

AFRICAN DEVELOPMENT FUND



**PROJECT COMPLETION REPORT (PCR) OF
STRUCTURAL ADJUSTMENT LOAN (SAL)**

REPUBLIC OF TANZANIA

GOVERNANCE, ECONOMIC AND
FINANCIAL REFORMS DEPARTMENT

OSGE
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Basic Project Data

1.	Country:	The United Republic of Tanzania
2.	Name of Programme:	Structural Adjustment Loan
3.	Loan Number:	F/TAN/SAP/97/24
4.	Borrower:	The United Republic of Tanzania
5.	Beneficiary:	The United Republic of Tanzania
6.	Executing Agency:	Ministry of Finance

A.	Loan	Appraisal Estimate	Actual
1.	Amount (UA Mil)	45.0	45.0
2.	Service Charge	0.75%	same
3.	Commitment Charge	0.50%	same
4.	Repayment Period (Years)	50	same
5.	Grace Period (Years)	10	same
6.	Repayment (Years 11 ó 20)	1%	same
5.	(Years 21 - 50)	3%	same
6.	Loan Negotiation Date	NA	3 October 1997
7.	Loan Approval Date	NA	5 November 1997
8.	Loan Signature Date	NA	17 November 1997
	Date of Entry into Force	NA	24 December 1997

Project Data

1.	Total Cost (US Mil)	425.4	425.4
2.	Financing Plan (US Mil)		
	ADF	62.0	45.0
	IDA	125.0	125.0
	IMF	235.0	235.0
	Norway	3.4	3.4
3.	Date of 1 st Disbursement	December 1997	January 1998
4.	Date Last Disbursement	December 1998	June 2000

C. Performance Indicators

1.	Cost Over/Under-run	NIL	NIL
2.	Time Overrun (Months)	NIL	18
	Slippage - Effectiveness	NIL	NIL
	- Completion Date (Months)	NIL	18
	- Last Disbursement (Months)	NIL	18
	- No. of Extensions	NIL	1
3.	Project Implementation Status		Completed
4.	Institutional Performance		Completed
5.	Contractor Performance	N/A	N/A
6.	Consultant Performance	N/A	N/A

D.	Missions	No. of Persons	Man-days	
1.	Preparation	n/a	n/a	
2.	Appraisal	n/a	n/a	
3.	1 st Supervision	1	15	
4.	Mid- Review	1	15	
5.	3 rd Supervision	1	15	
6.	PCR	2	20	
E.	Disbursement (UA Mil)	Appraisal	Actual	% Disbursed
1.	Total Disbursed	45.0	45.0	100
2.	Amount Cancelled	0	0	0
3.	Unused Balance	0	0	0
F.	Contractors	No Contractors		
G.	Consultants	No Consultants		

This report was prepared on the basis of a draft report prepared by OCDE in January 2000. The report has been completed by Dr. Andrew Clark, Macro-Economist (OSGE). Any enquiries related to the report should be addressed to Ms. M. Kanga (Ext. 2251).

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
BOT	Bank of Tanzania
CHF	Community Health Fund
CSP	Country Strategy Paper
DBSL	Direct Budget Support Lending
ESAF	Enhanced Structural Adjustment Facility
ESW	Economic Sector Work
FSAL	Financial Sector Adjustment Loan
FSAP	Financial Sector Adjustment Programme
GDP	Gross Domestic Product
GOT	Government of Tanzania
ICTSI	International Container Terminal Services Inc
IFMS	Institutional Financial Management System
IM	Investment Memorandum
IMF	International Monetary Fund
IMTC	Inter-Ministerial Technical Committee
LDP	Local Development Plan
LGRP	Local Government Reform Programme
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPDE	Matrix for Project Design and Evaluation
MRALG	Ministry of Regional Administrative and Local Government
MTEF	Medium Term Expenditure Framework
NBC	National Bank of Commerce
NMB	National Micro-Finance Bank
O&M	Operating and Maintenance
PCB	Prevention of Corruption Bureau
PBL	Policy Based Loan
PCR	Project Completion Report
PER	Public Expenditure Review
PFP	Policy Framework Paper
PRSL	Poverty Reduction Support Loan
PRSP	Poverty Reduction Strategy Paper
PSRP	Public Sector Reform Programme
RAS	Regional Administrative Secretaries
RMC	Regional Member Countries
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SAR	Staff Appraisal Report
THA	Tanzania Harbour Authority
TRC	Tanzania Railway Corporation
TSh	Tanzania Schilling
TTCL	Tanzanian Telecommunications Company Limited
UA	Unit of Account - SDR

SAL I POLICY MATRIX

REFORM OBJECTIVES AND POLICY AREA	STRATEGIES AND MEASURES	STATUS OF IMPLEMENTATION
<p>PUBLIC EXPENDITURE MANAGEMENT</p> <p>Reduce the fiscal deficit to a sustainable level consistent with macroeconomic objectives.</p> <p>Rationalize development spending and adequately fund priority projects.</p>	<p>Achieve overall budget balance after grants (checks issued basis) of 0.9 percent of GDP for 1996/97 on an annualized basis.</p> <p>Set 1997/98 development budget at Tsh 20 billion for priority sectors (excluding the Road Fund), consistent with the ESAF programme targets and ensure that sectoral allocations reflect development priorities in health, education, water, transport and power sectors.</p> <p>Review the investment program with donors and reduce the number of projects from 1400 to 800 or less</p> <p>Increase basic education share of total education budget to 64 percent in the 1997/98 budget proposal.</p>	<p>The target was achieved in the context of the ESAF program.</p> <p>This was implemented in the 1997/98 fiscal year. Spending on priority sectors has continued to be protected under the existing cash budget system.</p> <p>The number of projects reduced from 1400 to 642.</p> <p>This target was met and the share of basic education in the education budget has been maintained at 64 percent.</p>

