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MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A PROPOSED IDA CREDIT OF

SDR 25.2 MILLION (US$34.9 MILLION)

TO

THE UNITED REPUBLIC OF TANZANIA

IN SUPPORT OF A

PARASTATAL AND PUBLIC SECTOR REFORM PROJECT

MAY 7, 1993

Currency Equivalents

Currency Unit	=	Tanzanian Shillings (T Sh)
US$ 1.00	=	T Sh 330
T Sh 1.00	=	US$0.003

Weights and Measures

Metric System

Government Fiscal Year

July I - June 30

Abbreviations and Acronyms

BOS	Bureau of Statistics
BMDP	Budget Management Development Program
BUMOD	Budgetary Model
CSR	Civil Service Reform
CSD	Civil Service Department
FSAC	Financial Sector Adjustment Credit
LART	Loans and Advances Realisation Trust
MOA	Ministry of Agriculture
MOI	Ministry of Industry and Trade
NORAD	Norwegian Development Administration
ODA	Overseas Development Administration (UK)
PE	Public Enterprise
PMRU	Parastatal Monitoring and Restructuring Unit
PPRP	Parastatal and Public Sector Reform
PSAC	Public Sector Adjustment Credit
PSRC	Presidential Parastatal Sector Reform Commission
RP	Rolling Plan
RPFB	Rolling Plan and Forward Budget
SAC	Structural Adjustment Credit
SIDA	Swedish International Development Administration
TANAA	Tanzania Agricultural Adjustment Program
UNDP	United Nations Development Program
VAT	Value Added Tax

Republic of Tanzania

Parastatal and Public Sector Reform Project

Credit and Project Summary

Borrower:	Government of Tanzania	
Beneficiaries:	Presidential Public Sector Reform Commission; Loans and Advances Realisation Trust; Ministry of Finance; Planning Commission; Civil Service Department, Office of the President;	
Credit Amount:	SDR 25.2 million, (US$34.9 million equivalent)	
Terms:	Standard, with 40 years maturity	
Financing Plan:	Government	US$ 3.8 million
	IDA	US$ 34.9 million
	Donors	US$ 7.0 million
Economic Rate of Return;	Not applicable	
Staff Appraisal Report:	None; Technical Annex attached	

Memorandum and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Credit to the United Republic of Tanzania for a Parastatal and Public Sector Reform Project

1. The following report on a proposed development credit to the United Republic of Tanzania, in the amount of SDR 25.2 million (US$ 34.9 million equivalent) is submitted for approval. The proposed Credit would be at standard IDA terms with a 40 year repayment period. It would assist in financing a project within Government's overall program for improving Public Sector management and performance, as part of the efforts to attain higher growth rates through economic stabilisation and structural reform. The beneficiaries of the Credit would be the Presidential Parastatal Sector Reform Commission; the Loans and Advances Realisation Trust; the Ministry of Finance; the Planning Commission, and the Civil Service Department.

PART I

COUNTRY POLICIES AND BANK GROUP'S ASSISTANCE STRATEGY

A. RECENT ECONOMIC PERFORMANCE

2. Background. Beginning in the mid-1960s, the Government of Tanzania greatly increased the role of the public sector in production and undermined the development of the private sector. Marketing and processing of agricultural products were controlled by monopolistic marketing boards and cooperative unions, reducing farmers' incentives to produce. Large investments were made in industrial parastatals that operated at very low levels of capacity utilization and with substantial losses, inhibiting private sector competition and serving as a considerable burden on public sector finances. Nationalization of financial institutions, interest rate controls, and political influence in lending decisions greatly impaired the efficiency of financial intermediation. An overvalued exchange rate coupled with extensive controls on trade and capital movements created a scarcity of foreign exchange. Overall, the Government was successful in forging a unified nation and making initial progress in improving social conditions. However, flawed economic policies severely distorted relative prices, which combined with successive droughts, a costly war with Uganda, and a fall in the terms of trade, led to a protracted decline in output. The resulting decrease in Government resources resulted in a severe deterioration in economic and social infrastructure.

3. Recent Economic Developments. In early 1986, the Government of Tanzania embarked on an adjustment program to dismantle the system of pervasive economic controls and encourage more active participation of the private sector in the economy. The program included a comprehensive package of policies which reduced the budget deficit and improved monetary control, substantially depreciated the overvalued exchange rate, liberalized the trade regime, removed most price controls, eased restrictions on the marketing of food crops, freed interest rates, and initiated a restructuring of the financial sector. The Government also launched programs to rehabilitate key infrastructure (roads, railways and ports) and to strengthen research and extension services. The economy responded positively to the reform program and the increased availability of external resources, with increased production of food, traditional export

crops and nontraditional exports. During 1986-92, both GDP and exports increased at an average of about 4% per year in constant prices, after near-stagnation in GDP and a dramatic decline in exports in the early 1980s. Inflation declined from a high of 36% in 1984, but remains at about 20% currently.

4. Over the past year, the Government has undertaken further measures to improve fiscal and monetary policies, including a reduction in the dispersion of tax rates, expanded use of preshipment inspections to improve tariff enforcement, tighter requirements to ensure prompt payment of cash cover for donor-financed imports, and stricter monetary control by limiting commercial bank access to Central Bank refinancing. The institutional framework for the privatization of parastatals has been put in place through establishment of a Presidential Parastatal Reform Commission, subsidies to parastatals have been reduced, the financial sector reform has begun to encourage sounder lending policies, the development of foreign exchange bureaus has improved the allocation of foreign exchange, limited competition was introduced in cashewnut marketing, and the list of imports eligible under the Open General License facility was increased to cover approximately 80% of non-oil imports.

5. Aggregate growth has picked up, but the impact of the adjustment program on the poor is difficult to determine owing to the lack of hard data. It probably was positive. The devaluation of the exchange rate and removal of restrictions on the marketing of food crops boosted incomes in rural areas, where the majority of poor Tanzanians live. The urban poor experienced an initial increase in consumer prices. However, the trade liberalization program increased the availability of consumer goods, which contributed to improved conditions in urban areas. More importantly, the liberalization program increased the access of small-scale enterprises to production inputs. This raised the demand for labor and led to a rapid expansion of low-wage employment in the informal sector of the economy, thus improving the condition of many of the urban poor.

6. Despite this progress, the economy faces considerable difficulties:

(a) The gradualist approach to adjustment has meant that a substantial portion of necessary reforms has yet to be implemented: the official exchange rate remains approximately 20% overvalued compared to the bureau rate, processing of important agricultural exports remains controlled by inefficient monopolies, regulations continue to impose substantial costs on private sector operations, financial services still are provided largely by inefficient public sector institutions, and inefficient (and often bankrupt) parastatals continue to play a major role in the industrial sector.

(b) The economy does not generate sufficient savings to sustain development over the medium term, and large inflows of external resources are required. The level of domestic savings, while difficult to estimate, probably is little more than 5% of GDP.[1] The 28% of GDP devoted to investment has largely come from external donors, as more than half of imports are financed by official inflows and the current account deficit (after grants) has risen to above 10% of GDP. Further, even this substantial level of

[1] Data on Tanzania's economy are particularly unreliable, owing to the large informal sector, weakness in Government institutions responsible for data collection, and inadequate accounting for Government expenditures financed by donors. Thus, estimates of savings (the residual in the national accounts) can only provide rough orders of magnitude.

investment has generated growth of only about 4% per year, which is a relatively low level of efficiency compared to other African countries.

(c) Approximately 45% of the population is under the age of 15, and present rates of output growth may not be sufficient to create the employment necessary to absorb the expected, large increases to the labor force.

(d) Perhaps most importantly, the public sector lacks the capacity to cope with the challenges posed by extensive poverty, a rapid increase in population, a growing menace from AIDS, the breakdown in essential infrastructure and the disastrous state of most public services. An important goal of this Credit is to strengthen public sector management and thus improve the efficiency of public services.

7. The External Environment. The 30% fall in the terms of trade during 1986-91 greatly complicated the adjustment process. While prices for Tanzania's major exports remained roughly stable in dollar terms, the cost of imports rose significantly. The terms of trade decline contributed to the widening of the current account deficit (after grants) from about 3% of GDP in 1986 to over 10% of GDP in 1991, further increasing the need to depend on donor funds to support the economy. There is a need for a greater effort at mobilization of domestic resources and removal of constraints on the efficiency of private sector production to ensure sustainable growth, reduce dependence on donors, and encourage increased inflows of private capital (initially in the form of trade credits and direct foreign investment).

8. There is some evidence that capital held abroad is returning to Tanzania. Imports under the own funds scheme, which made up 27% of import purchases in 1991, are at least partly financed by assets held abroad. In addition, while statistics are lacking, there appears to be increasing foreign interest in investing in Tanzania, in response to continued progress in the reform program and the country's relative stability, compared to many other parts of Africa.

B. BANK'S COUNTRY ASSISTANCE STRATEGY

Tanzania's Development Objectives and Policies

9. In the context of the problems discussed above, and the underlying need to accelerate the pace of reform, the main objective of Tanzania's reform program is to stimulate the private sector's capacity to produce and deliver goods and services, while at the same time limiting the role of the public sector in this area and strengthening instead its capacity to manage the economy more effectively. The Government's program is set out in the joint Government/Bank/IMF Policy Framework Paper. Major areas of the program include macroeconomic management, public sector management, parastatal reform, private sector development, rehabilitation of infrastructure, human resource development, poverty alleviation, environmental management, and a strategy for reducing Tanzania's heavy debt burden. Each of these is described below.

10. Macroeconomic Policy. The Government will tighten fiscal policy and strengthen monetary control through improvements in the tax regime (including further steps to rationalize tax rates, the introduction of a Value Added Tax, the removal of discretionary tax exemptions, and better customs enforcement) and a reduction in commercial bank access to Central Bank refinancing. In light of the unanticipated increase in the budget deficit and domestic credit in the first half of 1992/93, the Government will adopt a program to increase revenues and reduce expenditures, with the goal of returning to the targets for fiscal and monetary aggregates under the ESAF program in the 1993/94 fiscal year. The Government will encourage the expansion of foreign exchange transactions through the bureaus, with a view towards unification of the exchange system. The allocation of foreign exchange will be improved through further liberalization of the trade system, an increase in the share of export earnings retained by the private sector and the introduction of a market-based mechanism for the allocation of fast-disbursing assistance from donors.

11. Public Sector Management. Improving the efficiency of the public sector is a prerequisite for sustained development. The Government's principal task will be to manage the transition from a public sector heavily involved in all aspects of the economy to a public sector which focusses its resources on maintaining an appropriate incentives framework and providing infrastructure and social services to support private sector development and to reduce poverty. This reorientation of the role of the public sector will require a reformulation of the planning process to match the allocation of expenditures to the new Government priorities, and improved procedures for the monitoring and control of expenditures to ensure that these plans are implemented. A reorganization of the public sector will be undertaken to take into account the reduced role of the State in economic management, supported by reviews of the operation and organization of sectoral ministries. Finally, a reform of staffing and pay practices will provide for a reduction in public sector employment, the monetization of various in-kind benefits, and a rationalization of the pay structure to improve motivation and performance. Over the medium term, it will be necessary to address the allocation of responsibilities and resources among local, regional and central governments, particularly in the agricultural sector and the provision of health and education services.

12. Parastatal Reform. A major goal of Government policy is to promote competition by ensuring that parastatals and private sector businesses face a level playing field and by accelerating the divestiture of State enterprises. This program will include the creation of an institutional framework to support the privatization program, the establishment of procedures for both divestment and improved performance of enterprises remaining in the public sector, implementation of a timebound privatization and liquidation program, and imposition of a hard budget constraint on enterprises remaining in the public sector. Preferences favoring parastatals will be removed, and all subsidies to parastatals will be eliminated, with the exception of limited transitional arrangements that are channeled through the budget.

13. Private Sector Development. The creation of a supportive legal and regulatory environment for private sector businesses will complement efforts to divest existing public sector enterprises. To facilitate industry entry and exit and increase competitiveness, the Government will prepare a revision of the outdated Companies Ordinance, review the Investment Act to ensure that all sectors are open to private investment, simplify access to land for industrial purposes, and reduce the burden imposed by licensing requirements. To ensure that the legal system is consistent with the demands of a competitive environment, the Government has initiated a program to strengthen court facilities and legal expertise.

14. Infrastructure. Further efforts to improve infrastructure will include: (i) a second phase of the Integrated Roads Program to strengthen transport sector administration and management of the road network, restructure road transport services, reform mechanisms used to fund road maintenance, develop the private sector contracting industry and rehabilitate and upgrade the trunk, regional and rural road networks; (ii) the establishment of performance agreements and other measures to strengthen the parastatals responsible for infrastructure; (iii) a reform of air transport to allow for competition in the provision of services, strengthen regulatory institutions, and commercialize management of at least the major international airports; (iv) improvements in port facilities through the decentralization of the operating functions of the Tanzania Harbours Authority away from Headquarters to the ports, divestment of cargo handling and other activities, dismantling of the monopoly functions in the shipping agency and freight booking businesses, and improvements in the efficiency of customs and trade facilitation procedures; (v) improvements in telecommunications through involving the private sector in the provision of services and increased investment in the telecommunications network; and (vi) improvements in the efficiency of the energy sector through full commercialization of the public power company, the involvement of the private sector in support activities, the implementation of measures to alleviate the shortfall in power supply, the exploitation of Tanzania's abundant hydro-electric resources, and the development of other indigenous energy resources such as natural gas, coal and petroleum in collaboration with the private sector.

15. Human Resource Development. A major effort will be required to confront the daunting problems facing both the health and education sectors. Health services are severely constrained by a shortage of resources, poor allocation of the meager resources that are available, weak capacity of the Ministry of Health (MOH), inadequate central support to service delivery at the local level, impediments to greater private sector involvement in the provision of services, uncoordinated donor activities that often bypass the MOH, poor development of non-tax-supported financing mechanisms, and many other problems. These difficulties have hampered adequate provision of public health services and basic curative care, and constrained the country's ability to cope with such endemic diseases as malaria and AIDS. The Government has prepared a primary health care strategy and is at the initial stages of developing a broader strategy for the sector as a whole. Key elements of the strategy will include the further decentralization of public health services, improvements in the capacity of local communities to implement programs, implementation of the master plan for drug distribution and procurement, and increased financing of health care through better resource utilization and improved cost recovery.

16. The Government aims to improve access to education and to raise its quality, especially at the primary level. While a detailed strategy is now under preparation, the main emphasis of Government policy will be to reverse the deterioration of the quality of education over the past decade. Preliminary measures will focus on increasing the share of recurrent expenditures in budgeted funds, raising tuition and fees in secondary and tertiary education to improve quality and permit the allocation of a greater share of Government funds to primary education, allowing community groups to provide primary education as a supplement to government schools, revising teacher salary and incentives scales to attract more competent teachers, and creating a supportive environment for girls and disadvantaged students to perform within the system.

17. Agricultural Development. Government policy will address the main constraints to agricultural production, which accounts for about 60% of both exports and GDP. Production incentives for traditional export crops (coffee, cotton, tea, cashews, sisal and pyrethrum) will be improved through the unification of the exchange rate system and by fostering increased competition in export crop processing

and marketing. A prime focus of reform will be the opening of the cotton ginning and marketing industry, currently monopolized by inefficient cooperative unions, to private sector participation. Incentives for private investment in the agricultural sector will be enhanced through passage of an umbrella land law stabilizing tenure and property rights, and development of a rural financial market able to meet the requirements of small-scale, as well as estate-based, operations. Continued public sector support for research and technology dissemination services will increase labor and land productivity. Measures will be taken to streamline the operation of the Ministry of Agriculture, including the elimination of services better provided by the private sector, improvements in the reliability and breadth of data gathering and dissemination, and the strengthening of analytical and policy formulation capacities.

18. Poverty Alleviation. The Government's program to reduce poverty is based on three essential pillars: an acceleration of labor-absorbing growth; increases in the level and efficiency of social sector expenditures; and targeted interventions to assist the poorest segments of the population. The enhanced growth which results from the Government's agricultural development program will benefit the rural poor. The prices received by farmers for traditional crops (a substantial share of which is produced by smallholders) should increase in real terms, technological change will enhance labor and land productivity, and the demand for labor in both agriculture and related sectors will increase. Improvements in the allocation of expenditures on health, education, and nutrition are the goal of strategies now under preparation for the social sectors. The Government's food security program, and the operation of a strategic grain reserve, is designed to forestall food price spikes and alleviate temporary shortages affecting particular areas of the country and vulnerable groups. The next stages of the reform program for the civil service and parastatals will include safety net features for low-income workers adversely impacted by those reforms, including a retrenchment compensation package for the civil service and provision of severance payments and retraining opportunities. The Government is developing a more detailed poverty profile that will enable it to strengthen policy formulation and target its programs effectively.

19. Environment. The Government is completing a National Conservation Strategy, which will include legal provisions to strengthen the powers of the National Environment Council and further efforts at land reclamation. Moreover, the Government will continue efforts to strengthen land conservation through improvements in the royalty collection system, production of a national land use and natural resource map, and development of a natural resource information center. A National Land Policy will be developed to improve the use of land not allocated between villages and to control unregulated competition for pasture and woodland.

20. Debt Strategy. Tanzania faces a severe debt problem, with an estimated debt-servicing burden of over 100% of exports in 1992/93.[2] Currently, however, it is servicing only multilateral debt (plus a small portion of its liabilities to bilateral creditors), with the remaining official and commercial debt in arrears. The Government is now putting in place an effective debt management system and is formulating an overall external debt strategy. The Government will request measures by donors to assist in the alleviation of the debt burden, including more concessional rescheduling terms from the Paris Club and resources from the IDA Debt Facility to retire commercial debt.

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[2] This takes into account debt service owed (projected to be 47% of exports in 1992/93) plus approximately US$800 million in arrears from previous years.

Bank's Program of Assistance

21. Main Objectives. The principal goals of the Bank's program in Tanzania are to assist the Government in reducing poverty through an acceleration in the pace of structural reform, improvements in the incentive framework to strengthen competition in the economy, reforms in public sector management to increase capacity, and the provision of infrastructure and social services (especially targeted on the poor), while at the same time putting the country on an environmentally sustainable development path. This is a major undertaking, which will require a drastic reallocation of Government resources, substantial improvement in the efficiency of public sector operations and increased scope for private initiative and activities.

(i) Portfolio Management Performance

22. The loan portfolio. Since 1962 when Tanzania joined the Bank Group, the country has received 89 IDA credits and 27 Bank loans, amounting to US$2,523 million as of March 30, 1993. Tanzania also received 11 loans totalling US$111 million extended for the development of the services and development bank operated through the former East African Community.

Table 1: Major Projects Under Supervision

IDA Credit	Amount (US$ mil)	Undisbursed (US$ mil)	Fiscal Year
Agricultural Exports Rehabilitation	30.0	19.66	1988
National Agriculture and Livestock Research	8.3	6.8	1989
Agricultural Extension	18.4	10.66	1989
Tree Crops	25.1	15.98	1989
Ports Modernization	37.0	36.45	1990
Health and Nutrition	47.6	45.67	1990
Agricultural Adjustment	200.0	19.34	1990
Education Planning and Rehabilitation	38.3	32.30	1990
Roads I	180.4	154.70	1990
Petroleum Rehabilitation	44.0	46.78	1991
Railways Restructuring	76.0	71.56	1991
Urban Sector Engineering	11.2	9.54	1992
Financial Sector Adjustment	200.0	112.9	1992
Engineering	10.0	6.15	1992
Forest Resources Management	18.3	17.34	1992
Financial and Legal Management	20.0	19.11	1993
Telecommunications III	74.5	74.5	1993
Power VI	200.0	200.0	1993

23. Consistent with the Government's strategy of greater reliance on the private sector for the production of goods, recent project lending has emphasized infrastructure and social services, with some additional support to agriculture and forestry, given its importance to both production and poverty alleviation. Infrastructure projects under supervision include the Integrated Roads Project, which is formulating a strategy and helping to coordinate donor contributions to the transport sector, along with projects in power, ports, railways, telecommunications and urban infrastructure. In the social sectors, the Health and Nutrition Project was designed to improve service delivery through local government at the district and community levels (in the ten poorest districts of the country and in Dar es Salaam) and to assist the Ministry of Health to strengthen its ability to support primary health care service. The Education Planning and Rehabilitation Project is strengthening the planning capacity of the educational system and is supporting limited initiatives in critical areas, including improvements in the quality of curriculums and textbooks and increasing non-governmental contributions to education. In agriculture and forestry, IDA is supporting agricultural extension and research, assisting producers of tree crops, and working to improve forest management.

24. IDA also has provided substantial resources as adjustment lending in support of the Government's reform program. Adjustment credits to Tanzania have included a Multisector Rehabilitation Credit (MRC), which supported a comprehensive process of policy reform aimed at reversing the protracted deterioration of the economy; an Industrial and Trade Adjustment Credit (IRTAC), which assisted the initial restructuring of Tanzania's industrial sector and selected trade reform measures; a Tanzania Agricultural Adjustment (TANAA) operation in support of measures to reform the agricultural marketing system; and a Financial Sector Adjustment Credit (FSAC), which is helping the Government improve the regulatory framework governing the financial system and prepare restructuring plans for the commercial banks.

25. Implementation issues. Implementation of Bank projects has generally been slow. The 23 IDA credits that are still effective represent total lending of US$1.2 billion. Of this amount, US$647 million remains undisbursed. To some extent, the low disbursement rate reflects the recent vintage of many projects; 13 of the 23 projects were approved in FY90 or later. Indeed, the most recent data indicate an acceleration of disbursements: as of end-March 1993, disbursements on investment projects in this fiscal year totalled US$59 million, or almost 25% more than in the twelve months of FY92. Nevertheless, implementation problems have contributed to the low level of disbursements. A review of the portfolio is underway to determine which projects will need substantial restructuring or action programs to improve performance. This review will provide the focus for the upcoming Country Implementation Review in Dar es Salaam.

26. Pending results of the portfolio review, management of the portfolio will focus on selected areas where improvements are needed:

(a) Compliance with tranche release conditions for adjustment operations has been slow in some cases. Since an acceleration of the reform program is crucial to development, considerable resources will be devoted to improving compliance, in particular through an expansion of technical assistance. The level of our adjustment assistance will depend on the pace of implementation of remaining structural reforms.

(b) Substantial work will be devoted to improving compliance with financial covenants, a principal topic at this year's Country Implementation Review. The major difficulty is the

limited domestic capacity for financial management. Accounts in a number of Ministries are in poor condition, which makes accounting for Bank funds difficult. The Financial and Legal Management Project, approved earlier this year, provides assistance in strengthening financial management in Tanzania. Subsequent CIRs will review progress, to ensure that adequate attention is paid to accounting.

(c) Project implementation has been slowed due to difficulties in effecting disbursements of counterpart funding agreed to under projects. In particular, local staff working on Bank financed projects have not been paid for extended periods, disbursements from special accounts have been slow, and the allocation of budgeted funds to local governments has been uneven. Planned improvements in the budgeting process, coupled with more aggressive supervision, should reduce these problems, although this will take time.

27. The Government's weak implementation capacity will constitute a serious obstacle to the intended acceleration of the reform process, and provision of technical assistance will be an essential element in the adjustment program. However, the Government has been reluctant to borrow for technical assistance, even on IDA terms, in part because such assistance is often provided by donors as grants and in part in the desire to rely on domestic expertise. We share the Government's reservations about excessive reliance on foreign technical assistance and will emphasize the training of Government personnel and the financing of local consultants wherever possible, given the needs of the program and in support of developing Government capacity.

28. Supervision. Substantial resources will be committed to improve the implementation of existing projects. The Government's weak implementation capacity has resulted in slow disbursement of tranches of adjustment operations, a poor record of compliance with financial covenants, and difficulties in disbursing counterpart funding agreed to under Bank projects. These issues will be addressed by expanding the resources available for supervision (for example, through coordination with donors), by implementation of recommendations from the review of the Department's portfolio (to be completed shortly), and by continued emphasis on effective, annual Country Implementation Reviews (CIR's) and thorough mid-term reviews of individual projects.

29. The Bank's strategy focuses on issues of supervision not only of the Bank's lending operations but of integrated strategies for selected sectors. The term integrated strategy refers to an exercise to determine Government priorities in a sector, including a clear articulation of sector objectives, a thorough review of the policy environment, an assessment of investment priorities, an analysis of the institutional structure and capacity, and a clear identification of the appropriate roles of the Government, donors and the private sector. In order to expand resource availability for supervision, we plan a number of initiatives including, inter alia, joint supervision with donors, guiding donor TA to focus on short-term assignments, flexible budgets, and more emphasis on the tackling of common issues by designated Bank staff (e.g. audit, procurement). In addition, many of the constraints to speedier and more effective project implementation are of a macro nature (inadequate salaries, for example) and will be addressed as part of the overall reform of the public sector.

(ii) Areas of Special Operational Emphasis

Poverty Reduction

30. **Poverty reduction is to be achieved through a two-pronged strategy aimed at accelerating growth and improving the provision of social services and infrastructure. Accelerated growth, in turn, is to be achieved through an acceleration of the pace of adjustment, especially in the two critical areas of private sector development and public sector management.** The **Poverty Profile** (paragraph 18) will be used to develop a **Poverty Assessment**, which will analyze the impact of the Government's overall program on the poor. At the macroeconomic level, we will support reforms to agricultural marketing arrangements to increase rural incomes. Improvements in the incentive framework facing private sector businesses should assist the development of informal businesses in the urban sector, where many of the urban poor work. A project to strengthen the provision of infrastructure to the urban poor is under preparation. The integrated strategies for the health and education sectors, supported by a **Social Sector Strategy Paper**, will focus on the provision of services to the poor. The role of women will be a particular focus of much of these efforts, including increasing the participation by girls in primary and secondary schooling and improving provision of health care to mothers and infants.

31. One of the key areas of emphasis for accelerating the pace of reform is improvements to the regulatory environment with a view to stimulating the **development of the private sector**. Improvements to the regulatory environment entail the streamlining of rules and regulations which affect the behavior of private (and public) enterprises, including the elimination of restrictions on the marketing of traditional crops, simplification of licensing requirements, rationalization of the tax system, and promotion of increased competition in the financial system. Within this context, particular attention will be given to increasing the efficiency of the trade and payments regime, including easing requirements governing the surrender of foreign exchange by exporters, eliminating exporter registration requirements, abolishing import and export licensing, and reviewing the right of selected ministries to regulate exports. These reforms will be supported by the proposed **Structural Adjustment Credit** (SAC I). In addition, the **Private Enterprise Development Project** would encourage the private development of commercial and industrial sites by streamlining land titling procedures, finance the provision of consultant services to exporters from competing private sector sources, and help increase access by foreign investors to provide the technical, marketing and financial skills which are essential to the development of Tanzania's private sector.

32. A second key area of emphasis in the Bank's strategy to accelerate the pace of reform in Tanzania is improved **public sector management**. The Bank's efforts to support a redefinition of the economic role of the State cover a broad agenda of policy reforms. The restructuring of the financial sector, supported by the **Financial Sector Adjustment Credit** (FSAC), seeks to redefine the role of the Government in the banking sector by creating a financial system that operates on market-oriented principles and is efficient in mobilizing and allocating resources. The Government's parastatal restructuring and civil service reform programs, supported by the proposed **Public Sector Adjustment Credit** (PSAC) and the **Parastatal and Public Sector Reform Project** (PPRP), aim to reduce the economic role of the public sector while enhancing the quality of public sector management. The **Agricultural Sector Management Program** (ASMP) would help redefine the Government's role in agriculture by strengthening the institutional capacity to formulate and implement agricultural development policies and strategies. The **Mining Technical Assistance Project** would help redefine the Government's role in the mining sector by establishing market-oriented regulatory and policy frameworks to promote

private sector involvement and competition. Proposed infrastructure projects would encourage greater private sector participation in improving port facilities and in operations now undertaken by TANESCO (including privatization of the construction unit and the regionalization and privatization of power distribution). The next **Country Economic Memorandum** (CEM) and a series of **Public Sector Expenditure Reviews** (PERs) will support these efforts by discussing the appropriate role of the public and private sectors in the economy and reviewing the major constraints on development.

33. In addition to accelerated growth, improved provision of **social and infrastructural services** is the second prong of the strategy aimed at poverty reduction. Bank support to the social sectors will be designed in the context of integrated sectoral strategies which focus on improving the access of the poor to social services. This approach is already showing very positive results in terms of overall program implementation and donor coordination in the roads sector. The Bank will soon start work, jointly with the Government and with bilateral donors, to prepare an integrated strategy for the social sectors as a whole.

34. Project lending in education, health, and nutrition will build on the integrated strategies discussed above. In education, virtually every aspect of the system has its share of difficult issues. A follow-up to the current education project is programmed to support implementation of the integrated strategy now being developed for the sector. Possible areas of emphasis for this project include, among others, improving cost recovery (particularly at the secondary and university levels), reducing overproduction of teachers, decentralizing the provision of educational services and strengthening local management capacity, providing money to households to pay for school tuition (to introduce more competition for students and boost the incomes of the poor), reducing bureaucratic waste in the educational system, and privatizing the production, marketing and sale of educational commodities and ancillary services.

35. The next project in health will support the health sector strategy being developed, as a component of the overall social sector strategy, by the Ministry of Health with assistance from IDA and bilateral donors. The strategy will cover primary health care, rehabilitation of the central medical stores, cost sharing, health insurance, district-level health planning, a health manpower training plan, a health information system, and family planning policy. Success in these areas is expected to improve substantially the Government's ability to target public health resources to the poor, to women, and to young children, and to improve performance in reducing the population growth rate. The Bank also will provide support through preparation of a **Social Sector Strategy Paper** that will focus on expanding the resource envelope and improving resource allocation in the social sectors, targeting public sector subsidies to the poor, encouraging private sector development in the social sectors, developing an integrated approach to social sector investments (including health, education, nutrition, family planning, and water), increasing investment in women, slowing population growth, and developing strategies to combat AIDS and sexually transmitted diseases.

36. Project **lending for infrastructure** will focus on key bottlenecks to production (power, transport and telecommunications). The recently-approved **Sixth Power Project** will support a series of measures to increase the supply of power, including construction and rehabilitation of hydroelectric plants, improvements in distribution, the upgrading of the institutional and management capacity of the power company, and supporting adequate cost recovery policies. The success of the **Integrated Roads Project** will be continued through a follow-up project to upgrade further the existing roads system and to strengthen financing and maintenance of the roads network. The **Third Telecommunications Project** (approved in May 1993) will assist the Government in introducing private sector involvement in the

provision of telecommunication services, help rehabilitate and expand the local and long distance telecommunications network and strengthen the institutional capacity of the phone company to ensure improved operational and financial performance. Other projects under consideration include a project to assist the rehabilitation of urban infrastructure, ports improvements, tourism development, and the use of gas reserves for power generation.

