

Tanzania: Relations with the World Bank Group

Partnership in Tanzania's development strategy

The government of Tanzania's development strategy is set forth in its poverty reduction strategy paper (PRSP) and further refined in the first and second progress reports, which were endorsed by the Bank's Board on November 27, 2001 and May 29, 2003, respectively. The PRSP focuses on three main areas of outcomes. The first is a reduction in the breadth and depth of income poverty. The outcome targets include a reduction in basic needs poverty and food poverty, with a particular focus on rural areas, where poverty is most prevalent. The second area is that of improving the quality of life and social well-being. More specifically, this entails improving human capabilities, enhancing longevity and survival, and social well-being (social inclusion and personal security), improving nutrition, and containing extreme vulnerability (mainly through safety nets). The third broad area is an environment conducive to development that can be sustained. The environment encompasses macroeconomic stability and good governance.

The IMF is supporting Tanzania's poverty reduction efforts in the context of the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Among external partners, the Fund takes the lead in the policy dialogue with the government on macroeconomic policies, including overall fiscal and monetary policy. Under the PRGF arrangement, in addition to macroeconomic targets, the Fund has agreed with the authorities structural performance criteria relating to reforms in the areas of tax policy and administration, public debt management, financial transparency and good governance, trade policy, and financial sector development. As outlined more fully below, the Bank's support is complementing the Fund's through a focus on sectoral reforms in the context of projects and analytic work and the Poverty Reduction Support Credit (PRSC1) covering the areas of economic governance, business environment, and rural development.

Bank Group strategy

The current Country Assistance Strategy (CAS) for Tanzania was approved by the Bank's Board on June 15, 2000. To ensure alignment with the new PRSP, which the government intends to complete by the end of 2004, the next CAS will be presented to the Board in early 2005. The focus of the current CAS is on higher economic growth, poverty reduction, and institutional reforms to improve governance. It conforms with the government's main strategy of adherence to macroeconomic stability, increased private sector participation in the economy, a renewed emphasis on rural development, and an improved delivery of social services. It also supports the government's desire to enter into new relationships with its development partners, based on the phased switching from projects to programs for more effective and efficient use of aid resources.

The Bank is providing support for the implementation of the PRS through a Poverty Reduction Support Credit and Grant (PRSC), which was approved by the Bank's Board on May 29, 2003. The operation has been prepared in close collaboration with eleven other donors, who provide financial assistance through the Poverty Reduction Budget Support (PRBS) facility, using a joint performance assessment framework and a common review process. The focus of the PRSC/PRBS is on scaling up pro-poor growth, especially through a focus on rural development and improvements in the business environment. In addition, the PRSC/PRBS also supports the strengthening of public expenditure management and public service delivery, especially in the priority sectors for poverty reduction, and the operationalization of an appropriate monitoring and evaluation system to enhance the accountability for results and outcomes of sectoral programs.

IDA also provides adjustment lending through PSAC1 and implementation has been satisfactory. Four out of the five tranches of the credit have already been released. The closing date of PSAC1 has been extended to May 31, 2004 to allow the government to finalize and approve a strategy for the divestiture of the National Insurance Company, the main outstanding condition for the release of the last tranche (US\$40 million). The implementation of policy reforms agreed upon under PSAC1 and the PRSC is supported by a series of technical assistance and investment projects. These include project support to improve tax administration, to reform the public sector, and to develop the financial sector, including rural finance and microfinance.

In the social sectors, the Bank has approved an adjustment lending operation in support of primary education (US\$150 million). The objectives of the program include improving education quality, expanding school access, and increasing school retention at the primary level. Bank support in this area has already facilitated a significant increase in primary school enrollment. The Bank contributes to the health sector multidonor "basket fund," which supports reforms of the sector and provides funding for nonwage expenditures. A multisectoral HIV/AIDS project supports Tanzania's efforts to reduce HIV transmission and mitigate the adverse consequences of AIDS. In the water sector, a project that will support technical, commercial, and financial rehabilitation of the water supply and sanitation services in Dar es Salaam was approved by the Bank's Board on May 27, 2003.

