

**United Republic of Tanzania: Poverty Reduction Strategy Paper—
Joint Staff Advisory Note**

The attached Joint Staff Advisory Note (JSAN) of the Poverty Reduction Strategy Paper for the **United Republic of Tanzania** prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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INTERNATIONAL MONETARY FUND
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THE INTERNATIONAL DEVELOPMENT ASSOCIATION

THE UNITED REPUBLIC OF TANZANIA

**National Strategy for Growth and Reduction of Poverty (NSGRP—MKUKUTA)
Joint Staff Advisory Note**

Prepared by the Staffs of the IMF and IDA

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I. OVERVIEW

1. **The Government of the United Republic of Tanzania completed its National Strategy for Growth and Reduction of Poverty (NSGRP, commonly referred to by its Kiswahili acronym MKUKUTA) in June 2005.** This document serves as Tanzania's second Poverty Reduction Strategy Paper (PRSP) covering a period of five years and replaces Tanzania's PRSP 2000/01–02/03. Building on its predecessor and a review process based on analytical work and consultations with stakeholders and civil society, the MKUKUTA is broader, more inclusive and outcome-based.

2. **The revision of the first PRSP was based on a one-year consultation process led by the government as well as by other stakeholders¹ involving the general public.** Consultations were broad based, within the executive, at the sub-national level, with Members of Parliament, and with other stakeholders. Participatory methodologies varied and included the use of telephone, television and radio programs, a website, workshops, group discussions, a questionnaire, annual Poverty Policy Week events, round table meetings, analytical studies and reports, and public meetings. A draft strategy based on first-round consultations was sent to lead-stakeholders for comments and published on the internet. The MKUKUTA describes in Chapter III the consultation process as well as issues that arose from the participatory process.

3. **The MKUKUTA emphasizes accelerating private-sector led growth by building a competitive economy supported by efficient government.** Attention is focused on actions to stimulate the private sector response, including addressing

¹ Other stakeholders who led consultations were the Association of Local Authorities of Tanzania (ALAT) and civil society organizations, which covered 553,549 participants.

infrastructure and human resource capacity constraints, strengthening the business environment, and encouraging export diversification. The strategy identifies three outcome clusters: (i) growth and reduction of income poverty; (ii) improvement of quality of life and social well-being; and (iii) good governance and accountability. The MKUKUTA adopts an outcome-based approach in contrast to the priority sector spending approach under the first PRSP. The “outcomes-approach” stresses inter-sector linkages and synergies and encourages cross-sector collaboration. It also emphasizes the need to institutionalize participation and better mainstreaming cross-cutting issues.

4. This Joint Staff Advisory Note (JSAN) provides staffs’ analysis and advice on key priorities for strengthening the MKUKUTA and for ensuring effective implementation. This JSAN comes at a time when the newly elected Government of Tanzania is in the process of re-organizing the administration, of clarifying its priorities, and of finalizing MDA strategic plans and budgets. It also comes at a time where a severe drought, an energy crisis and imminent exposure to avian influenza require considerable attention and resources to mitigate their impact on human welfare and economic performance. The staffs realize that this is likely to have an impact on the weight that can be given to some of the issues raised in this document and that Government needs time and space to consolidate itself and to address these various emergencies.

II. POVERTY DIAGNOSIS

5. **MKUKUTA presents a careful poverty diagnosis building on available evidence from the Household Budget Survey, Labour Force Survey and the Participatory Poverty Analysis.** The staffs subscribe to MKUKUTA’s view that high income growth embedded in an environment of good governance is needed to sustainably reduce income poverty and to improve service delivery. As Tanzania is characterized by low incomes and low income inequality, broadly shared growth will have to be the main engine for poverty alleviation.

