visible cases of possible wrongdoing, such as alleged improprieties with the management of the external payments arrears (EPA) account by the BoT.² Appropriate follow-up to these investigations is critical.

21. The MAIR highlights good progress in putting in place a number of mechanisms that will contribute to better control of corruption. The new Prevention and Combating of Corruption Act, enacted in 2007, expanded the number of corruption offenses. The strengthening of the Prevention and Combating of Corruption Bureau and the enactment of the Public Procurement Act have resulted in a significant increase of the number of cases reported. Audits by the PPRA of procurement practices at 20 spending agencies were published and highlighted the need for additional progress in this area. The National Anti-Corruption Strategy and Action Plan (NACSAP II) was launched in December 2006. Government has invited consultants to carry out a first-ever National Governance and Corruption Survey that will assess the extent of corruption in the public and private sectors. The staffs welcome the initiative to establish a National Anti-corruption Forum that will bring together the government, civil society, the private sector and donors to discuss policies, progress, and outcomes of the anti-corruption initiatives in Tanzania.

III. MONITORING AND EVALUATION

22. Tanzania has put in place an elaborate Monitoring and Evaluation (M&E) architecture to follow MKUKUTA implementation. This includes both specific institutions, procedures and outputs, which cover the whole budget cycle, from planning to execution. Although some aspects are remarkable, the emerging view on this system is that it fails to deliver in a satisfactory way for at least two key reasons: (i) the quality and timeliness of the underlying information are weak, and (ii) the lack of the necessary incentives to integrate the outputs in the domestic budget and accountability systems. As a result, the MKUKUTA M&E has remained a mainly donor-oriented system, producing M&E outputs of mixed relevance. The MAIR rightly points to the need to furthering the harmonization of M&E system in government institutions – including at the LGA level – to foster quality reporting and enable better decision making.

23. Two initiatives provide good opportunities to strengthen both economic and social data production and to rationalize reporting. The first is the preparation of the Tanzania Statistical Master Plan led by the National Bureau of Statistics which sets out how data needs for performance monitoring at national and sub-national level can be met. The other is the requirement included in the 2007 Budget Guidelines and originating from the Task Force to Harmonize MKUKUTA, Strategic Planning and MTEF for every institution to produce

² The special audit of EPA account transactions during 2005/06 was completed in late November 2007 and the report is expected to be finalized shortly.

annual performance reports. The staffs welcome these efforts to strengthen and rationalize domestic systems and anchor the MKUKUTA M&E firmly within the government processes, including the reporting of expenditure outturns classified according to MKUKUTA activities. The MTEF would also be an appropriate framework for costing various poverty-related targets and analysis of alternative scenarios, exercises that were previously recommended in the JSAN for the MKUKUTA, but have yet to be implemented. A critical action towards the success of these strategies will be the finalization and implementation of the statistical strategy currently under preparation and emphasis to the importance of preparing adequate performance reports.

IV. CONCLUSIONS

24. The staffs commend the authorities for their sustained efforts with MKUKUTA implementation. The MAIR provides a comprehensive assessment of the results achieved and identifies areas for further improvement. The staffs would like to stress in particular the importance of:

- Strengthening monitoring and evaluation systems and budgeting and planning processes, including the MTEF and analysis of alternative scenarios;
- Sustaining the efforts to tackle corruption and enhance governance;
- Focusing efforts on drivers of economic growth, notably by enhancing agricultural sector performance, addressing identified weaknesses in the investment climate - including public infrastructure -, and improving natural resources management;
- Strengthening fiscal intergovernmental relations and LGAs capacity;
- Addressing the human resources shortages in key services sectors; and
- Implementing prudent macroeconomic policies that achieve stated objectives for economic stability.