Environmentally Sustainable Development.

37. The Bank's program will continue to address the very serious problem of environmental degradation in Tanzania. The exploitation of Tanzania's resources is proceeding largely in an unmanaged and unregulated manner, and there is a growing danger that the resource base essential for the future will be seriously depleted. We will work closely with other donors (notably SIDA) who are taking the lead in helping Tanzania prepare a National Environmental Action Plan (NEAP). In addition, to inform our discussions of environmental issues in the preparation of our assistance strategy to Tanzania, we are also preparing a **Country Environmental Strategy Paper** (CESP). Our lending operations are also being used to address some of the critical environmental issues. Key areas of concern include the development of a water resources assessment, ensuring that the exploitation of Tanzania's forest resources is carried out on a sustainable basis and reducing environmental degradation from uncontrolled mining operations.

(iii) Future Lending Program

38. Assuming strong policy performance by the Government, it is recommended that Tanzania receive approximately US$350 million per year in IDA credits. In this scenario, Tanzania would continue to receive substantial quick-disbursing support. However, over the next three years, the share of adjustment lending in the total would fall, from the 50% share of the recent past to about 30%. This decline would reflect the results of strong policy performance: the expected increase in domestic resource mobilization, strengthened export performance and inflows of private capital.

39. This level of adjustment assistance would require substantial progress in stabilizing the economy and deepening structural and sectoral policy reforms. The Bank will monitor progress in the adjustment program based on the following indicators. With respect to macroeconomic policies, the Bank will pay particular attention to progress made towards reducing the size of the fiscal deficit, improving monetary control, and achieving a unification of the trade and exchange system. In the area of public sector management, the Bank will monitor progress in civil service reform, including functional restructuring of ministerial responsibilities, retrenchment and pay reform. For parastatal reform, the Bank will emphasize both the implementation of the annual divestiture plan, as well as the imposition of a tight budgetary constraint on the parastatal sector to improve performance. Further progress in private sector development will be measured by the Government's efforts to improve the legal and regulatory environment for private businesses, particularly efforts to simplify administrative requirements imposed on businesses. One of the key areas of policy reform for agricultural development which will be monitored is the complete liberalization of export crop marketing. To ensure that all of these reforms are consistent with the main objective of poverty reduction, the Bank will pay special attention to the completion of a poverty profile, which will strengthen policy formulation and enable the Government to target its programs effectively.

40. The level of adjustment lending achieved would depend on the quality, scope and pace of implementation of these reforms. In the absence of substantial progress in each of these areas, IDA resources would be devoted to a core program, which would include support for human resource development to ameliorate poverty, based on the Social Sector Strategy to be formulated by the Government; efforts to ensure that Tanzania is on an environmentally sustainable development path, based on the soon to be completed National Environment Strategy; and selected infrastructure projects where progress can be made even in the absence of a strong adjustment effort. The core program would imply a sharp reduction in the level of IDA assistance, to below US$150 million.

41. Adjustment assistance is likely to fall further in the medium term. The recent expansion in exports and increase in entrepreneurial activity in the informal sector have demonstrated that the Tanzanian economy is highly responsive to improved incentives. As the reform process removes the constraints on private sector activity, we expect that the growth of exports and GDP will accelerate, thus reducing both the economy's dependence on external capital to finance imports and the Government's dependence on donors to finance the budget. In this context, the need for fast-disbursing assistance would decline. IDA assistance would then be predominantly in the form of project lending, in particular sector investment loans to promote comprehensive reforms, for example, in human resource and infrastructure development.

(iv) Donor Coordination

42. The June 1992 Consultative Group meeting confirmed donors' support for the Tanzania program. Pledges of bilateral assistance totalled US$700 million, not including debt relief provided under the auspices of the Paris Club. Donors emphasized the importance of strengthening implementation of assistance programs in the social sectors and infrastructure. Donors also pushed for more rapid progress in key reforms, including the reorganization of the civil service, parastatal reform, liberalization of agricultural marketing, financial sector reform, strengthening the environment for private sector businesses, and improving the allocation of donor-financed assistance. The importance of improving the effectiveness of technical assistance and strengthening coordination with non-governmental organizations were highlighted.

43. Given the large number of donors and Tanzania's heavy aid dependency, the Bank will continue efforts to improve the efficiency of donor support through annual Consultative Group meetings, the Special Program of Assistance for Africa, and regular consultations in Dar es Salaam. In the interest of increasing aid effectiveness, IDA will channel foreign exchange provided as fast-disbursing resources through a market-based allocation mechanism. We will urge donors to allocate their funds in the same way.

44. For project lending, an important element of the Bank's strategy is to improve the effectiveness of the high levels of donor assistance by supporting the formulation of integrated sectoral strategies that will be used to organize the allocation of donor funds. This is an ambitious effort which will require intensive consultations with both the Government and donors. The Bank is willing to devote more resources to donor coordination to accomplish this goal, and substantial improvements in the efficiency of public sector operations will be required to implement these strategies effectively. In this context, the Government and donors will need to agree on which donor should be responsible for assisting the Government in the development of integrated strategies for specific sectors and subsectors.

45. The Bank's program is closely coordinated with the IMF through annual preparation of the Government/Bank/IMF Policy Framework Papers, joint missions where appropriate, and regular, informal consultations. The Policy Framework Paper has been successful in providing an agreed agenda for policy reform, and the Government has taken its commitments under the PFP seriously. The IMF and the Bank have worked together on the reform of Tanzania's trade and payments system, as the Bank's program for the liberalization process and improving the pricing of donor funds has been designed in conjunction with the Fund's program for exchange rate management.

(v) IFC and MIGA Activities

46. IFC has approved US$18.1 million in investment projects in Tanzania, with the bulk of funds provided for agribusiness. Projects now under preparation are focussed on tourism and manufacturing. For the future, IFC expects to play an active role in the promotion and funding of opportunities arising out of privatizations, and through the Foreign Investment Advisory Service, will continue to offer advice and assistance on how the business environment can be made more attractive to potential foreign investors. IFC's strategy is to continue to look for opportunities to invest in the export-oriented projects which are able to service debt and pay dividends from a foreign exchange retention account, and to take advantage of debt/equity swaps. In particular, IFC is focusing on opportunities in the tourism, leather, cement and mining sectors, and will continue to support the privatization of these and other sectors of the economy. IFC also is exploring possibilities in leasing and venture capital.

47. Tanzania, as a member of MIGA, is an eligible host country for MIGA insured investments. MIGA recently issued a contract of guarantee to Standard Charter Bank for an equity investment in a Tanzanian commercial bank. In addition, MIGA's Board has approved issuance of a second guarantee involving a tourism project in Tanzania. Eight preliminary applications for other investments in various sectors are outstanding. MIGA also is working with the World Bank on Songo Songo, a power project.

Summary of Assistance Strategy

48. **The central issue facing the Tanzanian economy is whether growth can be increased sufficiently to deal with the problems of the 1990s:** excessive dependence on donors and a huge debt burden, the historically poor performance in improving health and education outcomes, the likely inability of the economy to absorb the expected entry of large numbers of youths into the labor force, and the growing menace of the AIDS epidemic and its impact in exacerbating economic and social problems. The Tanzanian society will not be able to meet these challenges successfully unless the implementation of the current policy framework is accelerated. The public sector's domination of industry, banking and agricultural marketing, along with the inability to provide essential services, continues to impair growth. The goal of public policy will be to establish an appropriate environment for private sector growth while reducing the role of the public sector in production and strengthening the provision of essential services.

49. The major question for consideration is how the Bank's strategy can best assist the Government in this process. Given the urgency of reform and the large amount of donor assistance now provided to Tanzania, the provision of continued adjustment assistance will be conditioned on up-front actions to address key constraints to growth. A multi-sectoral approach will be adopted to ensure that interactions among sectors are adequately accounted for in the sequencing of reforms. SAC I will focus on policy reforms to improve the incentives framework for private sector development, including the removal of

controls on the marketing of traditional crops, elimination or simplification of administrative requirements that impair the efficiency of private businesses, promotion of increased competition in the financial system, and continuation of the Government's parastatal reform program. Subsequent credits may address the next stages of reform in each of these, or other, areas.

50. **Project lending** will play an integral role in furthering the Government's program to improve the incentives framework facing the private sector and to strengthen essential services. Projects in telecommunications, transport, power, mining, tourism and agriculture will, in part, help redefine the role of the Government in each sector and provide technical assistance to improve the efficiency of public sector operations. At the same time, project lending will address the financing and targeting of human and physical investments, including support for health, education and infrastructure. Projects also will provide targeted support for economic sectors where IDA credits can have a substantial impact in alleviating poverty (especially agriculture).

51. Assuming strong Government commitment to the reform program, and depending on the availability of IDA resources, Tanzania would receive, on average, about US$350 million per year in IDA credits. Of this amount, adjustment assistance would decline over the next three years from the 50% share of the total received in the recent past to 30%. In the absence of substantial progress in the reform agenda outlined above, the Bank would have to reevaluate the level of fast-disbursing assistance provided. Alternative strategies to promoting reform would then have to be considered, with increased emphasis on project lending in the areas of poverty, infrastructure, environmental preservation, and human resource development. This also would imply a reduction in the level of IDA resources devoted to Tanzania, to below US$150 million a year. In any event, the share of adjustment assistance should decline in the medium term, as economic recovery reduces the country's dependence on donors for both foreign exchange and budgetary resources.

C. THE MACROECONOMIC FRAMEWORK

52. Macroeconomic Performance. The structural reform program begun in 1986 has improved the macroeconomic performance and renewed growth in the economy. The Policy Framework Paper (PFP) for 1992/93-1994/95 outlines the Government's medium-term macroeconomic program for continuing growth and achieving macroeconomic stability. It supports the second year of the arrangement under the Enhanced Structural Adjustment Facility (ESAF) of the IMF. The principal objectives are to achieve an economic growth rate of 5% per annum, in order to achieve positive per capita growth in real incomes and to reduce Tanzania's dependence on exceptional balance of payments financing with the aim, in the longer term, of reaching a viable external position. At the same time, the program aims at reducing inflation to levels prevailing in partner countries (about 5%). Under this Credit, macroeconomic performance will be monitored in the context of the PFP and the ESAF program. In addition to growth, the major indicators of satisfactory performance will be external sector performance, fiscal and monetary developments.

53. External Sector Policies. Currently, foreign exchange is allocated through a number of windows, including the Open General License (OGL) system, which accounted for about a fifth of all imports in 1992. The Government's objective is to establish a fully-unified, market-based system for the allocation of foreign exchange by early 1994. As a major step towards achieving such a system, Tanzania

introduced foreign exchange bureaus in April 1992. The Bureaus are authorized to buy and sell foreign exchange at freely negotiated prices for most current account transactions, including the repatriation of profits and dividends. Their introduction was accompanied by a substantial liberalization of foreign exchange regulations, allowing Tanzanian citizens to open foreign currency accounts at local commercial banks. The Bureau rate has been a guide for the management of the official exchange rate, and in a series of devaluations since the Bureaus were set up, the official rate has been moved towards the Bureau rate so that the current premium in the Bureau market is down to about 20%. In preparation for complete unification by early 1994, the Government has drawn up an action plan that will outline the steps that need to be taken to achieve this objective.

54. Fiscal and Monetary Policies. The principal aim of fiscal policy in 1992/93-1994/95 is to continue to maintain a tight fiscal stance while at the same time improving the coverage of the Government Budget, which currently does not include all foreign-financed expenditures. In order to address the substantial claims on public resources that are likely to arise over the next three years, the Government aims to broaden its revenue base, and to simplify and improve the efficiency of its tax system. To this end, it is preparing for the introduction of a value-added tax (VAT) in the course of 1993/94. On the expenditure side, in line with the changing role of Government in economic activities, public expenditures will be strictly contained over the next three years. At the same time, expenditures will be restructured towards high priority activities, such as the provision of economic and social infrastructure, and away from directly productive activities.

55. With regard to monetary policies, the Government aims to tightly limit monetary growth over the medium term and to reduce inflation from about 20% currently to levels prevailing in partner countries (about five percent). One of the main reasons for excessive credit creation in the past had been the easy access of commercial banks to central bank refinancing. As part of the financial sector reforms initiated in 1991, and which were supported by the Bank's previous adjustment operation in Tanzania, the Financial Sector Adjustment Credit (FSAC), this has now been stopped. Unfortunately, due to a number of unforeseen administrative and other problems, some fiscal slippage has occurred in the first half of 1992/93, that has led to excessive credit growth during this period. The Government has already taken some revenue-enhancing measures through a Supplementary Budget passed in early 1993 which partially corrected for these slippages. Despite these measures, however, the unexpected revenue shortage in 1992/93, combined with the shortfall in donor financing, has led to excessive borrowing by the Government from the banking system. Further corrective actions to put the macroeconomic program back on track are being discussed with Government.

56. External Financing Requirements. Tanzania's balance of payments will continue to face large external imbalances over the medium term, thus requiring exceptional financing up to 1994/95 (see Annex III for a table on external financing requirements). Taking account of the Government's reform program in the medium term, including continued reforms in agricultural marketing, as well as the exchange system reform accompanied by a flexible exchange rate policy, export volume growth is expected to average 8% between 1992/93 and 1994/95. The introduction of the foreign exchange bureaus, combined with the adoption of a policy allowing full retention of foreign exchange for non-traditional exporters, is expected to boost especially the production of non-traditional exports, which are projected to grow at an annual average rate of about 15% in volume terms during the period. It should be noted that part of this growth rate merely reflects a shift of exports from the parallel market to the official market as the overvaluation of the Tanzanian Shilling is reduced and the trade regime is simplified. Import volume growth, at 4%, is expected to be lower than the rate of GDP growth, projected at 5% per year. This

reflects assumptions regarding improvements in the efficiency of import use that are projected to arise from a number of factors including more correctly priced foreign exchange, a tightening of customs and tax administration, and a revival of domestic production resulting from parastatal reform and privatization, which is being supported by this Credit. The services account is projected to show slight improvement, reflecting an increase in receipts from tourism and a gradual decline in interest payments. Finally, private transfers, which reflect parallel market exports, are expected to decline as the parallel market is integrated into the official market through the further liberalization of the exchange and trade regime.

57. Despite the significantly higher growth rate projected for exports as compared with imports, the current account deficit is not projected to improve much during the next three years. This is because, in 1991/92, total exports (i.e., official exports plus private transfers) are significantly lower than imports, as reflected by the fact that total exports finance only about 61% of total imports. Based on the above projections, the current account (CA) deficit excluding official transfers will increase from US$863 million in 1991/92 (31.6% of GDP) to US$918 million in 1994/95 (33.4 percent of GDP). The CA deficit including official transfers will remain more or less unchanged (it declines slightly from US$294 million in 1991/92 to US$291 million in 1994/95; as a percentage of GDP it declines marginally from 10.8% to 10.6%). The deficit will be financed partly by official transfers projected to average about US$606 million per annum between 1992/93 and 1994/95 (largely uncommitted as yet), and external loan disbursements projected to average about US$326 million per annum during the same period.

58. Large repayments of previously rescheduled debt will begin falling due in 1992/93. The resulting financing gaps will be covered in 1993/94 by the comprehensive Paris Club (PC) debt rescheduling in early 1992. The full rescheduling of debt contracted before the cut-off date of June 1986, as well as of the maturities due with respect to the 1986 PC rescheduling, will allow foreign reserves of the BOT to reach 4.8 months of imports by the end of 1993/94. However, debt service payments to the Paris Club will result in a substantial decline in reserves in the following years. In order to maintain an adequate level of foreign reserves beyond 1993/94, further financing gaps are likely to remain, necessitating continued exceptional balance of payments assistance beyond 1994/95.

PART II

THE PROJECT

59. **Sector Background.** Since the Economic Recovery Program was launched by the Government in 1986, the Tanzanian economy has been steadily evolving from one of pervasive controls and stagnation, to one that more strongly displays a market and growth orientation. Nevertheless the challenge of attaining appropriate growth rates still remains, in part requiring a resolution to the problems of the parastatal sector and improvements in selective areas of the public sector and its management. Reducing the financial burden of the public sector, through downsizing and meeting the requirements for more efficient and effective performance, is an area of critical importance now facing the Government.

60. The Parastatal Sector: A major element of the fiscal burden is the parastatal sector, which grew steadily from a few parastatal companies in 1967 to about 270 commercial (and 30 non commercial) enterprises currently. The largest subsector is manufacturing where state management and control was thought to be particularly critical. The public enterprises (PE's) have dominated the formal economy, crowding out private investment. In the formal industrial sector PEs account for about 67 percent of employment and 60 percent of value-added. Efficiency is low due to macroeconomic problems, lack of competitive pressures, ineffective supervision, a lack of management systems and inappropriate investment. Over half of the companies in the sector are currently non-viable and require subsidies to remain in business. PE indebtedness amounts to over 90 percent of all total outstanding credit in the economy, of which a large majority is owed to the Treasury or to State banks. Only 43 out of 220 PEs with outstanding borrowings are regarded as capable of fully servicing their debts. Clearly, the PE sector is in a critical state, creating not only fiscal problems but, through its demand for resources and its preferential status, also retarding private sector development.

61. In 1992 Government decided to adopt a more systematic approach to reform of parastatals than had been the practice since 1986. The Government issued a Policy Statement on PE reform and privatisation, which was endorsed by IDA; set up the Presidential Parastatal Sector Reform Commission (PSRC) to coordinate the program, and began initial steps towards the amendment of relevant legislation relating to the capital market and commercial entities. The PSRC is expected to have a finite life of five years, after which market institutions, such as a stock market, currently under study, would increasingly absorb privatisation activity. PSRC is designed to be a relatively lean organisation with a small permanent professional staff, but with considerable capacity to utilise consultants for specific activities and needed training across the spectrum of activities under the reform program. The proposed revision to the Public Corporations Act of 1992 will lay down performance guidelines under which PEs retained by the State would operate. Within the five year time period the division of responsibility between PSRC and line Ministries will be guided by the PSRC Statement of Operating Policies and Procedures, which centralises work programs on divestiture/liquidation and sales in PSRC, with final approval power for ownership transfer vested in the Cabinet. In addition to these specific institutional aspects, Government has also pursued exchange rate liberalisation which, with decontrol of prices and distribution, have begun to create a business environment supportive of the reduction of anti-export biases, the improvement of economic efficiency and the reallocation of investment resources. All of these measures will provide underpinning for the reform of Parastatals and increased competition.

62. Public Sector Management. In order to help address the structural problems underpinning the public sector deficit, reform is urgently required in the planning and budget systems, the tax regime and

across the entire civil service. Problems with the allocation and transparency of Government expenditure leading to misallocation and underfunding of priority areas need to be addressed. On the revenue side, tax and tariff rates have been nominally high but are subject to widespread exemptions and evasion, leading to an inadequate revenue base and further distortions in resource allocations. The 1992-93 budget has started to address these problems, with announcements of broad cuts in income, sales and excise taxes, the removal of exemptions, a requirement for improved accounting for aid inflows, plans to introduce VAT by 1994, and the start of ministry reviews to help reorganize expenditure priorities. Also, Government has recognized the importance of having a more efficient civil service. Currently the Service is greatly overstaffed and highly ineffective, due to a real decline in salaries, a lack of transparency, uneven non-monetary compensation and a breakdown in accountability. Further, the cost of the Civil Service is placing a severe strain on the budget.

63. Public Sector Adjustment. IDA has been assisting Government in the areas of parastatal and civil service reform through the preparation of a Public Sector Adjustment Credit (PSAC). The proposed PSAC supports a major reorientation of Government's approach to and involvement in these two areas. The operation supports a specific program of parastatal privatisation, closure and liquidation, and for remaining parastatals, enhanced financial and operating performance. The targets covering 1993 and 1994 are expected to be further extended and supported under by IDA under a planned Structural Adjustment Credit (SAC, FY95). Under Civil Service Reform, the proposed PSAC contains initial targets for retrenchment, which are also expected to be further developed and extended under SAC . Part of Government's challenge in implementing reforms under PSAC are to overcome the current weak institutional capacities and the lack of attendant skills/techniques and equipment. Thus, for the Government to move forward with its policy design and implementation of the proposed Public Sector Adjustment Credit (PSAC), and to prepare for and help implement the FY95 Structural Adjustment Credit, it has requested technical assistance from IDA.

64. **Project Objectives.** The PPRP will be provided in parallel, (and as a complement) to the PSAC. It would provide assistance for: (i) institutional strengthening to appropriate Government organizations/departments to help them meet specific actions required under PSAC, in the areas of parastatal and civil service reform; (ii) the further design, refinement and initial implementation of a comprehensive civil service reform program, which would be further supported by the upcoming SAC; and (iii) strengthening selective features of macroeconomic management within the framework agreed under the 1992/93 Policy Framework Paper.

65. **Project Description.** The Credit would support institutional capacity building to begin implementation of a public sector restructuring program. The estimated total cost of the Government's program is US$ 45.7 million, of which this IDA credit would provide US$ 34.9 million. The main components of the project, with estimated costs, (excluding contingencies) are as follows:

Privatisation and PE Reform (US$25.2 million)

Strengthen the Parastatal Sector Reform Commission (PSRC), to facilitate its coordination and implementation of the privatisation program. Develop policy and perform tasks in such areas as legislation, divestiture planning, debt settlement, asset valuation, ownership instruments,labor redeployment and safety net schemes, with the overall objective of effecting privatisation transactions. Also, the credit would assist the PSRC, and through it the Ministry of Industries and Trade, (MOI) and the Ministry of Agriculture (MOA),

with parastatal restructuring, including preparation and implementation of performance contracts for upgrading the results from key retained PEs. Also, as part of these reform efforts the project would strengthen the Loans and Advances Realisation Trust (LART) to facilitate the process of liquidation of non performing assets.

Civil Service Reform (US$15.3 million)

Support to the Civil Service Department (CSD) and implementation task forces under its direction for the refinement and implementation of a civil service strategy and time bound action plan, that includes retrenchment, redeployment, pay reform, personnel management and control. Support to the Planning Commission as the lead organisation (working closely with CSD) for effecting ministerial rationalisation.

Macroeconomic Management (US$2.0 million)

Support to the Planning Commission and Ministry of Finance for improvements to budgetary and financial systems, and general tax reform, including the introduction of VAT by 1994; and assistance for the development of macro economic policy within the SAC framework and its implementation.

Project Management and Coordination (US$0.4 million)

Support to create and assist with the costs of a project office, to be located in the Ministry of Finance, that will act as a secretariat for the project's Steering Committee, and will administer the companion policy operation, PSAC, plus implementation of tasks under this technical assistance credit.

66. To accomplish the project objectives, technical assistance would be provided in the form of (i) resident technical advisors, for which TOR's are agreed; (ii) short term consultancies within all the organizations listed above; and (iii) local and overseas training, which will be provided within the context of agreed yearly work plans. Funding would also be required for vehicles, computers, office equipment and incremental project costs. All counterpart arrangements are already in place, awaiting the appointment of long term advisors.

67. Costs. A breakdown of costs and the financing plan are shown in Schedule A. Amounts and methods of procurement, disbursements and the disbursement schedule are shown in Schedule B. Timing of the key processing events and status of Bank Operations in Tanzania are shown in schedules C and D respectively

68. **Parallel Financing.** Over the last two years there has been considerable donor activity in the areas covered by the Government's program for Parastatal and Public Sector Reform. During preparation of PSAC and the PPRP, IDA and a range of donors including UK-ODA, UNDP, SIDA, NORAD and the Japanese Grant Facility have funded significant activities, particularly related to privatisation and civil service reform. At negotiations UK-ODA agreed to provide up to US$7 million towards the cost of financing Government's program. It is expected that the other donors will continue to support Government's program with technical assistance for required activities which will complement and enhance the project objectives and the current financing.

69. **Environmental Impact.** The project objectives and implementation will not have any direct impact on the environment. Indirect benefits resulting from improved prioritisation of expenditure may occur in the longer term.

70. **Implementation.** Project Management and Coordination is vested in a project Steering Committee, chaired by the Principal Secretary, Finance. In each of the organizations or departments receiving assistance Government has designated a "component" manager, who will be responsible for the management of IDA's assistance and will act as the main counterpart for supervision activities. These component managers, who serve as members of the Steering Committee will be assisted by a Project Administrator in respect of meeting IDA requirements for the use of funds. Yearly work programs will be agreed and Government will provide IDA with quarterly reports for each part of the project. Regular supervision will be undertaken by IDA, wherever possible in conjunction with the donors who are also providing support. The project will be subject to a formal mid-term review after 24 months (September 1995), to allow for any needed changes in objectives, management or inputs.

71. **Institutional Sustainability.** The PSRC role is expected to evolve from being responsible for management and implementation of privatisation transactions and restructuring to one of overall monitoring of parastatal's performance. Hence the loss of the expert assistance will not be critical and also will be mitigated by the skills transfer program which is an integral element of the assistance. Maintenance of the expected improvements in remaining parastatals will depend in part upon government's continued adherence to its policies with regard to the appointment and supervision of Boards and management and strict adherence to the "hard budget controls" on parastatal financing. Continued monitoring of financial results and speedy remedial actions against poor management will be required to ensure that parastatals do not distort the improving environment for the private sector. The LART was created for the purpose of handling non performing assets and once its work program has been completed its role will be terminated. For the civil service component, the technical aspects of assistance are less critical, and once the elements of the program have been put in place sustainability of the reform is primarily a matter of Government commitment, careful planning and pacing at a level that is commensurate with acceptability of difficult social actions. For fiscal improvement, sustainability will depend upon the expertise of the training provided and the ability of the resident advisors to impart appropriate knowledge to counterparts, while at the same time continuing to provide advice and guidance to keep the program on track.

72. **Applied Lessons from Previous Project Experience.** The preparations for this project have built upon extensive and wide ranging preparatory work with a group of Government officials who will now be actively involved in the implementation of agreed policies. Moreover, background studies and the use of seminars have assisted in inculcating Government with a more urgent need for change than has been evident in the past. However, even with the application of these approaches, frequent supervision of the project's progress will be needed to ensure that difficulties are not left to undermine the new resolve of Government in the areas covered by the Credit. Also, project design has taken account of the fact that the Ministries and agencies involved do not have prior experience in managing IDA TA projects, and a detailed implementation manual has been developed to ensure appropriate and timely processing of the project. Past experience in other East African countries suggests that the combination of a "simple framework", frequent supervision and a detailed implementation manual should provide a sound basis for the use of project funds and the achievement of detailed objectives. Additionally, the management of this project will be under a Steering Committee, chaired by the Principal Secretary of Finance, and will be composed of the same people for both operations.

73. **Rationale for IDA Support and Linkages to the Country Assistance Strategy.** IDA has played a central role in design and implementation of the reform program in Tanzania, including support to the public sector reforms, which involve significant policy reorientation. The PPRP is essential to the success of PSAC, which is the centerpiece of the current work within the overall adjustment program. Moreover, PPRP will also provide assistance with upstream work for areas that will be important to the forthcoming SAC. Public sector restructuring is also linked to recovery of private enterprise and to recovery of the financial sector, through rehabilitation of PEs which are major commercial bank clients; both are areas in which IDA is closely involved. IDA's continued support, along with a number of multilateral and bilateral donors, is critical to successful reform.

74. **Agreed Actions.** At negotiations Government agreed to the following conditions: For (a) Conditions of Effectiveness, the Credit will become effective upon (i) deposit of Government's first quarterly contribution, equivalent to US$190,000, to its project accounts; (ii) appointment of the project administrator; and (iii) completion of an agency arrangement for the procurement of equipment. For (b) Conditions of Disbursement: (i) under the Parastatal Reform Component, for PSRC, the appointment of the core team of experts; for LART, the appointment of a Residential Advisor to the Chief Administrator; (ii) for the VAT/Taxation element of the Macro Management Component, agreement with IDA on a timebound action plan and detailed resource needs. Also, (c) Government has agreed to the use of Dated Covenants to cover the hiring of expert assistance in the area of Civil Service Reform. (d) Other actions/areas agreed as general conditions were for: (i) the production of annual work programs; (ii) Government's financial contribution to the project and procedures for accessing funds; (iii) the TOR and use of a mid term project review; and (iv) access to and use of the funds for preparation of SAC, and (v) the use of the same Steering Committee to oversee PSAC and PPRP, under the Chairmanship of the Principal Secretary Ministry of Finance.

75. **Program Objective Categories.** The program is directly supportive of Government's overall adjustment program and specific policies and targets agreed under PSAC. It includes technical assistance for institution and capacity building (categorized as institutional development assistance), through provision of training, consultant services and support for the design of new processes and systems, plus implementation. Successful implementation of the project should have a beneficial effect on poverty issues, as a result of improved management and resources for the budget, and greater access to credit facilities for the private sector, following improvements in the PE sector.

76. **Benefits and Risks.** The institution building supported by the Credit is expected to have a positive medium-term impact on the allocation of resources between the public and private sector, as a result of privatisations, liquidations and improved performance by retained PE's; it should assist with the process of reducing and rationalising public expenditure; and increasing revenue intake. The results from these improvements will contribute to higher growth policies, consistent with an improved current account balance. In the longer term, poverty reduction should be assisted through increased employment in response to expanded activity and improved social service delivery as a result of improved public expenditure and the reform of the civil service.

77. A major risk to the value and rationale for the project would occur if the Policy Program agreed under PSAC were not to be implemented appropriately. From a financial perspective this risk has been safeguarded through the use of covenants for agreed work plans and is further safeguarded through Government's use of the same Steering Committee for both Credits. The methods and techniques to be

employed in privatisation and in reform of the civil service may cause social unrest and personal loss to particular interest groups in central and local Government. Open opposition would retard the development of the required institutional structures and associated skills (and slow down the public sector reforms as a whole). This could lead to possible reversals of even the current improvements in the business environment and in the delivery of services. Management of these risks would be through inter alia consensus-building resulting from study tours and addressing forthrightly key concerns (e.g. ownership concentration and redundancy) and through carefully designed TA support that uses local expertise where possible, and a strong and open communications policy from Government.

78. **Recommendation**. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve the proposed credit.

Lewis T.Preston
President

Attachments
Washington DC
May 7, 1993.

