TANZANIA: Country Assistance Strategy and Structural Adjustment Credit

1.- We fully support the World Bank’s Country Assistance Strategy and Structural Adjustment Credit.

2.- After two years of severe setbacks in the economic recovery program of Tanzania the newly elected Government at the end of 1996 succeeded in reversing the downward trend and demonstrating a clear, concrete and unambiguous commitment of action in a few key areas. We are pleased with this recent development and are convinced that, based on the positive economic results as shown in the ESAF mid-term review and the strong commitment of the Government to continue and accelerate key economic reforms, the Tanzania Government merits full support from the donor community and the International Financial Institutions. However, an impressive reform agenda still lies ahead, and the Tanzanian Government has to continue to demonstrate its willingness, commitment and capacity to achieve a strong track record in order to solidify the regained credibility within the donor community.

3.- The Structural Adjustment Credit is well-targeted in order to correct remaining distortions and strengthen key institutions with the objectives of supporting greater efficiency in the use of fiscal resources, more narrowly focusing on the activities of the State and continuing the process of price and market liberalization. Together with the focus on continued privatization of parastatal enterprises and improvement in the delivery of social services through increased cost recovery and private sector involvement, the SAC addresses the key elements for macroeconomic stabilization and accelerated growth rates. Particularly as regards the reorganization and divestiture of NBC, the proposed SAC, confirmed by the Government of Tanzania, represents the necessary exit strategy after a long past of failed and delayed restructuring of the bank. A lot of resources (human and financial) have already been allocated to the scrutinizing, analyzing, auditing, advising as well as the recapitalizing of this bank. We therefore urge the Bank to be as firm as possible in the event of a possible reopening of negotiations on NBC’s reorganization and divestiture.

4.- The CAS is well balanced and adequately supports the Government’s objective of broad-based economic growth with the greatest impact on poverty. Moreover, the triggers for Lending...
Program Scenarios (Box 2, p.17) are meaningful. We take note that within its lending and non-lending activities, the Bank is keeping in mind the objective of reinvigorating institutions such as the anti-corruption bureau or the judiciary. Following the Warioba report, we are also confident that the Bank will encourage and closely follow up on the Government’s taking corrective measures in order to combat fraud and corruption.

5.- We would like to highlight some points from the CAS and the SAC where we would appreciate more clarification from the World Bank:

- **Under the high case scenario, full and rapid implementation of the proposed reform strategy would lead to an estimated increase in Real Per Capita Growth Rates from 1.4% in 1996 to 2.2% in 1999 and eventually to 3.3% in 2006. Considering the widespread poverty in Tanzania, these still moderate Per Capita Growth Rates seem to be the minimum that Tanzania should strive for. One of the concerns identified in the SAC is that the overall growth rate does not adequately mirror the level of aggregate investments. With the proposed SAC an environment for improved allocative and productive efficiency will be created. We are pleased that this SAC focuses on only a few, but very crucial areas, and particularly on the activities of the State. We wonder, however, whether 1) the private sector will sufficiently react to and take advantage of the improved environment and 2) what the eventual supplementary measures are that the Bank envisages in order to increase private initiative and investments. As an example, what would the Bank’s policy be vis-à-vis the Microfinancing Bank once it is autonomous? We consider this point as a risk for the achievement of higher growth rates. In addition, we would have been interested in a sensitivity study analyzing the implications of different fiscal policy scenarios on their resulting growth rates.**

- **Furthermore, ambitious fiscal targets are formulated for the next few years and the budget management should shift from the current cash budget to a Rolling Plan and Forward Budget (RPFB). As mentioned in the SAC, this implies a better forecasting of future expenditures and revenues as well as better coordination with fiscal and monetary authorities. In this context, we are rather surprised to read that the World Bank only mentions the lack of technical skills at the local level, and that at this stage the likelihood of a resulting slackening of reforms is small. Our understanding is that one of the main constraints and risks for an improved fiscal policy and budget management is the extremely limited capacity at the Ministry of Finance at the central level. The CAS mentions as an objective of its lending and non-lending activities the capacity building in critical areas for sound economic management and particularly for the Tanzania Revenue Authority and policy analysis in the Ministry of Finance. We wonder whether this is sufficient and whether some additional training and increased technical assistance would be required at the central level of the Ministry of Finance. The Bank could at least play an important role as a facilitator for increased support by the donor community.**

- **Regarding the budget targets, we welcome the intention of implementing several expenditure rationalization measures as identified in the frame of the Public Expenditure Review (PER). The consolidation of the recurrent and development budget is especially crucial. This,**
together with a better cashflow management regime, could be valuable in securing a commitment to sector expenditure plans consistent with realistic aggregate expenditure at the sector level. The downsizing of the project portfolio and classification into core, super-core and non-core projects has had little impact so far in the financing and implementation of the hundreds of projects. We therefore very much welcome the SAC condition for the social sector tranche release of reducing the number of projects from 1,400 down to 800 or less. In addition, the development spending targets from domestic sources of T Sh 20 billion (excluding the Road Fund) for priority sectors, together with increased cost sharing and private sector involvement, will hopefully reverse the dramatic deterioration in education and health services and facilities. While all these measures are encouraging, we still remain concerned that the Government continues to make commitments to provide counterpart funds and budgetary resources to cover essential recurrent expenses on a bilateral basis which - from the very beginning of the FY - it can never fulfill. We therefore urge the World Bank to monitor the contracting policy of the Government in particular and to initiate eventual corrective measures.

- No mention is made in either document of the relationship of the Mainland with the Island of Zanzibar. There is certainly no scope for the World Bank to interfere in the political discussions; however, if Zanzibar is increasingly becoming a loophole for important reforms and potentially inhibiting or jeopardizing macroeconomic stability, then clear conditions should be formulated by the World Bank in order to avoid future slippage. As an example, we would like to mention the absence of a pre-shipment-inspection company on the island, an eventually delayed introduction of the VAT on Zanzibar and the recent arrears accumulated in the servicing of treasury bills by the Zanzibary Government.

- Lastly, we take note of the Bank’s intention to continue its efforts to refine the process of consultation and sharing information through the annual CG and the SPA. However, we also urge the Bank to ensure that monthly meetings of the local donor group in Dar es Salaam are being held in order to regularly inform donors about the current status of the reform process and policy decisions taken by the Government or the Bank.