

INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

TANZANIA

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

Prepared by the Staffs of the IMF and IDA

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I. INTRODUCTION

1. The government of Tanzania has prepared a Poverty Reduction Strategy Paper Progress Report 2000/01 (PRSP Progress Report), which outlines the progress made in implementing Tanzania's poverty reduction strategy during fiscal year 2000/01 (July–June) and updates the Poverty Reduction Strategy Paper (PRSP) of October 2000. The latter document was endorsed by the Boards of the IDA and the IMF on November 30 and December 1, 2000, respectively. The authorities have also prepared an additional short update note on further developments with respect to the PRSP since the transmission of the PRSP Progress Report.
2. In the view of the staffs, the PRSP Progress Report and the additional note demonstrate significant achievements—not only with respect to the substance of the program, but also with respect to the impact of the process, in terms of shifting public policy toward a greater poverty focus, and of creating a more open and consultative environment for the discussion of policy.
3. The Joint Staff Assessment (JSA) of last year's full PRSP recommended that this year's Progress Report fill a number of gaps in the original PRSP. These gaps consisted of four specific items: (i) the development of updated strategies for education, agriculture, and the rural sector; (ii) costing of priority programs discussed in the PRSP; (iii) establishment of a poverty monitoring and evaluation system; and (iv) undertaking a new household budget survey and updating the poverty analysis. Of these, all except finalization of the poverty analysis have been successfully completed within the first year.
4. In preparation for the Progress Report, the authorities held several zonal and national workshops on key sectoral strategies, and a national consultative workshop in July 2001 on the entire document, involving civil society, the private sector, donors, and NGOs. As described in the authorities' update note, the finished Report was reviewed by a wide range

of stakeholders, including civil society representatives, during the Consultative Group meeting in September 2001 in Dar es Salaam; a joint statement by the donor community to this meeting strongly endorsed the Report.

II. PROGRESS IN POLICY REFORM

5. The Progress Report documents the implementation of a wide-ranging reform program. In **education**, the government, along with several donor partners, has articulated a comprehensive basic education strategy that addresses most of the systemic issues needed to improve service delivery and quality over the medium term. During 2000/01 it has also abolished school fees at the primary level, increased significantly the budget allocation for education, introduced capitation grants and an investment fund to directly support schools at the local level, and established an education fund to support children from very poor families.

6. In **agriculture**, the government has tabled a new national agricultural strategy emphasizing the role of the government in creating an enabling environment as opposed to direct intervention in agricultural markets. This represents a major redirection in stated policy. The strategy focuses on overall growth in agricultural productivity. The agricultural growth rates targeted by the government (5–6 percent per annum) are ambitious, but achievable, provided the reform agenda is actively pursued. Further development of the strategy is needed to take into account the impact of agricultural growth on poverty, including the differences in regional conditions, between small and large farmers, and between subsistence and cash crops. As the strategy represents a major departure from previous direction, it is to be followed by development of an implementation plan (the Agricultural Sector Development Program) in the coming months. Simultaneously, the government is developing a Rural Development Strategy to address complementary problems of off-farm employment, infrastructure, and diversification.

7. Continued progress has been made, as documented in the report, in expanding the coverage of **primary health services** and immunization, and in increasing public spending on health from US\$5.50 to US\$6 per capita. A **roads** program has been formulated that gives priority to selected areas of high potential for reducing poverty, and to upgrading rural roads in the twelve poorest areas.

8. In the area of **governance**, the Progress Report documents wide-ranging institutional reforms, including adoption of a national plan against corruption; expansion of the operations of the Prevention of Corruption Bureau; establishment of an Ethics Secretariat; and establishment of a Human Rights and Good Governance Commission. Despite these developments, corruption remains a significant concern, and aggressive implementation of the new institutional arrangements will be essential. While significant progress has been made on **decentralization**, there is a gap between good policy measures under the local government reform program, and the implementation of these reforms on the ground. Given the increasing role of local government in delivering pro-poor services, it is important that these bottlenecks be resolved in the coming year.

9. The Progress Report pays more attention to the issues of **HIV/AIDS**, and of gender, than did the original PRSP. During the past year the government has mounted a significant campaign directed towards public awareness and behavior change with respect to AIDS. The Tanzania Council on AIDS (TACAIDS) is being established; the national AIDS program through 2003 has been formulated; and costing and financing details are now being completed.¹ With respect to **gender**, the government has promulgated the Land and Villages Act, providing for land ownership by women; increased the proportion of women in parliament to 20 percent through the provision of reserved seats; and enacted the Sexual Offences Act to protect women. It should be noted that there is substantially more documentation available on both gender aspects of the poverty reduction strategy and on HIV/AIDS than could be incorporated in the Report itself.

10. In the area of **poverty monitoring**, the government has undertaken large-scale household budget and labor force surveys. It has developed a comprehensive poverty monitoring master plan, costed and arranged financing for the plan, and established the institutional mechanisms in the Vice-President's office to implement it. The challenge will be to ensure effective implementation of the system over the coming two years, and to start to take the next step toward a focus on evaluation.