Project Costs and Financing Plan
(US$ Million)

A. Cost Table

	Local	Foreign	Total
PRIVATIZATION AND PE REFORM			
PSRC			
♦ Privatisation	3.892	9.439	13.331
♦ P.E. Restructuring/Reform	2.594	6.293	8.887
LART			
♦ Liquidations	1.718	1.310	3.028
Subtotal	8.204	17.042	25.246
CIVIL SERVICE REFORM			
CSD			
♦ Administration Unit	0.133	0.485	0.618
♦ Retrenchment/Redeployment	1.267	2.934	4.201
♦ Personnel Management & Control	0.775	4.925	5.700
♦ Pay Reform	0.690	1.180	1.870
PC			
♦ Ministerial Re-organization	0.936	1.963	2.899
Subtotal	3.801	11.487	15.288
MACROECONOMIC MANAGEMENT			
MOF			
♦ Tax Administration	0.150	0.850	1.000
♦ Preparation Activities for SAC	0.300	0.700	1.000
Subtotal	0.450	1.550	2.000
PROJECT IMPLEMENTATION			
♦ Management/Coordination	0.240	0.110	0.350
CONTINGENCIES	0.400	2.410	2.810
Total Project Costs	13.095	32.599	45.694

B. Financing Plan

Proposed Project Financing
(US$ Million)

Source of Funds	Local	Foreign	Total
IDA	8.720	26.174	34.894
Government	3.800	-	3.800
UK ODA	0.575	6.425	7.000
Total	13.095	32.599	45.694
Estimated Costs			
Technical Assistance	6.623	26.935	33.558
Training	2.047	1.580	3.627
Computers/Office Equipment/Vehicles	-	1.674	1.674
Incremental Operating Costs	4.025	-	4.025
Contingencies	0.400	2.410	2.810
Total	13.095	32.599	45.694

Summary of Proposed Procurement Arrangements
(US$ million equivalent)

	Procurement Method				
Project Element	**ICB**	**LCB**	**Other**	**NBF**	**Total Cost**
Goods					
Computers/Office Equipment	(1.093) 1.093	(0.150) 0.150	(0.200) 0.200	-	(1.443) 1.443
Vehicles	(0.516) 0.516	(0.050) 0.050	-	-	(0.566) 0.566
Consultancies					
Technical Assistance			(29.158) 29.158	- 6.500	(29.158) 35.658
Training			(3.502) 3.502	0.500	(3.502) 4.002
Miscellaneous					
Incremental Operating Costs			(0.408) 0.408	- 3.800	(0.225) 4.025
Totals	**(1.609)** **1.609**	**(0.200)** **0.200**	**(33.085)** **33.085**	**-** **10.800**	**(34.894)** **45.694**

a. Amounts in parenthesis are the respective amounts financed by IDA.
b. Amounts without parentheses are totals.
c. Technical Assistance and Training will be procured in accordance with IDA guidelines.
d. NBF UK-ODA will follow their procedure

Disbursements of Credit Proceeds

Category	Amount of Credit Allocated (US$ million)	Disbursement Percentages
1. Computers/Office Equipment/Vehicles	1.674	100 foreign & local
2. Technical Assistance/Training	30.885	100 foreign & local
3. Incremental Operating Costs	0.225	100 foreign 25 of local
4. PPF Refinancing	1.000	100 foreign & local
5. Unallocated	1.110	-
TOTAL	34.894	

Estimate Disbursements: IDA (FY) US$ Million

	1994	1995	1996	1997	1998	1999
Annual	5.5	7.5	8.5	6.5	4.0	2.9
Cumulative	5.5	13.0	21.5	28.0	32.0	34.9

Schedule C

Timetable of Key Project Processing Events

a.	Time taken to prepare	:	7 months
b.	Prepared by	:	IDA staff in consultation with Government
c.	First IDA mission	:	September 1992
d.	Appraisal departure	:	January 1993
e.	Negotiations	:	April 1993
f.	Planned date of Effectiveness	:	July 1993
g.	List of Relevant PCR's	:	None Applicable

Key staff involved in the preparation of this project were as follows:

I. Knapp (Task Manager, AF2PE); D. A. Phillips (Task Manager PSAC, AF6IE: Parastatal Component); B. Shaw (Task Manager SAC, AF2CO: Macro Management Component); Ms. N. Agrawal (Economist, AF2CO: Civil Service Component); L. Adamolekun (AFTCB: Civil Service Component); K. Kiragu (Consultant: Redundancy and Safety Net Issues). M. Stevens (OPRPG, acted as the peer reviewer). Assistance was also received from Resident Mission Staff; M. Konishi, R. Southworth, D. Manns. Processing assistance was provided by Ms. H. Jarik. The Sector Division Chief and the Country Director are R. E. Hindle, and F. X. Colaço respectively.

STATUS OF BANK GROUP OPERATIONS IN TANZANIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS
(as of March 30, 1993)

Loan or Credit No.	Fiscal Year	Borrower	Purpose	US$ Million Amount (Less Cancellations) Bank	IDA	Undis-bursed
Nineteen (19) Loans and sixty six (66) Credits fully disbursed, of which SECALS, SALs and Program Loans/Credits: a/				313.06	931.37	
Cr. 11330	1981	Tanzania	Export Rehab.		50.00	0.00
Cr. A0240	1987	Tanzania	Multi-Sec. RH I		46.20	0.00
Cr. 17410	1987	Tanzania	Multi-Sec. RH I		50.00	0.00
Cr. A0241	1988	Tanzania	Multi-Sec. RH I		26.00	0.00
Cr. 17411	1988	Tanzania	Multi-Sec. RH I		30.00	0.00
Cr. 19691	1989	Tanzania	Ind. & Trade Adjus. Cr.		12.50	0.00
Cr. 19692	1990	Tanzania	Ind. & Trade Adjus. Cr.		10.30	0.00
Cr. 21161	1991	Tanzania	Agric. Adjustment		16.10	0.00
Cr. 21162	1992	Tanzania	Agric. Adjustment		11.30	0.00
					252.40	0.00
Cr. 10150	1980	Tanzania	Grain Storage & Mill		43.00	1.36
Cr. 15360	1985	Tanzania	Ports Rehab.		27.00	0.20
Cr. 16040	1985	Tanzania	Petro Sector T.A.		8.00	2.59
Cr. 16870	1986	Tanzania	Power Rehab./Energy		40.00	1.69
Cr. 16880	1986	Tanzania	Roads Rehab.		50.00	8.29
Cr. 18910	1988	Tanzania	Agr. Exports Reh. I		30.00	19.66
Cr. 19690 b/	1989	Tanzania	Ind. & Trade Adjus. Cr.		135.00	6.03
Cr. 19700	1989	Tanzania	Nat'l. Ag. & Liv. Res.		8.30	6.83
Cr. 19940	1989	Tanzania	Agric. Ext.		18.40	10.66
Cr. 20500	1989	Tanzania	Tree Crops		25.10	15.98
Cr. 20950	1990	Tanzania	Ports Modernization		37.00	36.45
Cr. 20980	1990	Tanzania	Health & Nutrition		47.60	45.67
Cr. 21160 b/	1990	Tanzania	Agric. Adjustment		200.00	9.34
Cr. 21370	1990	Tanzania	Educ. Planning & Rehab.		38.30	32.30
Cr. 21490	1990	Tanzania	Roads I		180.40	154.70
Cr. 22020	1991	Tanzania	Petrol Rehab		44.00	46.78
Cr. 22670	1991	Tanzania	Railways Restructuring		76.00	72.56
Cr. 22910	1992	Tanzania	Urban Sector Eng.		11.20	9.54
Cr. 23080 b/	1992	Tanzania	Fin. Sector		200.00	112.90
Cr. 23300	1992	Tanzania	Engineering Credit		10.00	6.15
Cr. 23350	1992	Tanzania	Forest Resources Man		18.30	17.34
Cr. 23081 b/	1993	Tanzania	Financial Sector		11.32	11.34
Cr. 24130	1993	Tanzania	Financial & Legal Ma		20.00	19.11
		Total		313.06	2210.29	647.47
		of which repaid		210.85	55.72	
		Total held by Bank & IDA		102.21	2154.57	
		TOTAL Undisbursed				647.47

a/ Approved after FY80.
b/ SAL, SECAL or Program Loan/Credit.
04-13-93

B. STATEMENT OF IFC INVESTMENTS IN TANZANIA

(As of March 30, 1993)

Fiscal Year	Obligor	Type of Business	Amount in US$ Million		
			Loan	Equity	Total
1985	Amboni	Agricultural and Livestock Prod.	5.36	0.00	5.36
1978	Highland Soap	Mfg. of Soap & Cleaning Prep	1.38	0.37	1.75
1960,	Kilombero	Mfg. of Food Beverages & Tobacco	3.50	0.00	3.50
1964			4.37	0.70	5.07
1979	Metal Products	Mfg. of Fabric Metal Products	1.33	0.18	1.51
1991	Mufindi Tea	Beverage Industries	2.80	0.00	2.80
1990	Tasco	Spinning Weaving & Finishing	2.00	0.00	2.00
	Total Gross Commitments		20.74	1.25	21.99
	Less: repayments, cancellations, exchange adjustments, writeoffs, terminations and sales		13.77	1.25	15.02
	Total Commitments now held by IFC		6.97	0.00	6.97
	Total Undisbursed		1.87	0.00	1.87
	Total Outstanding IFC		5.10	0.00	5.10

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DISBURSEMENT ISSUES

1. IDA's portfolio in Tanzania at the end of March 1993 consisted of 23 projects (investment plus adjustment) for a total commitment of US$ 1.2 billion, of which US$ 647 million was undisbursed. Of the total committed, US$ 677 million was for 19 investment operations, corresponding to US$508 million undisbursed.During FY92 only US$47.7 million was distributed on such projects, which corresponds to a disbursement factor of only 9.5 (ratio of disbursements to net commitments at the beginning of the FY). One reason for the slow disbursement of investment projects is the relatively young age structure of the portfolio. Of the 19 investment projects, 9 were approved in FY 89 or earlier and have an undisbursed amount of US$ 67 million. Since FY 90 another ten have been approved and have an undisbursed amount of US$ 441 million. The main reason for the slow disbursement, however, is the limited domestic capacity. This is also the main cause of the slow disbursement of import support funds through the adjustment operations.

2. Limited domestic capacity has been a major constraint across sectors and the proposed Public Sector Adjustment Credit is intended to address inter alia issues of civil service reform, which should lead to increased efficiency of the civil service. In addition, an agriculture sector management project to reinforce the sector's capabilities is being prepared; and supervision of the projects in the PHR sector has been intensified.

3. Another issue has been a lack of counterpart funding due to severe budget constraints. This issue will require greater prioritization of public expenditures under the rolling expenditure framework, improved financial management capabilities (to be developed under the recently approved Financial and Legal Management Upgrading project (Credit 24130-TA)) and better revenue generation through tax reform, also being supported by IDA.

4. A Country Implementation Review (CIR) is planned for mid 1993 to review the above issues and others of relevance to improved implementation of the Tanzania portfolio.

TECHNICAL ANNEX

THE UNITED REPUBLIC OF TANZANIA

PARASTATAL AND PUBLIC SECTOR REFORM PROJECT

Technical Annex

Table of Contents

APPENDICES

1. THE CURRENT SITUATION

A. Policy Framework:

1.1. Beginning with the Economic Recovery Program of 1986, a wide range of reforms have been undertaken. The initial focus was on macroeconomic stabilization and restoration of the price mechanism though price and distribution decontrol, exchange depreciation and liberalized imports. This was followed by sectoral adjustments in agriculture and finance, supported respectively by the Tanzania Agricultural Adjustment Program (TANAA, FY 90) and the Financial Sector Adjustment Credit (FSAC, FY 92). More recently, a central theme of reforms has been the move towards a market-based exchange rate.

1.2. These reforms have induced an economic recovery with an annual GNP growth rate of 4 percent between 1986 and 1991. However, this recovery has fallen far short of Tanzania's potential and its sustainability remains precarious. The continuing concern over the state of the economy is driven primarily by three issues which are regarded as major impediments to sustainable growth: (i) a fiscal drain, caused by the inefficient and financially distressed parastatal sector; (ii) an overstaffed civil service sector, with deteriorating levels of public services; and (iii) poor economic management due to Government's weak administrative capacity.

1.3. In this context, Government has decided to shift its focus towards public sector reform, with a view to easing the fiscal burden and enhancing its capacity to manage economic reform. IDA is assisting Government in this area through the preparation of the Public Sector Adjustment Credit (PSAC), which is expected to be presented to the Board in the near future. The Parastatal and Public Sector Reform Project (PPRP) is a parallel and complementary operation to provide needed technical assistance for PSAC and longer term capacity building needs, which are to be further assisted under a planned Structural Adjustment Credit (SAC).

B. Institutional Framework

1.4. Under the past economic policy, the managerial capabilities of the Government were seriously eroded. After the Arusha Declaration of 1967, Government regarded the public sector as an engine of growth and expanded its size and role in the economy. These expansions overstretched managerial talent, which had been scarce to begin with, thus putting the whole public sector under severe strain and causing its malfunctioning and near collapse.

1.5. Unfortunately, the current reforms are adding more burdens to the already distressed public sector. As the move towards a market-based economy is taking place, the role of the Government needs to be substantially changed from one of direct involvement in the economy to that of indirect and impartial supervision. However, the change also demands

that Government acquire a new set of institutional skills and expertise in order to ensure effective steering of the economy. In addressing the parastatal sector this needed expertise covers such areas as asset evaluation, corporate legislation, and financial engineering; for Civil Service Reform, Government lacks the skills associated with assessing and implementing ministerial rationalization and for working out appropriate approaches to issues of retrenchment and redundancy; on the macro economic management side, skills associated with planning and budgeting, taxation methodologies and the preparation and presentation of important statistical data eg national accounts, are far short of what is required if Government is to achieve the benefits of its announced policies.

C. Rationale for IDA involvement

1.6. IDA has played a central role in design and implementation of the reform program in Tanzania, including support to the public sector reforms, which involve significant policy reorientation. The PPRP is essential to the success of PSAC, which is the centerpiece of this stage of the adjustment program. Moreover, it will also provide assistance with upstream work for areas that will be important to the forthcoming SAC. Public sector restructuring is also linked to recovery of private enterprise and to recovery of the financial sector, through rehabilitation of PEs which are major bank clients; both are areas in which IDA is closely involved. Thus, IDA's continued support, along with a number of multilateral and bilateral donors is critical to a successful reform program.

D. Past Experience and the Project Approach.

1.7. The approach to design and implementation of the proposed project has as a key objective strengthening self- reliance. To assist in this objective significant upstream work has already been undertaken by Government, particularly in the creation of various bodies and committees to manage the parastatal reform component and to oversee the reform of the civil service. These groups will now be responsible for the implementation actions required under the agreed policy framework, as described in Government's letter on Public Sector Reform Policy, which has been received as part of the PSAC operation. However, while the overall management structure for the program has been created, specific implementation skills are in short supply. Detailed discussions during the preparation of this project covering what is to be done and by whom will help to overcome past difficulties associated with the use of technical assistance. Moreover, because of the expected intensive use of technical assistance personnel, Government and IDA have agreed that there will be a formal review of project implementation, after two years. This will ensure that any difficulties over the type of personnel being used, the availability of counterparts, the transfer of skills, the modalities for the use of technical assistance and the pace of implementation are quickly addressed. The project design has also incorporated an emphasis on organizational structures, clear responsibilities, agreed work programs and timetables as a directed attempt to ensure an enabling environment where policy can be turned into action and new skills are acquired, used and reinforced.

E. Linkages with other IDA and Donor Supported Operations

1.8. The proposed technical assistance credit is designed to support the Government reform programs in conjunction with the proposed PSAC operation. While PSAC will focus on policy reform, the PPRP will concentrate on institutional capacity building and skills transfer to ensure effective implementation of the reform programs through the provision of technical assistance to key functions of core agencies and ministries. Project preparation activities have been partially financed by a Japanese Technical Assistance Grant, for which IDA acts as administrator, the UK-ODA and an IDA project preparation facility. Also, many donors including UNDP, SIDA, and NORAD have been involved with supporting the reform program. These donor activities, particularly in the areas of technical assistance for parastatal and civil service reform will be closely coordinated under the Project.

F. Classification of Technical Assistance

1.9. The assistance required under all three project components includes policy and implementation support, (substitute TA). This type of assistance will further facilitate phases of the policy cycle for policy based lending and the country's economic and sector work. Additionally, since the advisors and consultants TORs stress skill development and training, (in addition to the achievement of stated concrete objectives), the assistance is oriented to Institutional Development at the five core organizations, the Presidential Parastatal Sector Reform Commission (PSRC), the Loans and Advances Realization Trust (LART), the Ministry of Finance (MOF), the Planning Commission, (PC) and the Civil Service Department (CSD).

2. PROJECT COMPONENTS

A. PARASTATAL REFORM (US$ 25.2 million)

(i) Overview:

2.1. From 1967 onward the parastatal sector was expanded and positioned to take on a leading role in economic development. By 1990 the number of commercial parastatal enterprises had reached approximately 290 and their effect upon the formal economy in terms of the share of formal employment, value added and the use of financial resources was considerable. However, in contradiction to its assigned role, the sector has been largely inefficient and financially distressed and has been kept viable only by Government's direct and indirect support.

2.2. Reform efforts undertaken so far have not produced significant outcomes. In parallel with macroeconomic measures, various attempts were made to improve efficiency through better supervisory structures and retrenchment. Also, some divestiture transactions have been initiated by line ministries on an ad hoc basis. Nonetheless, progress in both restructuring and divestiture has been slow and sporadic, and the fiscal drain on the budget has continued.

2.3. Faced with the deteriorating situation, the Government made clear its intentions for reform of all commercial parastatal enterprises in its Policy Statement of January 1992. (See Appendix I). This statement was followed by the creation of a Parastatal Sector Reform Commission (PSRC), whose role is to coordinate and implement divestiture arrangements and oversee restructuring and improved performance of retained parastatal enterprises.(See Appendix II). Complementing the PSRC, the Ministry of Industry agreed to set up a Parastatal Monitoring and Restructuring Unit (PMRU). Also, as part of efforts to assist the financial sector which has been the primary lender to the parastatal sector, and as an integral element of the parastatal reform program, Government created the Loans and Advances Realisation Trust, (LART) with the objective of liquidating non performing assets held on the bank's books.

2.4. With the generally favorable political environment described above, technical issues are now considered as major obstacles to effective divestiture, liquidation and needed restructuring/performance improvements. Key issues include: debt clearance, asset valuation, liquidation processes and procedures, ownership structure, labor redundancy and management efficiency and accountability. With IDA and other donor support, significant preliminary studies have been conducted to investigate implications of and possible recommendations for these unsolved issues. Under the PSAC operation a detailed time bound plan for achievement of numeric targets in the areas of divestiture, liquidation and managerial restructuring has been negotiated. Still, much work remains in order to implement a coherent and detailed divestiture and liquidation plan, incorporating feasible solutions to these issues. In addition, divestiture and liquidation processing requires specialized skills and expertise that are not readily available in Tanzania: financial engineering, asset valuation and corporate restructuring among other things. Without support in these and other technical areas Government will not be able to assure speedy, transparent, and accountable divestiture liquidation and restructuring transactions.

2.5 Indigenous Ownership: Of the many constraints to privatization and reform that government must deal with in the proposed program, indigenous ownership presents particular difficulties. Under ideal circumstances the sale of parastatals would be made to Tanzanian business people or groups; however, the reality is that the private sector is not sufficiently developed, either financially or managerially, to be able to take up this opportunity, except in a few limited cases. Recognizing this situation various financial modalities proposed under preparation studies are being considered by Government. It is envisaged that in the short term an innovative form of unit trust arrangement, that could operate without need for a stock market, might be utilized to ensure at least a minimum level of local participation. In the longer term, the possibility of a stock market arrangement will be considered.

2.6 Asset Valuation: A further important area involved in finalizing any agreement for privatization concerns the value of assets being acquired. Parastatal accounts do not include a value for land. There are many cases where the market value of the land exceeds the net book value of the assets being acquired, and even beyond the question of value are issues of land title. Decisions will be needed, both at the policy level and for individual transactions on how to overcome these difficulties.

2.7 Performance Contracts: For those parastatals which will remain under Government control and majority ownership in the longer term there will be need to ensure that performance is substantially improved. One of the approaches to be adopted will involve the use of performance contracts. While this is not an entirely new approach for Government, having been used in the utility area, the widespread introduction of this modality will require significant changes to the way that key sector ministries interact with companies placed under these arrangements. Even the process for arriving at mutually agreed targets to be contained within the contracts will be difficult, due to lack of prior experience.

2.8 Labor Redundancy: In the last two years there has been a gradual attrition of labor from the parastatals as a result of the more difficult economic situation. However, under a formalized program of privatization, closure, and performance contracts it is likely that labor will be shed in more significant numbers. Since this will occur at the same time as Government is reducing the size of the Civil Service special steps will be needed to ensure appropriate safety nets are put in place. The design of the needed programs, harmonized with actions for civil servants, and appropriate funding for and implementation of the programs need to be finalized.

(ii) **Component Objectives and Description**

2.9 The objectives of this component of the proposed project are twofold: (i) to support privatization, liquidation and restructuring processes by providing technical assistance to key functions of the administration; (ii) to assist the Government to improve its institutional capacity in the medium-to-long term, and effectively transform its role in the parastatal sector to that of an impartial facilitator within a market-based economy.

2.10 The proposed project would (a) strengthen the institutional capabilities of the LART and PSRC, and through the PSRC, core ministries involved with parastatals, eg, the Ministry of Industries and Trade (MOI), and the Ministry of Agriculture (MOA), by the provision of assistance in the form of consultancy, training, and equipment and incremental operating costs, with the objective of effecting privatization transactions and

restructurings/performance improvements over a period of five years; (b) enhance the coordination between line ministries and agencies relating to the transformation of the ministries roles in relation to parastatal management, through the provision of consultancy and training in the areas of expertise deemed necessary by the PSRC; (c) provide support for decision making in regard to privatization and liquidation for specific companies/non performing assets, through detailed assessments of outstanding issues and also for the introduction of performance contracts; (d) strengthen the consensus and commitment for divestiture, liquidation and restructuring by financing a comprehensive program of training, seminars and workshops for Government officials in related matters.

(iii) Agreements Reached

2.11 At negotiations Government and IDA agreed on a detailed package of technical assistance, covering a five year period, including the use of a long term core team, and specialist short term consultancies for the resolution of specific issues within individual privatization and restructuring efforts. The appointment of the core team of specialists at PSRC was agreed as a Condition of Disbursement for this element of the component. The appointment of a Resident Advisor to assist the Chief Administrator of LART was agreed as a Condition of Disbursement for assistance to LART. Detailed TORs, work plans and budgets are shown in Appendix II(a)-(f).

B. CIVIL SERVICE REFORM (US$15.3 million)

(i) Overview

2.8. Under the policy adopted after the Arusha Declaration of 1967, the civil service sector was expanded to assume larger responsibilities for economic management as well as to provide the population better social services and wider employment opportunities. Instead of accomplishing these objectives, the expansion has ultimately led to a bloated and inefficient civil service sector - in itself an impediment to reforms and growth. Its sheer size has generated a large budgetary drain which has put fiscal policy under severe strain; its inefficiency, which stems primarily from low morale among staff due to a complicated nontransparent approach to remuneration and unclear line of responsibilities, has been a major impediment to reforms and appropriate economic management.

2.9. Faced with these problems, Government decided to embark on a civil service reform program whose major components include (i) retrenchment and redeployment; (ii) personnel management and control; (iii) pay reform; and (iv) organization and efficiency reforms. The key policy elements of the program are contained in the agreed Strategy Statement on Civil Service Reform, which will be supported initially by PSAC and then by a proposed follow-up operation (SAC).

2.10. Some steps have already been taken to implement the program through creation of a Steering Committee of Principal Secretaries and a Technical Coordinating Committee, that includes local donor representation. More recently Government added a Redeployment and Retrenchment Task Force and a Pay Committee to its overall management framework for the program, under the direction of the Steering Committee. Within this general framework Government has already taken a number of policy decisions, based on studies funded by donors, including UNDP, and UK-ODA.

2.11 Retrenchment and Redeployment: in the Budget Speech, Government announced its intention to retrench up to 50,000 civil servants who have been found redundant as part of studies on manning levels. For the first phase of 10,000 civil servants to be retrenched during 1992/93, provisions were made in the 1992/93 budget; the remaining 40,000 will be retrenched over the next two years, depending upon availability of Government's own resources and the possibility of donor funding for retrenchment packages. As of April 1 1993 Government had removed 2,123 from the payroll and was working on the program to identify and retrench the remaining 7,877 within the budget limits, according to the "Last in, First out" (LIFO) criteria. A formula for retrenchment packages has been agreed which provides each retrenchee with an ex-gratia payment based on length of service, up to a maximum of ten years. Assuming that every retrenchee had the maximum service, the maximum cost of retrenching the 50,000 would be TShs 25 billion. However, in reality, many of the retrenchees will have less service, as a result of using the "LIFO" criteria and the likely cost of the first 10,000 is between 2.5-3.0 billion shillings, with further reductions in cost anticipated for the remaining 40,000. Government is determined that in addition to the severance payments there should also be some form of "safety net" for the retrenched employees. Hence the PPRP will provide funding for the design and implementation of an initial "safety net" scheme, comprising three parts: (i) an information, education and communication program, focussing on alternative employment and training opportunities, for all retrenchees; (ii) some financial counselling for all retrenchees; (iii) training on entrepreneurial/business development for a select, smaller group. The safety net program will also draw from and complement other schemes currently under implementation by ILO and USAID.

2.12 Personnel Control and Computer Systems: a hiring freeze was announced on July 1, 1992. This was followed by a Presidential Circular requiring all further employment to be authorized by the Chief Secretary's office. Other measures taken to date include: (i) removing the powers of the decentralized Special Committees on Employment, who were responsible for the selection, recruitment, promotion and transfer of staffs in grades to GS2; and (ii) reducing the scope of work of the national High Level Manpower Allocations Committee. The effect of these measures has been to bring all hiring to a virtual stop, with any exceptions being reviewed and decided centrally. Beyond these changes in powers, the Civil Service Department also identified some 6,000 plus individuals who are past retirement age. Work has been completed on terminating the employment of these individuals and removing their names from the payroll lists. Further work in the area of personnel control and management to ensure non re-employment of retrenchees and strict budgetary control over employment will be facilitated with assistance from UK-ODA, who have already completed an initial assessment of needed technical assistance for this area. The overall program of assistance includes provisions for a management audit unit and development of a computerised management information system, with specific attention being given to development of an all inclusive employment data basis, linked to systems of payment and personnel records.

2.13. Pay Reform: Government has completed an initial study on the current difficulties of its wage and payment approach. While the ideal approach to these difficulties would be the design and introduction of an adequate but affordable salary structure, that is both transparent and equitable, this will not be possible in one single change. The current scheme for remuneration includes many areas of difficulty and complexity that need to be corrected and hence a phased approach to will be needed. Thus, the PPRP will provide support to Government's Pay Committee to design and implement an evolving and

incremental approach, that over a period of four to five years, will produce the required payment and remuneration system. The first area to be tackled covers the rationalisation and monetisation of benefits. Once this is complete, as part of the efficiency efforts (see below) the Service will be subject to a regrading exercise, with the results being integrated within a redefined pay scale, that will be constructed to take account of appropriate salary ranges and compression ratios.

2.14. Ministerial Efficiency reforms: Government has realized that significant inefficiencies arise due to weaknesses in the organizational structures and management systems within ministries, and also because of poor communications within and across ministries and departments. Additionally, with the changing role of Government and withdrawal from production activities many functions may no longer be needed. These inefficiencies will not be corrected merely through actions on staffing numbers and pay. Hence, it is Government's intention to rationalize the roles of ministries, create better functional relationships, and introduce improved personnel management techniques, that underpinned by better pay and more appropriate staffing levels will achieve effectiveness and improved efficiency in the conduct of Government work. The initial stage will be to conduct a preliminary study across all ministries, with the objective of identifying areas of redundancy and overlap that can be rectified in the short term. Once this is completed the first year work program calls for the Planning Commission, in close collaboration with CSD, to lead a detailed study of the central agencies, (Finance, Planning and CSD) and the three largest spending ministries. The remaining ministries will be completed in the following two years. The Planning Commission as the lead agency will also use this work program to help with the introduction of the Rolling Plan and Forward Budget. As a further feature of this work program UNDP is expected to fund management and skills training to selected areas and levels to assist with the needed improvements.

(ii) Component Objectives and Description

2.15. The proposed Project is expected to achieve the following two overall objectives: (i) to raise Government's administrative and technical capacity to a level necessary for successful implementation of civil service reform over a five year period, with ongoing sustainability of technical expertise, and (ii) to support four key program activities within the reform program. These two objectives will be accomplished within a framework of ensuring continued commitment for the reform among Government officials and civil servants, and presentation of a positive positioning for the difficult retrenchment phases to the general populace .

2.16. The Project would provide support to the Civil Service Department in the President's Office which is the main implementation arm for the various committees managing the program of reform, and to the Planning Commission. This program aims to accomplish: (a) retrenchment of, (and appropriate deployment programs for), 50,000 staff over a period of 3 years, and possibly more staff, as a result of the rationalization studies; (b) introduction of new processes and procedures that will strengthen personnel and management control across the Service; (c) an improved and rationalized salary and benefits approach; and (d) restructuring (and possible downsizing) of ministries and other agencies, which will help operationalise a new definition of Government's role within the economy, based on the recommendations to be derived from the strategic and organizational reviews, and introduction by the Planning Commission of the Rolling Plan and Forward Budget. Planned assistance includes:

- support of the retrenchment and redeployment task forces, that will implement retrenchments and coordinate establishment of redeployment measures which include training courses, information centers, and other schemes, through the provision of technical assistance, equipment.

- support to the personnel management and control task force in order for them to implement new systems of control for the hiring, promotion, transfer, discipline, and payment, within a framework of strengthened personnel management that includes appropriate attention to training and skill needs to reinforce the new organization structures.

- support to the pay committee to help with the design and gradual introduction of a new salary structure across re-evaluated positions and cadres, through technical assistance, equipment and financing for incremental operating costs;

- support for ministerial organizational and efficiency reviews and implementation of review findings, in collaboration with introduction of the Rolling Plan and Forward Budget, through use of technical assistance, and equipment.

(iii) Agreements Reached

2.17 The management structure for the component, detailed TORs for the various elements of technical assistance, costs, and the first year work program were agreed at negotiations and are shown in Appendix III(a)-(d). As a Condition of this component of the project, Government also agreed to a dated covenant of September 30,1993 for the appointments of the Chief Resident Advisor and the Chairman of the Retrenchment and Redeployment Task Force.

C. MACROECONOMIC MANAGEMENT

(i) Overview:

2.18. Government's macro economic management system has been strained by systematic failures and lack of compliance with the regulatory framework. In addition, the systems face new challenges as a consequence of the current reforms towards a market-based economy.

