Board Meeting of June 19, 1997
Statement by Ruth Jacoby

Tanzania: Country Assistance Strategy

General Comments
I broadly agree with the analysis in the CAS and can support the proposed program and priorities. I also generally share the positive view of the CAS on the government's overall performance - both regarding economic policy and other aspects.

Growth Prospects and Risks
The CAS gives an update of various indicators and of different aspects of social and economic development. It also summarily describes the government's development plans. It is noted that although economic growth and exports seem to be catching up, the poverty situation as well as the general standard of education and health services are still very weak and prospects for improvement are dim in the medium term unless growth reaches 6 per cent. Such growth however, requires improved productivity in agriculture, more agro processing as well as an increase in manufacturing in general, more tourism, increased activity in mining, improved infrastructure, capacity building, administrative reform, privatization and a better climate for investment and trade as well as an improved debt situation. The CAS judges positively the prospects of achieving a positive development in many of these areas and achieving the basis for a high case lending scenario.

Based on Tanzania's endowment of natural resources one can agree that there is a potential to improve the situation in many of the mentioned areas. There are, however, also issues which could have been raised in order to present a more varied picture of the potential for development. Judging on past performance, the government's commitment has been weak and slippages have frequently occurred both regarding governance, financial discipline and structural adjustment. As pointed out in the strategy there clearly is a need for firmer commitment, ownership, leadership and dedication to the development objectives by the government. Increased ownership by the Government has, however, recently been noted. The CAS operates with a fairly optimistic view regarding development of important factors and assumes a rapid economic growth. It might have been useful to present the effects of alternative scenarios as well, for instance lower domestic savings and declining private investment.
Small scale farming is the source of over 50% of GDP growth in the country. Some agricultural experts have argued that the sector over the medium term will reach its capacity limit. What is the Bank’s comments to this?

**Governance**

In general I think that corruption, which is a serious problem in Tanzania, should have been given a more prominent treatment in the CAS. There is an allusion to corruption and the Warioba Commission’s report is referred to. I would, however, suggest that the Bank take a more pro-active role than indicated in the CAS.

A coordinated and consistent approach by the donors could enhance the follow up of the recommendations of the Warioba Commission. I suggest that the Bank join, though not necessarily lead, these efforts.

Several important actions recommended by the last SPA-Joint Evaluation Mission are still outstanding. It is essential that the Bank actively follow up these issues with the government.

The problem of low government salaries, leading civil servants to find other ways to support themselves, needs more attention. The pay component of the Civil Reform Program does not provide for a significant increase of government salaries, and does in general not address this problem in an adequate manner.

Even though wage incentives in the public sector need to be improved, the general acceptance of the practice of “topping up” salaries constitutes a risk to national ownership and sustainability of the various reform processes. World Bank commitment to not support such practices would be welcome.

**Private Sector**

I support Tanzania’s strategy to develop the private sector into a more dynamic vehicle for economic growth. EDI might be used more actively in assisting capacity building in the private sector, although EDI’s main focus should remain improving the public sector which plays an important role for the well functioning of the private sector and where needs for personnel development are almost limitless.

In light of Tanzania’s rather poor history in industrial development, some further elaboration on how the projected growth in manufacturing output will be achieved could have been useful.

The CAS could also have contained a reference to the Regional Program of Enterprise Development and its results concerning Tanzania’s private sector and the future plan to study the major constraints.

**Poverty Alleviation**

Short-term poverty alleviation is not an issue in the CAS, and basically poverty is seen to be able to be reduced by structural reforms and economic growth (which is of course the only
sustainable way). However, there is an immediate effect of e.g. the introduction of broad scale user fees in the social sectors, the significance of which for the poorest - and subsequently for the social indicators in the coming years - is not addressed adequately in the CAS.

**Gender**
The Gender Action Plan, as presented in the CAS, appears as something separate from the overall policy, better left to the NGOs. As repeatedly underlined by this and other chairs; gender issues should be mainstreamed into all Bank activities. Furthermore, I miss a discussion of the implications of the new Land Bill for the role of women.

**Donor Coordination**
We commend the Bank for the role it plays in donor coordination in Tanzania. However, it would have been useful if the CAS also had comprised an overview of other donors' activities to put the Bank's plans and operations into perspective (as was raised also during the Board discussion on the 1996 CAS Progress Report). Public Expenditure Reviews and other documents may be better suited to analyze in what ways total development activities can be optimized, but failure to describe other donors' activities in the CAS context makes it difficult to form an opinion of how reasonable the Bank's suggestions for its own future operations are.

**Public Expenditure Issues**
I miss a discussion on the mid-term financial sustainability of the social sectors. The document states (para. 13) that expenditures on health and education are rising. However, by not including the FY96 estimates (as is done in the macroeconomic indicators, figure 1) a drastic reduction (in real terms as well as in FY95 prices and percentage of Net Current Expenditure) between FY95 and FY96 is not disclosed and gives an overly optimistic picture of recent developments in social sector financing. The reduction is expected to be only slowly recovered to FY95-level during the coming years.

The Government's allocation for defense in the coming fiscal year is expected be about 10% of the Government's recurrent expenses. Have any measures aiming at reducing this allocation been taken?

**Health Sector**
The description of the Health Sector Reform Program (adopted by the GOT in 1996) is rather weak compared to the Basic Education Master Plan. The information on the health sector seems not to be fully updated and comprehensive. Even though the Bank is only supporting certain health projects and not a coherent health program, the support of the CAS to the general reform efforts in the sector would lift it into the general reform agenda, not least regarding health financing and financial sustainability and the need to adapt the service level to the available financial means.

A broader sector view would also secure that the Bank-supported components are in line with the general policies. In order to achieve more efficient and effective service delivery at district level, vertical programs are integrated into "essential health packages". The Bank should ensure that specific benchmarks on malaria combat do not counteract these efforts.
Sector Investment Programs (SIPs)
For some time now the Bank has been arguing successfully for Sector Investment Programs as a main strategic tool for i.a. coordination and optimization of all development resources, standardization of progress reporting to reduce strain on limited recipient capacity, for more recipient commitment to development programs within a sector and as a vehicle for budget support. The present CAS does not mention SIPs at all. While we understand that the government's capacity for handling SIPs may be weak, we believe that Tanzania, with all the characteristics of a country in need for better resource coordination and more ownership, would be suited for broad application of this kind of mechanism.

National Commerce Bank
I regard the agreed restructuring and subsequent privatization of NBC as an important step, and expect the Government's full commitment to it. Furthermore, I hope to see a swift sales process after the calling for bids are made.