III. PROGRESS IN PUBLIC EXPENDITURE MANAGEMENT AND ALLOCATION TO PRIORITY SECTORS

11. Public expenditure management has been strengthened in several respects. A new Public Finance Act and accompanying regulations came into effect in July 2001, which enhance **transparency and accountability in public expenditure management**. Budget formulation has been strengthened through a medium-term expenditure framework (MTEF), and an annual cycle of public expenditure reviews (PER), involving donors and civil society. These initiatives help ensure that policy priorities, especially in poverty reducing areas, are appropriately reflected in the budget.

12. The continuation of responsible fiscal management and large and steady foreign assistance has enabled the government to effect a substantial increase in the **budget allocations and actual expenditures in priority areas of the PRSP**. Overall spending in such areas is budgeted to increase from 6.5 percent of GDP in 2000/01 to above 9 percent in 2001/02, consistent with the ambitious expenditure targets of the original PRSP. This expansion of priority expenditures is being achieved without compromising the overall prudent fiscal policy stance.

13. A substantial effort has also been undertaken in the past year to improve the **costing of PRSP programs**. The education, health, water, and AIDS programs have been effectively

¹ Data on AIDS expenditure shown in the Progress Report (Table 3) is somewhat misleading, because spending was directed through line ministry budgets.

costed. Work is still proceeding on the roads program, while the new agricultural strategy can only be costed once a detailed implementation plan has been developed in the coming year. Not surprisingly, spending needs in priority sectors remain very large. However, an attempt has been made to harmonize the cost estimates developed for these programs with available resources as identified under the MTEF. Core requirements for the first year have been funded in the budget for 2001/02; for future years, there are still gaps in some sectors, especially in the areas of roads and judicial reform, between the line ministries' requirements and resources likely to be available under the MTEF. The government recognizes this, and is following a rational strategy to close these gaps by reviewing the targets and costs of PRSP programs through the MTEF process, and using the PRSP as a framework for exploring areas where additional donor funding could be mobilized. Meanwhile, some interventions in priority areas are directly funded by donors, remaining largely outside the budgetary process. The authorities' efforts to bring these interventions into the budget are welcome, and the next progress report should include information on the budgetary recording of donor-funded projects.

14. With respect to the **utilization of funds**, the government has recently completed an expenditure tracking study that points to a number of areas where resources fail to flow down to their intended end uses. Remedial steps include the publication of the amount and timing of central government transfers to local governments and the reporting of revenue and expenditure of local governments on a quarterly basis, as envisaged under the PRGF-supported program. In addition, a recent Country Financial Accountability Assessment (CFAA) has concluded that although encouraging steps are under way to improve financial management under the on-going Public Financial Management Reform Program (PFMRP), there remain gaps, and speedy implementation of the Integrated Financial Management System (IFMS) and some legislative changes are important to maintain the momentum of the reforms. The staffs recommend that the next progress report include a discussion of progress in the area of expenditure tracking.

IV. PROGRESS AGAINST THE PRSP TARGETS

15. There are essentially two types of targets set in the PRSP, those for inputs or intermediate outputs (such as expenditure allocations or school enrollments) and those for outcomes (for example health status, or poverty). While it is relatively easier to measure the first, it is more difficult to assess progress against the second, as data systems are still in the nascent stages of development, and when the timeframe being observed—one year—is relatively short. Within the confines of these constraints, the report does an acceptable job of trying to assess, and report on, the progress made.

16. Progress with respect to **service delivery** has generally been encouraging: increases in enrollment rates, in the proportion of children passing from primary to secondary school, and in immunization coverage suggest that the government is on track to meet the goals it set for 2003. In some other areas, performance has lagged, for example in reducing drop-out rates and increasing the standard 7 pass rate, and the Progress Report acknowledges these need further attention.

17. Progress on **social outcomes**—to the extent that change can be measured over a short time—is less encouraging. There is little sign of improvement in nutritional status or infant mortality revealed by the preliminary data cited in the report, and initial findings on asset ownership, demographics, and the labor force point to greater urban-rural inequality, an increase in the share of female-headed households, and rising youth unemployment. More explicit measures of income and consumption will only be available when the full household budget survey data are processed (see Section VI below).

V. MACROECONOMIC FRAMEWORK

18. Tanzania's economic policies are aimed at **increasing growth, enhancing market efficiency, and reducing poverty in an environment of macroeconomic stability**. The sound performance described in the Progress Report is an accurate representation of recent developments. However, the Progress Report does not bring out the **major linkages between macroeconomic policies, structural reforms, and poverty reduction**, as had been suggested in the Joint Staff Assessment of the full PRSP. Exploring these linkages remains an important task for the next progress report. In this context, the next report should provide a more thorough discussion of monetary and external sector policies, as well as of the role of the financial sector in the poverty reduction strategy.

