

## **Tanzania: Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report**

The attached Joint Staff Assessment (JSA) of the Poverty Reduction Strategy Paper Progress Report for **Tanzania**, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) Progress Report to the Executive Boards of the two institutions. A JSA evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP or Interim PRSP (IPRSP) provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [publicationpolicy@imf.org](mailto:publicationpolicy@imf.org).

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**International Monetary Fund  
Washington, D.C.**

INTERNATIONAL MONETARY FUND AND  
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

TANZANIA

**Poverty Reduction Strategy Paper—Progress Report  
Joint Staff Assessment**

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May 5, 2003

**I. OVERVIEW**

1. The Government of Tanzania has prepared its second Poverty Reduction Strategy Progress Report, which outlines the progress made in implementing Tanzania's poverty reduction strategy during fiscal year 2001/02 (July-June), and updates the Poverty Reduction Strategy Paper (PRSP) of October 2000 that was endorsed by the Boards of the IDA and the IMF on November 30 and December 1, 2000, respectively.

2. The report confirms that Tanzania continues to make significant progress both in terms of implementation of the country's Poverty Reduction Strategy (PRS), and in further refining the strategy. With respect to **policy**, the past year has seen sound macroeconomic management, and further articulation of the key agricultural and rural strategies. The government has updated the PRSP policy matrix in this Progress Report; new measures for the coming year include, among others, a focus on private sector incentives in agriculture, and development of a secondary education strategy. The developments described in the Progress Report represent a continuation of the strategy laid out in the original PRS. The government has concentrated on completing the unfinished agenda from the first three-year PRSP cycle, which focused on the education and agricultural sectors, establishing a strong poverty monitoring system, and re-orienting public expenditure to priority areas. In the view of the staffs this strategy remains sound, and has been well executed. The coming year now represents an opportunity to re-evaluate and update the strategy in the light of the findings of the poverty analysis completed this year using the Household Budget Survey data.

3. In the area of **indicators and analysis**, the government has completed comprehensive analytical work on poverty, and developed a more complete set of indicators. Progress against the targets set out in the PRSP has been generally good, with the growth and educational targets surpassed, but slower-than-hoped for progress on health indicators. Finally, it should be noted **that government has made substantial progress in all the areas flagged in last year's JSA** (these included completion of the poverty analysis, costing the PRSP program, and articulation of the rural and agricultural

strategies), with the exception of completing work on the linkages between macroeconomic policies, structural reforms, and poverty, which has proved to be both conceptually and practically more difficult than envisaged.

4. The PRSP **process** in Tanzania continues to be an open and transparent one. The Progress Report benefited from the deliberations of a Poverty Policy week held in September 2002, involving a wide range of stakeholders, as well as being reviewed at the Consultative Group (CG) meeting in Dar es Salaam in December 2002, and at an informal CG, at which there was considerable input from civil society and NGOs. A joint statement of support for the Progress Report is being issued by Tanzania's development partners.

## II. POVERTY ANALYSIS

5. The past year saw completion of an in-depth **analysis of poverty** based on the Household Budget Survey and other data sources, as well as specialized studies of vulnerability, urban poverty, and the geographic distribution of poverty. These are presented in a comprehensive Poverty and Human Development Report (PHDR), which provides a rich analysis of poverty—including the links with sectoral growth—and is summarized in the Progress Report. The analysis confirms that the decrease in income poverty over the past decade has been modest, and that its benefits have been concentrated more in Dar es Salaam than elsewhere. However, some non-income measures of poverty (such as household assets and school enrollments) suggest that income data alone may understate the progress that has been made. At the same time, there has been little reduction in malnutrition in the 1990s, and no substantive progress in reducing infant and child mortality, due in part to the impact of HIV/AIDS.

6. The Progress Report acknowledges that there is **uncertainty regarding the extent to which the significant macro-level gains since 1996 have translated into poverty reduction**.<sup>1</sup> The Report recognizes that increasing the poverty impact of growth is a major challenge needing further work, both in terms of understanding the dynamics at work, and of designing policy responses.<sup>2</sup> The Progress Report points to some directions to better link growth to poverty, including strengthening ties between rural and urban economies, improving rural infrastructure, and promoting the development of small enterprises and credit markets. In the view of the staffs, this approach is generally sound, but requires more analytical work and policy development to refine it in the coming year.

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<sup>1</sup> The poverty analysis is based on surveys in 1991 and 2000; the years in between cover two very different periods of economic performance, with rapid economic growth in the second half of the 1990s offset by stagnation that resulted in per capita income declines in the first half of the decade. Over the decade as a whole per capita GDP remained relatively unchanged.

<sup>2</sup> Government has done some good initial work in the PHDR trying to trace through the linkage between sectoral growth and poverty; showing, for example, that several of the 'pacesetter' sectors of growth—mining and tourism—are having fairly little impact on employment or incomes of the poor.