2.19. Systematic failures inherent in the management systems involve: (i) the exclusion of some parts of aid flows from the formal budget; (ii) outdated and ineffectual budget classifications; (iii) lack of competent cash management; and (iv) weak monitoring of budget implementation caused by the fragmented oversight responsibilities in the Ministry of Finance and by the delayed and unreliable data included in reports. Lack of compliance with the regulatory framework has been exacerbated by the increasing reliance of the Accounting officers on "escape mechanisms" to maintain the level of services in the context of reduced levels of funding. This has contributed to parallel systems of budgets, special funds and related transactions.

2.20. In light of the overall reform program, the macro economic management framework needs to be restructured to respond to the changing tasks of Government with a view to enhancing its consistency, transparency and efficiency. Consistency between fiscal plans, annual budgets and their implementation is more critical than ever and is a prerequisite for the pursuit of macroeconomic stabilization and the enhancement of growth rates. Transparency and increased effectiveness in resource allocation is an essential element for the implementation of reform programs, particularly for planned retrenchments in the civil service and parastatal enterprises. Also, efficiency of Government needs to be promoted in an effort to optimize resource allocation in support of private sector development.

2.21. Fully aware of these issues, the Government has developed an initial program of reform. The two major components include: (i) Budget and Planning Systems Rehabilitation which also covers the introduction of the "Rolling Plan" framework for the 1993-94 budget;and (ii) Revenue Improvement, which consists of measures to increase aid transparency and to reform the tax structure, including the introduction of a value-added-tax (VAT) by 1994. Also, Government has begun to identify other areas to improve the efficiency of the Public Sector that might be supported under a multi- sectoral Structural Adjustment Credit, (SAC). The likely issues to be included under SAC are:(i) removal of restrictions on agricultural marketing; (ii) introduction of greater competition in the financial sector: (iii) the elimination of regulations which unduly restrict private sector businesses and (iv) next steps under the privatization and civil service reform program, (following completion of PSAC).

2.22. Budget and Planning Rehabilitation: The " Rolling Plan " (RP) concept, which is a system of annual forward planning and budgeting, is planned to be introduced in the 1993-94 budget. Since 1986, there has been a joint Ministry of Finance - SIDA effort, (the Budget Management Development Program [BMDP]) aimed at improving the budget management system. In addition, the Government, with UK-ODA and Bank assistance, has developed a Budgetary Model (BUMOD) for Tanzania. The Rolling Concept will build upon these initiatives to form an integral set of programs and tools to implement the desired reforms in the Budget and Planning Rehabilitation Program. To coordinate the extensive work required for the preparation of the first Rolling Plan and Forward Budget (RPFB) the Ministry of Finance and the Planning Commission have devised an organizational framework and a plan of action. The framework involves a Coordinating Committee at the management level and a Task Force at the technical level. The Coordinating Committee is responsible for advice on the RPFB to the PSM Reform Steering Committee while also providing policy guidance to the Task Force. In addition to the Task Force, three working groups and a Project Profiles Team have been set up to assist in the actual execution of the various components planned under the RPFB. The Macroeconomic Group will provide macro input, including a realistic resource framework for a three year period; the Sectoral Working Group will prepare guidelines to assist sector ministries in the preparation of sector position papers; the Forward Budget Working Group will focus on the forward budget, with special emphasis on rationalization of the Development Budget. The Project Profile Group, supported by UNDP, will compile a set of project profiles, with the aim of producing a core investment program.

2.23. The capacity to introduce the Rolling Plan at the Ministry of Finance, the Planning Commission and the line ministries is a critical issue. The introduction of the concept will require enormous preparatory work, including review of budget classifications and adjustment of accounting systems. Structural constraints, including fragmented

responsibilities and lack of accounting responsibility within the Ministry of Finance are also potential obstacles to the implementation of the RP. Further, there is an excessive diffusion of responsibilities within the Ministry of Finance and location of the accounting responsibility is a major issue, as this task is currently carried out by the Bank of Tanzania. Government's approach to improving these areas will be supported over the next two to three years, most directly through assistance to the Planning Commission. The work program calls for integration of the RP introduction with efforts to achieve ministerial efficiency, through more efficient and effective structures and organisations. UK-ODA will provide specific support to the Planning Commission in this aspect of Ministerial Efficiency reforms.

2.24. Tax Reforms: With the objective of widening the tax base and enhancing revenue collections, the Presidential Tax Commission of Enquiry into Public Expenditures and Taxation has made a number of recommendations. These recommendations include : reduced rates and elimination of tax exemptions for personal income tax as well as corporate income tax; the introduction of a value added tax "VAT"; streamlining of custom duty systems; and clearance of past arrears and compliance with future obligations of Duty Draw Back Schemes. Implementation of these changes will need support as Government has little capacity in the tax area and effective changes require an enormous amount of preparatory work. In particular, the introduction of VAT is expected to be extremely capacity intensive.

2.25 Statistical Department: The Tanzanian Bureau of Statistics (BOS) has been receiving assistance from EUROSTAT and Statistics Sweden to help improve its overall operations. To date the results of the assistance have included improvements in methodology and the use of existing data as a basis for improved production and expenditure estimates, and the increased use of computers. These efforts have enabled the Bureau to establish a conventional framework for the production of National Accounts, using currently available data.

2.26 However, even with these improvements the current levels of expertise and of data coverage render the National Accounts only marginally sufficient for macroeconomic analysis. Existing data on the formal sector of the economy is unreliable as it relies heavily on estimates. For example, agriculture covers about 65 percent of GDP, but since the emphasis is on measuring export crops and a few staples, about 40 percent of agricultural production is measured by proxy indicators, such as population growth. The data currently available is also incomplete as it excludes activities in the parallel economy, which is estimated to be 30 percent of GDP. In summation, National Accounts are subject to wide margins of error and fail to describe the underlying economic reality in an economically useful manner.

2.27 Thus, in the first instance BOS needs to improve its coverage of data collection to a level commensurate with meaningful analysis and policy formulation. As part of this improvement effort it will be necessary to conduct special surveys in order to provide good benchmark data on which estimates can be based. Moreover, in concert with ongoing donor efforts, it will be important for the department to gain a long term perspective as well as establish a new consensus of priority tasks that can provide assistance to the current macroeconomic thrust of reform efforts.

(ii) Component Objectives and Description

2.28. The Macroeconomic Management component of the proposed PPRP has two objectives: (i) to support Government in its current efforts at improving selected aspects of the

macro management system, with an aim of helping to sustain the overall public sector reform programs, through the provision of technical assistance and; (ii) helping Government to begin a number of tasks that are required as part of its preparation work for the planned Structural Adjustment Credit. There are two major groupings of assistance to be provided, covering: (i) the implementation of the proposed VAT reform, and general improvements in the tax regime and implementation approach; and (ii) assistance with emerging aspects of macro economic management pertaining to preparation for the Structural Adjustment Credit, and including the work in the Ministry of Finance on Budget Rehabilitation, and (possibly) selective assistance to the Bureau of Statistics.

2.29 Planned assistance includes: (i) preparation and introduction of VAT, and general improvement in areas of taxation, eg revenue raising performance of customs, through the provision of technical assistance to the Ministry of Finance and the Planning Commission in the form of consultancies, training, and office equipment; and (ii) preparation of a Structural Adjustment Credit, covering studies and the provision of short term consulting assistance. At this stage one element pertains to the Budget Reform exercise. While firm agreement on use of the Credit proceeds for other elements will follow, as the policy dialogue for SAC develops, three currently foreseen areas of assistance include: (i) the design of streamlined systems for the approval of business licenses, trade licenses, and others having a major impact; (ii) reform of the Open General License system to improve the allocation of donor funds, and other measures to ensure continuation of an efficient and open trade and payments system, and (iii) assistance to the Bureau of Statistics in the area of national income accounts.

(iii) Agreements Reached

2.30. At negotiations Government and IDA agreed on the presentation of a final time-bound action plan, acceptable to IDA, to assist with the introduction of VAT, as a Condition of Disbursement for the VAT/tax element. The approach for utilization of funds for preparation of SAC was agreed as a general condition of the credit, and will be in accordance with specific criteria acceptable to IDA.

3. PROJECT ADMINISTRATION AND IMPLEMENTATION

A. Project Implementation

3.1. A two-tier structure will be put in place to ensure effective implementation, coordination, and supervision of the project. Project Implementation will be the responsibility of the ministry or agency which is directly accountable for those components that concentrate on the strengthening of the agency itself; the PSRC will be responsible for the Parastatal Reform; LART will be responsible for liquidations; the Civil Service Department in the Office of the President will take charge of the Civil Service Reform; and the Ministry of Finance/Planning Commission will be in charge of the Macro Management Reform. Each ministry or agency mentioned above has designated a component manager, who will report directly to the head of the ministry or agency on the progress of activities funded under the project. The overall management structure for implementation and supervision of the project is shown in Appendix IV.

3.2 The primary modality used for implementation is a traditional one, involving the use of expertise from outside the Government. This approach is necessary as Government and the country does not have needed expertise or experience, most particularly in the areas of privatization, liquidations, salary and benefit management, computer systems and the selected areas of Macroeconomic Management. Past experience indicates that international expertise is not normally the most effective way to achieve capacity building objectives. Thus, special care will be taken during the formulation of the final TOR's, the evaluation of responses and initial briefings of consultants to ensure that the training aspects are not overlooked in favor of the achievement of quantifiable results. Work programs will contain specific sections covering the training and transfers of skills, and there will be monitorable indicators to ensure that the training is carried out appropriately. At negotiations, government agreed to submit annual work plans for each component to IDA. The development and agreement of these programs will also help to ensure the most appropriate and beneficial use of resources.

B. Overall Coordination and Supervision

3.3 Coordination and supervision of project components will be the responsibility of the Project Steering Committee, which is to be chaired by the Principal Secretary, Ministry of Finance. The Committee will be comprised of representatives from the ministries and agencies receiving assistance under the project. The representatives from PSRC, LART, Civil Service Department, the Ministry of Finance and the Planning Commission will also assume the role of component managers described above. To ensure appropriate complementarity between PPRP and PSAC, at negotiations Government agreed to the use of the same Steering Committee to oversee both operations. In line with ensuring appropriate integration among projects, IDA supervision for PPRP will be undertaken by the Task Managers for PPRP, PSAC, FSAC, and SAC, assisted by the Resident Mission Staff; supervision will also include appropriate donors wherever possible.

C. Project Administration

3.4 A small project office is to be set up in the Ministry of Finance, attached to the Steering Committee, to provide administrative support to the ministries and agencies responsible for the implementation of the Project. The office, which will be supported by the credit, (US$0.4 million) will be headed by a Project Administrator and will be assisted by a small number of support staff. The office's main responsibilities will be to handle administrative aspects of (i) recruitment and employment of resident experts and short term consultants, as requested by the component managers; (ii) procurement of goods; computers, vehicles, office equipment, through liaison with the procurement agency; (iii) management of the special accounts and project accounts, including preparation and presentation of withdrawal and replenishment applications for the credit proceeds; (iv) ensuring the quarterly reports are prepared by the component managers, discussed by the Steering Committee, and then forwarded to IDA; (v) assistance to government's component managers for the preparation of yearly work plans, and (vi) acting as the secretariat to the Steering Committee. The major tasks within each of the Project components where the administrator will be closely involved are shown in Appendix V. Also, to help fulfill its role effectively the Project Office will utilize an Implementation Manual,produced as part of project preparation activities (and to be reviewed and adopted at a project launch workshop) which contains: all agreed procedures; e.g standard letter of invitation package, detailed cost breakdowns; TOR's for studies and consultancies; listings of agreed procurement needs; formats for quarterly reporting, and annual work plans /programs. At negotiations Government agreed that (i) the appointment of a Project Administrator, acceptable to IDA, who would head the day-to-day operation of the project office, and (ii) the completion of an agency agreement, satisfactory to IDA, to facilitate procurement, would be conditions of Credit Effectiveness.

D. Reporting, Monitoring and Accountability

3.5 Reports on project implementation, summarizing progress achieved, difficulties encountered and changes and adjustments to be made would be submitted quarterly by each participating agency to the Chairman of the Steering Committee, through the project office. The Committee would meet at least once a quarter to review progress, make appropriate decisions and assign responsibilities for any needed follow up action. The agenda and the minutes of the meetings would be the responsibility of the project administrator, and would be transmitted to IDA, each quarter, after appropriate internal clearances, to assist with project supervision.

E. Project Reviews

3.6 Given the complexity and potentially contentious nature of some of the project activities, Government agreed at negotiations that a formal mid-term review of the project progress will be held, after 24 months, but not later than September 30,1995. Appendix VII provides the terms of reference for the review.

F. Procurement

3.7 Consultants and experts for technical assistance and training will be selected in accordance with the Bank Group Guidelines for the employment and use of Consultants.(In accordance with new procedures, consulting contracts under US$100,000 will not be subject

to prior review, except for certain stated exceptions). Contracts for computers, vehicles and office equipment will be awarded on the basis of international competitive bidding, in accordance with World Bank Guidelines, and will be facilitated through the use of an acceptable agency arrangement which is a condition of effectiveness of the proposed credit. A listing of the major procurement actions, timing and budgets is shown in Appendix VII.

3.8 Final awards for contracts to be tendered under the agency arrangement will be subject to agreement by the Steering Committee, on a no objection basis, prior to submission to IDA for a "no objection" notification. The threshold for prior review by IDA on equipment, vehicles and office equipment will be US$100,000.

3.9 Local Competitive Bidding (LCB) and local shopping is expected under the project. For LCB, the threshold for items or groups of items for goods estimated to cost the equivalent of US$20,000 or less per contract, is an aggregate amount equivalent to US$200,000. LCB will be awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to IDA. Items or groups of items for goods estimated to cost the equivalent of US$10,000 or less per contract, up to an aggregate amount of US$200,000 may be procured under contracts awarded on the basis of a comparison of price quotations obtained from at least three suppliers.

Disbursements

3.10 The proposed credit will fund 100 percent of all foreign and local costs under two categories: Goods and Consultancies. Incremental operating costs for Civil Service Reform only, will be funded at 100 percent of foreign and 25 percent of local costs.

H. Accounts and Audits

3.10 Two Special Accounts of US$1 million and US$ 0.5 million for the PSRC, and for LART, Civil Service Reform and Macro Economic Management components respectively will be established in US dollars, by the Central Bank, in a commercial bank in Dar es Salaam, on terms and conditions acceptable to IDA. These funds will be managed by the project office to cover project expenditures, in accordance with the Development Credit Agreement (DCA) disbursement categories and the percentage of reimbursement. The Special Accounts will be replenished on the basis of monthly withdrawal requests covering aggregated monthly expenditures. Payments of less than US$20,000 will be documented through statements of expenditure, with the underlying documentation available for inspection by IDA supervision missions. At the discretion of the project administrator, single payments in excess of US$50,000 may be sent to IDA for direct payment from the credit proceeds.

3.11 Government's local contribution to the project costs will be held in two project accounts, established at a local commercial bank; one account will be for PSRC and one for the LART/CSR/Macro Management component. At negotiations Government agreed to provide the equivalent of US$3.8 million towards project costs. It was also agreed that the first quarterly deposit of US$190,000 equivalent to the project accounts would be a condition of credit effectiveness. Future payments to the project accounts would be made on a quarterly basis over a five year period, in the average amount of US$190,000 equivalent per quarter, with precise amounts determined in accordance with the yearly work plans.

3.12 Government's project accounts, the Special Accounts, and direct withdrawals on IDA's Credit account will be audited annually by independent auditors, satisfactory to IDA. The audit report will follow a standardized format as agreed with government at negotiations and will be presented to IDA no less than six months following the end of Government's financial year.

APPENDICES

PARASTATAL SECTOR REFORM
(A Policy Statement)

1. A dramatic change has taken place in the Tanzania economy since the mid-1980s. The cumulative outcome of Tanzania's reform process has resulted in an economy that now largely relies on market signals for pricing and allocative decisions. Steady implementation of measures in the trade, pricing and exchange rate regime have resulted in the virtual removal of much of the centralized system of controls and administrative allocation that prevailed until 1984. This transformation in the structures of incentives and management has been a key factor in the turn-around in economic performance over the past five years or so. Since 1986 per capita income and consumption growth has been positive, and availability of basic consumer goods and inputs has increased dramatically. For the first time in almost a decade, the standard of living for most segments of the Tanzanian population has been improving.

2. However, it is evident that reforming pricing and trade incentives, while important for generation of supply response in the first stages of a reform program, would not be sufficient to thrust the Tanzanian economy into a sustained and equitable growth path. Redressing the deteriorated physical and social infrastructure, and improving institutional performance are absolutely critical for Tanzania's objectives for the economy to be attained. Todate the Government and the party have recognized the importance of implementing public investment and institutional reforms as reflected in the ESAP and other policy documents. Appropriate investment and institutions are not merely a necessary complement to an adequate set of market incentives; in Tanzania, finding solution to institutional and infrastructural weaknesses are key to attaining macroeconomic stability and sustaining the system of market based incentives which is being put in place.

3. Implementation of the necessary structural and institutional transformation has begun in certain areas, such as infrastructure (the integrated road project etc.), the financial sector and agricultural marketing. In other areas, initial steps have been taken, such as in the social sectors and in public sector management.

4. The focus of development strategy in the coming years is to create an efficient, well functioning and rapidly growing economy. Given the limited availability of resources for Tanzania's public sector for the foreseeable future, and the public sectors' limited capacity as demonstrated by its performance in the past few years of limited protection and subsidies, it is evident that the country's strategy for development must have as central components a redefinition of the role of the government in the economy and the realization of the potential dynamism of the country's private sector. This is partly the essence of the parastatal sector reform.

5. For the past 25 years, the national parastatal enterprises, providing social services, public utilities and engaging in commercial activities, have provided a wide range of goods, services and employment, and have helped to develop versatile managerial and technical skills. In recent years, however, faced with increased international competition and domestic economic difficulties, it has proved increasingly difficult for the commercial enterprises to maintain profitability , and maintain or upgrade their technology, products and services, Significant budgetary subsidies have had to be paid to sustain the commercial enterprises; such subsidies have affected the Government's ability to finance essential social services such as health and education, and have increased dependence on external aid. As a result of these problems, and the

need to promote business confidence, the Government has decided to carry out a systematic reform of the parastatal sector, by attracting participation from within and outside and by revitalizing the management of institutions and enterprises within the state sector. The basic objectives of the envisaged parastatal reform are to:

(i) improve the operational efficiency of enterprises that are currently in the parastatal sector, and their contribution to the national economy;

(ii) reduce the burden of loss making parastatal enterprises on the Government budget;

(iii) expand the role of the private sector in the economy, permitting the Government to concentrate public resources on its role as provider of basic public services, including health, education, and social and economic infrastructure; and

(iv) Increase and encourage a wider participation of the people in the running and management of the economy.

6. In accordance with previous decisions under the National Investment Act and other policy statements, the Government intends to encourage the private sector to play a major role in future development of the economy, provided always that it acts in the interests of the country.

7. In order to provide for an environment which would assist in the improvement of efficiency of the productive sector as a whole, the Government through its economic recovery program will continue to introduce reforms in the areas of foreign exchange, price and market liberalization, tax reform and revision of business laws and regulations. These reforms are necessary in order to help both private and parastatal enterprises to operate profitably and in the national interest. In addition, due to the inadequate performance of parastatal enterprises and the listed public resources to finance their operations and investments, the Government has stated its intentions to take specific steps to restore their operating efficiency, both by improving existing arrangements and supervisory systems and by attracting capital, technical know how and management resources from outside sources, in particular the private sector. This will include diversification of shareholding and equity participation in enterprises.

8. For enterprises remaining in the public sector, either transitionally or for the longer term, further policy and regulatory reforms are in process which will include elimination of monopoly rights and barriers to entry for competitors, elimination of preferential access to credit, foreign exchange and Government procurement, and elimination of discretionary exemptions of tax, duty and other payments. Management will be expected to take autonomous responsibility in pricing, employment, wages, procurement and marketing.

9. In order to ensure a rational prioritization of parastatal enterprises for retention by the state, and for possible joint ventures/ownership diversification, the Government has made a broad classification of enterprises to determine which should remain in the parastatal sector, and which should not. The following classifications will be applied, inter alia:

(i) social services
(ii) public utilities
(iii) commercial enterprises

10. Social service institutes, defined as those that do not generate revenue from sales of goods or services, will be absorbed into the Government administration and financed directly through the national budget, while being subjected to programs to improve cost effectiveness.

11. Public utilities, which generate revenue will, subject to review, remain mainly within the state sector, but will be subject to cost-cutting and efficiency improvement programs and performance setting. Such enterprises will be expected to earn profits, and to this end the government will adopt policies of liberalizing prices and charges to consumers. Private sector provision of part of these services will be encouraged in order to improve efficiency and promote new technology.

12. The commercial enterprises, which are expected to operate at a profit, will be available for foreign and local participation, including privatization by means of joint ventures, full or partial sales of shares, leasing and management contracts. Those commercial enterprises which cannot be operated profitably within the state sector, and cannot find cooperating private resources, would be closed and liquidated. The disposition of each enterprise would be decided on a case-by-case basis, according to specific opportunities.

13. Individual enterprises will be encouraged to take initiative in their own restructuring efforts. This will permit the best use of existing managerial skills. In the first stage of this process, parastatal enterprise currently receiving direct and indirect subsidies from the government, will prepare corporate plans for recovery to profitable operation without subsidies. These plans which will be submitted to the Government for approval, will contain estimates for financial support needed to replace previous direct and indirect subsidies during a transitional period while the enterprises are being restructured. The, plans may also be submitted to banks for financing. Subject to appropriate agreements with the banks and the Treasury, the corporate plans will form the basis for either continued bank landing (where the enterprise is considered creditworthy) or transitional budgetary subsidies. The subsidies will be subject to a strict phase-out program of up to two years, subject to monitoring and review. The replacement of indirect subsidies by direct subsidies will be such as to minimize negative budgetary impact.

14. The divestment of parastatals involves issues of foreign and indigenous ownership. In general, the need to attract capital, technology and stable and responsible management, may necessitate majority outside shareholdings. The government will, in the case of each enterprise, apply principles to determine the minimum proportion of the equity shares to be retained on behalf of the people of the country, and the proportion to be diverted to local or foreign investors. The shares retained will be held initially by the Government, either within the treasury or within financial institutions through vehicles such as the investment trusts. In due course, as the capital market develops, part or all of the shares held by the state will be sold, either to the general public, or to the workers and management of enterprises, first for cash or through credit plans. By these means indigenous Tanzanians will retain a significant share in privatized enterprises, and will have an opportunity to benefit from their profits. The precise proportion of this shareholding, and its vesting power, will be decided on a case by case basis in agreement with investors.

15. The sale of enterprise equity involves complicated issues of valuation, to ensure that the state receives fair price for the assets or shares being sold. The Government will ensure, that valuation is carried out professionally. However, the ultimate value will depend on agreement between the seller and the buyer. Clear procedural steps to guide the sale of parastatal assets and shares will have to be set out in order to ensure transparency and fair price. In the case of a direct sale, these steps will include preselection of investors, preparation of enterprise profiles and bidding documents, invitation to bid, evaluation of bids, negotiation with prospective investors, and conclusion of agreements. In the case of other sales methods, appropriate guidelines will be formulated.

16. Many parastatal enterprises have incurred significant debts which they have not been able to service and which are guaranteed by the Government, They have accumulated as a result of unprofitable operations in the past, whether due to management problems or due to general economic problems (for example resulting from devaluation of the shilling). The value of enterprise is reduced by the amount of past debt which it has contracted and not repaid, and the presence of such debts complicates the problem of agreeing joint ventures or sales, and may cause delays. In order to simplify the procedure and accelerate agreements, the Government is now taking steps to identify outstanding debts of parastatals to the Treasury, banks suppliers, and other creditors and to determine appropriate mechanisms for dealing with these debts. This will include transfer from the banking system to the Loans and Advances Realization Trust (LART), of all unrecoverable loans.

17. Parastatal restructuring will cause some hardships, such as worker redundancy. However, the improvement in the business environment and the infusion of outside capital and technology will eventually lead to higher employment through higher capacity utilization, expansion of output, and new enterprises. The transitional period will be difficult for those who have been rendered unemployed, and for their families. The government will undertake measures to alleviate these hardships, through retraining and severance payments and through mechanisms to encourage self employment.

18. In order to implement the complete process of parastatals restructuring the Government has appointed a Presidential Parastatal Sector Reform Commission (PPSRC) where major terms of reference will be:

(i) Develop operating policies and procedures on how to implement the reforms decided by the Government:

(ii) Review specific policies and legislation pertaining to the parastatal sectors

(iii) Preparing an updated list of all operating parastatals;

(iv) Review and where necessary undertake detailed analysis of individual parastatals so as to determine priority/sensitivity and viability and ultimately the price of each share;

(v) undertake financial analysis of these parastatals to be amalgamated or restructured;

(vi) To give recommendations as to what action is to be taken on each parastatal after consultation with all relevant parties, and to oversee implementation of agreed actions.

19. The Commission will submit its recommendation as action to be taken directly by an economic committee of the cabinet, for final decision by the cabinet, without going through the established bureaucratic procedures.

20. In order to give effect to the restructuring and the parastatal reforms of the public sector, the government is taking measures to provide for a legal framework for the implementation of these reforms; namely:

(i) introduction of a new bill or review of the Public Corporation Act, 1969 to ensure the proposed reforms are implemented accordingly and to act out new provisions for the establishment of public corporations on commercial principles;

(ii) Enable certain institutions, including District Development Corporations, non-commercial-services institution, sports and culture institutions and institutions of learning to cease to be public corporations;

(iii) Amendment of the Treasury Registrar Ordinance;

(iv) Enact new law to provide for the establishment of capital market(s); and

(v) Review of the existing companies ordinance (Cap.212) to accommodate the proposed reforms.

21. Finally, the implementation of the Parastatal Sector Reform will be undertaken in a coordinated manner and in the context of all other programs which are nw being implemented under ESAP. In addition, the manner and pace in the reform process of the parastatal sector will be expedited as far as is technically and administratively possible, consistent with the country's overall development policy.

Minister of Finance
Dar-es-Salaam
December 31, 1991

APPENDIX II

PARASTATAL AND P.E. REFORM

(a) TORs for the core team of experts at PSRC

(b) Targets for Reform: July 1993 - December 1994

(c) Generic TOR to Produce the first Business Plans/Performance contracts

(d) Cost of 5 year program at PSRC

(e) Cost of 3 year program at LART

(f) PSRC Operating Procedures

PARASTATAL SECTOR REFORM COMMISSION
TECHNICAL SECRETARIAT

TERMS OF REFERENCE

Financial Analyst

The Government of Tanzania has established a Parastatal Sector Reform Commission to supervise and coordinate the restructuring and divestment program, which is an essential component of economic reform. The objectives of the program are to: (i) increase productive efficiency and growth of the economy, (ii) eliminate general budgetary support to the productive sector, (iii) to reduce the administrative burden on Government and release Government funds for essential expenditures (infrastructure, health and education investment), and (iv) broaden direct participation of the population in control and ownership of productive assets, leading to their better idealization. This will be achieved by injecting capital, technology and managerial skills through private participation, and enhancing management autonomy and management and supervisory structures in retained enterprises. The reforms will be complemented by wide ranging legal and regulatory changes, and measures to improve the business environment.

The technical secretariat of the reform commission is divided into two main departments - divestiture, and restructuring. The financial analyst will be responsible to the Chairman, and will report to the director of the divestiture department and work in conjunction with departmental advisers. The financial analyst will be responsible for providing professional advice on divestiture issues, and carrying out analyses over the work program of the department, under management direction, in some or all of the following areas.

- contributing to design and updating of overall policy instruments, strategy and tactics for the overall public enterprise reform program

- divestiture policy and implementation strategy; continued monitoring and updating of policy to facilitate divestiture.

- design and advice on marketing of enterprises and applicable instruments - trade sales, public and private offerings, share issues, special share distribution schemes, buyouts, employee/supplier ownership etc.

- preparation for marketing of enterprises - production of dossiers, prospectus, financial analyses (e.g. asset valuation and debt position), proposal evaluations, negotiation briefs

- preparation of and participation in negotiations for trade sales, joint ventures, buyouts etc; analysis of offers and offer amendments, negotiation reports with appropriate recommendations to chairman; preparation and negotiation of leasing agreements;

- design of share issue logistics, including sale methods, holding rules etc, and supervision of preparation of share issues: analysis of pricing; documentation, institutional arrangements for issuance,

- post-privatization monitoring of enterprises to (i) ensure fulfillment of legal and contractual obligations under the contract of sale, and (ii) to assess the impact on the economy of privatization and restructuring.

Divestiture Adviser

The Government of Tanzania has established a Parastatal Sector Reform Commission to supervise and coordinate the restructuring and divestment program, which is an essential component of economic reform. The objectives of the program are to: (i) increase productive efficiency and growth of the economy, (ii) eliminate general budgetary support to the productive sector, (iii) to reduce the administrative burden on Government and release Government funds for essential expenditures (infrastructure, health and education investment), and (iv) broaden direct participation of the population in control and ownership of productive assets, leading to their better utilization. This will be achieved by injecting capital, technology and managerial skills through private participation, and enhancing management autonomy and management and supervisory structures in retained enterprises. The reforms will be complemented by wide ranging legal and regulatory changes, and measures to improve the business environment.

The technical secretariat of the reform commission is divided into two main departments - divestiture, and restructuring. The adviser to the divestiture department (secretariat) will be responsible to the Chairman, and will work with the director of the department, and in conjunction with the chief administrator (coordinator) and lead adviser of the technical secretariat. The adviser will be responsible for providing expert advice on divestiture issues, based on international experience and analysis of local economic conditions.

Specifically the adviser to the divestiture department would be responsible for providing inputs in the following areas:

General issues of reform

- contribution to the drafting of implementation policy statements on divestiture and parastatal restructuring.

- providing advice on review of corporate and related legislation affecting the privatization program, to ensure appropriate facilitating reforms.

- contributing to design and updating of policy instruments, strategy and tactics for the overall public enterprise reform program

- carrying out sectoral and subsectoral analyses and business opportunity studies related to privatization prospects

Parastatal divestiture

- divestiture policy: contribution to finalization of implementation strategy statement on debt, asset valuation, shareownership and budgetary measures to

  support reform, and continued monitoring and updating of policy to facilitate divestiture.

- formulation of short and medium term divestiture plans and programs, projecting sales, fiscal impact, employment impact, and capital requirements

- design and advice on marketing of enterprises and applicable instruments - trade sales, public and private offerings, share issues, special share distribution schemes, buyouts, employee/supplier ownership etc.