19. **The medium-term macroeconomic framework presented in the Progress Report also underlies Tanzania's current PRGF-supported program**. A future update will need to take account of the weaker-than-expected global economy. Regarding the government budget, the Progress Report envisages an increase in total expenditure favoring poverty reduction priority sectors, to be financed by a substantial increase in international financial support, including assistance under the enhanced HIPC Initiative. Discussion of the authorities' effort to mobilize fiscal revenue is limited in the Progress Report to the expectation that the revenue-to-GDP ratio would increase slightly. In the view of the staffs, the next PRSP Progress Report will need to contain a more explicit discussion of resource constraints and ways of mobilizing domestic resources in a manner compatible with the poverty reduction strategy. Meanwhile, the staffs welcome the principle of fiscal caution espoused by the Progress Report, whereby the government will first complete an inventory of its domestic debt and contingent liabilities before planning any new domestic debt for budget financing.

VI. PROGRESS IN FILLING GAPS LEFT AT THE TIME OF THE ORIGINAL PRSP

20. As mentioned in the introduction, a number of gaps in the full PRSP were to be filled by the time of the first progress report. In the view of the staffs, all but one have been satisfactorily fulfilled, the exception being completion of the updated poverty analysis.

21. The **education sector strategy** was completed on time; in line with the expectation in the first round of the process, it focuses on basic education. The **agricultural strategy** has been completed and is now being followed by the articulation of a detailed implementation

plan. The **rural development strategy** exists in draft form, and is on track to be completed as originally scheduled by December 2001. The **poverty monitoring system** has been developed and is proceeding well towards implementation.

22. The **costing of PRSP programs** has been largely completed, with the exceptions of agriculture, for which the staffs agree that costing must await formulation of the detailed action plan, and of roads, where the initial work has been done to identify requirements but prioritization of the program for outer years is still going on. As mentioned above, the government is engaged in an iterative process of refining these costings through the PER and the MTEF.

23. With respect to **the updated poverty analysis**, the **household budget survey (HBS)** has been completed and data is now in the final stages of being cleaned and processed. It was originally hoped to use 6,000 households, representing those to be enumerated in the first three months of the survey, as the basis for an interim analysis. However, because of the need to stagger the start of fieldwork in order to monitor quality of the enumeration, just over 1,300 households were enumerated in the first quarter, and data from those households were used for a preliminary analysis. Unfortunately, because of the small sample size and problems of seasonality, the preliminary findings on household expenditure and poverty measures proved not statistically reliable and the government decided that it would be premature to publish these findings.

24. Discussion of the results of the initial poverty analysis in the Progress Report is therefore limited to those items believed to be unaffected by seasonal variation, along with data from the demographic and health surveys. While these data, presented in the Progress Report, tell only a very partial story, **the picture that emerges is one of limited change in household welfare**. Among other things, the preliminary results point to increases in the share of female-headed households, and in unemployment and informal employment; these trends, and their policy implications, need to be examined in more depth in the full analysis. The full results from the HBS (expected by February 2002) will provide the basis for a detailed new poverty analysis, including the first ever regional breakdown, and measures of changes in inequality. It does not appear, on the basis of the preliminary findings, that the results will dramatically change the approach to the PRSP, although it remains possible that the full data set might reveal changes in welfare since 1991/92 that would warrant revision of some elements of the strategy in the next progress report. The staffs concur with the government's view that the poverty analysis in the Progress Report, while partial, is all that is possible with the limited new data presently available, and look forward to a more extensive analysis prior to the next progress report.

25. Tanzania has also put in place an institutional framework to ensure continuity of efforts in the area of **poverty monitoring and analysis**. A poverty monitoring master plan has been prepared and four poverty monitoring groups have been set up, covering the areas of censuses and surveys, research and analysis, administrative data, and dissemination and

sensitization. Local research institutes, the University of Dar es Salaam, donors, and other stakeholders have been given a role in poverty monitoring and analysis through participation in the newly formed working groups.

VII. CONCLUSION

26. The government of Tanzania has made **significant progress in the implementation of the PRSP**, and the policy measures of the past year represent an appropriate and credible series of pro-poor structural reforms, most of which are directly attributable to the PRSP process. Furthermore, the **PRSP process is strongly owned domestically** and has markedly accelerated the focus on poverty-reducing policies. In particular it has: (1) resulted in a move forward on the national educational program—both in terms of developing an agreed-upon strategy and in terms of specific interventions, such as the abolition of school fees—that would not have otherwise taken place; (2) focused attention on the public expenditure process and added greater weight to both the PER and the MTEF; and (3) added impetus to the very impressive effort on poverty monitoring.

27. The Progress Report does, nonetheless, suggest a few areas where there remain **gaps in the strategy**, and these form an agenda for further work. It is recommended that the next progress report include the following: (i) a complete poverty analysis on the basis of the full HBS sample, along with an analysis of the implications for Tanzania's poverty strategy; (ii) an examination of the linkages between macroeconomic policies, structural reforms, and poverty; (iii) further refinement of the costings of the PRSP programs, especially for the outer years, and rationalization between unconstrained program costs and available financing; (iv) the rural development strategy; and (v) articulation of the implementation plan for the agricultural development strategy, that takes into account the poverty and distributional aspects of agricultural development.

28. In conclusion, the staffs of the World Bank and the IMF consider that, based on this PRSP Progress Report and the authorities' additional update note, 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.