### III. PROGRESS IN SECTORAL AND POLICY REFORMS

7. In **education**, the Progress Report notes the impressive continued expansion in coverage of the primary system, with the number of children enrolled now well above the target level set for 2003 in the original PRSP. It acknowledges the pressure put on the system by this rapid expansion, and that the challenge now is to improve quality. In the view of the staffs, the measures included in the government's comprehensive Primary Education Development Program represent the correct set of responses to this challenge. In addition, the new set of indicators will include school completion rates, which constitute a more meaningful measure of performance than enrollment alone. The government is now appropriately turning its attention to the emerging challenge of secondary education, and has committed to developing a national strategy during 2003/04-2004/05.

8. In **health**, while sentinel site reports suggest better progress in child mortality outcomes than is indicated by the national-level data, progress more broadly has been disappointing, despite some encouraging advances in the past year in increasing immunization coverage, rolling out drug revolving funds, and developing the malaria policy. The challenge in the coming year will be to assess in more depth what is needed to translate generally sound policies into greater impact on outcomes, including better understanding the determinants of improved health, such as access to clean water, female education and fertility levels, and of care-seeking behavior. The forthcoming review of the health sector program is expected to contribute significantly to this understanding. Similarly, although all districts are now covered by an HIV/AIDS awareness campaign and each district has prepared its HIV/AIDS action plan, the overall AIDS response has been slower than the government had intended at the time of the PRSP. This is partly due to the difficulty, experienced in many countries, in getting sector Ministries to spend available AIDS funds. While this is now being addressed in Tanzania under the intensification of the AIDS program, additional funding is still likely to be required.

9. An **Agricultural Sector Development Program (ASDP)** has been developed to operationalize the agricultural strategy articulated in the previous year's Report. The ASDP provides a more focused framework for future interventions, advocating innovative approaches and a shift away from the previous public-sector driven approach. However, the ambitious program still involves substantial public spending. It would benefit from a review of its affordability following detailed costing, as well as a deeper assessment of the impact of proposed interventions on poverty. In the past year, progress has been made in removing internal trade restrictions, enacting new legislation and establishing research institutes to provide advice to producers of the key commercial crops (tea, coffee, and tobacco). The Progress Report recognizes the central importance of the private sector in agriculture, and commits to rationalization of multiple taxes, and work on private participation and financing in agro-processing, as well as reviewing the role of crop boards. It also recognizes the importance of developing performance targets and indicators for tracking progress in the sector. Since the last progress report a **Rural Development Strategy (RDS)** has also been finalized. It emphasizes promoting pro-poor growth, increasing opportunities and access to services and assets of the poor, reducing

risks and vulnerability, and good governance. Like the agricultural strategy before it, the RDS will require more explicit implementation plans to make it operational; and while indicators were included in the RDS document to measure progress, greater harmonization is needed with the poverty monitoring master plan, the proposed monitoring indicators of the local Government reform program, and those of the ASDP. During the coming year the government also plans to formulate a food security strategy.

10. The Progress Report records an impressive range of **infrastructure** achievements in the past year, with a significant increase in the budget allocation for **roads** in FY 2002/03. However, it also notes that maintenance remains underfunded, suggesting the need to revisit the balance between maintenance and new works, and notes continuing capacity problems, especially at the local government level. The Progress Report commits to development of a rural roads strategy in the coming year. In the view of the staffs, it would be important to take the poverty and distributional impacts explicitly into account. A sector-wide approach has been developed in the **water sector**, and the National Water Policy was approved by the government in July 2002. The policy is sound, paving the way for a decentralized rural program (rather than individual projects), and for commercialization and private participation in urban water supply. However, there is a need for a stronger link between the National Water Policy, the Medium-Term Strategic Plan and the budget, and a better balance between spending on rural and urban water, and establishing a linkage from the budget to outcomes.

11. Although noted only briefly in the Progress Report, progress has been made in the area of **private sector development**, with the International Investors' Roundtable, and renewed efforts to identify constraints in the areas of gemstones, manufacturing, tourism, and transport. The report also noted that need to develop micro credit and other financial intermediaries and the obstacles to financial sector development, including the use of land as collateral. In this context, participation in the World Bank and IMF Financial Sector Assessment Program (FSAP) during 2003 is also expected to yield recommendations that could be embraced in the next PRSP.

12. With respect to **governance**, measures have been taken to strengthen capacity of the court system and increase the number of magistrates; the Alternative Dispute Resolution (ADR) system was extended to all Resident Magistrates and District Courts in April 2002; and the Human Rights and Good Governance Commission was established in March 2002. More broadly, it is accepted that more aggressive work is needed in rolling out implementation of anti-corruption measures, and in strengthening local government. It is recommended that governance should be given more attention in the coming year's report, with specific measures and progress indicators.