In the agriculture sector, the Bank supports policy reforms through analytical work and the policy dialogue under the PRSC. The Bank also provides support to strengthen research and extension services. A Participatory Agricultural Development and Empowerment project credit was approved by the Bank's Board on May 27, 2003 to support investments in appropriate technologies to reduce soil fertility decline.

Efforts to improve Tanzania's infrastructure are supported through projects in the road and railway sectors, as well as an urban rehabilitation project. In the power sector, the Bank has helped the government implement the Power Sector Restructuring Program. The Bank has encouraged the government to develop the domestic gas market and to generate lower-cost power through the Songo Songo Gas Development and Power Generation project.

The IFC's portfolio includes investments in agriculture, agro-processing, banking and financial services, and tourism in the amount of US\$37 million. Over the next three years, potential investments in the magnitude of US\$20–30 million in private infrastructure and financial institutions, and to provide financing and capacity-building support to small and medium-sized Tanzanian enterprises are expected. MIGA's current exposure in Tanzania includes four guarantees in the infrastructure, telecommunications, and mining sectors totaling US\$175 million gross and US\$70 million net exposure.

Tanzania joined the World Bank Group in 1962. Beginning with an IDA credit for education in 1963, a total of 128 credits and 27 loans, totaling US\$4.67 billion (US\$4 billion from IDA) have been provided to Tanzania. Total disbursements amounted to US\$3.8 billion as of November 30, 2003 (some US\$3,449 million from IDA and US\$355 million from the IBRD). Currently, the portfolio comprises 25 active projects, with commitments of US\$1.5 billion in all major sectors. As of November 30, 2003, the undisbursed balance for the portfolio stood at US\$682 million.

Bank-Fund collaboration in specific areas

The IMF and World Bank staffs maintain a close collaborative relationship in supporting the government's structural reforms. As part of its overall assistance to Tanzania—through lending, country analytic work, and technical assistance—the Bank supports policy reforms in the following areas in collaboration with the Fund:

- **Public expenditure management.** Improvements in public expenditure management have been one of the top priorities of the Tanzanian government since 1995. The Bank, the Fund, and other donors have worked closely to provide the government the needed support for institutional and policy reforms. While the Fund is leading the dialogue on fiscal policy, the Bank is focusing on strategic resource allocation and operational efficiency of public expenditures. In the area of overall fiscal policy, the reduction of domestically financed deficits has resulted in sustained macroeconomic stability over the past five years. To enhance strategic resource allocation and operational efficiency, the Bank is supporting a government-led, participatory public expenditure review/medium-term expenditure framework (MTEF) process that has supported the strengthening and opening up of the budget process as well as the allocation of resources to pro-poor priority areas. In addition to process, support and analytical work in this area, the Bank is also supporting policy reforms through the PSAC and PRSC. Another area of Bank involvement is the fiscal decentralization process, where, in addition to ongoing analytical work, project support is planned to start in 2004. The Bank and Fund collaborate closely to support institutional budget and expenditure management reforms. A recent Country Financial Assessment Analysis (CFAA), carried out in a collaboration of the Bank, other donors, and the government, an IMF Report on the Observance of Standards and Codes (ROSC), and a joint Bank/IMF assessment of capacity to track poverty-reducing expenditure have all noted the improvements in public financial management and fiduciary systems in recent years. The Bank also prepared a Country

Procurement Assessment Report, which provides an agenda for strengthening procurement systems in Tanzania.

