



1. Project Data:		Date Posted : 11/27/2001	
PROJ ID: P002788		Appraisal	Actual
Project Name : Parastatal and Public Sector Reform	Project Costs (US\$M)	45.69	50.86
Country: Tanzania	Loan/Credit (US\$M)	34.9	34.9
Sector(s): Board: PSD - Central government administration (100%)	Cofinancing (US\$M)	7	
L/C Number: C2507			
	Board Approval (FY)		93
Partners involved : DFID	Closing Date	06/30/1998	01/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
Poonam Gupta	Alice C. Galenson	Ruben Lamdany	OEDCR
2. Project Objectives and Components			
a. Objectives			
The credit had the following objectives: (i) institutional strengthening of appropriate Government organizations and departments in the area of parastatal and civil service reform; (ii) design, refinement and implementation of a comprehensive civil service reform program and (iii) strengthening of selected features of macroeconomic management.			
b. Components			
The project comprised four components: (i) privatization and public enterprise reform under which the main objective was to strengthen the Public Sector Reform Commission (PSRC) to handle divestitures; (ii) strengthening of Loan and Advances Realization Trust (LART) to facilitate the liquidation of non-performing assets; (iii) Civil Service Reform including retrenchment, redeployment, pay reform, personnel management and control and (iv) Macroeconomic management including capacity building in areas covering ministerial rationalization and budgetary and financial system, reform of the VAT, increased capacity of the National Bureau of statistics to provide economic indicators .			
c. Comments on Project Cost, Financing and Dates			
The \$34.9 million in project costs went into financing the following components: The privatization component was \$17.03 million , civil service reform was \$10.53 million, LART was \$4.34 million and macroeconomic management was \$2.73 million and \$0.35 for project implementation. The difference between the projected and final cost was primarily due to project execution over the project life . DFID provided the original allocation of US\$ 7 million; actual amounts have not been provided by DFID . The project closing was delayed because of delays in the privatization process and in civil service reforms . The latter was due to the imposition of different donor priorities on the Government.			
3. Achievement of Relevant Objectives:			
The first three objectives were fully met. The fourth was partially met. This project became the main instrument of dialogue between the Bank and the Government on privatization and civil service reform because the complementary project (Public Sector Reform Credit) that this project was intended to support was delayed .			
(i) The PSRC developed the capability to handle public enterprise divestitures, develop policy and perform tasks such as divestiture planning, asset evaluation etc . It also prepared action plans to restructure and upgrade the performance of key retained enterprises . However, the government changed its approach . The completion of the parastatal subsidy study and discussions with PSRC, Ministry of Finance and Ministry of Planning led to the Government's analysis of the economic and financial impact of parastatal support and it decided to sanction full sales and include banks, infrastructure and utilities in its privatization program . The safety net program was implemented in an ad hoc fashion with widely varying retrenchment payments across public enterprises . (ii) LART met the project objective of facilitating the reform process in the banking sector through the liquidation of non -performing assets of state-owned banks. (iii) Implementation of organization and efficiency reviews within government agencies has led to redefinition of the role of government and the rationalization of the core functions and organizational structure of ministries, independent departments, and regional secretariats . A framework has been agreed that reforms the compensation and personnel management systems . The Central Government has been slowly withdrawing from			

direct delivery of delivery of goods and services, transferring these to partners in local government, NGOs, private sector. On redeployment, a total of 40,500 out of 47,500 retrenchees benefited from counseling and skill training. (iv) Transition in the Government tax revenue collection system to the VAT was completed. The system was computerized in Dar es Salaam and Zanzibar. But there are implementation problems. The capacity of National Bureau of Statistics was increased to estimate GDP more accurately, but it does not yet have the ability to estimate other key economic indicators.

4. Significant Outcomes/Impacts:

Total lending to parastatals and state-owned enterprises fell dramatically from (Tsh) 101.2 billion in 1994 to about TSh 9.3 billion in 1999 and was projected to decrease to TSh 7.4 billion in 2000. Of the 385 companies originally in the Government's divestiture program, about 248 had been divested when the project closed at end-January 2001. All Board and second tranche release conditions on divestiture were met. By sector, the enterprises divested represented 43 percent in industry, 29 percent in agriculture and 28 percent in services. Most were small to medium enterprises; few were large enterprises. The privatization of other important enterprises (infrastructure and utilities) is continuing. About 68 percent of divestitures were outright sales to local and foreign investors, 15 percent liquidations and closures, 8 percent leases and 15 percent by other means. Also at end-January 2001 US\$20 million (approximately 59 per cent of the value of non-performing assets transferred to LART) were recovered. Public service employees were reduced from 355,000 in 1992 to 266,769 when the project closed and the wage bill was reduced by 30 percent of total recurrent expenditures. Effective controls on employment and the wage bill were institutionalized. The civil service salary structure has been decompressed from a ratio of 9 to 1 (in 1992) to about 21 to 1. Civil servants were trained in management and leadership. A new code of ethics for public service has been promulgated. A comprehensive decentralization and local government reform program was launched in 1997.

5. Significant Shortcomings (including non-compliance with safeguard policies):

There are post-privatization problems such as : (i) insufficient revenue to cover pre- and post-privatization liabilities of enterprises assumed by the Government; (ii) distribution of the remaining shares of the Government; and (iii) the continued need to upgrade newly privatized enterprises' managerial, technical and production capacities. While tax revenues have been increasing annually, their growth rate has slowed down from approximately 36 percent in 1994 to about 8 percent in 1998.

Government approval and oversight systems for privatization were delayed and complex. The Government lacked a streamlined, predictable debt treatment policy which cost the government significant amounts of money. The system of enterprise retrenchment payments was ad hoc. Earlier definition of priority functions of ministries and departments would have increased the impact of the civil service program. Impact would also have been greater if the project had incorporated a comprehensive communication package to explain the need for change and highlight the benefits and goals of privatization and civil service reform. Measurable indicators, and a well-defined strategic plan for civil service reforms would also have increased impact.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Modest	Substantial	The project's objectives were primarily geared towards institutions (civil service reform, tax administration, strengthening of the parastatal and loan recovery agencies, statistical information). These objectives were achieved so the ICR should have rated institutional development as substantial.
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. A credible privatization program requires (a) a comprehensive communications program designed to reach all stakeholders; (b) a retrenchment and public enterprise debt policy that is carefully evaluated, planned, and implemented consistently and (c) consistent technical support to the Government by the Bank and other donors to implement divestitures and retrenchment programs. 2. Privatization strategy should include measurable targets, and a clear definition of the areas of responsibility of various institutions and agencies involved (ministerial, cabinet, implementing agency level) to ensure a transparent and efficient process. 3. Complex projects need sufficient Bank budgetary resources to design and supervise. 4. Follow on projects (under two additional Bank-funded projects)

which build on achievements are important for sustainability . 5. An effective civil service reform program requires high level political ownership, sufficient capacity to implement, strong monitoring and evaluation, funding and most important donor coordination.

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

The ICR is of satisfactory quality . It covers important subjects, evidence is complete and convincing, a plan for future operations is presented and borrower input has been attached to the ICR . The ICR is frank in its treatment of shortcomings. It would have been rated exemplary if it had provided justification for its rating of institutional development.