6. **The staffs welcome that MKUKUTA objectives are consistent with the MDG targets and that Tanzania aims to achieve them by 2010.** Tanzania has (almost) achieved the MDG for universal primary education already and significant progress has been made in reducing income poverty, malnutrition, child mortality and gender inequality in primary education. Despite this progress it may be more difficult to achieve all MDG targets by 2010 or even by 2015. Significant challenges remain in achieving environmental sustainability and in achieving health targets including the targets for child and maternal mortality and for combating diseases like HIV/AIDS and malaria. High economic growth and a commitment to improve public service delivery remain imperative to keep Tanzania on a path towards achieving the MDG targets. MKUKUTA strikes a careful balance between these objectives. The staffs concur with government that this balance needs to be maintained if Tanzania is to achieve and sustain the MDG objectives in the future.

7. **The staffs share government's concerns about rural-urban and inter-and intra regional disparities in income poverty and service delivery.** Whereas urban growth will benefit those living in rural areas via migration, transfers, wage effects and the demand for rural products, rural-urban inequalities will need to be addressed consciously. Poverty incidence in Dar es Salaam, for instance, is a third of that in Dodoma and Singida. The recently released Poverty and Human Development Report 2005 and the 2002 Population and Housing Census have highlighted the existence of even greater inequalities in poverty and service delivery at district level. For instance, under 5 child mortality varies from a low of 58 per 1000 in Arusha to more than four times that in Mbeya. Such divergence is found in many areas including in HIV prevalence, vaccination coverage, malnutrition, access to clean water, primary school enrollment and student/teacher ratios. To address these inequalities the decentralization process needs to be fully supported and budget allocation formulae and staffing policies may have to be reviewed. Improvements in routine data collection are needed to track progress in addressing these inequalities.
8. **Policies to support agricultural growth require special priority.** Popular sentiment supported by recent participatory analyses suggests little progress in rural poverty reduction. Poverty projections by the staffs using sectoral GDP growth estimates show that if Tanzania is able to sustain high levels of agriculture sector growth, this is likely to lead to a significant reduction in overall poverty. As agriculture is the sector with the lowest growth rates and as most poor people depend on subsistence agriculture for their livelihood, increasing agricultural labor productivity through commercialization and value addition is not only key for rural poverty reduction it will also act as catalyst for the development of the (informal) rural non-farm sector. Improving agricultural productivity requires making progress with implementing the agricultural sector strategy, promoting innovation, value addition and crop and region specific approaches and ensuring greater market access and removing obstacles to doing business.
9. **Clear lead agencies and associated mandates are needed to address cross cutting issues.** MKUKUTA recognizes various cross cutting issues including HIV/AIDS, environment and gender relations. Others include orphans, malnutrition or social protection. The staffs support MKUKUTA's vision of cross-sectoral coordination within the clusters but also consider that without an explicit identification of those responsible for results in these cross cutting issues and an explicit mandate to act progress may be limited.
10. **Demography merits greater attention.** MKUKUTA does not explicitly discuss demography. Yet during the MKUKUTA period Tanzania's population will increase by 4 to 5 million people. Such a high population increase dilutes the impact GDP growth has on household welfare, poses challenges for youth employment and creates tension between resource requirements needed for private consumption and those available for private investments. This tension is exacerbated by the fact that almost half (48 percent) of the population is now in the dependent age groups with the young requiring primary and secondary education and the old seeking health care. Therefore, considerable

additional public investments are required to maintain the status quo in public service delivery, making improvements in access or quality a whole different challenge. A longer-term vision on demography and its impact on economic growth, youth employment, household welfare and the government's ability to deliver quality social services is needed.

III. PRIORITY ACTIONS AND CRITICAL AREAS FOR SUCCESS

A. Macroeconomic Framework

11. **The macroeconomic framework underlying the MKUKUTA is consistent with its poverty reduction objectives.** The staffs welcome the Government's commitment under the MKUKUTA to maintain sound economic and financial policies consistent with the objective for GDP growth of 6 to 8 percent per annum and continued implementation of the supporting structural and institutional reform measures. To achieve further acceleration of economic growth while maintaining low inflation and macroeconomic stability, the MKUKUTA correctly emphasizes the need to address key impediments to growth within a consistent and stable macroeconomic framework through improved mobilization of public resources and their efficient use, effective management of liquidity pressures emanating from high aid inflows, sustained financial sector reform, and promotion of an environment conducive to private sector economic activity. Going forward, it will be important to further develop strategies identified in the MKUKUTA in order to translate the stated policy objectives into actionable plans.