- **Tax policy and administration reform.** A relatively small and stagnant domestic revenue effort is a severe constraint on Tanzania's efforts to improve public service provision and to fully finance the implementation of the poverty reduction strategy. The Bank and the Fund have over the past few years expended significant effort to enhance the domestic revenue effort. While the Fund has taken the lead in reforms and adjustments of tax policy, the Bank has taken the lead in reforms to strengthen tax administration.
- **Financial sector reforms.** Tanzania has been engaged in far-reaching reforms of the financial sector. The Bank and the Fund have been working closely to support these policy reforms. In addition to its contribution to the policy dialogue, the Bank has provided significant technical assistance for financial sector reforms. This includes two financial institution development projects that support, respectively, the withdrawal of the government from banking and nonbanking financial institutions and the strengthening of financial sector supervision. Successful outcomes of these reforms include the privatization of Tanzania's largest bank and the entry of a fairly large number of international banks into the Tanzanian market. Other areas of Bank involvement include the reform of the capital and securities authority, reform of pension systems, and liberalization of capital accounts. Through a separate project, the Bank supports the development of rural and microfinance services. A joint Bank/Fund Financial Sector Assessment was completed in June 2003.
- **Public service reform and improved service delivery.** In recent years, the government of Tanzania, with support from the Bank and other donors, has launched a number of major initiatives to improve performance and to foster greater accountability, transparency, and integrity in the public sector. These include (i) the Public Service Reform Program, (PSRP), (ii) the Local Government Reform Program, (iii) the Public Finance Management Reform Program, (iv) the National Anti-Corruption Strategy and Action Plans for Tanzania, (v) the National Framework on Good Governance, delineating a comprehensive approach to improve governance, (vi) the establishment of a Good Governance Coordination Unit (GGCU) in the President's Office, and (vii) the launch of the Legal Sector Reform Program. Among these reforms, the PSRP plays a central role since its objective is to improve the accountability, transparency, and resource management of service delivery. The program is closely linked with other major reforms in public finance and decentralization. The PSRP aims at transforming the public service into a service that has the capacity, systems, and culture for client orientation and continuous improvement. Cooperation between the Bank and the Fund covers those areas where public sector reform has a direct impact on fiscal stability and public sector financial management.
- **Trade reforms.** The Bank and the Fund are working closely to assist Tanzania in establishing a pro-growth trade framework. While the Fund is focusing on reforms of the

tariff regime, the Bank is focusing on trade expansion through its regional trade facilitation project. The Bank is also involved at the regional level in the dialogue on trade reforms in the context of the East African Community.

A. TANZANIA: Financial Relations with the World Bank Group

Statement of Loans and Credits
 (As of November 30, 2003;
 in millions of U.S. dollars)

	IBRD	IDA	IDA GRANT	TOTAL
Original Principal	361.03	4,210.37	102.00	4,673.40
Cancellations	5.47	231.58	0.00	237.06
Disbursed	355.55	3,497.52	34.67	3,837.50
Undisbursed	0.00	610.95	71.49	682.44
Repaid	353.03	311.25	0.00	664.29
Due	2.42	3,368.35	0.00	3,370.77
Exchange adjustment	0.44	0.00	0.00	0.44
Borrower's obligation:	2,865.00	3,368.35	0.00	3,371.21
Sold third party:	0.09	6.20	0.00	6.29
Repaid third party:	0.09	6.20	0.00	6.29
Due third party:	0.00	0.00	0.00	0.00

Statement by the IMF Staff Representative on Tanzania
February 25, 2004

This statement describes developments since the staff report was issued on February 11, 2004. These developments do not change the thrust of the staff appraisal.

The Tanzanian authorities submitted in early February 2004 the new income tax act to Parliament for a first reading, which was a **prior action** for this review. They confirmed that the act will be considered for approval by parliament in April 2004. In February 2004, parliament also approved amendments to the Land Act that had been agreed with stakeholders, including financial institutions.

Preliminary data made available since the staff report was issued indicate that economic and financial developments remained in line with the program. Year-on-year inflation at end-January 2004 stood at 4.7 percent. Reserve and broad money growth remained below the end-December 2003 projections by about 5 percent, largely on account of tight liquidity management by the Bank of Tanzania, while credit to the private sector continued its strong growth. The estimated budget outturn through the first half of FY 2003/04 was in line with the program, as revenue and expenditures have evolved broadly as anticipated.

