Tanzania Country Assistance Strategy

1. We endorse the Bank’s assistance strategy for Tanzania and the proposed Structural Adjustment Credit. The SAC is a critical instrument in supporting the Government’s efforts in pursuing a well-targeted development agenda. The country needs to stay on a steady and sustained track of reform, focusing on its most urgent priorities, to achieve macroeconomic stability and growth necessary to reduce poverty. We are pleased to note that the IMF’s midterm review of the ESAF program indicates that performance remains on track.

2. The CAS objective of achieving fiscal balance is a fundamental route to macroeconomic stability in Tanzania. Early progress, as described in para 3 para 9 of the SAC, point to encouraging signs. Moreover, with the divestiture of parastatals, fiscal performance could be further enhanced as it would pave the way for improved economic efficiency and increased public savings. On the social front, however, the lack of progress in social outcomes is particularly worrying. Key social indicators of infant, child and maternal mortality, life expectancy and control of major communicable diseases have remained stagnant over the past decade. As such, we fully endorse the focus on social sector improvements as these are necessary preconditions for sustainable growth. Indeed, many difficult challenges lie ahead for the Tanzanian authorities and we wish the Government success in their continued and determined pursuit of far-reaching reforms.

3. Although the CAS provides a clear diagnosis of the critical problems facing Tanzania today, we need further clarification from staff on the following issues and concerns:

   Fiscal performance -- We think that the attention given to fiscal issues is not only appropriate but essential, given the significant impact of fiscal performance on achieving macroeconomic stability and in providing sustained financing for needed social and economic services. This Chair supports the strengthening of Tanzania’s fiscal performance and expanding the tax base through VAT. In our view, however, VAT is a complicated tax instrument that is difficult to administer. We would like to know whether other, simpler alternatives were explored.
Capacity building -- We believe that addressing the issue of capacity building in Tanzania will necessarily have to proceed along two parallel development tracks: one is institutional capacity building, over the short to the medium term; and the other is over the long-term, through improved education outcomes particularly at the primary and secondary levels. We therefore welcome the clarity of focus on building institutional capacity, namely in the areas critical for sound economic management (page 12) and through EDI's involvement in capacity building efforts in the social and economic sectors (page 19). We also appreciate the CAS focus in improving enrollment rates and education outcomes. However, we have a vague sense of the sequencing and proper timing of Bank support to the education sector. For example, we would like to know if there are any ongoing Bank-assisted education projects? Is the Human Resource Development Project 1 listed in Annex A1.1 proposed for implementation in FY98? If so, we wonder about the relatively long time lag between the projects in this sector, the last one (Education Planning and Rehabilitation Project) was provided in 1990.

Regulatory framework -- Lessons from experience tell us that it is key to reform the regulatory framework before a privatization or capitalization process starts. In this framework, we believe that the privatization of the electricity sector should be done only after an appropriate regulatory framework is in place. Although the CAS claims that the deregulation in the energy sector had occurred, the most important reform that has taken place is the opening of the sector to private operators. This Chair welcomes the recently announced investment in the Songo gas and electric generating project. We would like to ask staff about the likely implications of allowing a private generating facility in Tanzania without the proper regulatory framework?

Donor coordination -- The section of the CAS on donor coordination, consultation and participation lacks specifics. We would like to obtain further information regarding division of labor among the bilateral and multilateral institutions based on their recognized areas of comparative advantage.

Development diamond -- Which of the two development diamonds in the CAS is correct -- Annex A6 or Annex A7?