12. **The MKUKUTA recognizes that achieving the authorities' ambitious targets will require significant amounts of foreign assistance over the medium term as well as a careful management of aid inflows.** The staffs believe it will be important that the authorities, in consultation with development partners, prepare a medium-term quantitative framework underlying the MKUKUTA based on costing and prioritization of the intervention strategies needed to reach the MKUKUTA objectives and resolve the outstanding issues related to the estimation of the financing requirement. Having such framework in place would also facilitate the authorities' requests for future or scaled-up donor assistance. In this context, it is essential that the authorities prepare for a variety of future scenarios depending on the scope of resources — both donor support, and domestic revenue — as well as a proper assessment of the economy's absorptive capacity.

13. **Achieving the MKUKUTA's objectives will also require increased devolution of spending to lower levels of government.** Such devolution should be accompanied by capacity building at the local government level, including through fully integrating the LGAs into the budget preparation and execution process and strengthening the efforts to obtain detailed monthly expenditure reports before releasing further funds to LGAs.

B. Integration of Mkukuta in National Systems

14. **Development and implementation of the MKUKUTA has taken place in the context of a significant overhaul of national planning and budgeting systems aiming at comprehensive results based management , increased domestic accountability and greater alignment and harmonization of external financing.** In the staffs' view, the Government has taken very seriously the task of building national planning and budgeting institutions which fully integrate MKUKUTA, recognizing the need for ownership not only of the policy content but also of the instruments and processes for its effective implementation. In parallel with developments in the planning and budget system, the Government has pursued an ambitious program for integration of external financing within national systems, while also attempting to carry through both reforms in a form which builds domestic accountability.

15. **Extensive consultation in development of the MKUKUTA has been part of a broader effort in recent years to encourage greater participation in national planning and budget systems.** Participation in the budget process has been developed through the annual public expenditure review, which has included particular focus on linkage between MKUKUTA and the budget. Sector reviews with broad stakeholder participation have been a means of making implementation more accountable, and the Government is in process of extending the use of such reviews across the principal MKUKUTA policy areas. The staffs consider that Government's sustained efforts in this area could be consolidated by developing a more explicit national strategy for enhancing domestic accountability, including clearer ground rules on representation in participatory processes, clarity on the relation between participatory processes and more formal accountability systems such as Parliamentary process, more explicit design of the role of sector reviews within national systems, and strategies for enhancing accountability at local level. The broader program of enhancing domestic accountability will also need to include more effective use of client service charters, addressing the issues identified in the report on State of the Public Service, and development of the successor program to the National Anti Corruption Strategy and Action Plan (NACSAP).

16. Within the Tanzanian system, the MKUKUTA provides a high level statement of priority public actions, while more detailed activities linked to specific resource allocations are developed in lower level planning instruments, in sector plans and agency level strategic plans. Linkage through these levels and planning to specific resource allocations is achieved through the Strategic Budget Allocation System (SBAS), which requires each agency to link proposed allocations back to specific MKUKUTA objectives, based on agency level strategic plans. Interministerial task forces have reviewed initial implementation of the new system to ensure effective coordination across government. Revisions in the system have been captured in a new Strategic Planning and Budgeting Manual. The Government is currently developing the system further to ensure that the national monitoring framework is fully aligned with SBAS and reflected in the Medium term expenditure framework, which provides the principal instrument for translating the MKUKUTA into specific prioritized operations.

17. In practice, the Government has chosen to rely on development of instruments within the existing national planning and budgeting system in order to implement a prioritized and costed translation of the MKUKUTA, rather than using a MKUKUTA specific implementation framework and costing exercises as the main instruments for implementation. A MKUKUTA implementation framework is under preparation, but is currently envisaged as a consistency check for the coordination of sector plans rather than a prerequisite for MKUKUTA implementation. This approach emerged pragmatically as the outcome of the authorities' efforts to avoid parallel planning processes and ensure that MKUKUTA is integrated within a comprehensive national planning and budgeting system.