The nominal exchange rate of the shilling to the US Dollar depreciated to about TSh 1109 (from TSh 1063 at end-December 2003), reflecting higher imports, notably food imports to address growing shortages.

Heavy reliance on expensive thermo-power as a result of drought-related water shortages in the hydro-electric system could increase the demand for transfers from the budget by the electricity utility TANESCO. The authorities are in close consultation with the World Bank with a view to developing an emergency action plan for managing the financial implications of the drought for the energy sector, as well as designing a medium-term reform strategy. It is the authorities' intention to address these issues and the regularization of past indebtedness in the context of the 2004/05 budget.

The signing of a trade protocol establishing a customs union in the East African Community (EAC) planned for mid-February has been postponed to early March.



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FOR IMMEDIATE RELEASE
February 25, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review Under Tanzania's PRGF Arrangement and Approves US\$4.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Tanzania's performance under a SDR 19.6 million (about US\$29.3 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see [Press Release No. 03/127](#)). The completion of this review enables the release of a further SDR 2.8 (about US\$4.2 million), which will bring the total amount drawn under the arrangement to SDR 5.6 million (about US\$8.3 million).

In completing the review, the Board waived the nonobservance of the performance criterion related to the submission to parliament of the new income tax law, which was delayed to February 2004.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year period on principal payments.

Following the Executive Board's discussion on Tanzania's economic performance, Agustín Carstens, Deputy Managing Director and Acting Chair, made the following statement:

"The Tanzanian authorities deserve credit for maintaining macroeconomic stability and making substantial progress with structural reforms, which have paved the way for a steady but modest increase in real per capita income combined with low inflation. Reflecting its good track record in the implementation of its reform program, Tanzania has received steady financial support and technical assistance from the donor community. In particular, debt relief under the enhanced HIPC Initiative has helped Tanzania to undertake higher social sector spending and maintain debt sustainability.

"Despite these achievements, poverty remains widespread, especially in rural areas, and economic development has been uneven across the country. Thus, the authorities are committed

to sustained economic reform efforts in order to make further progress toward the growth and poverty reduction objectives articulated in the PRSP. The strengthening of the business environment and of agricultural performance, as well as measures to manage the macroeconomic impact of high aid flows, will be key elements of these reforms.

“Enhancing revenue mobilization and containing aid dependence will be critical to enhance the robustness of macroeconomic stability. To this end, the authorities plan to achieve a comprehensive reform of tax policy and tax administration. The forthcoming adoption of a new Income Tax Bill and the Tanzania Revenue Authority (TRA)’s implementation of a new three-year corporate plan will be crucial measures in this direction. Furthermore, rationalizing the tax regime for mining companies, while imposing strict controls on tax exemptions, will be important steps to contain revenue leakages. Maintaining a sound fiscal position and debt sustainability will also require firm control over nonpriority expenditure and prudent debt management policies.

“Continued reform in the financial sector, consistent with the recommendations of the recent Financial Sector Assessment Program (FSAP), will be crucial to improve access to bank lending and strengthen the financial sector’s contribution to higher economic growth. The newly passed amendments to the Land Act are expected to facilitate bank lending by permitting the use of land as collateral. The privatization of the National Microfinance Bank will also help to broaden access to financial services.

“The authorities recognize the seriousness of the rising fiscal pressures emanating from growing subsidies for the energy sector. They intend to take swift action by formulating and implementing a short-term action plan and a medium-term reform strategy, which will aim at providing reliable power supply, while reducing the electricity utility’s dependence on fiscal subsidies. In this context, the authorities intend to hold high level consultations with the World Bank in the near future.

“The authorities are committed to pursuing closer regional integration and further trade liberalization, mainly in the framework of the East African Community (EAC). As part of these efforts, the authorities are encouraged to work with EAC partner states to further reduce tariffs and remove non-tariff barriers.

“Finally, the authorities have underlined their commitment to the full implementation of their updated national anti-corruption strategy and action plan for 2003–2005, which will be a crucial step for strengthening governance and boosting business confidence,” Mr. Carstens said.