13. Some important areas receive relatively little attention in this year's Progress Report. To some extent this is understandable, as not all issues can be tackled each year, and efforts in 2001/02 focused very much on poverty monitoring. Nonetheless, additional attention in the coming year's report will need to be paid to **environment** and **gender issues** in the PRS process. There has been some progress in developing proposals to integrate environment as a crosscutting issue into the process of the Public Expenditure Review (PER) and the Medium-Term Expenditure Framework (MTEF), and

'environment champions' were appointed to be members of the technical working groups in the poverty monitoring system. A notable achievement this year was the beginning of work on the **employment** aspects of poverty and sectoral growth; and, especially, completion of analysis of **child labor**, and the initiation of measures to address this problem.

14. **Public Expenditure Management and Allocation.** Tanzania has made commendable progress in integrating the PRS objectives into the budget process. There were significant increases in budget allocations for health, water supply, education, HIV/AIDS, agriculture, and judicial reform in the 2002/03 budget. In the view of the staffs, the allocation of expenditure to priority sectors is consistent with the PRSP strategy. The Progress Report acknowledges that the next step is to more closely align the budget, PER and PRS processes, by focusing on sub-sector and program expenditures. As a step in this direction, the government has committed to harmonizing codes and expenditure reporting across the PRS and budget. It would be useful if future Progress Reports could briefly describe how budget execution compares with planned expenditure, in relation to PRS goals.

15. The **costing of PRS programs** has been improved in the past year, but is still somewhat uneven, covering total program costs in some sectors, and only incremental costs in others. As the Progress Report notes, more work is required in particular in refining costs of the agricultural program. The Progress Report also records notable progress that has been made in public expenditure management, including publishing quarterly budget execution reports, as well as publishing budgetary transfers in newspapers and holding a transparent PER involving civil society and NGOs. Expenditure management has been strengthened by the adoption of a centralized payment system and the limitation of spending to cash availability. In addition, the Integrated Financial Management System is now operational in a majority of ministries, and is being rolled out to the regions to ensure that expenditure and revenue reports are captured directly by the system.

#### IV. MACROECONOMIC FRAMEWORK

16. Since the mid-1990s, Tanzania has made substantial **progress in macroeconomic stabilization** and related structural reform. Real GDP growth has averaged more than 5 percent since the approval of the PRSP, while inflation has declined to below 5 percent. Higher real growth in the agricultural sector (which accounts for almost half of GDP) has been accomplished through the liberalization of marketing structures, as well as of agricultural prices and the foreign exchange regime. Fiscal consolidation has been central to the success in macroeconomic stabilization. In support of Tanzania's reform program, donors have provided sizable financial assistance, which all but eliminated the government's domestic financing needs. Revenue mobilization, however, has improved only marginally, primarily owing to weakness of tax administration, and the proliferation of tax exemptions.

17. **Monetary developments** in recent years were characterized by strong monetary expansion, as large foreign inflows were not fully sterilized and the demand for broad money expanded with the gradual deepening of the financial system. Primarily reflecting the lack of lending opportunities, the banking system developed an increasingly large structural liquidity surplus, which triggered an excess demand for treasury bills and, consequently, a decline in interest rates on bills and deposits. In recent months, the Bank of Tanzania stepped up its actions to mop up liquidity and, as result, the growth in reserve money has been held within projections, which were also revised upwards to take account of stronger than expected money demand in 2002.

18. The discussion of the **macroeconomic framework** in the Progress Report rightly notes the continued low revenue yield, notwithstanding the positive effect on revenue mobilization from the establishment of the Large Taxpayer Department and other policy measures. The projected medium-term revenue targets are appropriate, and will be achievable, with implementation of a comprehensive strategy for reform of Tanzania's revenue administration and policy. In this respect, the report notes appropriately the importance of eliminating exemptions, as well as of a review of tax laws. In addition, the organization of the national tax administration, the strengthening of the Large Taxpayer Department, and the integration of VAT and income tax departments will be of particular importance, and should be expeditiously implemented.

19. The **mobilization of higher revenue** will also be important to strengthen the robustness and sustainability of the recent strong macroeconomic performance. The staffs note that to achieve the targeted higher growth performance and make effective use of external aid flows, it will be important to adopt structural reforms to improve the domestic supply response, in particular in the financial sector area; and to further liberalize trade so as to improve availability of imports and export opportunities. Nevertheless, while the macroeconomic framework set out in the Progress Report is considered sound, the staffs note that exogenous shocks, including adverse weather, could pose a risk to the attainment of the desired acceleration in growth.