18. **The staffs appreciate the challenge and risks which the government has taken on in attempting such comprehensive redesign of national planning systems.** The triple challenge of developing results based planning and budgeting systems, harmonization of external financing and enhancement in domestic accountability represent an ambitious and highly demanding agenda of institutional change, especially in a context where design must take account of severe domestic capacity constraints. The program has required considerable experimentation and pragmatic innovation and an intensive program of institutional reform. The work is incomplete, there are important design choices still to be made, and it is likely to take several more years to develop systems which provide an integrated and mutually supportive solution to all three objectives. The staffs strongly support the Government's consistent efforts to avoid parallel systems for MKUKUTA implementation and its systematic attempt to implement its policies through the development of integrated national systems. The staffs also consider that the distinctive choices made in Tanzania so far are likely to offer useful lessons for PRSP countries facing similar challenges.

19. Nevertheless, there are challenges. Using the existing planning system in implementation makes sense, but the quality of existing cluster and sector level plans for MKUKUTA is quite variable. Particularly critical is the lack of effective translation of the broad commitment to growth in the MKUKUTA into a coordinated strategy which could ensure consistency across sector plans and drive a prioritized public investment strategy. **The MKUKUTA's operational targets of improving infrastructure and enhancing the enabling environment for private sector-led growth will require increased public spending on physical infrastructure, including roads and transport gateways, and the provision of electric power and water.** It will be important that such infrastructure spending be done within the fiscal framework and in the context of a consistent macroeconomic and regulatory framework and subjected to solid costing and prioritization and strong coordination among ministries and development partners. The staffs view this as one of the weakest aspects of MKUKUTA implementation at this stage.

20. More work is needed on streamlining the classification of activities in the MTEF and the cross link to MKUKUTA categories, to ensure maximum transparency. Finally, while the staff recognize the rationale for costing the MKUKUTA through the medium

term expenditure planning process, it will be important to complete the costing of activities which lie beyond the present MTEF horizon.

21. **The Government has pursued an ambitious approach towards reorienting external financing to maximize alignment with the MKUKUTA through development of a Joint Assistance Strategy.** In parallel, general budget support has been redesigned to clarify the linkage with MKUKUTA implementation, based on a Performance Assessment Framework aligned with MKUKUTA cluster objectives. This has entailed requiring broader sector coverage and the introduction of additional review processes to ensure enhanced monitoring of sector results. However, the synergy between the JAS and the parallel reforms in the planning and budgeting system has not yet been maximized – in particular the potential of the Budget Guidelines/MTEF preparation as an instrument for ensuring consistency between external financing and the MKUKUTA could be developed much further.

IV. POVERTY MONITORING AND EVALUATION

22. **Tanzania has a relatively well functioning Poverty Monitoring System (PMS).** Under the first PRS I, the PMS produced two analytical Poverty and Human Development Reports (a third was released in February this year), organized the publicly accessible Policy Poverty Week, updated PRS indicators and produced APRs. The PMS is under revision and will be tailored to MKUKUTA needs. One of the objectives is to integrate MKUKUTA monitoring closer with existing monitoring, planning and budgeting processes. The staffs support this effort and appreciate the ongoing explorations to achieve this objective. One way to do so would be to reserve MKUKUTA monitoring and the associated MKUKUTA indicators exclusively for high level impact and outcome measures and to refer indicators reflecting sector outputs, processes and inputs to sector strategies. This would align MKUKUTA monitoring with the view that MKUKUTA implementation and costing are operationalized through existing sector strategies and the budget process.