- coordination of preparation for marketing of enterprises - production of dossiers, prospectus, financial analyses (e.g. asset valuation and debt position), proposal evaluations, negotiation briefs

- preparation of and participation in negotiations for trade sales, joint ventures, buyouts etc; analysis of offers and offer amendments, negotiation reports with appropriate recommendations to chairman; preparation and negotiation of leasing agreements;

- design of share issue logistics, including sale methods, holding rules etc, and supervision of preparation of share issues: analysis of pricing; documentation, institutional arrangements for issuance,

- post-privatization monitoring of enterprises to (i) ensure fulfillment of legal and contractual obligations under the contract of sale, and (ii) to assess the impact on the economy of privatization and restructuring.

- advising treasury in management of Government shareholdings portfolio and monitoring of Government interests in enterprises partly held.

Institution building

- carrying out investment promotion, and development and maintenance, on behalf of the secretariat, of appropriate local and international contacts in the financial and investment sectors.

- development of privatization database and monitoring system.

- providing a high degree of knowledge transfer from foreign advisers to local professional staff, and advising the director, chairman and lead adviser of the secretariat on recruitment of short term consultants and expert long term personnel.

- maintaining close liaison with PMRUs and similar restructuring units in line ministries and other institutions participating in the reform process.

Legal Adviser

The Government of Tanzania has established a Parastatal Sector Reform Commission to supervise and coordinate the restructuring and divestment program, which is an essential component of economic reform. The objectives of the program are to: (i) increase productive efficiency and growth of the economy, (ii) eliminate general budgetary support to the productive sector, (iii) to reduce the administrative burden on Government and release Government funds for essential expenditures (infrastructure, health and education investment), and (iv) broaden direct participation of the population in control and ownership of productive assets, leading to their better utilization. This will be achieved by injecting capital, technology and managerial skills through private participation, and enhancing management autonomy and management and supervisory structures in retained enterprises. The reforms will be complemented by wide ranging legal and regulatory changes, and measures to improve the business environment.

The legal adviser would be responsible to the Chairman, and would work in conjunction with other senior management and advisory staff of the technical secretariat, providing services to both the divestiture and the restructuring departments.

General issues of reform

- Assistance in the design of policy instruments for the overall public enterprise reform program

- Reviewing corporate and related legislation affecting the privatization program, to ensure appropriate facilitating reforms.

Divestiture

- reviewing and recommending necessary amendments in legislation and regulations to identify impediments and to facilitate privatization: in particular corporate, labor and land law (tenure and valuation), and laws regarding public enterprises

- reviewing legal aspects of recommendations on transfer of enterprises to the LART (e.g. legal impediments to privatization)

- assisting in development of transaction procedures to ensure transparency and efficient implementation

- review of ownership status of enterprises, possible impediments to privatization, and recommendation on transfer of ownership (Government shareholdings, concentration of ownership)

- assistance to preparation of legal aspects of enterprise sales documentation, including title search, prospectus, invitations to bid, bid evaluation and selection.

- support to negotiations, and analysis of legal aspects of offers; formulation and review of sales/lease contracts

- support to formulation of prospectuses for share offers, and rules with respect to purchase, sale of shares, possible restrictions on shareholdings, and publicity to attract wide ownership

- advice on legal aspects of special share allotment schemes (e.g. employee ownership, unit trust/mutual funds, and development of new financial instruments within expanding capital market

Restructuring

- Review and development of legislation and regulations for public enterprises, including interpretation of the Public Corporation Act, and individual statutes relating to public corporations, including utilities

- Review of legal status of public enterprises and recommendation for corporatisation in appropriate cases, in order to facilitate commercialization

- Formulating guidelines on parastatal management and supervision, emanating from legislative reforms

- Formulating and reviewing contracts and agreements relating to enterprise performance, and management contracts

- Identifying legal issues related to financial restructuring of parastatals, and ensuring consistency with banking legislation

- Monitoring and recommending amendments in regulatory systems for public utilities and retained enterprises (e.g. pricing and competition)

Economist and Business Analyst

The Government of Tanzania has established a Parastatal Sector Reform Commission to supervise and coordinate the restructuring and divestment program, which is an essential component of economic reform. The objectives of the program are to: (i) increase productive efficiency and growth of the economy, (ii) eliminate general budgetary support to the productive sector, (iii) to reduce the administrative burden on Government and release Government funds for essential expenditures (infrastructure, health and education investment), and (iv) broaden direct participation of the population in control and ownership of productive assets, leading to their better utilisation. This will be achieved by injecting capital, technology and managerial skills through private participation, and enhancing management autonomy and management and supervisory structures in retained enterprises. The reforms will be complemented by wide ranging legal and regulatory changes, and measures to improve the business environment.

The technical secretariat of the reform commission is divided into two departments - divestiture, and restructuring. The economist and business analyst will report to the director of the divestiture department and will be responsible for providing professional advice on economic and business issues relating to divestment of parastatals, and carrying out analyses over the work program of the department, under management direction, in some or all of the following areas.

- sectoral, subsector and enterprise-level analyses of economics, finance, markets, and business conditions relating to specific industries, with respect to actual or potential privatisations

- policy analyses of regulations relating to business (e.g. investment, foreign exchange provision; trade, taxation, labor and land law)

- formulation of indicative divestiture and liquidation plans, and detailed annual programs, and evaluation of short and long term fiscal and economic impacts of divestiture

- analysis of labor redundancy impact of closures and retrenchments (severance pay, employment protection, redeployment etc)

- investment promotion and marketing, and development of contacts with prospective investors

- assistance in preparation for marketing of enterprises - production of dossiers, prospectus, financial analyses, proposal evaluations, negotiation briefs

- support to negotiations: analysis of offers and offer amendments, negotiation reports with appropriate recommendations to chairman; preparation and negotiation of leasing agreements;

- post-privatisation monitoring of enterprises to (i) ensure fulfillment of legal and contractual obligations under the contract of sale, and (ii) to assess the impact on the economy of privatisation and restructuring.

- establishment and maintenance of appropriate database of privatisations and closures, and interpretation of information for management

- maintenance of liaison with sector ministry restructuring units and other agencies responsible for enterprise restructuring

Public enterprise management Adviser

1. Background The Government of Tanzania has established a Parastatal Sector Reform Commission to supervise and coordinate the restructuring and divestment program, which is an essential component of economic reform. The objectives of the program are to: (i) increase productive efficiency and growth of the economy, (ii) eliminate general budgetary support to the productive sector, (iii) to reduce the administrative burden on Government and release Government funds for essential expenditures (infrastructure, health and education investment), and (iv) broaden direct participation of the population in control and ownership of productive assets, leading to their better utilization. This will be achieved by injecting capital, technology and managerial skills through private participation, and enhancing management autonomy and management and supervisory structures in retained enterprises. The reforms will be complemented by wide ranging legal and regulatory changes, and measures to improve the business environment.

The adviser to the technical secretariat restructuring department will report to the Chairman, and work in conjunction with the director, restructuring department, coordinator of the technical secretariat and the lead adviser.

2. Responsibilities Specifically the restructuring adviser would be responsible for providing expertise in the following areas:

General issues of reform

- design and updating of policy instruments, strategy and tactics for the overall public enterprise reform program

- classification of enterprises within the reform program - for divestiture, retention, and closure, including transitional or long-term retention, depending on type of enterprise and sequencing of divestiture process.

- drafting, for management approval, of policy statements on implementation of parastatal restructuring.

- reviewing legislation affecting the parastatal sector, and assist the legal service, as appropriate in reformulation of the Public Corporations Act, legislation establishing the PSRC, and any other regulations appropriate to parastatal reform.

Parastatal Restructuring

- supervising development of database and management information system for recording parastatal performance, carrying out diagnostic analyses, and providing information on financial, organizational and economic position and prospects of parastatals under Government management

- coordination and direction of implementation of parastatal management improvements, to increase management autonomy and accountability: to include performance agreements, indicators, and monitoring systems, regulatory systems for public monopolies.

- formulating and recommending improved regulatory frameworks for retained enterprises (especially larger commercial enterprises and public utilities).

- advice on and implementation of, parastatal management reform, to increase management autonomy and accountability, including performance agreements, indicators, and monitoring systems, regulatory systems for public monopolies,

- commissioning and undertaking diagnostic studies of problems relating to parastatal organization and management and the nature, extent and impact of reform measures to be taken

- advice on coordination of parastatal and banking reform process, including links with LART, and implementation of PE debt restructuring measures, including improvement of financial discipline and accountability.

- advice on management of Government shareholdings, and monitoring of Government interests in partly Government-owned enterprises.

Institution building

- development and maintenance, on behalf of the secretariat, appropriate local and international contacts in the field of public enterprise reform.

- providing a high degree of knowledge transfer from foreign advisers to local professional staff, and advising the director, chairman and lead adviser of the secretariat on recruitment of short-term and long term expert personnel.

MINISTRY OF INDUSTRIES AND TRADE
PARASTATAL MONITORING AND RESTRUCTURING UNIT

TERMS OF REFERENCE

Adviser in Enterprise Restructuring

Objectives The adviser would assist the Parastatal Monitoring and Restructuring Unit to fulfil its objectives of enterprise monitoring and evaluation, restructuring, rationalisation, and divestment.

Functions The functions will be to assist in, advise on and participate in where appropriate:

(i) analysis of enterprise performance and classification of enterprises in terms of business prospects, marketability, divestment methods etc

(ii) development of programs and timetables for restructuring and divestment of parastatal enterprises

(iv) maintenance of portfolio of Government holdings in privatised industrialised enteprises, and appraisal of options for its future development or divestment

(iii) preparation of enterprises for negotiation and possible divestiture, including preparation of dossiers, prospectuses and all documentation related to divestment and marketing of enterprises;

(iv) enterprise valuations and recommendations to PSRC technical secretariat on restructuring and divestment options, as required.

(v) support to negotiations with prospective investors, providing advice to PSRC technical secretariat Government negotiating team, as required.

(vi) development in PMRU of knowledge of alternative financial instruments, shareownership structures, and enterprise divestment methods

(vii) formulation of expertise requirements and advise on recruitment of outside expertise and development and maintenance of professional contacts

(viii) training of local staff to ensure transfer of expertise in major areas.

Qualifications The adviser should have appropriate qualifications and expertise in business economics, privatisation methods and strategy, and corporate finance.

PSRC AND LART
QUALITATIVE TARGETS

Program Action	Jan 93	(mid-Feb 1993)	(April 1993)	(June 1993)	By 31 Dec. 1993	(June 1994)	(Jul - Dec 1994)
1. Restructuring Component Targets							
a) Draft performance contracts	5 companies identified	Preparation underway (5)	5 first drafts prepared	5 drafts completed and under negotiation. 5 more identified and preparation underway.	5 more drafts completed and under negotiation. 5 more identified and preparation underway.	5 more drafts completed and under negotiation. 5 more identified and preparation underway.	5 more drafts completed and under negotiation. 5 more identified and preparation underway.
b) Performance contracts signed					5 companies	5 more companies	5 more companies
c) Institutional Framework				Outline developments plan prepared		Agreement on revised arrangements	Implementation commenced.
d) PE monitoring & supervision	M&S computers installed	Existing data transferred		Outline developed		PSRC systems and procedures in place	Implementation commenced

PSRC AND LART

Program of Action						
	(Jan 93)	(mid-Feb 1993)	(April 1993)	(June 1993)	(June 1994)	(Jul-Dec. 1994)
2. Institutional Support						
a) PSRC offices	Office arrangements concluded	Partitioning commenced	Furbishment underway	Moved into new premises		
b) Local staff complement	Applications screened	Interviews conducted	5 professional staff selected	full budget complement	Revise requirement	
c) Long term advisers	Bids received	Bid evaluations completed	Negotiations underway	In place	further requirements defined	
d) Training				Requirements defined and Program prepared		
e) Computers and other equipment		Requirement defined	Ordered	Installed	Fully functioning	
f) PSRC annual report					First report published	
g) Master plan			Presented to Cabinet	Govt paper approved		
h) Policy paper and procedures			Presented to Cabinet	Cabinet approval		
i) Public Corporations Act	Awaiting draft from World Bank		Reviewed by A-G chambers	Draft finalized	Passed by Parliament	
j) Program fiscal impact	Under assessment	Budget estimate in Preparation	Budget estimate completed	1993/94 budget approved		

PSRC AND LART

Program of Action	(Jan 93)	(mid-Feb 1993)	(April 1993)	(June 1993)	(June 1994)	(Jul - Dec 1994)
3. Constraints to Implementation						
a) PSRC capacity	Requirements defined			Budgeted resources all available	Resources reviewed and 1994/95 budget finalized	
b) Availability and quality of data	Initial experience	World Bank to provide assistance to Treasury				
c) Public opinion	Extensive preparation for policy change			Publication of master plan	Public education program underway	
d) Land value	Land estate officer being recruited	Land estate officer appointed	Preparing Cabinet paper	paper submitted to Cabinet	Policy approval	
e) Absence of Legal title				Problem assessed and legislation drafted as required	Revision to Public Corporation Act	
f) Concentration of ownership	Preparing Cabinet		Policy paper submitted to Cabinet	Policy approved		
g) Redundancy	Preparing Cabinet paper	Developing compensation package	Draft safety net details finalized	Evaluating pilot tests and fine tuning	Social safety net fully in place	
h) Viability investor interest						
i) Valuation	Preparing Cabinet paper		Policy paper submitted to Cabinet	Policy approved		
j) Parastatal indebtedness	Preparing Cabinet paper		Policy paper submitted to Cabinet	Policy approved	Case by Case resolution	Ongoing
k) Fiscal impact concerns		Estimates being prepared	Budget estimates completed	Budget for 1993/94 approved		
l) Budgetary constraints	Draft policy paper under review			Policy approved	No unbudgeted support to PEs	Monitor progress
m) Limited capital market	Consultants engaged by BOT	Ongoing TA	Ongoing TA	Ongoing TA		

PSRC AND LART

Program of Action						
	(Jan 93)	(mid-Feb 1993)	(April 1993)	(June 1993)	(June 1994)	(Jul-Dec 1994)
4. Constraints to Implementation (cont)						
n) Foreign Competition						
o) Underdeveloped regulatory framework					Outline policy paper prepared	Detailed prepatory work underway
o) Inadequate legal process	Awaiting draft revisions from World Bank	Draft revisions under review	Draft revisions handed to A-G Chambers			
P) Parliamentary approval				Draft revision to Public Corporations Act finalized	Revisions to Public Corporations Act passed.	

PARASTATAL SECTOR REFORM COMMISSION

PREPARATION OF ENTERPRISE BUSINESS PLANS
- FIRST GROUP -

TERMS OF REFERENCE

Introduction

Consultants are required to assist the PSRC Secretariat to carry out short diagnostic studies and to prepare restructuring plans for the following five enterprises:

1. [Tanzania Electricity Supply Company Ltd
2. National Urban Waste Authority
3. Tanzania Harbors Authority
4. Tanzania Railways Corporation
5. Friendship Textile Mill Limited]

Scope of Work

1. The consultants shall carry out a brief review of each enterprise, using existing data and available reports and supported where necessary by brief site visits, which will involve:-

(a) determining the recent and current financial performance and position, taking account of indirect subsidies, adequate stock and debtors provisioning and any other adjustments required to reflect the true underlying performance and position of the enterprise;

(b) comparing the balances of any Treasury loan and current accounts appearing in the accounts of the enterprise with the balances according to the records maintained by the Treasury Registrar, investigating any differences, recommending remedial action, including the need to put through the requisite entries when approved by the PSRC and Treasury;

(c) by reference to recent reports, conducting, where feasible, a cursory physical inspection of major assets and, through discussions with enterprise management, broadly estimating the investment requirements for rehabilitation and, if applicable, expansion;

(d) assessing the markets for the enterprise's products and services;

(e) identifying macroeconomic factors which influence the enterprise's performance and suggest how best the enterprise management should respond to changes in these factors;

(f) briefly reviewing and assessing commercial policies and practices and commenting on the effects of strengths and weaknesses of the enterprise; and

(g) identifying possible opportunities for rationalization (which might involve separation of distinct commercial activities, partial divestiture, mergers of selected activities, hiving off or closure of peripheral activities, contracting out of selected services etc.)

2. The consultants shall, on the basis of (1):-

(a) identify and evaluate the available options for: (i) corporate restructuring and (ii) financial restructuring; and recommend the preferred options for (i) and (ii);

(b) prepare an outline business plan; and
(c) estimate the resources requirements to implement the business plan.

3. The consultants shall draft a memorandum of agreement (performance contract) for each enterprise between the enterprise senior management team and the board of directors(representing the Government as shareholder). In order to draft the memorandum of agreement for each enterprise, the consultants shall:-

(a) review the relevant legislation to determine the enterprise's original objectives and institutional arrangements and recommend changes in the light of present and expected circumstances;

(b) review Government policies affecting performance of the enterprise with the focus on pricing, investment, capitalization, personnel conditions of engagement, procurement and markets, and identify policy changes required to improve the enterprise's performance and autonomy;

(c) review recent reports and plans and, in addition to identifying activities which should be retained, divested or discontinued [(1) (f) above], identify other measures required to increase enterprise efficiency;

(d) review enterprise accounting and management information systems and assess their adequacy;

(e) in consultation with enterprise management and the enterprise's line ministry:-

(i) clarify enterprise objectives and activities (commercial and non-commercial);

(ii) develop appropriate performance measures and targets (financial, operational and other targets);

(iii) identify the proposed level of Government support in terms of tariff approvals, interim financial support, clearance of Government and parastatal arrears etc:

(iv) develop performance incentives that will entail both rewards and sanctions that can be applied to actual performance through the duration of the memorandum of agreement;

(v) coordinate with PSRC Secretariat on the terms of engagement to ensure that appropriate systems will develop in the Secretariat which will enable enterprise monitoring to be carried out on a timely basis;

(vi) propose the process for negotiation, signature and subsequent revision and methodology for monitoring achievements; and

(vii) identify any other prerequisites for adopting the memorandum of agreement and make recommendations for implementation.

The consultancy team is expected to comprise 5 financial analysts and 5 industry specialists and one manager. As far as the work schedule and the nature of the enterprises will allow, one financial analyst and one industry specialist will work together on one enterprise each.

The consultants will work under the direction of the PSRC and will be supported by the PSRC's technical advisers in the field of public enterprise restructuring and performance contracts. The technical advisers will carry out the assignment planning and briefing and will later review and advise on the draft outputs.

The consultants should be available for detailed briefings by the technical advisers during the week commencing [1 February 1993] and be prepared to commence their filed work the following Monday. Draft reports and first draft performance contracts for 5 enterprises are to be available for review by [1 March] and all work must be completed [by 8 April] at the latest.

TANZANIA
PARASTATAL SECTOR REFORM COMMISSION
TECHNICAL SECRETARIAT

BUDGET
(IDA Financed)

ITEM	$PER MMT	1993-4	1994-5	1995-6	1996-7	1997-8	TOT MM	TOT US$
MEDIUM-TERM ADVISERS (EXPATRIATE)								
P.E. Advisor	15000	180000	180000	180000	180000	180000	60	900000
Divestiture Adviser	22000	220000	264000	264000	264000	264000	58	1276000
Financial	20000	180000	240000	240000	240000	240000	58	1140000
Business	18000	162000	216000	216000	216000	216000	57	1026000
Restructuring Adv	15000	135000	180000	180000	180000	180000	57	855000
Legal Advisor	15000	135000	180000	180000	180000	180000	57	855000
Subtotal		10120000	1260000	1260000	1260000	1260000	346	6052000
Short-term Consultants:								
Valuation For Sale	22000	352000	198000	176000	176000	176000	49	1078000
Dossier, Prospectus	22000	396000	264000	176000	176000	176000	54	1188000
Bid Evaluation	22000	132000	132000	132000	132000	132000	30	660000
Negotiations	28000	168000	224000	224000	224000	224000	38	1064000
Finance Instruments	25000	225000	150000	50000	50000	50000	21	525000
Share Issues	25000	100000	100000	100000	100000	100000	20	500000
Engineering, Techn	12000	180000	300000	300000	300000	300000	115	1380000
MIS Database	12000	96000	36000	24000	24000	24000	17	204000
Performance Eval	12000	120000	36000	36000	36000	360000	22	264000
Policy Analysis	12000	108000	72000	72000	72000	72000	33	396000
Other	12000	108000	72000	72000	72000	72000	33	396000
Subtotal		1985000	1584000	1362000	136000	136000	432	7655000
Professional Staff on Local consultants terms								
Coordinator	4500	40500	54000	54000	54000	54000	57	256500
Director/Chief (2)	4000	36000	96000	96000	96000	96000	105	420000
Finance, Econ (6)	3200	28800	307200	307200	307200	307200	393	1257600
Law (2)	3200	28800	76800	76800	76800	76800	105	336000
Management/MIS (4)	3200	28800	76800	76800	76800	76800	105	336000
Local Subcontract	2000	180000	240000	240000	240000	240000	570	1140000
Subtotal		342900	850800	850800	850800	850800	1335	3746100
Total Professional Staff		3339900	3694800	3472800	3472800	3472800	2113	17453100

Equipment, and Training

	1993-4	1994-5	1995-6	1996-7	1997-8	Total US$
Computer PCs (25 sets)	75000			30000		105000
Printers, Accessories	10000	10000		5000		25000
Software Programs	20000	10000		5000		35000
Installation, Training	30000	15000	10000	5000		60000
Communications Eqpt	20000	10000				30000
Other Equipment	20000	10000	5000	5000	5000	45000
Vehicles	75000	30000		20000		125000
Training	90000	75000	75000	75000	75000	390000
Subtotal	340000	160000	90000	145000	80000	815000
Grand Total	3679900	3854800	3562800	3617800	3552800	18268100

Notes: The average rate of sale/lease or liquidation is assumed at about 30 deals per annum. At this rate the total implied cost for marketing or liquidating an enterprise (valuation, prospectus, bidding, and negotiations) is about US$22,000 per deal for short-term consultants, including costs and success fees. Assistance is also needed for design of financial instruments (e.g. Investment mutual funds, employee ownership schemes). The cost of this work would reduce overtime because most of it is required at the start of the program. Work on share issues would be fairly constant. Work on the database and MIS would be largely at the start. The cost of engineering support is high because it is expected to be bought in. Salary and fee rates for long and short term advisers are conservative in relation to current market rates for comparable expertise. The cost of consultancy assistance is high at the start of the program, and falls as local expertise develops, and because work on prospectuses and valuation will start in advance of actual deals.

LOCAL COSTS SUMMARY

Budget: July, 1993 to 1998
(Government Financed)

Item	1993/94	1994/95	1995/96	1996/97	1997/98	Total
	T.SHS'000	T.SHS'000	T.SHS'000	T.Shs'000	T.SHS'000	T.SHS'000
Staff Costs	34,402	34,402	34,402	34,402	34,402	172,010
Travelling Costs	27,000	27,000	27,000	27,000	27,000	135,000
Building & Equipment	53,000	26,000	15,000	15,000	15,000	124,000
Office Expenses	14,510	14,610	15,710	15,710	15,710	76,250
Administrative Costs	66,160	66,160	66,160	66,160	66,160	330,800
Financial Costs	12,400	12,400	12,400	12,400	12,400	62,000
Total	207,472	180,572	170,672	170,672	170,672	900,060

ODA FINANCING

ITEMS	TOTAL US$
(A) Advisor to PSRC Chairman	0.6 million
(b) Studies Fund	0.7 million

LART BUDGET

ITEMS	US$ PER MONTH	1993/94	1994/95	1995/96	TOTAL MAN MONTHS	TOTAL US$
I Incountry contracts						
a) Appraisal	10000 per appraisal	150,000	-		-	150,000
b) Liquidation Managers	3000 per liquidation	150,000	-	-	-	150,000
c) Controllers(15)	2000	360,000	-	-	-	360,000
II Long-Term Domestic Professions						
a) Administration	4500	54,000	54,000	5,400	36	162,000
b) Legal Officers(2)	4000	48,000	48,000	48,000	72	288,000
c) Operations	4000	48,000	48,000	48,000	36	144,000
d) Finance	4000	48,000	48,000	48,000	36	144,000
III Foreign Consultants						
Resident Advisor	24000	288,000	288,000	288,000	36	864,000
Technical Advisor	24000	72,000	72,000	72,000	9	216,000
IV Training		150				150
V Equipment		100				100
Total						2,728,000

Loans and Advances Realization Trust
Terms of Reference

Liquidation Adviser

The Liquidation Advisor will assist in the formulation and implementation of activities related to the liquidation of public enterprises.

The Liquidation Specialist is responsible for:

- Developing policy and establishing operational guidelines and transparent procedures for the preparation and implementation of the liquidation process. This could involve the preparation of a detailed Liquidation Process Manual which will describe the entire process, including specific functions that must be carried out by various Government entities.

- Analyzing organizational, institutional issues and constraints to liquidation and its implementation.
- Establishment of procedures and criteria for selecting and prioritization of enterprises that are candidates for liquidation.

- Reviewing financial management and auditing accounts of parastatal enterprise slated for liquidation.

- Assisting in establishing Liquidation Implementation Teams (LITs) for each enterprise to be liquidated.

- Identifying the requirements, writing scopes of work for tasks to be performed, and assist in recruitment of short-term experts and consultants to deal with valuation, marketing, financing, financial packaging, and with problems and issues as they arise related to liquidation.

- Advising on the financial restructuring measures such as the write down of assets, alleviation of liabilities, recapitalization and spinning off of assets; and other financial measures to prepare enterprises for liquidation such as debt restructuring, conversion into equity,etc.

- Overseeing that proper valuations are expeditiously conducted and advising, in the formulation of approaches to optimize benefits to the Government in setting and negotiating valuation ranges that would lead to successful negotiation of liquidation transactions.

- Assisting in selection of the optimum modality of liquidation for each specific transaction, be it sale of assets, lease of assets, contracting out, concession agreement, etc.
- Reviewing prospectuses and marketing plans and public tendering procedures, to inform and attract the widest possible interest among suitable prospective purchasers of the assets being spun-off. Included would be advise in packaging and presenting the enterprise's assets in ways to appeal to the widest range of buyers.

TANZANIA

DRAFT

PUBLIC SECTOR ADJUSTMENT CREDIT

PARASTATAL SECTOR REFORM COMMISSION

STATEMENT OF OPERATING POLICIES AND PROCEDURES FOR PRIVATISATION AND PARASTATAL REFORM

1. Rationale, Strategy and Objectives of Reform

1.1 From 1967, the Parastatal Enterprise (PE) sector developed rapidly, so that by 1992 a total of about 270 commercial production PEs are operating. Performance of some PEs has never been satisfactory, and many are making losses, even with Government support. The result has been that overall the PE sector has been an inefficient producer, unreliable employer, has charged high prices and been unable to respond to the consumer. The PEs have also created a serious burden for the Government budget and public administration capacity, and their dominance has led to restriction on resources for private enterprises.

1.2 In order to reorient Government's resources towards public services (e.g. education, health, and roads), to increase production efficiency and to eliminate budgetary drains to the PEs, the Government decided to reduce its role as a direct producer, and to provatise, wholly or in part, all commercial PEs. The possible privatisation of all or part of the activities of public utilities would be kept under review. The privatisation process is expected to take about five years, during which time most of the commercial PEs will be sold with majority private ownership, or liquidated in cases where viability cannot be achieved. The Government has also decided to initiate a reform program to improve the efficiency and profitability of PEs that would remain under majority state ownership, either transitionally or in the longer term.

1.3 In order to accomplish these objectives, the Government has decided:

(1) to establish a transparent and equitable process for privatisation ensuring that PEs are sold to reputable investors at reasonable prices, and with safeguards to ensure a degree of local ownership where appropriate, and fair treatment of workers who lose their jobs;

(2) take necessary steps to implement reform PEs.

1.4 The Presidential Parastatal Sector Reform Commission (PSRC) was set up by Cabinet Directive under the Policy Statement On Parastatal Sector Reform (PSP) in January 1992, to coordinate privatisation,

and to oversee improvements in the efficiency of PEs that remain in the public sector, either transitionally or in the longer term. The PSP sets out the Government's intention to:

1.4.1 Continue liberalisation of the economy in order to promote efficient production;

1.4.2 Eliminate subsidies to and preferential treatment of PEs and enforce autonomous and accountable operation;

1.4.3 Formulate a plan, according to appropriate criteria, for privatisation, liquidation or retention of PEs;

1.4.4 Prepare PE corporate plans for restructuring; introduce shareownership schemes to protect indigenous interests while attracting outside investment;

1.4.5 Identify PE indebtedness and introduce appropriate debt settlement procedures;

1.4.6 Provide transparent procedures for enterprise valuation and sale;

1.4.7 Introduce schemes to protect redundant workers through severance payments and retraining.

1.5 The amended Public Corporations Act (it is intended to incorporate these details in a further revision of the Public Corporations Act in 1993) of 1992 defines the legal persona of the PSRC, and is complementary to the PSP. It provides for:

1.5.1 Minority Government ownership of PEs, to be regulated under the Companies Ordinance, subject to specified powers of the Government as minority shareholder and protection of indigenous interests;

1.5.2 Elimination of the traditional role of holding corporations, with transfer of shares to the Treasury, and the definition of their role as consultancies operating in a competitive market;

1.5.3 Revised board powers to ensure autonomy of PEs retained in the short of longer term; establishment of performance monitoring systems for retained PEs;

1.5.4 Elimination of indirect and direct subsidies to commercial activities, and closure and liquidation of unviable PEs.

1.6 The Government's overall parastatal reform program objectives are, in summary, to increase economic growth and broaden the development process by:

1.6.1 Improvement in efficiency of production, maintaining reasonable prices and increasing responsiveness to domestic and foreign demand;

1.6.2 Budgetary savings through eliminating subsidies, generating revenue from asset sales, attracting private capital, and commercialising PEs;

1.6.3 Enhancement of opportunities for sustainable employment;

1.6.4 Reduction in the burden on Government administration, allowing it to concentrate on non-entrepreneurial functions and appropriate economic policies.

1.7 By privatisation the Government aims to:

1.7.1 Enhance direct responsibility for wealth generation through extending direct share ownership to individuals;

1.7.2 Support an enterprise culture and promote development of the private sector and capital market;

1.7.3 Promote recovery and expansion through participation of private capital and technical knowhow in the development process.

1.8 By PE reform and restructuring the Government aims to:

1.8.1 Ensure that PE's act as business entities without being required to carry out noncommercial activities except as explicitly compensated through the budget;

1.8.2 Eliminate political interference in operations and redefine functions and composition of Boards and management to allow autonomy and increase accountability.

1.8.3 Reduce supervisory and oversight agencies (such as SCOPO and Holding corporations) to the minimum consistent with efficient operation;

1.8.4 Introduce effective PE performance monitoring.

2. <u>Establishment and Operating Authority of the PSRC and Technical Secretariat</u>

2.1 The PSRC will provide the focal point for the activities of line ministries and all other Government agencies involved in the privatisation process. the PSRC is located in the office of the President, reporting to the President/through Cabinet Minister for Finance. Membership consists of seven high rank civil servants, bankers, and private individuals. The chief executive of the PSRC is the Chairman.