## V. PRSP PROCESS AND MONITORING SYSTEM

20. As noted in the 2002 JSA, Tanzania has developed an impressive **poverty monitoring system**, which includes civil society organizations, research and academic institutions, and external development partners. Financing for the system has been integrated into the government budget from 2002/03. The past year has seen concrete progress in processing the Household Budget Survey, undertaking a national census, and a Participatory Poverty Assessment to capture the views of the poor. The coming year will see completion of an agricultural census, and processing of data from the national census. As the Progress Report acknowledges, the challenges are now in spreading the monitoring system down to the local government level, and getting monitoring results meaningfully fed into the policy process.

21. **Institutionally**, the PRS process is located in the Vice President's Office and the Ministry of Finance, and this puts the process at the center of government; complemented

by excellent analytical work done by the inter-Ministerial Research and Analysis Working Group (RAWG), which also involves donors and research institutes. The next step is to strengthen feedback loops with sectoral policies and political processes. To date this has not been a major problem, as government has largely been focused on the right issues, and policy evolution has continued in appropriate directions, with the development of the key educational and agricultural policies over the past two years. The time is probably ripe now, however, for a more integrated discussion of sectoral strategies in light of findings on poverty and the impact of growth. Next year presents an opportunity to do this, and to re-launch wide-ranging public consultations and political-level discussion of how the strategy should be adjusted, in the context of formulating the next three-year phase of the PRSP.

22. In the view of the staffs, the Progress Report does a good job of grouping the **indicators** of poverty and systematically reporting on progress against each. A welcome development is the setting of 10-year targets for some indicators, recognizing that poverty reduction is a long-term process. This year's Progress Report largely presents an accounting of physical achievements, but points out, rightly in the view of staffs, that the objective of this first phase of work was to establish baseline data, and that future Progress Reports will go beyond sector performance to track changes in impact and outcome indicators. The RAWG has recently developed a more refined set of outcome-oriented indicators, which establish medium-term targets through 2006. The new indicators will make it easier to identify where there are shortfalls, and thus a need to adjust public action. The challenge will be to work with the line Ministries in the coming year to incorporate these indicators into sectoral PRSP monitoring. This strengthening of policy dialogue should also benefit from progress in undertaking poverty and social impact analysis of key measures, beginning with the work that is now being initiated, with the support of World Bank staff, in the area of agricultural taxation and crop board reform. Furthermore, although difficult, it is important that future indicators track environmental, vulnerability, and governance aspects of poverty reduction.

23. This year's Progress Report also recognizes the importance of integrating the **Millennium Development Goals (MDGs)** into the national framework—while noting that most of Tanzania's PRS targets are already consistent with the MDGs.

## VI. CONCLUSIONS

24. The government of Tanzania continues to make significant progress in the implementation of the PRSP, and the policy measures of the past year represent a credible set of reforms. Furthermore, the **PRSP process is strongly owned domestically, and is increasingly forming the basis for unified donor support.** The expectations laid down at the time of the last JSA have largely been met: in terms of completing a comprehensive poverty analysis; further articulating the agricultural and rural strategies; making further progress on costing programs; and starting to look at the linkages between macro developments and poverty.



25. This year's Report has focused on providing an **update on the progress of initiatives already under way**, and on filling the final gaps in the first three-year cycle of the PRSP—especially in terms of laying a firm baseline for monitoring future progress. This focus is, in the view of the staffs, appropriate. Next year, the launch of the next three-year PRSP period, covering 2004-2007, will provide the opportunity for a more policy-based review of how well the current strategy is working, and areas for refinement. The government and donors have scheduled a retreat for late May 2003, to discuss the approach for the coming year, including whether 2004 should involve a further in-depth annual update, or full reformulation of the PRSP for the next three-years.

26. With this in mind, and taking into account the gaps noted in this JSA, the staffs suggest that **work in the coming year to further strengthen the PRSP** should focus on: (i) a deeper analysis of the links between growth and poverty, and the implications for policy and expenditure, for which a specialized study will be required; (ii) a revitalized assessment of strategies in some of the key sectors that have received less attention in the PRS to date, or where greater specificity is still needed notably health, further articulation of the agricultural strategy; governance, and environment—with greater specificity in terms of agreed programs and detailed expenditures; (iii) elaboration, drawing on the conclusions of the FSAP, of an agenda for financial sector reform; (iv) greater integration of the PRS and budget processes, that penetrates down to the program and line-item level; and (v) updating the targets and indicators, based on the very good work already done by the Poverty Monitoring System working groups. To achieve this, a high level of policy and political dialogue will be needed in preparing next year's PRSP update.

27. In conclusion, the staffs of the World Bank and the IMF consider that, based on this PRSP Progress Report, Tanzania's poverty reduction strategy remains a sound basis for Bank and Fund concessional assistance. The staffs recommend that the Executive Directors of the World Bank and the IMF reach the same conclusion.