23. **High level MKUKUTA impact and outcome indicators will have to be complemented with sector level indicators of inputs, processes, outputs and sector outcomes. A link between sector outcomes and MKUKUTA outcomes will need to be established.** Without such link MKUKUTA outcomes may track results for which no one in particular can be held responsible. In its presence planning and budgeting decisions can be informed by sector outcomes as well as their contribution to MKUKUTA's goals and objectives. Both would act as incentive to make greater use of data in policy planning and reporting. Under SBAS requests for funding already have to be made with reference to MKUKUTA goals and outcomes. The challenge is now to assure feedback from MKUKUTA and sector outcomes to sector planning and budgeting and to overall budget allocations.

24. **Results management needs an institutional home responsible for strengthening monitoring, for tracking results over time and for linking them to reporting, planning and budgeting processes** as incorporated in the budget guidelines, MTEF, the PEFAR process, sector reviews as well as the needs of monitoring the JAST and PRBS. A working group with members from MoF, PO-PSM, PO-PP, PO-RALG, VPO and the PMO was established last year in an effort to harmonize MKUKUTA, strategic planning and MTEF. To date the working group has focused on planning and budgeting leaving monitoring, evaluation and reporting for the future. With the process of identifying MKUKUTA indicators ongoing, the staffs encourage the working group to also address the latter issue.

25. **To facilitate an outcome based approach improved data production is needed for monitoring as well as program evaluation.** Problems with routine data are well known and discussed in the MKUKUTA document. Less well known are limitations of the existing household survey program. MKUKUTA's poverty and growth diagnosis was hindered by the absence of a recent Household Budget Survey (the last was carried out in 2000/1). Without a new HBS it remains hard to assess whether poverty in rural areas has declined or to improve the reliability of GDP estimates. The staffs therefore support proposals for higher frequency data collection such as an annual cycle of household budget/income and expenditure surveys. The staffs also support greater attention to program evaluation which would allow assessing progress in service delivery and assessing the impact and distributional consequences of programs like TASAF, fertilizer subsidies, the Secondary Education Development Program, the Rural Water Program and major infrastructural investments.

26. **The staffs consider the initiative to develop a Tanzania Statistical Master Plan (TSMP) comprising national and sector strategic statistical plans and costed implementation plans an important step towards resolving Tanzania's data problems.** Once developed the TSMP should enhance national ownership in statistics, rebalance the attention paid to social, economic and financial statistics, improve data access and availability, rationalize financing arrangements and improve the effectiveness of the data production system. To be fully effective, the TSMP will need to include an appraisal of the existing statistical legislation, consider the formation of a statistical cadre and review the institutional structure and staff incentives of the national statistical bureaus. To be successful the TSMP will require high level support from government and full commitment from NBS and OCGS management.

V. CONCLUSIONS AND ISSUES FOR DISCUSSION

27. Bank and Fund staffs consider that the MKUKUTA provides a comprehensive framework for growth and poverty reduction in Tanzania. Development of the MKUKUTA has built on experience with the previous PRS, giving greater attention to results, an important broadening of the policy focus towards the preconditions for growth and an ambitious attempt to integrate the broad policy thrust within comprehensive national systems for implementation and monitoring.

28. The staffs believe that the consistent effort to develop MKUKUTA implementation and monitoring through integrated national systems is a major strength of the program. The parallel efforts to develop results based planning systems, harmonization of external financing and strengthened domestic accountability potentially define an effective and mutually reinforcing approach to implementation. It is also highly ambitious. Key gaps exist in the planning framework, especially the lack of clarity on growth strategy and the consequent weakness in coordination of key infrastructure investments. The integration of the planning system needs to be expressed more clearly in the medium term expenditure plan, and the MTEF also needs to be used more aggressively as an instrument for achieving the ambitious harmonization goals for external financing in the Joint Assistance Strategy.

29. Do Directors support the staff view that the MKUKUTA represents an effective strategy for growth and poverty reduction in Tanzania? Do Directors agree on the staff's recommendation that Government of Tanzania (a) maintains its effort to implement MKUKUTA through development of unified national systems (b) strengthens the strategy underpinning MKUKUTA's growth objectives, including more effective prioritization of infrastructure investment and (c) strengthen its program for developing domestic accountability, including at local levels of government.