2.2 The PSRC is supported by the Technical Secretariat (TS) and international consultants. In order to ensure effective leadership and rapid decisions, subject to adequate transparency and accountability, the head of the TS is also the chairman of the PSRC. The staff complement of TS will consist of approximately 20 specialised professionals appointed for medium-term contracts on special terms of service. The staff will be divided into two main departments for divestiture and for PE reform. The PSRC is expected to have a finite life, approximately consistent with the main part of the privatisation Programme, of about 5 years. Longer-term responsibility for PE reform and oversight after completion of privatisation will be subject to review.

2.3 Regarding privatisation, the approval authority for PE divestments and liquidations will be vested in the President or the Cabinet through its Economic Committee (ECC). This authority will apply both to general approvals of privatisation plans and specific proposals for privatisation of enterprises. The President or the Cabinet may delegate approval authority in specific cases to the PSRC, and to the Screening Committee of the LART (for liquidations). The approval of lease agreements is vested in the PSRC, where ownership is involved. All privatisation transactions will be negotiated by the PSRC. The PSRC at its discretion may, however, delegate this authority to a sector ministry of a Government department. Ongoing transactions under the supervision of line Ministries, that have not reached an advanced stage of activity negotiation, will be transferred to the control of the PSRC.

2.4 The PSRC will be consulted through the LART screening committee on decisions to transfer PE assets to the LART for liquidation, in order to ensure that PEs are marketed in the best interests of the State. The PSRC will always work closely with the LART administrator. The PSRC will also develop close links, through for example, subcontracting of studies and professional services, to Government departments and agencies important to the reform process, including legal and financial institutions, investment promotion, auditing and consultancy agencies, and parastatal corporations previously holding enterprise portfolios, and now charged with the function of providing consultancy services.

2.5 Regarding reform of PEs, the PSRC will initiate, facilitate and monitor implementation of management contracts involving no sales or leases of assets, but <u>approval power</u> will remain with the President or the ECC. The PSRC will initiate and facilitate introduction of performance contracts and agreements between PEs and their boards, and supervise their operation, in conjunction with the Treasury (CPI) and sector Ministries. The line ministries will advise the President on the appointments of the Chairmen and will appoint board members of PEs. The PSRC shall act as a

principal adviser to the Government on legislation affecting PEs and business enterprise.

3. Principles of Parastatal Privatisation

The following are the principles of privatisation strategy:

3.1 The privatisation process will be undertaken with the maximum transparency and public accountability, with appropriate safeguards for indigenous interests subject to reasonable requirements for speed and the need to provide attractive investment opportunities.

3.2 Transparency will be ensured by documentation on the financial position of PEs privatised, their valuation, and evaluation of bids, which will be published, either before, or, in cases where confidentiality is needed, after, the conclusion of a transaction.

3.3 To strengthen transparency, the net cash flows to the Government from privatisation should be monitored through a Treasury account.

3.4 A post-privatisation monitoring system should ensure adherence by privatised enterprises to agreements entered into under sales contracts (e.g. relating to employment, products).

3.5 Selection of PEs for privatisation will be based on the following criteria:

(i) efficiency improvement - enterprises that are potentially efficient and can be turned around to become profitable;

(ii) fiscal improvement - enterprises that are lossmakers and a drain on the Government budget should be sold or, if necessary, closed and liquidated;

(iii) acceleration of privatisation process - enterprises that are profitable, or small-scale and easily disposed or, either through sale or liquidation.

3.6 In order to ensure preservation of indigenous interests, share instruments and special allotments will be used (including public offers with limitations on holdings, golden shares, employee shares and Government holdings for divestment to the general public), subject to case-by-case agreement with prospective investors.

3.7 Where a PE that is being privatised is burdened with debts owed to Government agencies and state banks, the Government will adopt a flexible stance in relation to the assumption, cancellation or conversions of such debt, or payment of such debts on the basis of defined priority of claims by the different agencies to avoid delays in settlement. New investors will not be expected to take over existing debt except insofar as is desirable to achieve an

effective capital restructuring of an enterprise, agreeable to all parties to a transaction.

3.8 Apart from financial organisational restructuring, and minor repairs and renovation, in general, no rehabilitation expenditure will be permitted for enterprises expected to be privatised within a foreseeable future.

3.9 Privatisation and closures will take place in keeping with the interests of the labourforce, through share allotments, redeployment support (retraining), and ensuring severance payment have prior claims on assets of liquidated enterprises.

3.10 Where PEs are privatised as monopolies, protection of consumers will be assured through strict regulations to be enacted by the Government, or through the establishment of Regulatory Bodies.

4. Principles and Actions on Parastatal Reform and Restructuring

4.1 The principles of parastatal reform and restructuring strategy are:

4.1.1 The Government will continue to pursue economic policies designed to level the playing field between PEs and the private sector including elimination of preferential access of PEs to resources and markets combined with deregulation and increased accountability, and price, taxation and regulatory policies to improve the overall business environment.

4.1.2 Direct and indirect subsidies to commercial PEs will be phased out, and PEs should not be obliged to undertake noncommercial activities such as sale of lossmaking products or production in uneconomic locations unless they are fully compensated as of right.

4.1.3 In order to ease the transition to removal of subsidies, transitional or limited assistance will be permissible in exceptional cases where PEs have some prospect of recovery or where major social costs of closure are likely, provided that assistance is in return for performance targets which must be adhered to, failing which a PE would be closed.

4.1.4 As part of the reform of the PE sector, major debts of PEs to the Treasury and banks, and inter-enterprise debts, may be restructured in appropriate cases in order to control excessive unserviceable debts and to assist a return to profitability. Steps would be taken to prevent recurrence of unsustainable indebtedness through arrears or other causes.

4.1.5 Management autonomy and accountability are key to the future prospects of retained PEs. The board, management and

external supervisory and oversight system should be designed so as to maximise internal control of business decisions, while management adopts systems that allow regular accounting and reporting and provides adequate incentives to workers.

4.1.6 PEs should undergo productivity improvement programmes through reorganisation of management and staffing, which include establishment of performance agreements and monitoring systems based on corporate restructuring plans.

5. Guidelines for the Privatisation Process

5.1 The PSRC will formulate and implement strategies and plans for privatisation using all available techniques including trade sales, joint ventures, public and private share offers, auctions and sales by competitive tender, new private investment, management and worker buyouts, leases, contracts, asset sales and liquidation. The PSRC will prepare time-phased priority lists for privatisation, and secure the Cabinet approval.

5.2 A detailed database on most PEs, covering their financial position (taking into account direct and indirect subsidies) and their indebtedness to all creditors. Such financial information is essential as a basis for each privatisation transaction, enterprise valuation, determination of appropriate capital structure, and settlement of debt.

5.3 In order to ensure transparency, procedures would be adopted as follows, subject to flexibility in application:

(i) Preparation of PEs for Market

5.4 Taking into account the objective of maximising eventual returns to the Treasury, the PSRC, with appropriate outside assistance, would:

5.4.1 Appoint an inhouse officer to coordinate all aspects of a particular sale.

5.4.2 Carry out appropriate economic studies for the enterprise, technical appraisal, market and competition, resources, business prospects, manning levels.

5.4.3 Identify appropriate investors or investor groups.

5.4.4 Identify legal status of PE, and assemble appropriate title documentation. Identify land lease and tenure status, and possible impediments to sale.

5.4.5 Carry out valuation, the method to depend on whether the enterprise is to be marketed as a going concern, or for liquidation of assets. Establish a range of values, to be

used as the basis for trade sales, share issues or asset sales.

5.4.6 Select preferred shareholding structure and sales method on basis of financial condition of PE, characteristics of prospective buyer(s), and objectives of Government (current shareholder) - to include trade sales, joint venture sales, share offers, buyouts, leasing, share allotments (Government shares, employee shares, etc), or liquidations.

5.4.7 Identify indebtedness of PE, total and sources, and initiate arrangements for settlement of claims of public and private sector creditors.

5.4.8 Identify employee pension and terminal payments position, and outstanding claims.

(ii) Implementing Sales

5.4.9 On the basis of the above, prepare prospectus and offering documents, marketing plans and financing options, to implement various methods and stages of privatisation and liquidation, as described in Annex A.

G. F. Mbowe
Chairman,
P S R C

February 1993

ANNEX A

Outline Procedures for Execution of Transactions

The PSRC will adopt, as appropriate, standard procedures for each type of transaction, including divestment, leasing, and contracts, in order to ensure public understanding or the process and transparency of decisions. In many cases specialist advisers will be needed, contracted from outside, especially in the initial stages of the PSRC's programme. In outline, the procedures to be followed are set out below:

1. Sale of Assets, with or without Liquidation

a. Liquidation, Privatisation through Asset Sale:

ACTIONS: (i) Prepare action plan for liquidation and asset sale.

(ii) Submit plan to the Commission for approval.

(iii) Appoint receiver/liquidator, and define his powers.

(iv) Oversee receiver's actions which include:
* sell assets;
* collect receivables and other revenues;
* satisfy creditors to extent possible;
* dispose of revenue balance, if any;

(v) Send sale competition report to President.

b. Privatisation through Asset Sale Only:

ACTIONS: (i) Make and publicise arrangements for sale by transparent competitive bidding/auction procedures.

(ii) Submit package to Commission for approval.

After Approval:

(iii) Execute sale arrangements.

(iv) Send sale completion report to President.

2. Privatisation through Sale as Going Concern

a. Private Placement/Direct Negotiation:

ACTIONS: (i) Appoint project manager and advisors.

(ii) Identify target investors/buyers.

After Approval:

(iii) Execute marketing plan, overseen by capital market authority or interim body.

(iv) Send sale completion report to Cabinet.

b. Management/Employee Buyout:

ACTIONS: (i) Appoint trnasaction manger.

(ii) Negotiate with representatives of PE management/employees and any outside financing entity(ies) that may be involved.

(iii) Develop a mutually acceptable package for straight buyout (zero or small outside financing) or leveraged buyout (substantial outside financing including valuation).[1]

(iv) Submit package to the Cabinet for approval.

After Approval:

(v) Executive package.

(vi) Send sale completion report to Cabinet.

3. Privatisation of Management Only

a. Management Contract (for contracts supervised by PSRC):

ACTIONS: (i) Assess options (contract with straight fee, profit or profit - and - loss participation, equity participation either initially or as part of compensation, others), decide on one.

(ii) Carry out valuation.

(iii) Prepare prequalification criteria, publicise prequalification procedures.

(iv) Identify performance indicators, degree of autonomy to be granted to contracted manager, prepare selection

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[1]/ If there is only one target buyer group (management or employee unit alone or with outside financing entity), valuation is likely to be desirable as guideline for negotiations. In case of leveraged buyout where management/employees purchase is financed by outside institution, the latter may also wish to do its own valuation.

criteria, publicise transparent procedures for bidding and selection including logistics.

(v) Design arrangements for monitoring management.

(vi) Solicit, obtain expressions of interest.

(vii) Prequalify interested parties.

(viii) Negotiate mutually acceptable package.

(ix) Submit package to the President or the Cabinet (ECC) for approval.

After Approval:

(x) Implement package.

(xi) Send sale completion report to Cabinet (ECC).

b. Public Sale by Tender/Auction (variable price):

ACTIONS: (i) Identify target buyer group(s).

(ii) Prepare, distribute prospectus with full information on company, prospects.

(iii) Publicise criteria, rules, logistics of bidding/auction.

(iv) Make and publicise arrangements for dealing with bids (opening, evaluation) auction results.

(v) Submit package to the President or the Cabinet (ECC) for approval.

After Approval:

(vi) Execute arrangements.

(vii) Send sale completion report to Cabinet (ECC).

c. Public Sale (fixed price):[2]

ACTIONS:

(i) Appoint transaction manager and adviser (e.g. investment bank).

(ii) Carry out valuation.

(iii) Determine offering price.

(iv) Prepare prospectus, complying with legal, financial and disclosure requirements.[3]

(v) Devise sales strategy (target groups, methods of reaching them, and timing of sale.

(vi) Make marketing plan using most appropriate instruments:
* mass distribution, development of distribution network, shareholder register;
* limited distribution (to target groups); or
* lottery sale.

(vii) Submit marketing package for Cabinet (ECC) approval performance/PE results; and (ii) ensuring maintenance/development of assets, to be incorporated in contracts.

(viii) Receive bids, make selection of short-list winners.

(ix) Negotiate with winners for best contract deal.

(x) Submit package to the President or the Cabinet (ECC) for approval.

After Approval:

(xi) Execute contracts, implement monitoring/other arrangements as designed above.

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[2]/ In the absence of a stock exchange, or organised capital market, and where local financial intermediaries are not adequately experienced for a large sale, ad hoc measures will be needed. A capital markets authority is currently planned, whose function would be to supervise share issues.

[3]/ These requirements will be developed under the legislation for the Capital Markets Authority.

d. Asset Leasing:

ACTIONS: (i) Similar procedure to management contracts except that asset leasing contract provides for basic (quasi-rental) payment by lessee to Government as owner/lessor which may be varied through profit participation, etc. A variant also provides for lease with option to buy, either outright or on graduated basis. Therefore, actions to be taken depend on type of lease decided upon. Agreed contract is submitted to Cabinet (ECC) for approval, and then executed.

APPENDIX III

CIVIL SERVICE REFORM

(a) Institutional and Administrative Arrangements

- CSR Management Implementation Framework
- TOR for Resident Advisor

(b) Program Elements

(i) Retrenchment and Redeployment

- TOR for chairman
- TOR for task force
- TOR for resident assistance
- TOR for consultancy assistance

(ii) Personnel Management

- TOR for task force
- TOR for consultancy assistance

(iii) Pay Reform

- TOR for task force
- TOR for resident assistance
- TOR for generic reviews

(c) Overall cost table

(d) Timetable for major actions.

INSTITUTIONAL AND ADMINISTRATIVE ARRANGEMENTS

Introduction

1. The implementation of the CSRP will comprise relatively complex and intricate managerial processes. Most of the tasks to be performed have no routine in the civil service. Furthermore, the managerial capacity of the service is severely limited in terms of skills, morale and productivity. In the circumstances, the feasibility and effectiveness of the implementation of the CSRP will significantly depend on the robustness of its institutional and administrative arrangements.

2. Moreover, a reasonable pace of program implementation will entail institutional arrangements that can minimise bureaucratic procedures. Also, since the implementation will be a long-term process (probably five years), it will be important that there are institutional mechanisms to monitor and check on inertia among the implementing agencies.

3. It is in the context of the above that the overall institutional and administrative arrangements for the implementation of the CSRP, as diagrammatically illustrated, have been defined. The roles and functions of the key institutions and administrative mechanisms are outlined below.

The Inter-Ministerial Technical Committee

4. The inter-ministerial technical committee (IMTC) is constituted of Principal Secretaries and it is chaired by the Chief Secretary who is the Head of the Civil Service and Secretary to the Cabinet. It exists for the coordination of all civil service operations, and review and clearance of policy documents for submission to the cabinet. Within the framework of these broad institutional role, the IMTC will provide a forum for (i) communicating cabinet decisions on the CSRP to all Principal Secretaries; (ii) top-level technical review of the CSRP policies, strategies and implementation activities; and (iii) inter-ministerial coordination of the program's implementation activities.

The CSRP Steering Committee

5. The CSRP Steering Committee was established by the Government in March, 1992. The committee is constituted of:

- the Principal Secretary, CSD (Chairman)
- the Principal Secretary, Office of the Prime Minister (OPM)
- the Principal Secretary, Planning Commission
- the Principal Secretary, Treasury
- the Principal Secretary, Ministry of Labour and Youth
- the National (UNDP funded) Project Coordinator (Secretary).

6. The Steering Committee is responsible to the Cabinet for the implementation of the reforms. Through the Cabinet approval of the scope and strategy of the Program, the committee will be mandated to make all operational decisions on the program implementation.

7. The Steering Committee will therefore provide strategic leadership, and coordination of the program in order to sustain implementation momentum. Accordingly, while the Committee will necessarily delegate coordination of the implementation process to the program management and coordination committee (PMCC), and the day-to-day management of the reform tasks to the respective technical task groups (TTGs), it will be directly responsible for ensuring progress and effectiveness in the program implementation. In the latter context, it is expected that the Steering Committee will meet at least once every month especially during the first 18 months of the program implementation.

8. The Committee will be accountable to the Cabinet, through the IMTC. In this context, it will regularly (on a quarterly or half-yearly basis) prepare and submit for the cabinet concise progress reports on the program implementation.

GOT/Donors Technical Co-ordination Committee

9. During the preparation of Government's reform program regular meetings have been held between CSD and key donors/IDA to review the studies undertaken and to agree next steps and needed funding.

10. Even with the formalisation of the program and assured funding from IDA and UK-ODA, the committee will continue to meet in order to (i) appropriately integrate expected assistance from UNDP; (ii) review progress in the key components of CSR and (iii) provide a forum for exchanges of view on additional areas and funding that would facilitate integration of donor/IDA/government efforts through technical assistance use.

The Program Management and Coordination Committee

11. The Program Management and Coordination Committee (PMCC) will be constituted of:

- the Principal Secretary, CSD (Chairman);
- all the leaders of the various implementation technical task groups;
- all the Directors of the CSD; and

12. The PMCC will be the institutional mechanism for technical and direct oversight on the management and coordination of the program implementation activities. In this context, every member of the PMCC will be responsible for championing and/or execution of specific elements of the reform program. Furthermore, the committee will regularly specify targets for the technical task groups.

13. The committee will be accountable to the Steering Committee to which it will submit a monthly progress report on the program implementation.

Implementation Task Groups

14. The implementation task groups will be constituted of technical experts. This organizational mechanism is adopted because, at least in the short to medium term, it will be crucial to the successful implementation of the program that:

(i) the execution of the tasks is not either significantly hindered by red-tape or entirely circumscribed by the existing organizational capacity and formal allocation of functions in the CSD, which is the institutional home for the implementation teams;

(ii) there are feasible mechanisms for effectively pooling technical skills from two or more independent government organizational units, and possibly external agencies (such as consultants) in the execution of specified tasks; and

(iii) performance and achievements in implementation are judged on the basis of expected results rather than the inputs, which is often the convention in the organizational units within a formal bureaucracy.

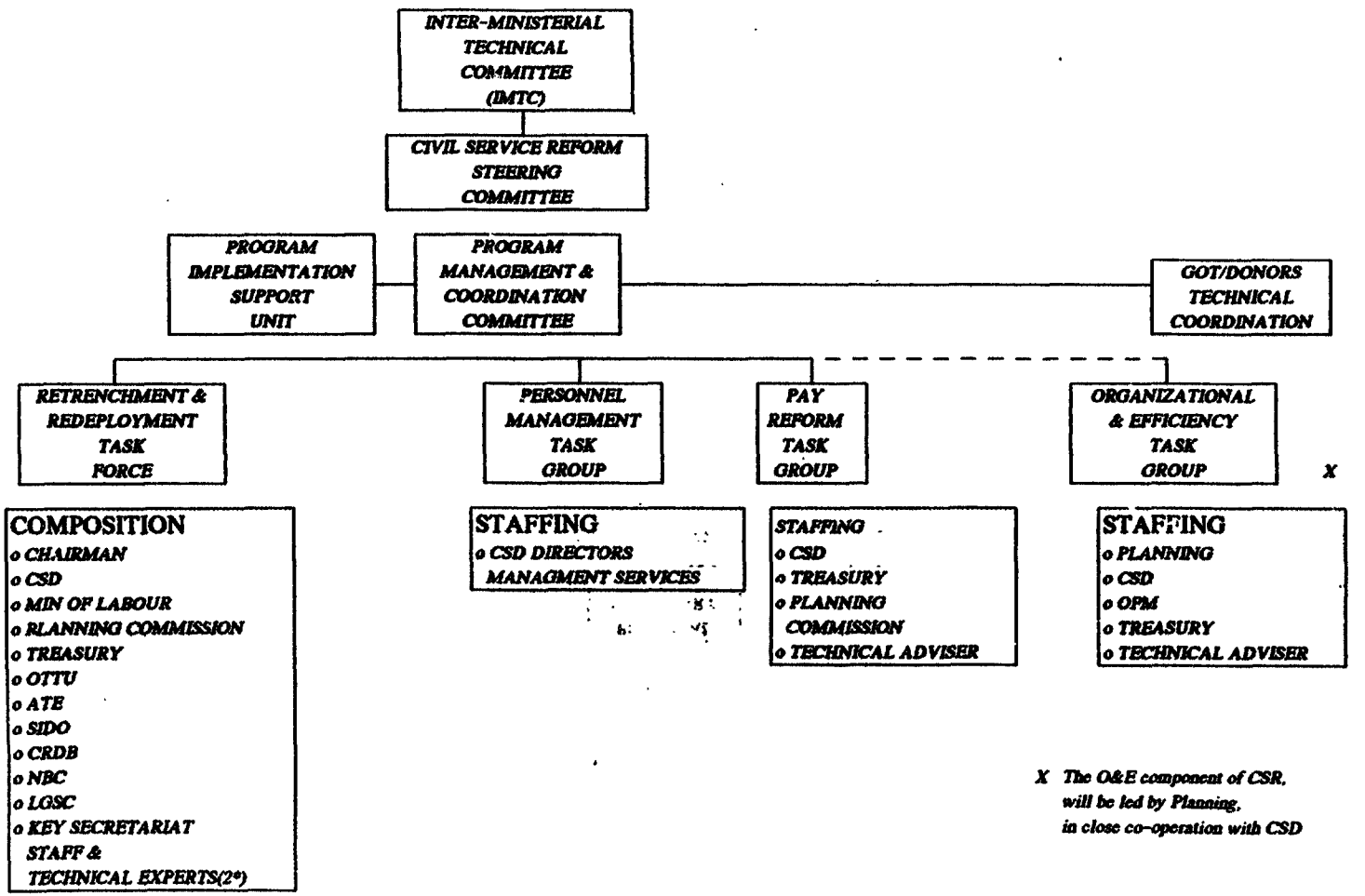
15. Technical task groups have been formed for each of the major reform areas. Details of the roles and functions (TOR), and the composition of the implementation task groups are presented in the following pages of Appendix IV.

The Civil Service Department

16. The Civil Service Department (CSD) as the Government organ mandated to manage and improve performance of the other Government organs and their personnel has clearly the vested interest as well as responsibility for the implementation of this reform program. However, in recognition of CSD's limitations, in terms of technical capacity and authority for driving and coordinating the reform processes, the institutional and organizational mechanisms described above have been introduced. Nevertheless, the CSD is still geared to play a lead role as the dominant advocate and executor of the Civil Service reforms. In this sense, the Institutional and organizational mechanisms described above (i.e. the Steering Committee, the task groups, etc.) are viewed by the CSD as vehicles to facilitate its implementation of the reform program.

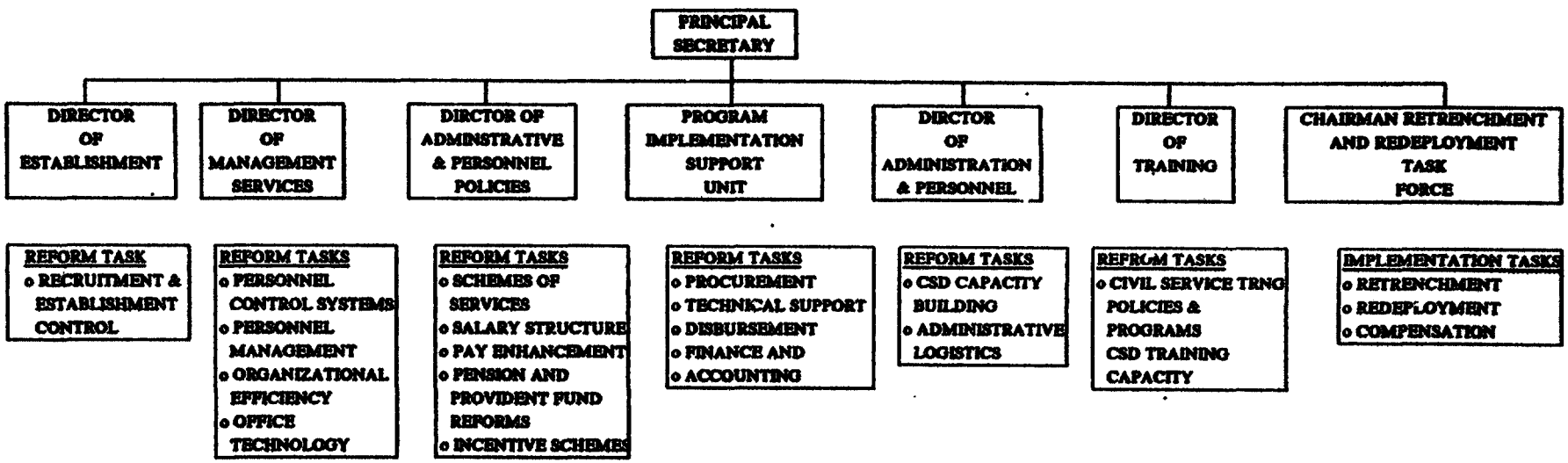
17. In the context outlined in para 16, it has also been considered useful that the tasks involved in the implementation of the reform program are allocated between the existing organizational divisions of the CSD (see diagram). However, considering the fact that the tasks and functions to be performed in retrenchment and redeployment do not fall among the routines of the CSD, it has been considered useful that a **secretariat** to provide technical and administrative support to the **Retrenchment and Redeployment Task Force** (as described in a seperate annex) is established at the CSD.

CIVIL SERVICE REFORM PROGRAM



X The O&E component of CSR, will be led by Planning, in close co-operation with CSD

CIVIL SERVICE REFORM PROGRAM
CSD ORGANIZATIONAL ARRANGEMENTS FOR PROGRAM IMPLEMENTATION



Expanded Background, Role and Work Program of the Residential Advisor on Civil Service Reform

Background

1. In 1993 the Government approved a strategy paper for a 5-year program of reform of the civil service. The four central elements of the reform include:

- a reshaping of Government's role in the economy, through the redesign of Government organizations and ministries;
- a reduction in the number of staff maintained on Government's payroll, with a complimentary program of redeployment;
- an increase in civil servants remuneration, with a complimentary program of rationalization and monetization of benefits, and an equitable salary scale, reflecting the priorities of Government's new role;
- an improved personnel management system, that ensured appropriate hiring, promotions, discipline and retirements within a framework of appropriate training and resource usage, to ensure efficiency and effectiveness.

Institutional Framework for Reform

2. The Civil Service Department (CSD) within the Office of the President will be the major implementing agency for the four elements of the programs described above. A variety of different committees and task forces will be formed under the auspices of CSD, and will report to a Steering Committee.

Provision of Needed Assistance

3. Government needs assistance with general management and detailed technical expertise required to refine, implement, coordinate and monitor the overall CSR program and the short-term targets. Thus donors and IDA have agreed to provide financing for technical assistance, vehicles, equipment and training over the next five years.

Role and General Work Program of the Residential Advisor

4. Within this general framework and background the residential advisor will be required to:

(a) Liaise with donors on the timing and content of other assistance, thus ensuring complementarity and transparency of assistance.

(b) Develop detailed project documents to guide Government actions (Steering Committee), and in order to acquire needed inputs from donors.

(c) Assist Government with essential reports for donor meetings, consultative group meetings, IDA/IMF/PFP/ESAF missions.

(d) Coordinate the inputs of Government (CSD/Line Ministries) through the respective managers of other various program elements, in consultation with the Implementation Task Forces.

(e) Provide advice to the Principal Secretary, CSD, in his capacity as Chairman of the Steering Committee, on adjustments to the general program, in order to maximize returns from implementation efforts.

(f) Act as the "Communications focal point" between CSD, MOF/PS and other ministries to ensure overall coordination of the program.

5. Specific workplan - first six months.

(a) Review all current documentation from Government, IDA, UNDP, UK-ODA and donors relating to the CSR program.

(b) In light of above, provide Government with advice on the organization, management, inputs and implementation of the program elements under way, and ensure needed adjustments are carried out.

(c) Provide a detailed write-up on each of the programs as adjusted, for UNDP/IDA/ODA, as the basis for inputs from these parties over the next six months.

(d) Ensure needed T.A. contracts for local/international experts are executed properly and in line with agreed TORs that reflect priorities in the program.

(e) Conduct bi-weekly meetings with the Implementation Task Forces and provide appropriate technical advice to ensure progress is being maintained in line with (c) above.

(f) In addition to (c), which will be provided within one month of taking up the post, provide a three and six month report to the Principal Secretary, CSD on the status of reform, with recommendations for adjustment.

(g) As part of the Six Month Report prepare the overall 1994 Work Program for Government,(Steering Committee), including:

- program activities
- needed inputs from Government
- needed inputs from IDA/UNDP/ODA/other donors
- defined outputs, including timetables for accomplishment

(h) As part of Government's overall effort to attract assistance from bi-lateral donors for financing redundancies, enhancement of salaries and monetization of benefits, assist CSD/MOF/PC to prepare the presentation for the 1994 C.G. Meeting in Paris. Specific attention will be required to ensure propsals and plans are contained within the forecast macro framework, and the prioritization of expenditures within the PER.

Retrenchment and Redeployment Task Force (RRTF)
Draft Terms of Reference

Chairman

Role and Functions

1. The Chairman will lead an inter-agency Task Force in the Implementation of the Retrenchment and Redeployment component of the Civil Service Reform Program (CSRP), whose tasks have been described in a separate TOR.

2. The postholder will, in the first instance (i.e. in performance of his tasks), be responsible for the other members of the RRTF. For policy guidance, he will be accountable to the Head of the Civil Service/Secretary to the Cabinet, through the CSRP Steering Committee.

3. The postholder will serve the RRTF on a full-time basis. Accordingly, he will be the Chief Executive of a Technical Secretariat for the RRTF.

4. The postholder will also be a member of the Program Management and Coordination Committee (PMCC) to which he will present progress reports on program implementation.

Duties of the Chairman, RRTF

5. The duties of the Chairman will include the following:-

(a) (s)he will be incharge of the management of the Task Force and its secretariat.

(b) (s)he shall supervise the execution of the action plan on retrenchment including, inter-alia: (i) supervision of identification of staff to be retrenched using set criteria (ii) the verification of information of each retrenchee with a view of ascertaining authenticity of severance package to be paid (iii) ensuring that payments are made on time and at the right place to minimize cost to government and retrenchees (iv) receive and investigate any cases of complaints by retrenchees; (v) assist the CPFAU to obtain funds for retrenchment;

(c) (s)he shall supervise the execution of the action plan on redeployment including, inter-alia: (i) supervising the experts (consultants) in developing programs for educating the retrenchees on available opportunities for entrepreneurial training, self-employment, income enhancement and credit; (ii) to contact and mobilize for redeployment support other institutions involved in promoting self employment and entrepreneurial activities, (iii) to mobilize resources on the basis of commitments by the Government, Donors and NGOs, and continue to explore new sources of funding.

