We commend staff for a good document. We appreciate that civil society and development partners were involved in the CAS process. We also welcome that the Bank’s and other donors' assistance program build on the Government’s own development agenda which is broad and aims at better services for the poor, improved governance and better conditions for private sector development.

We generally share the Bank’s view on Tanzania’s progress. Macro-economic stabilization has been largely achieved, the country has a good track record and portfolio performance has improved. The CAS is also very clear in pointing out the lack of progress in poverty reduction and the deteriorating social indicators. We fully agree to go beyond the macro-economic emphasis of the last CAS and to focus the new CAS on rural development, social infrastructure, public sector reform and private sector development. While we agree with the lending scenarios, the triggers should be more operational and explicit. For example, achieving the commitments under the PRSP – which the Board has not seen yet – might not be a sufficiently precise. Moreover, it is not entirely clear to us, which performance measure - CAS triggers, CPIA ratings, PRSP benchmarks – would actually determine the lending level and composition.

There is an assumption that Tanzania would move to the high case scenario by the third year, which would pave the way for budgetary support through a Public Expenditure Reform Credit. Whether this is a realistic scenario remains to be seen. In any event, improving the budget process, deepening the medium-term expenditure framework and public expenditure review process, improving transparency and disclosure, strengthening the Controllers audit and anti-corruption function, improving financial management and procurement, strengthening monitoring and evaluation are key elements of better economic governance. They are all
essential for the sector-wide approaches envisaged under the base case scenario and require close attention by the Bank.

Our greatest concern relates to the weak **implementation and absorption capacity**. Both OED and self-evaluation concluded that the Bank tended to over-estimate implementation capacity and the pace of institutional reforms and capacity building. This CAS again tells us that overestimating the Government’s implementation capacity is the greatest risk. It outlines a range of very valid but rather generic risk mitigation strategies, such as a realistic sequencing. However, the CAS matrix, comprising numerous studies and technical assistance interventions raises the question whether the government will be able to contribute sufficiently to interventions and follow-through on them. More broadly speaking, the CAS does not convey a clear sense of how the risk mitigation measures have been incorporated in the Bank’s assistance program.

We fully agree that **decentralization** – and the prospects for enhancing empowerment and accountability – is fundamental for improving service delivery to the poor. However, it is important to recognize that this process is still at the very beginning. It will take time and sustained efforts to build the capacity of district governments to collect local taxes, to be able to benefit from fiscal transfers and to become accountable for spending in health, education, water, rural roads and agricultural services. This again is an area where a well sequenced approach, both in terms of geographic and sectoral coverage, is crucial. The Bank is not proposing investments in district level projects but it should, through its sector lending and policy dialogue support a strong decentralization process at a realistic pace. In this context we would like to know how the Bank’s support for rural development, that will be provided though the Social Assistance Fund, would be phased with and linked to the decentralization process.

We welcome the strong CAS focus on **rural development**, since poverty is essentially a rural phenomenon. We would appreciate clarification on the following two issues:

- Improving access to markets and services is crucial for rural poverty reduction. Will funding from the user fee financed Roads Fund be sufficient for ensuring adequate financing of maintenance of rural roads?
- Poor agricultural productivity and weak growth of the agricultural sector are important factors for the prevailing rural poverty. The incentive system for farmers is still deficient, since input markets have been liberalized while output markets remain distorted, inter alia because of the continued role of crop boards in marketing agricultural products. The Programmatic Structural Adjustment Credit (PSAC) contains a non-committal reference to this issue and we would appreciate staff's explanation.

We support the two proposed operations:

- The **Health Sector Program** seems to prepare well the grounds for a broader sector-wide approach in the second phase. It is important to move from the fragmented project by project approach towards better sector coherence. The operation builds on the experiences from SPA work. We very much support the incremental approach taking into account the local capacity building achievements. We also like the approach to gradually improve donor participation in
sector planning and the shifts towards more joint analytical work and better-harmonized procedures before pressing for the pooling of donor funding. We agree with the priorities supported by the PSAC. The presentation of this longer-term program shortly before the elections might deserve an explanation, since Government commitment very much depends on its top leadership. The phased approach and the use of floating tranches seems well suited to take into account the pace of reform. The move towards more open and inclusive governance might cause delays because of the longer time it takes to build a consensus. We see this actually as a benefit rather than as a risk and we encourage the Bank to allow for the necessary time.