(d) to prepare monthly progress reports on Retrenchment and Redeployment implementation and submit to the (CSRP) Steering Committee.

Qualifications and Experience

6. The Chairman of the RRTF will be a Tanzanian who has served in the Civil Service at a senior level (i.e. at SS salary grades) for at least five years. He should have complete knowledge of civil service regulations and the operations of its administrative system.

7. More pertinently, the postholder will be perceived to be one whose technical skills and experience deserve the respect of senior officers in the public and private sectors, and the representatives of NGOs and donors community who are likely to sponsor redeployment projects.

8. The postholder will have a dynamic personality, and strong oral and written communication skills.

Terms and Conditions of Service

9. The Chairman of the RRTF will be engaged into the post on a two-year contract, renewable for a third year if necessary. He will however hold the post at the pleasure of the President of the United Republic of Tanzania. In any case, if the postholder is recruited from the Civil Service, he will be entitled to revert to his previous post or equivalent on termination of the contract.

10. The remuneration and benefits attached to the post will be comensurate with the qualifications required and will be negotiated with the individual selected for the post.

Terms of Reference for the Program Implementation Task Force

The Retrenchment and Redeployment Task Force

The Rationale

1. The implementation of the civil service reform measures is clearly an administrative responsibility of the Civil Service Department. There is however a concern that political difficulties as well as administrative bottlenecks may severely constrain CSD's capacity to managem the retrenchment and redeployment tasks. It is therefore proposed that a task force is formed to handle both the day to day management and the quasi-political aspects of the retrenchment and redeployment implementation tasks.

2. A crucial role of the Task Force will be to provide impetus and sustain momentum of implementation by setting targets, fostering, directing and monitoring performance by ministries and other agencies. Accordingly, the Task Force will identify and address bottlenecks and any inertia in the implementation processes.

Functions of the Task Force

3. In Retrenchment, the functions of the Task Force will be:-

(a) To set retrenchment implementation targets on the basis of the Government's policies and goals for civil service reform;

(b) To define administrative policies and procedures, and prepare and issue guidelines for the implementation of retrenchment.

(c) To scrutinize, and if in order approve, the submissions of retrenchment numbers, positions and names submitted by ministries with a view to ensuring objectivity and fairness in the targeting and selection of the retrenchees;

(d) To monitor and follow-up on retrenchment implementation by ministries, regional administrations and local authorities, and thereby sustaining the pace of implementation;

(e) To inspect and guide the conduct of retrenchment by the implementing agencies;

(f) To receive and handle grievances from retrenchees;

(g) To liaize with the CSR Steering Committee on policies, strategy and goals of the retrenchment implementation;

(h) To liaize with the Treasury and the Severance Packages Administrative Unit on the sufficiency and availability of funds and timely payments to the retrenchees;

(i) To regularly report to the CSR Steering Committee on progress and bottlenecks in the implementation of retrenchment.

4. **In Redeployment**, the functions of the Task Force shall include:-

(a) To launch a information and education program of targeted messages to the potential retrenchees and the general public on the policy goals, context and implementation activities of the public sector reform programs, and Government interventions to alleviate the social costs of the reform programs;

(b) To mobilize local and foreign institutions, especially NGOs for the implementation of the redeployment programs;

(c) To facilitate NGOs implementation activities by identifying and eliminating policy, legal, regulatory and other constraints facing such NGOs;

(d) To foster collaboration between local and foreign institutions in the funding and implementation of redeployment programs;

(e) To mobilize resources required for the implementation of the programs, especially the IEC and counselling activities;

(f) To monitor and coordinate redeployment implementations with a view to guiding on effective and efficient use of resources, identifying gaps in the availability of resources and in the interventions, fostering collaboration and regularly assessing the impact of the implementations; and

(h) To regularly inform the Government, through the CSRP Steering Committee on the progress, effectiveness and anticipated impact of all the safety net measures.

Membership of the Task Force

5. Membership of the Task Force will include representatives from:

(a) the Ministry of Labour;
(b) the Civil Service Department;*
(c) the Planning Commission;
(d) the Treasury;*
(e) the Trade Union (OTTU);
(f) the Employers Organization (ATE);
(g) Small Scale Industries Development Organisation (SIDO).*
(h) Financial Institutions (LAPF, CRDB, NBC).
(i) Local Government Services Commission (LGSC).
(j) Office of the Prime Minister and First Vice President.
(k) others by invitation (e.g. representatives of the Donor Community and NGOs).

* denotes full time membership

6. A Retrenchment and Redeployment Secretariat to operate on the directions of the Task Force will be established in CSD with representation from the Ministry of Labour and Youth Development.

Civil Service Reform Program

Retrenchment and Redeployment Component

Draft Terms of Reference

Redeployment Adviser

Responsibilities and functions

1. The Redeployment Adviser will be responsible for providing on-hand and all-round technical guidance to the Retrenchment and Redeployment Task Force (RRTF) in the development, promotion and implementation of programs and projects to support the redeployment of retrenchees into alternative gainful employment.

2. The Adviser will functionally report to the Chairman, RRTF.

3. The Adviser will work in conjunction with the Government officers in the Redeployment unit on the following tasks:-

a) design and implementation of an information, education and counselling program targeted at both the general public and the retrenchees.

b) design and programming for implementation projects to support retrenchees in self-employment and income enhancement;

c) promotion, monitoring and coordination of the implementation of redeployment projects, especially by:-

i) identifying gaps in the availability of interventions and resources
ii) guiding the RRTF and projects' sponsors on effective and efficient use of the available resources,
iii) active involvement in fostering collaboration and coordination among the implementing agencies; and
iv) coordination among the donors in the implementation of the redeployment projects.

d) preparation of regular progress reports for submission to the PMCC and the Steering Committee on the implementation activities.

Qualifications

4. The minimum qualification for the post-holder shall be:-

a) a masters degree in economics or business administration;

b) ten years post-graduate experience in the design and implementation of programs in IEC, employment generation, entrepreneurship development and credit;

c) two years working experience in a developing country, preferably sub-saharan Africa;

d) demonstrated ability to canvass for and coordinate NGO's and donors' support in the implementation of a multi-agency program.

Tenure for the position:

5. The position will be funded for two to three years, depending upon the progress made in developing and implementing the programs, and the number of retrenchees to be assisted. Appointment will be for one year, on a renewable basis, with the agreement of all parties.

Consultant Services for the Implementation of an Information Counselling and Entrepreneurship Development Training Program for Retrenchees

Draft Terms of Reference

Background

1. In the context of the policy objective to develop a compact, efficient and effective civil service, and on the basis of systematic reviews of its functions and manning levels, the Government has determined the need to lay off some 50,000 of its employees. Further, the Government has already determined the strategy, criteria and procedures for targeting and selecting the retrenchees. The retrenchment will be carried out over a period of three years, beginning with some 10,000 before the end of June 1993, and another 20,000 in each of the subsequent two financial years. It is possible that the number of retrenchees could increase beyond the stated level, depending upon the outcome of further studies to be conducted across Government ministries.

2. To cushion the social and psychological trauma of abrupt termination of employment, and enhance the capability of the retrenchees to redeploy themselves, especially in self-employment ventures, the Government has determined the need to pay a retrenchment package for all bonafide retrenchees. The payments will include statutory entitlements plus an ex-gratia payment. The ex-gratia payment has been fixed at the rate of 4 months of current salary for every year of service, up to a maximum of ten years.

3. In addition to the retrenchment package, the Government proposes to effect other interventions that will assist the retrenchees by enabling them to identify and exploit alternative employment and income enhancement opportunities, and especially initiating new business ventures. The required redeployment support programs will cover:-

a) information and counselling of all retrenchees;

b) skills updating and retraining of selected numbers of retranchees; and

c) entrepreneurship development training for a limited and selected number of retrenchees.

4. The Government now wishes to engage the services of an institution with capacity and experience in the provision of information counselling and entrepreneurship development training services to the retrenchees.

Scope of Work

5. The tasks of the contracted institution will include the following:-

a) to survey and assess the need and scope for providing the retrenchees with information, education and training services;

b) to develop, package and deliver information, education and training services to retrenchees.

c) to counsel all the retrenchees on opportunities and ways to adjust into alternative occupations;

d) to identify and assess the entrepreneurship potential among the retrenchees, and thereby select those suitable for entrepreneurship development training.

e) to carry out entrepreneurship development training for the selected retrenchees.

Location of needed Services

6. Services will need to be provided across the country, at several different locations, which are yet to be determined. Also, retrenchment will be a continuous process over the three year period, and courses/counselling will need to be available to affected individuals within a short period of them leaving the Service.

Timing and Delivery of Services

7. The Services sought are required to be in place not later than ....., and must be maintained for at least three years. The contractor is to be directly responsible for costing and making payment for all proposed aspects of the needed assistance within the response to this Request, including payment to local contracted personnel, rents for premises, equipment, and operating costs.

Terms of Reference for Implementation Task Force

Personnel Management Task Group

Introduction

1. Improvements in the systems and practices of personnel management will be at the core of the Civil Service Reform Program. As a matter of fact, the consolidation and sustainability of the gains attained through the other reform measures will largely depend of complementary achievements in the area of personnel management.

2. The Personnel Management Task Group will be overall responsible for the technical identification, assessment and implementation of the personnel management measures required to achieve the goal of an efficient and effective Civil Service.

Roles and Functions of the Task Group

3. The functions of this Task Group will be:-

(a) to ensure the implementation of the CSRP Action Plan for improvements in personnel control and management;

(b) to make recommendations to the Government through the CSRP Steering Committee for measures to improve personnel control, and the systems and procedures of personnel management;

(c) to liaise closely with the other Task Groups, especially the Pay Reform Group in order to ensure complementality and minimize incidence of discordance in the implementation of the different program components.

Constitution of the Task Force

4. This Task Group shall be consistituted of personnel specialists, and will include:-

- the Director of Management Services, CSD (Chairman);
- the Director of Training CSD; and
- a Personnel Specialist from the Institute of Development Management (IDM).

5. The Group's establishment will be the responsibility of the Principal Secretary, Civil Service Department.

Draft Terms of Reference for Consultant services support in the implementation of Improvements in Personnel Control and Management

Background

1. Weaknesses in the systems and practices of personnel control and management have had the most pervasive negative impact on the capacity and performance of the Civil service. Thus most of the major problems facing the Civil Service, i.e. over-manning, low morale and productivity, indiscipline, etc., can be directly attributed to ineffectiveness of the personnel management function. Accordingly, the Government has for the past few years initiated measures to control personnel numbers and improve management. Among these initiatives are for example, the clarification of Government policy and regulations on recruitment into the Civil Service, and the census of civil servants that was undertaken in 1988 and the subsequent computerization of personnel records.

2. Nonetheless, additional substantial and long term efforts are necessary to ensure i) the realization of a fully reliable personnel records and management information system; ii) the effective reinstatement of sound personnel management practices, including manpower planning, staff development and training, personnel appraisal and cost effective personnel remuneration practices; and iii) the deve.opment of an appropriate managerial culture. It is in this context that the Government has prepared an Action Plan for improvements in personnel control and management, within the broader framework of a comprehensive civil service reform program (CSRP).

Consultant's Tasks

3. Generally, consultant services are required to support the CSD in the implementation of its Action Plan for improvements in its personnel control and management function.

4. More specifically, the consultant will undertake the following:-

a) to assist the CSD complete the computerization of personnel records;

b) to assist the CSD in reconciling its computerized personnel records with the Treasury payroll data;

c) to design the system (i.e. procedures and controls) for ensuring that payroll data is consistently reconciled with the personnel records at the CSD;

d) to support the design and implementation of a personnel management information system;

e) to review the organizational and administrative structures and procedures for personnel management at the CSD with a view to identifying the need and scope for, inter-alia:- (i) the decentralization of the personnel management function; and ii) the establishment of a management audit section in the CSD Division of Personnel Management services.

f) to support the design of a feasible implementation program for developing a managerial culture in the civil service.

Terms of Reference for Implementation Task Force the Pay Reform Task Group

Introduction

1. Effective reform of the civil service pay structure will be an intricate and long-drawn process. A recent review of the current levels, and the system and practices of administering salaries and other employment benefits has identified the priority short-term goal to be a systematic rationalization of the structure in order to eliminate glaring inequities and total absence of transparency. Medium-to-long term measures in pursuit of the goals of across-the-board salary enhancements and monetization of benefits will have to be based on systematic and comprehensive reviews of the schemes of service, jobs regradings and assessment of appropriate and affordable remuneration levels. Furthermore, the pay reform measures will need to be sychronized with changes in policies and rates of personal income taxation and personnel management practices (such as the introduction of an effective staff appraisal system).

2. The Pay Reform Task Group is required to steer the systematic development and implementation of the pay reforms.

Functions of the Task Group

3. The functions of this Task Group will be:-

(a) To commission, direct and review the analyses of pay reform issues, including a comprehensive and systematic review of schemes of service, job gradings and pay levels;

(b) To oversee on the development and implementation of pay reform measures;

(c) To make recommendations to the Government through the CSR Steering Committee for changes in pay and grading structures, adjustments in pay levels, monetization of benefits and taxation of employment benefits.

Membership of the Task Group

4. The Task Group shall be established by the Head of Civil Service and shall constitute of senior civil servants (Deputy PS and Directors levels) from the CSD, the Treasury, the Planning Commission and Ministry of Labour. The Director of Administrative and Personnel Policies at the CSD shall be the Chairman of the Committee.

Pay Reform Component
Draft Terms of Reference

Pay Reform Adviser

Responsibilities and functions

1. The Pay Reform Adviser will be the lead expert in the technical task group appointed to implement the action plan for pay reform in the Civil Service.

2. The adviser will be functionally responsible to the CSD Director of Administrative and Personnel Policies. He will also be a member of the Project Management and Coordination Committee (PMCC).

3. The Adviser, in conjunction with the other members of the Pay Reform Task Group, will undertake the following tasks:-

a) carry-out a comprehensive review of the schemes of service and salary grading and thereby design fair, realistic and transparent schemes of service and salary structures.

b) prepare a policy and strategy paper for submission to the Cabinet on:-
   i) medium to long term pay rationalization measures;
   ii) revisions to schemes of schemes; and
   iii) a long term program for monetization of benefits and salary enhancement.

c) sustain a regular review of the budgetary implications of pay reform options and implementation measures, and accordingly advise the Treasury, through the Civil Service Reform Steering Committee;

d) prepare annual proposals for review and discussion between Treasury and CSD for salary adjustment and other pay reform measures, to be effected at the beginning of each financial year, between 1993-1996.

e) develop policy and procedural guidelines for the introduction of merit-based salary adjustments and incentive payments for Civil Servants, and the management and control of the pay system.

f) review and follow up issues on pay arising from the organizational and efficiency reviews.

g) prepare monthly progress reports on pay reform and submit to the CSRP Steering Committee.

Qualifications

4. The minimum qualifications for the Pay Reform Adviser shall be:-

a) a masters degree in economics or business management;

b) seven years post-graduate experience in the design and management of salary systems, preferably including some experience in public sector pay reforms;

c) demonstrated ability to carry out quantitative analysis of pay reform issues and options and derive budgetary implications

Tenure for the Position

5. The position will be funded for three years; a one year contract will be awarded, renewable for the second and third years with the agreement of all parties.

Draft Terms of Reference for Consultancy
Services to Support the Development of Pay Reform Measures
(Job Evaluations, Schemes of Service and Salary Structures)

Background

1. During the period spanning the 1970s and the first half of 1980s, the steep decline of Tanzania's economy severely eroded the capacity of the Government to provide its employees with reasonable levels of compensation. However, since the launching of the on-going Economic Recovery Program (ERP) in 1986, the national economy has started to recover, and thereby enabled the Government to sustain the levels of real pay for the majority of the Civil Servants over the past several years. However, the level of pay for most of the Civil Servants is considered to be well below the minimum living wage. It is estimated that, on average, the direct salaries for civil servants in 1990, in constant prices, were only about 25 percent of the levels in 1972. The low level of salaries is therefore generally regarded as the major issue in the civil service pay system. However, there are several other significant issues underlying the need for pay reform.

2. Following the promulgation of socialistic policies in 1967 (the Arusha Declaration), the Government endeavored not only to control wage levels but also to adjust the relative levels in favour of junior civil servants. This resulted in compression of the formal pay structure because the erosion of basic pay was persistently more severe for the senior civil servants. However, salary adjustments since 1988 have gradually halted both the erosion of real direct pay and the compression of the basic salary structure. It is nonetheless clear that these modest gains in halting the erosion of the real pay and compression of its structure may not be sustainable in the absence of a comprehensive reform of the civil service.

3. Furthermore, a deeper assessment of the government's past measures to maintain real pay levels and sustain some morale for select cadres and staff grades have revealed gross distortions and signs of collapse in the pay system. Thus for example, while average direct pay levels for the top and low salary grades have been maintained in the 1986-1991 period, those of the middle grades have dropped during the period. More significant though is the result of ad hoc Government nterventions in the past several years, whereby award of non-taxable monetary allowances and other benefits to compensate civil servants have been increasingly used. Thus, these allowances and non-salary benefits have proliferated and have given rise to the following major problems and issues in the pay structure:

i) difficulties in the administration of allowances, in that, for example, pressure groups advocate for ever more allowances with threats of industrial action;
ii) absence of equity and transparency in the distribution of the allowances whereby some officers in the civil service are receiving allowances that are as much as 20 times the total value of those received by the majority of other officers in the same grade;
iii) erosion and distortion of the pension base because the level of pension benefits due to a retiring employee is determined on the basis of basic salary, which of course excludes the allowances;
iv) tax avoidance due to exempting the allowances from tax which has encouraged private sector employees to avoid taxes on employment income;
v) weakening budgetary transparency and control of the civil service wage bill because many

of the remuneration benefits currently enjoyed by civil servants are hidden in budget line items that do not appear to relate to personnel emoluments.

4. Already, the Government in collaboration with the donors (UNDP and IDA) have carried out fairly extensive analysis of the pay reform issues[1].The total outcome of the past analysis indicates that pay reform will be a long term and relatively complex process.

5. Short term rationalization measures: The distortion and possibility of collapse of the civil service pay structure have underpinned the need and urgency particularly for the rationalization of the pay structure. The immediate objective in the rationalization is to arrest the emerging crisis in the administration of pay arising from the proliferation in the number of non-taxable and inequitably awarded monetary allowances. The key short-term measures for the rationalization of pay structure will be, to:-

i) consolidate direct monetary allowances with basic pay;
ii) selectively adjust the compression factors in the consolidated salary structure and fix the salary compression ratio (i.e. the ratio of highest salary to the lowest salary on the scale) to 1:16; and
iii) implement a revised employment income taxation policy.

6. Medium to long-term measures: The specific measures to be carried out for pay reform in the medium to long term will depend on:-

i) monitoring and analyzing the results and impact of the short-term measures;
ii) the evolving tax policy on personal income tax;
iii) Government fiscal performance trends, and therefore capacity for salary enhancement.
iv) the outcome of jobs evaluation and comprehensive review of salary gradings in the civil service; and
v) comparative analysis of salary trends in the parastatal and private sectors.

7. It is against the above background that the Government of the United Republic of Tanzania (URT) now wishes to engage the services of a consultant(cy) to support its pay reform implementation program.

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[1] Among the studies that have been carried out on pay reform issues are the following:-

0 The World Bank: Public Expenditure Review, 1989.

0 R.Mushi & S. Wangwe: A Study of Comparative Compensation Policies in Tanzania, 1991.

0 F.Mtatifikolo & ANO: Civil Service Compensation Packages Study, 1992.

0 K.Kiragu & R. Mushi: Monetization of Benefits and Pay Reform: Issues and Strategy Report, 1992.

Consultant's Tasks

8. The Consultant will carry out a detailed review of (i) current payment methods, including payment of benefits; (ii) the status and appropriateness of current schemes of service, and their application to salary and gradings for the various occupations in the Civil Service.

9. The consultant will prepare a report detailing recommendations for a long-term implementation program of pay reform measures, including monetisation of benefits, regrading of positions, structure of grades and salary scales, the use of appropriate incentive systems within a pay structure. As part of the report the consultant will lay out a detailed timebound implementation plan, including suggested approaches to be followed, and needed resources,(people, equipment, training etc). This report will form the basis of a further request for proposals from consultants to assist Government to implement the agreed reforms.

Time frame & Outputs:

10. The envisaged study and resulting recommendations/proposed action plan are expected to be completed within four calender months from the start of the assignment. The consultant will present a draft written report to the PS, CSD, and will be available to make a formal report to representatives of the Steering Committee, interested donors, and IDA, if so required, for up to one month from the initial report. If no comments are received within the month, the assignment will be considered as complete.

Terms of Reference for Implementation Task Force
Organization and Efficiency Reforms Task Group

Background

1. The Government has recognized that many weaknesses and inefficiencies in the performance of its functions arise due to inappropriate internal structures and systems, inefficient work methods and management practices. These weaknesses can be fully addressed only through in-depth reviews of the organizational structures, administrative systems and practices, deployment and utilization of manpower and other resources and the operational systems of Government departments. Through these reviews the Government will institute organizational and efficiency reforms that will focus on the needs to (i) reorganize the structures of Government ministries and departments with a view to improving efficiency and effectiveness in the deployment of personnel, utilization of resources, internal decision-making processes and communication systems, (ii) identify opportunities for efficiency gains in Government through the application of norms in staffing and improved work methods, (iii) identify feasible opportunities for costs recovery and reduced budgetary allocations in the delivery of specific services by the Government, and (iv) improve the Government's management systems (i.e. planning, budgeting, public administration, projects implementation, personnel management, etc.).

2. The organizational and efficiency reviews will be carried out in all Government ministries and independent departments. However, the implementation will be carried out in a phased manner, starting with some key central ministries/departments (possibly the Planning Commission, the Treasury and CSD) and major sector ministries (Agriculture, Lands, Health and Education).

The Role and Functions of the Task Group

3. The Task Group will technically oversee and coordinate the organizational and efficiency reviews.

4. An initial task for the group will be to develop a comprehensive and time-bound programme for the implementation of the reviews in all Government ministries;

5. The group will prepare detailed TOR for the reviews as relevant to each ministry/department. Generic TOR are presented as **Annex III**;

6. The group will review the proposals for consultancy and other technical assistance required for the implementation of the reviews;

7. Through the Steering Committee the group will make recommendations to the Government for adoption and implementation of the review findings.

Organizational & Efficiency Reform Component
Draft Terms of Reference

Organizational and Efficiency Adviser

Responsibilities and Functions

1. The Organizational and Efficiency (O & E) Adviser will be the lead expert in the technical task group appointed to execute the action plan for O & E reforms in the entire Civil Service structures, systems and operations.

2. The Adviser will be functionally responsible to the CSD Director of Management Services. He will also be a member of the Project Management and Coordination Committee (PMCC).

3. The Adviser, in conjunction with the other members of the O & E Task Group, will undertake the following tasks:-

a) develop detailed and specific TORs for O & E reviews for the different ministries and independent Government departments;

b) prepare detailed annual work plans and the overall program for O&E reviews;

c) provide technical guidance to line ministries and CSD staff in the conduct of the reviews;

d) in collaboration with sectoral experts in the line ministries, monitor, supervise and coordinate the conduct of O & E reviews by Consultants, ministry staff and staff from CSD;

f) organize and lead launch workshops for the implementation of O & E reform measures;

g) monitor and evaluate the implementation of O & E reforms;

i) prepare monthly progress reports on the implementation of the O & E reforms, and submit the same to the CSRP Steering Committee.

Qualifications

4. The minimum qualifications for the post-holder shall be:-

a) a masters degree in management;

b) 10 years post-graduate work experience involving application of skills in the analysis and design of organizational development programs, and the implementation of efficiency improvements;

c) knowledge and some experience in Government organizational, administrative and financial systems and operations;

d) experience in process consulting and management of multi-disciplinary technical teams; and

e) demonstrated strong capability for oral and written communication.

Tenure of the Position:

5. The position will be funded for three years; a one year renewable contract will be awarded.

Civil Service Reform Program

Generic Terms of Reference For Organizational and Efficiency Reviews

Background

1. The Government has recognized that many weaknesses and inefficiencies in the performance of its functions arise due to inappropriate internal structures and systems, inefficient work methods and management practices. These weaknesses can be fully addressed only through in-depth reviews of the organizational structures, administrative systems and practices, deployment and utilization of manpower and other resources and the operational system s of Government departments. Through these reviews the Government will institute organizational and efficiency reforms that will focus on the needs to (i) reorganized the structures of Government ministries and departments with a view to improving efficiency and effectiveness in the deployment of personnel, utilization of resources, internal decision-making processes and communication systems, (ii) identify opportunities for efficiency gains in Government through the application of norms in staffing and improved work methods, (iii) identify feasible opportunities for costs recovery and improved budgetary allocations in the delivery of specific services by the Government, and (iv) improve the Government's management systems (i.e. planning, budgeting, public administration, projects implementation, personnel management, etc).

2. The reviews will take full advantage of the in formation and data analysis to be found in recent studies carried out on the relevant sectors, and the findings of any Government Commissions or Task Groups on issues that affect individual ministries or sectors.

3. Furthermore, the reviews will be undertaken within the broad policy framework of the Government's Economic Recovery Program. They will also take account of, and be consistent with, the government's policies and strategies being perused through Structural Adjustment Programs, and especially the civil service, and planning and budget reforms programs, details of which are to be obtained from the Civil Service Department and the Planning Commission.

4. The organizational and efficiency reviews will be carried out in all Government ministries and independent departments. However, the implementation will be carried out in a phased manner, starting with some key central ministries/departments. It is in this context that the Government wishes to commission a detailed review of its operations in the Ministry/Department of ------.

Scope of the Review

5. This review will analyze critical issues and recent developments within the ---- sector, and by using the main policies and strategies as currently articulated by the Government in this sector for the medium-term, elaborate an appropriate role for government,

and identify those services that will need to be provided by Government in order to support economic restructuring and ensure sound public sector administration.

6. It is anticipated that the review will be carried out in at least two phases, vis:

Phase I: Which will be completed within a six week period will initially bring together the findings of previous and on-going studies. Thereafter, through a thorough and strategic review of government activity in the sector, it will seek to achieve consensus about the role of government and the structure and level of government services; and

Phase II: will commence only after the review and acceptance of Phase I report by the Organizational and Efficiency Reforms Task Group in the (Planning Commission). It will involve detailed design of organization and administrative structures of the ministry/departmental that are consistent with the redefined roles and functions, and the preparation of an Action Plan for restructuring of government activities int he sector. It is anticipated that Phase II will last 6 to 8 calendar weeks.

Phase I Tasks

7. The tasks to be undertaken in Phase I of the review will include:

(a) carrying out a survey and review of relevant past and on-going studies;

(b) review of the current operations of the ministry/department at the central, regional and local administration levels with particular focus on the relevance, scope and level of service being provided and efficiency of operations.

(c) analysis of the main issues and their policy and strategic implications.

(d) identifying the role of government consistent with current policies for economic liberalization and for reducing the functions of the public sector in the provision of economic services.

(e) investigate the opportunities and scope for cost sharing and enhanced cost recovery for services that should continue to be provided by the government.

(f) investigate the opportunities and scope for cost sharing and enhanced cost recovery for services that should continue to be provided by the government.

(g) elaborating a medium-term policy and strategy framework that is consistent with public sector resources constraints.

(h) assessing public sector investment priorities within the sector

(i) proposing an overall organizational structure for the ministry/department.

(j) review the operational and administrative systems and practices within the ministry/department within the framework of the overall Government systems, regulations and procedures with a view to identifying the necessary improvements consistent and complementary to the proposed changes in role, functions and organization.

(k) prepare a report that comprehensively covers that findings and conclusions from the Phase I study, and thoroughly discuss the findings with the senior officers int he ministry/department and Organizational and Efficiency Reforms Task Group in the Planning Commission.

8. Tasks to be undertaken during Phase II include:

(a) in consultation with the ministry of finance and civil service department, identifying an appropriate package of salary incentives and operational cost norms consistent with an efficient delivery of services within the sector and implementable within the anticipated resource framework.

(b) specifying and costing operational support requirements necessary to ensure the efficient operation of the ministry.

(c) specifying and costing operational support requirements necessary to ensure the efficient operation of the ministry.

(d) proposing appropriate levels of user charges for services provided by the ministry.

(e) specifying a program for divestiture and privatization of appropriate Government administrative and services delivery units. This aspect excludes parastatals in the sector which are to be handled through different formats and programs.

(f) identifying staff development and retraining requirements necessary to support the reorganization and efficiency reform measures.

(g) specifying and costing an action plan for the implementation of the review's findings.

Study Implementation Framework and Process

9. The review will be commissioned by the Inter-Ministerial Steering Committee of Principal Secretaries. Technical guidance and oversight will be the responsibility of the Task Group in the Planning Commission. The review will, however, be carried out by the ministry/department which will appoint the review team.

10. It is envisaged that the review team shall comprise carefully selected senior officers (3 to 5 in number) from the ministry/department and external consultants. While the consultants will provide technical leadership in the implementation of the review, the ministry/department will ensure full participation in the process and assume direct responsibility for the implementation of the "restructuring action plan"

CIVIL SERVICE REFORM
Cost Table
(US$000)

	TA		TR		Vehicles		Computers		Ofc Eq		Op Cost		TOTAL	
	F	L	F	L	F	L	F	L	F	L	F	L	F	L
Administration Unit	400	72	20	36	20	-	15	-	30	-	-	25	485	133
Retrenchment/ Redeployment	2640	237	75	830	96	-	92	-	31	-	-	200	2934	1267
Personnel Control and Management	4000	500	425	75	-	-	500	-	-	-	-	200	4925	775
Pay Reform	1050	300	80	140	40	-	5	-	5	-	-	250	1180	690
O/E Reform	1748	-	80	686	95	-	20	-	20	-	-	250	1963	936
TOTAL	9,838	1109	680	1767	251	-	632	-	86	-	-	925	11487	3801
													15,288	

Key:

TA = Technical assistance
TR = Training
Ofc Eq = Office equipment
Op Cost = Incremental operating costs
F = Foreign denominated cost
L = Local denominated cost

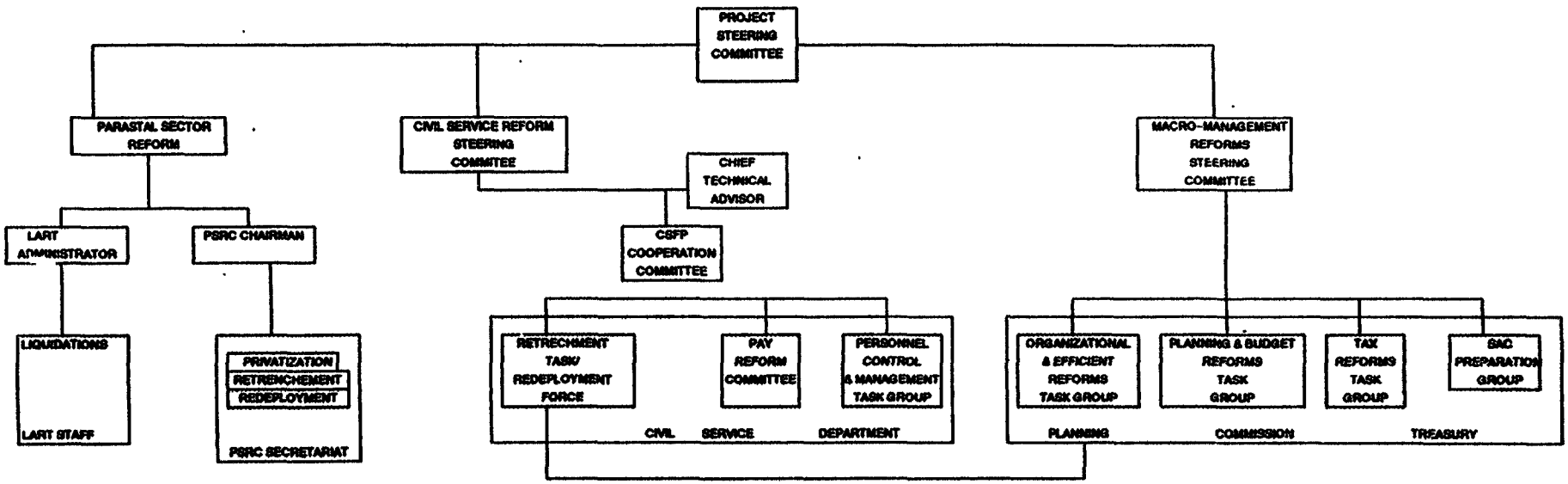
TIMETABLE FOR MAJOR TASKS/TA APPOINTMENTS
CIVIL SERVICE REFORM

	YEAR 1 (QTRS)				YEAR 2 (QTRS)				MID	YEAR 3 (QTRS)				YEAR 4 (QTRS)				YEAR 5 (QTRS)			
	1	2	3	4	1	2	3	4	MID TERM PROJECT REVIEW	1	2	3	4	1	2	3	4	1	2	3	4
1. PROGRAM STARTUP																					
Strategy Approval	•																				
Chairman RRTF Appointment	•										possible Ext.										
RA appointment	•																				
Task Managment	•																				
2. RETRENCHMENT/REDEPLOYMENT																					
Resident Advisor Appointment	•																				
Program Confirmation	•																				
Implementation Consultants Appointment	•				Implement																
					Counselling TRG						Possible Ext.										
3. PAY REFORM																					
Resident Advisor Appointment			•		In Position									Possible Ext.							
Finalise Yr1 Program			•					•					•								
Initiate Yr 1 Adjustments				•				•					•				•				•
Commence Job Grading				•	Studies									Report Finalise				Prepare new			•
Study														structure				admin for struct			
Finalize Monetization of				•	Initial Study			•													
Benefits Approach/Training					Report																
Cabinet Paper								•													
Implement New Structure								•			Phased		•	Monetization			•	Program			

TIMETABLE FOR MAJOR TASKS/TA APPOINTMENTS
CIVIL SERVICE REFORM

	YEAR 1 (QTRS)				YEAR 2 (QTRS)				MID	YEAR 3 (QTRS)				YEAR 4 (QTRS)				YEAR 5 (QTRS)			
4. PERSONNEL MANAGEMENT	1	2	3	4	1	2	3	4	M I D	1	2	3	4	1	2	3	4	1	2	3	4
o Resident Advisor Appointment	•			In	Position					Possible Ext											
o Finalise Yearl Program				•				•					•				•				•
o Complete Review of Current Data	•	—	•						T												
Systems Linking Personal/Policy									E												
o Report to Steering Comt.				•					A												
o Finalise Training Programs/Changes									R	Implement					Program				Changes		
									M												
5. MINISTERAL REVIEW		—													—						
o Resident Advisor Appointment		•				In Position			P		•	Possible		Ext		•					
o Pilot Ministries Selected	•	—							R												
o Local Staff Training		•	•						O												
o Local Contract Staff Hired				•					J												
o Pilots Completed				—	—	•			E												
o Reports Submitted to Steering Comt.							•		C												
o Implmention of Pilot Findings								—	T	Pilot Inp			•								
o Yearly Program for Reviewing										YR1					YR2				YR3		
Ministries								6	R	Ministries					6 Minstries				6 Ministries		
o Study Completed									E				•			•					•
o Report									V					•				•			
o Implementation begins									I						YR1 Min				YR2		
									E												
									W												

TANZANIA
PUBLIC SECTOR MANAGEMENT PROGRAMS
INSITITUTIONAL FRAMEWORK FOR IMPLEMENTATION AND TECHNICAL ASSISTANCE



TERMS OF REFERENCE FOR PPRP

PROJECT ADMINISTRATOR

1. The Project Office Administrator will be responsible for the administration of PPRP, coordination of component implementation and ensuring that all components are being implemented properly in a timely manner as approved. Specifically, his responsibilities will be to:

(i) review and consolidate annual work plans and budgets, proposed by the component managers, for approval by the PPRP Coordination Committee;

(ii) ensure timely release of funds for each component;

(iii) expedite procurement of equipment and supplies and see that the components get them on time;

(iv) in collaboration with component managers, develop overseas and in-country training plans for the project personnel and implement the training in a timely manner; provide guidance to the components in organizing in-country training;

(v) ensure that project management and operational guidelines, as approved by the Coordination Committee, are followed in implementing the components;

(vi) organize regular project component managers' meetings, for progress reviews, and the identification of implementation constraints and suggest solutions;

(vii) establish procedures and criteria for monitoring and evaluation of progress, and analysis of the impact of components;

(viii) assist the Coordination Committee in arranging mid-term review of component/project activities;

(ix) scrutinize procurement proposals and process those through the Coordination Committee for consideration and approval, and transmission to IDA;

(x) prepare quarterly progress reports including expenditure statements for submission to the Coordination Committee; and

(xi) arrange annual audits of expenditures of each component and project as a whole.

2. The position should be held by a Tanzanian national with the following qualifications:

(i) B.A. or M.A. in Commerce or related field.

(ii) Five years experience as an administrator of various programs/projects.

(iii) Wide experience in implementation of development programs and in dealing with donor agencies.

(iv) Experience in collaborating with international organizations.

(v) Ability to coordinate inter-ministerial programs.

PPRP MASTER COST TABLE (US$ Millions)

	Technical Assistance		Training		Vehicles		Computers		Office Equip		Operating Costs		TOTAL		G. TOTAL
PSRC	L	F	L	F	L	F	L	F	L	F	L	F	L	F	
IDA	3.746	13.707	0.090	0.300	-	0.125	-	0.255	-	0.045	-	-	3.836	14.432	18.268
GOV					-		-		-		2.650	-	2.650	-	2.650
ODA		1.300			-		-		-			-		1.300	1.300
LART															
IDA	1.398	1.080	0.020	0.130		0.060		0.030	-	0.010		-	1.418	1.310	2.728
GOV											0.300	-	0.300		0.300
CSR															
IDA	0.609	5.838	1.692	0.255	-	0.251	-	0.632	-	0.086	0.225	-	2.526	7.062	9.588
ODA	0.500	4.000	0.075	0.425	-		-					-	0.575	4.425	5.000
GOV											0.700	-	0.700	-	0.700
MACRO															
IDA	0.200	0.950	0.150	0.450		0.060		0.070		0.020	-		0.350	1.550	1.900
ODA															-
GOV											0.100		0.100		0.100
PM															
IDA	0.170	0.060	0.020	0.020		0.20		0.005		0.005	-		0.190	0.110	0.300
GOV											0.050		0.050		0.050
Sub. T.															
IDA	6.123	21.635	1.972	1.155		0.516		0.992		0.166	0.225		8.320	24.464	32.784
GOV	-		-			-					3.800		3.800		3.800
ODA	0.500	5.300	0.075	0.425		-							0.575	5.725	6.300
Cont.															
IDA													0.400	0.710	1.110
ODA													-	0.700	0.700
GOV													-		
TOTAL															44.694
PPF														-	1.000

PROCUREMENT ACTIONS
All Program Elements

ACTION	Date (Qtr/Yr)	COMMENTS	BUDGET (US$000's)
Appoint Procurement Agency for Equipment/Supplies	2/93	To be Appointed as condition of effectiveness	
Appoint project administrator	2/93	To be appointed as a condition of effectiveness; local selection	200
PARASTATAL REFORM			
• Appoint Core Team	2/93	Seven companies responded to LOI; to be appointed as condition of disbursement for component; reviews of seven international companies being undertaken (3/93)	6052
• Finalize Approach to Short Ten Needs	3/93	Decision needed on whether to obtain all short term consultants from one company, using competitive selection, or whether individual contracts are to be let.	--
• Short Term Consultants	4/93 onward	Individual contracts, under local advertising/foreign advertising, or competitive selection for one firm.	7655
. Speficify Equipments Needs	2/93	Procurement Agency used for initial equipment for PSRC, with funding from PPF; major packages of equipment to be finalised by 3/93, for PSRC.	425
CIVIL SERVICE REFORM			
• Appoint:			
- Chairmam, RRTF	2/93	Presidential appointment of Tanzanian expert; dated covenant.	250
- Residential Advisor to PS,CSD	2/93	International recruitment through advertisement; dated covenant.	500
-Local Members of Task Force	3/93	Local appointments, based on review of current key CSD staff, and other ministries, plus local advertising if needed.	600
- Pay Reform Advisor	3/93	International recruitment, based on advertising and competitive evaluation.	500
- Pay Reform Consultants	4/93	International recruitment, based on advertising, competitive evaluation.	500
- Retrenchment/Redeployment Advisor	3/93	International recruitment, based on advertising and competitive evaluation	500
- Counselling Firm	4/93	Long list of firms being developed at request of Government.	2000
- Personnel Management Advisor	3/93	International recruitment; may be packaged with short term consultants below, from one firm.	500

- Short Term Consultants (PM)	4/93	Long list of firms available;	600
- Ministerial Resident Advisor	3/93	International recruitment; short list of possible individuals discussed by Government; long list of firms known	350
- Short Term Consultants (OIE)	4/93	Local/International, as above	300
- Equipment Specifications	3/93 on	Initial list developed during appraisal	--
- Order		Procurement agency	1089
MACROECONOMIC MANAGEMENT			
VAT			
• Appt. Consultancy	3/93	International appointment; condition of disbursement for component	850
• Finalize Equipment List/Order	4/93	Procurement Agency	150
SAC PREPARATION			
• Agree Requests (TA)	2/93 on	Selection mode will depend on needed skills; local appointments wherever possible	300
• Agree Equipment Needs	2/93 on		30
• Place Orders	2/93 on	Procurement Agency or Local advertisement, depending upon the needs	--
• Hire Consultants	2/93	International, or local advertisement/selection, as needed	--

USE OF TRAINING FUNDS

1. Part of the funding under PPRP covers training costs. To ensure that these funds are used appropriately, the paragrahs below present a statement on the philosophy and practices that will be applied to the use of funds.

TYPES OF TRAINING

2. The project foresees the need for four types of training, which are described below:

Skills Development: This type of training will be specific in nature, and provided for selected civil servants to enable them to increase their ability to perform tasks that are directly related to the yearly work programs and the overall objectives of the project. Such types of training may include, inter alia: computer training; organisation and methods training; job evaluation techniques.

Workshops: The objective of "workshops" is most often to impart information to a large number of people involved in an element of the project, to discuss the information, and to arrive at an agreed course of action for needed next steps to move the implementation process forward. Workshops will be used at important "milestones" in project implementation. To help achieve success, workshops will: (i) carefully consider who does and who does not need to attend;(ii) will have defined and stated objectives and agendas, distributed prior to the workshop; (iii) will have minutes of the proceedings; (iv) will have an agreed concrete actionable outcome, leading to assigned responsibilities.

Study Tours: Study tours are intended to enhance the understanding of broader issues, programs and approaches for areas covered under the project. Study tours will require:(i) detailed objectives and program details, including a detailed itinery. All participants of a study tour will be required to provide a detailed write up on the "lessons learned", and possible applications of these lessons to improving aspects of the operation directly within their own purview. Each study tour will have a group leader who will be responsible for a write up on all aspects of the tour, including the arrangement for and performance of logistical aspects. (This latter feature will be used to help improve upon this frequently difficult aspect of organising and administering such tours).

Out-of-country Study/Training/Workshops: Out of country training can consume significant resources, and as such needs to be very carefully considered in comparison with other potential alternatives. It will be important that attendance at this type of training is very closely and demonstrably linked to the achievement of tasks within the yearly workplans. It is expected that out of country attendance will not exceed more than 6 weeks for any type of training.

PROGRAMMING FOR TRAINING

3. To help ensure that funds are used in the most cost effective manner, certain procedures and processes need to be followed in the allocation of training funds. These are detailed below:

(a) Training must be part of the annual workplan, and related to the tasks to be accomplished under the plan.

(b) At the time of presenting the training component of the work plan, it will be necessary to specify the names of those people who need training, the specific type of training to be provided, and the location/cost of such training. While recognising that all these elements may be difficult to sort out for periods up to twelve months, a comprehensive document/details provides the best opportunity for ensuring that all persons who need training can obtain it, within the limits of the project budgets. Ad hoc requests during the course of the year only make it more diffcult to ensure that full coverage of people and training areas can be accommodated.

(c) While recognising the possible difficulties of the requirements in (b), above and wishing to provide for some flexibility, IDA is unlikely to be able to approve funds for "ad hoc" training that is requested within two months of the date of training.

CRITERIA FOR SELECTING TRAINEES/TRAINING.

4. The following criteria should be applied in finalising participation on training courses, workshops or study tours.

- are the individuals civil servants or contract personnel;
- are the individuals satisfactory performers within the project framework
- are the individuals likely to remain within the specific areas where the training is to be used, or are they likely to be transferred to areas where the training cannot be of benefit.
- has training been provided within the last year
- is the training directly suited to the individuals needs and the current work program
- is the training cost effective
- are the full details known, including costs/itinery

REPORTING

5. In order to maintain the emphasis on the training aspects of the project, each quarterly report from the project administrator will provide a specific write up on the training provided during the preceeding quarter, with full details on the number of trainees, courses, funds expended, and with comments needed to modify/improve the use of funds or the conduct of training programs. Additionally, as part of the mid term project review, training will receive special attention.

TERMS OF REFERENCE

PPRP MID-TERM REVIEW

I. BACKGROUND

Timing

1.1 This project was formally negotiated in April, 1993. The legal document provides that the project will be subject to a mid-term review after approximately 24 months from the date of effectiveness but no later than September 30, 1995. It was further provided that the review would be undertaken in consultation between the Government and the World Bank.

Project Setting

1.2 The project's offices are located in the Ministry of Finance, Dar es Salem. The mid-term review will take place in Washington, Dar, and other cities in Tanzania as may be agreed between Governmnet and IDA.

II. PURPOSE

2.1 Within the context of the PPRP's overall development objectives, an in-depth analysis of the progress towards objectives, outputs and activities of the project will be carried out to serve as a basis for all concerned parties in order to:

(a) Initiate or take corrective measures to improve the effectiveness of ongoing project interventions.

(b) Reassess the effectiveness, impact and relevance of any or all of the project components.

(c) To examine the effectiveness of the current arrangements for project execution including the technical back-stopping of IDA and any of the executing agency arrangements.

2.2 The Consultants will be required to establish whether or not project interventions are as valid today as they were at the inception of the project; and to ascertain to what extent these interventions have contributed towards the realization of the Government's policy reform and economic management goals.

III. ISSUES TO BE COVERED

Project Concept and Design

3.1 The Consultants will:

(a) Assess whether the problems the project should solve are clearly formulated, and whether the beneficiaries and the users have been clearly identified.

(b) Assess whether the immediate objectives are appropriate given the present division of responsibilities between different bodies in Tanzania.

(c) Assess whether the project's immediate objectives are achievable given the available time and resources, and whether the relationship between objectives, outputs, activities and inputs are consistent.

(d) Assess the medium and longer term sustainability of the project.

(e) Assess whether the present subcontracting arrangements (e.g. contracts, executing agency agreements) are appropriate for effective execution of the project.

Implementation

3.2 The Consultants will:

(a) Assess the project implementation and operation performance. Particular attention should be given to the mobilization of Government and executing agency inputs - quality, quantity and timeliness and the impact of these factors.

(b) Assess the quality and timeliness of the implementation of the project in the light of the immediate objectives, inputs and activities.

(c) Assess the quality and timeliness of monitoring and back-stopping by all parties.

Economic and Institutional Perspectives

3.3 In carrying out its work, the Consultants will have particular regard to the role of the project in assisting Government to address major priorities with which it will be concerned in the fields of economic and financial management. These include:

- The formulation and management of economic and financial reform and restructuring measures including work on macroeconomic framework analysis.

- Staff development and training programs and priorities, including the provision of responsibility and production related incentives.

- The development of financial and economic information system, and the enhancement of the statistical data base.

IV. COVERAGE

Project Components.

4.1 The Consultants will cover every component directly funded under the PPRP. Additionally, they will review other projects (to be agreed) that impact the PPRP, e.g. UNDP, and ODA projects within the PPRP framework.

People

4.2 The Consultants will interview:

(a) All Government officials or staff involved with PPRP components.

(b) Consultants/experts used by the project.

(c) Donor representatives with a direct interest and knowledge; and

(d) IDA staff/management involved with PPRP.

V. OUTPUTS

Reports

5.1 Within 30 days of concluding the review, the Consultants will present draft reports to Government and IDA for review.

Meetings

5.2 (a) Within three working weeks Government, IDA and the Consultants will meet to discuss the reports conclusions/recommendations.

(b) Subsequently Government and IDA will implement (any) needed changes to the project design, input, objectives in light of agreed findings.

VI. TIMING AND METHODOLOGY FOR MID-TERM REVIEW

Timing

6.1 The review will commence between the 20-24 month of the project, based on the date of effectiveness, and will be completed not later than the 28 month.

Selection of Consultants

6.2 Government and IDA will agree on a short list of three organizations/-individuals. The short list will not contain any organization who has performed work under EFM financing. Final selection will be base mutual agreement by IDA/Government in light of written responses to the RFP.

Fees/Expenses

6.3 It is anticipated that a full review will involve 33 mandays of work split between interviews and analysis (25 days), report drafting (5 days) and formal presentations/meeting (2 days). A budget of US$25,000 has been established for professional fees. Both fees and expenses will be paid from the Credit.

TANZANIA
PPRP GENERAL SUPERVISION PLAN

Bank Supervision Input

1. Staff, (including consultant) input will be needed for approximately 20 person weeks in the field and 10 person weeks in Washington over the first two years of the project . The initial objectives will be to ensure and assist Government with the start up logistics in each of the project components particularly where experienced advisors are not in place at the time of component inception. Subsequently supervision will progress to cover various activities described in the general timetable, shown below.

2. Missions under the PPRP project, the PSAC,FINSAC and SAC operations, will be used to cover activities in their own areas of specialty, and where there is a direct linkage with their own operations.

Borrowers Contribution to Supervision

3. The project office will act as the central link between the PPRP component managers and IDA staff. However, direct lines of communication between component managers and IDA will also be established.

4. On a quarterly basis the project office will provide the IDA PPRP TM with a summary report on the component activities. This report will cover; progress on procurement of all types; (i.e. consultants, vehicles, equipment etc); progress against major work plan milestones; details of all expenditures in the quarter, and to date under each project component; and progress on training. Under a general heading the office will report any particular difficulties or problems that are impacting implementation.

5. On an annual basis the project office will provide IDA with yearly workplans for each of the project components. A workplan will show:

- years objectives/outputs
- needed inputs to achieve these outputs, in financial and human terms
- anticipated contracts to acquire the inputs, (and provisional TORS;procurement documentation in support of these intended actions)
- summary of progress to date under each component, including a simple use of funds statement
- particular difficulties foreseen over the next 12 months, and plans/ideas to resolve them.

6. Prior to each field mission by IDA, the project office will set up a timetable of key meetings, as discussed and agreed between the project administrator and the mission leader. The project office will be responsible for notifying all component managers of the dates of missions, and for ensuring the availability of component managers/staff for discussions.

7. The project office will be responsible with the IDA TM for the organization and conduct of the mid term review. The project office will assist the chosen consultants to arrange meetings with Government and donor personnel, as appropriate, provide transportation and typing facilities, and generally assist in ensuring a smooth and efficient study of the project to date. The project office will also organize for the submission of the consultants draft report, the presentation to Government, and the ensuing discussions between the Coordination Committee and IDA.

General Timetable: First Two Years.

8. During the first 3 months of the project Government and IDA will undertake the following general tasks as a basis for the long term management and control of the project.

- organize the setting up of the project office, including the ordering of project office equipment, vehicles
- complete the staffing of the office, and finalize the process for contracting the procurement and project management expertise
- organize a general start up meeting for all component managers, to ensure familiarity with the key processes and requirements of the project as formally agreed with IDA at negotiations
- assist component managers with initial needs to organize their own components
- prepare the first quarterly report
- convene, on behalf of the Coordination Chairman, the first Coordination Committee meeting.
- arrange with IDA the start up missions as tied to the PPRP, SAC, and FINSAC,

Months Three to Six

9.
- familiarize the procurement and project management experts with the project, the government staffs, project locations
- agree immediate short term work plans with the experts to meet the emerging needs and difficulties of the component managers
- initiate procurement contracts/paperwork in light of the first year plans and current circumstances
- prepare quarterly report
- convene second Coordination committee meeting

Months Seven to Twelve

10.
- monitor progress of all procurements, training plans,and performance at the the components
- convene meetings with component managers as needed
- appraise agency "Heads" on the Coordination Committee of any particular agency specific problems
- liaise with IDA component managers and TM on progress, difficulties
- complete first year procurement and establishment of project management reporting systems, with the experts

- work with the component managers, agency heads, and Coordination Committee to produce and agree with IDA the second year work plans
- organize for the accounting of funds spent and committed as required and agreed with IDA
- organize and coordinate IDA missions with the needs of the individual components and projects i.e., SAC appraisal mission; PSAC missions; FINSAC second tranche review mission etc.

Months Thirteen to Twenty Four

11.
- continual monitoring of progress/ problem resolution under the second year work plans
- organize and assist in the conduct of the midterm review
- continue quarterly reporting and meetings of the Coordination Committee.

TANZANIA
PUBLIC SECTOR ADJUSTMENT CREDIT
POLICY AND IMPLEMENTATION MATRIX

A. PARASTATAL REFORM

REFORM AREA AND OBJECTIVES	ACTION PROGRAM	TIMING
I. DEFINITION OF POLICY: to establish commitment on the future of parastatals.	Parastatal Policy Statement issued on privatization and PE restructuring, and Treasury directives/circulars on parastatal restructuring guidelines.	Prior Action (Completed, January and July 1992)

II. CLARIFICATION/ELABORATION OF POLICY: to expedite and facilitate implementation of divestment and restructuring of parastatals.	Privatization Strategy: Government (Cabinet) provided a reform policy statement on critical issues, including measures for widening shareholding, debt settlement and asset valuation, managing fiscal flows from privatization, budget constraint (see also below), and labor safety net proposals (see below).	Negotiations condition. (Completed)
	Imposition of hard budget constraint: Government adopted an action program for enforcing hard budget constraint on parastatals, including ending of direct and indirect subsidies (including through discretionary tax exemptions and import support without counterpart funds payment), consistent with agreed SPA action plan on import support payments.	Board condition. (Completed)
	Government to confirm implementation of action program on enforcement of the hard budget constraint for parastatals.	**Second Tranche condition.**
	Upgrading of PEs: Government has submitted to Parliamentary Legal Affairs Committee revised Public Corporations Bill, to include provision for upgrading management and supervision of retained PEs, including performance monitoring, and phase out of holding corporations. (See also below). Government confirmed abolition of SCOPO.	Board condition. (Completed)
	Government to enact the revised Public Corporations Act.	**Second Tranche condition.**
	Safety Net: Government prepared proposal for labor redeployment support to include, inter alia, job counselling, retraining, and entrepreneurship development.	Board condition. (Completed)
	Government made provision for severance payment in 1993-94 Budget. (See also Civil service)	Board condition. (Completed)
	Government to initiate implementation of a program for labor redeployment support, including job counselling, retraining and entrepreneurship development.	**Second Tranche condition.**

III. DEVELOPMENT OF INSTITUTIONAL CAPACITY AND LEGAL FRAMEWORK to empower and to build capacity to coordinate and accelerate the reform program.	Establishment of PSRC by Cabinet directive and preliminary legislation. Initial staffing of PSRC technical secretariat. Provision of draft Statement of PSRC Operating Policies and Procedures defining policy, powers and relationship with other Government agencies.	Prior Action. (Completed)
	Appointment of 2 advisers to strengthen LART, to initiate liquidations of unviable PE loan accounts transferred from banks.	Prior Action (Completed)
	Government submitted to Parliamentary Legal Affairs Committee revised Public Corporations Bill, to (i) strengthen powers of PSRC, (ii) set out operating policies for privatization and reform, and (iii) strengthen management and supervision of parastatals. (See also above).	Board condition. (Completed)
	Adoption of Operating Policies and Procedures of PSRC.	Board condition. (Completed)
	Completion of main staffing and equipping of PSRC technical secretariat, including international technical advisory team.	Parallel operation (PPRP 1993). (Completed)
	Revision of Companies Ordinance, and other legislation affecting environment for private enterprise.	Parallel operation (FILMUP 1992).
	Government to enact revised Public Corporations Act (see above).	Second Tranche condition.

IV. IMPLEMENTATION OF THE PRIVATIZATION AND REFORM PROGRAM To privatize (via sale or lease) or liquidate and close State production facilities, and to upgrade management of retained PEs.	3-year indicative privatization and liquidation plan and 1st year plan. Government has provided indicative three year and detailed first year plan in terms of numbers and type of enterprises (net of transactions completed by Dec. 1992). The first year plan includes: (a) at least 55 PEs prepared for sale/lease/liquidation, to include public announcement and preparation of transaction documentation, of which: (b) 20 closures/receiverships completed through LART or other legal process; (c) 15 sales/leases completed, including at least five profitable enterprises; and (d) 5 major lossmakers (textiles,(2), aviation, fertilizer and paper) prepared for sale, with appropriate publicity and documentation.	Board condition. (Completed)
	At least 4 sales/leases from enterprises included in first year plan were completed (in addition to transactions completed by Dec. 1992).	Negotiations condition. (Completed)
	3 sales/leases were completed, and 5 enterprises put into receivership, or closed, as part of first year plan (in addition to those concluded by Credit Negotiations), and 6 additional receiverships have been initiated	Board condition. (Completed)
	Government to complete implementation of the first year privatization/leasing and receivership/liquidation plan.	***Second Tranche condition.***
	2nd year privatization plan (Jan. to Dec. 1994) to be agreed with Government and implementation to be started. Plan to consist of: At least 30 additional enterprises (not initiated by Dec. 1993) to be prepared for sale, lease or liquidation, with appropriate documentation and advertisement. At least 15 additional transactions to be completed, including 5 identified major loss-makers. Enterprises closed or put into receivership under first year plan to be taken through legal liquidation and their winding-up process to be substantially completed.	**Second Tranche condition.**
	Performance agreements. Government has designed performance monitoring systems and provided to IDA draft agreements for five major PEs, and initiated preparation of further 5.	Board condition. (Completed)
	Government to execute, through PSRC, performance agreements	**Second Tranche condition.**

B. CIVIL SERVICE REFORM

REFORM AREA AND OBJECTIVES	PUBLIC SECTOR RESTRUCTURING ACTION PROGRAM	TIMING
CIVIL SERVICE REFORM: To create a smaller and more efficient civil service through downsizing, personnel control, and redundancy provision, as first stage of longer term program.	Strategy: Government has adopted statement on civil service reform strategy setting out a monitorable long-term reform program.	Board condition. (Completed)
	Government will provide to IDA a schedule of monitorable actions for the overall civil service reform program.	**Second Tranche condition.**
	Personnel Control: Announce policy in budget speech and outline program in key areas of personnel control and retrenchment.	Prior action. (Completed)
	Hiring recentralized subject to approval by President's Office; established base number on payroll, including those paid through the voucher system, as basis for freeze.	Prior action. (Completed)
	Maintain a hiring freeze except for already identified vacancies in selected categories.	Board condition. (Completed)
	Provide evidence on the satisfactory implementation of the hiring freeze on staff, other than identified vacancies, and complete preparation of and initiate the implementation of a new personnel control system.	**Second Tranche condition.**
	Retrenchment: Policy approved for 50,000 civil servants to be retrenched over 3 years, and finalize retrenchment package agreed with IDA.	Prior action. (Completed)
	Remove from payroll all civil servants over the compulsory retirement age of 55.	Board condition. (Completed)
	Set up task force to implement retrenchment and redeployment programs; prepared a proposal for labor redeployment support (see also Parastatals).	Board condition. (Completed)
	Government has completed the retrenchment of 10,000 staff according to agreed criteria, and with severance payments within an agreed budget.	Board condition. (Completed)
	Provide agreed allocation in the 1993-94 Budget for the retrenchment of at least 20,000 additional staff.	Board condition. (Completed)
	Complete retrenchment of, and make severance payments to, 20,000 civil servants, and eliminate 20,000 additional posts.	**Second Tranche condition.**
	Initiate implementation of a labor redeployment support program including job counselling, retraining, and entrepreneurship development.	**Second Tranche condition.**

C. REFORM OF FOREIGN EXCHANGE REGIME

REFORM AREA AND OBJECTIVE	PUBLIC SECTOR RESTRUCTURING ACTION PROGRAM	TIMING
OGL ADMINISTRATION AND TRANSITION: To improve OGL administration and ensure smooth transition to open market regime.	Government implemented action plan to improve OGL administration, as agreed under SPA mission of Nov. 1992, to include 1991-92 audit report, agreed repayment plan for arrears from commercial banks to BOT, and new payments system (upfront cash cover with import license and letter of credit).	Negotiations condition. (Completed)
	Government provided a time-bound action plan, acceptable to IDA, for the transition from the OGL system to a unified exchange rate system.	Board condition. (Completed)
	Implementation of agreed action plan for the transition to a unified, market-determined foreign exchange system.	Second Tranche condition.