REFORM OBJECTIVES AND POLICY AREA	STRATEGIES AND MEASURES	STATUS OF IMPLEMENTATION
<p>SOCIAL SECTOR REFORMS</p> <p>Improve the quality of basic education and secure efficiency gains.</p> <p>Decentralize social service delivery to enhance efficiency and accountability.</p> <p>Improve quality and cost effectiveness of technical and higher education.</p> <p>Extend cost recovery measure to ensure sustainability of health services</p>	<p>Prepare action plan for re-training, upgrading, recruitment, and deployment of teachers.</p> <p>Shift responsibility for recruitment of the DFOs and teachers to District Councils and transfer all subsidies for primary education as block grants to 20 selected districts.</p> <p>Shift responsibility for recruitment of local and district level staff to District Councils. Transfer the budget for health centres and dispensaries as block grants to 20 selected districts and transfer the management of primary schools to legally constituted committees</p> <p>Prepare plan for reform of technical and higher education.</p> <p>Implement a program to establish district hospital based revolving funds that are a combination of cost sharing and central government subsidies with patients meeting 50 percent of cost.</p>	<p>Action plan adopted by Cabinet.</p> <p>Circulars empowering 35 district councils to recruit and manage district level education staff issued in February, 1999.</p> <p>The Local Government Act was amended to provide for a block grant system of financing social services.</p> <p>Action Plan has been prepared and the plan has been adopted by Cabinet.</p> <p>District hospital based drug revolving funds established in four regions.</p>

REFORM OBJECTIVES AND POLICY	STRATEGIES AND MEASURES	STATUS OF IMPLEMENTATION
<p>PARASTATAL REFORMS</p> <p>Accelerate the divestiture of public enterprises to promote private participation and improve the efficiency of investment in the economy</p>	<p>Divest seven large agro-industrial enterprises Privatization of Tanzania Telecommunication Co. Ltd</p> <p>Award concession for THA container Terminal.</p> <p>Abolish NASACO's monopoly of shipping agency services and allow free international competition in the provision of these services.</p> <p>Publish policy statement revoking TCFB's power to negotiate freight rates and allocate cargo across shippers.</p> <p>Propose a comprehensive divestiture plan for TRC's marine services unit.</p> <p>Sign management performance contract with TRC.</p>	<p>The seven enterprises have been divested</p> <p>Bidders pre-qualified and bidding process was underway by 2001.</p> <p>Sale completed in 2000 Concession awarded</p> <p>The TCFB's act has been amended to deregulate the cargo business</p> <p>Marine services unit has been constituted as a separate company and the divestiture plan finalized</p> <p>Done</p>

REFORM OBJECTIVES AND POLICY	STRATEGIES AND MEASURES	STATUS OF IMPLEMENTATION
BANKING SECTOR REFORMS Restructuring and divestiture of NBC to improve efficiency in financial intermediation through increased competition.	Amend the relevant Acts to authorize the Bank of Tanzania to reorganize and privatize NBC. Publish NBC's 1995/96 and 1996/97 audited financial statement by September 1997. Draft Articles of Association and incorporate the two banking entities; NBC Ltd and NMH	Done Done Done
PETROLEUM SECTOR REFORMS Petroleum Import and market liberalization to improve efficiency through increased competition.	Distribute Information Memoranda, call for bids and privatize NBC (1997) Ltd Promote private sector participation in NXIB Complete liberalization of petroleum imports and prices. Remove differential taxes on refined products to eliminate distortions.	NBC (1997) Ltd has been privatized Management has been contracted out to a private management firm. Full liberalization achieved and the interim regulatory framework has been established Done

1. Executive Summary

1.1 The Structural Adjustment Loan (SAL) was approved on 05 November, 1997, and was the Bank's fourth policy based operation in Tanzania. The loan was to be disbursed in three tranches to provide balance of payments support to the Government. The operation was co-financed with the World Bank's Structural Adjustment Credit (SAC), and its objective was to promote growth and poverty reduction through a comprehensive package of structural and institutional policy reforms. The focus of reform was on consolidating macro-economic stability, improving public expenditure management, decentralizing responsibilities for the management of social service delivery, promoting private sector participation in key public enterprises, and liberalizing the petroleum sector. The loan was fully disbursed on 07 June, 2000 and was closed on 30 June, 2000.

1.2 The program was designed within the framework of the Government of Tanzania's Policy Framework Paper (PFP) covering the 1996/97-1997/99 period, and signified the Government's renewed commitment to reform following a setback in the reform effort in the early 1990s. The Programme was well designed and relevant to Tanzania's long-term development goals. The broad coverage of the programme was necessary in light of the large reform agenda that needed to be implemented to accelerate growth and poverty reduction. However, in hindsight, the programme was ambitious, particularly with respect to the time frame for privatising public enterprises in infrastructure and public utilities. The concessioning of the Container Terminal of the Tanzania Harbours Authority and the privatization of the Tanzania Telecommunication Company Ltd took longer than envisaged due to the complexity of the transactions and the lengthy procedures involved. The delays necessitated a modification to the sequencing of the conditions and an extension of the closing date of the loan to June, 2000.

1.3 With the exception of the parastatal reform component, all the other policy measures were implemented with minimum delays. Policy implementation across the various sectors was well coordinated and program monitoring within the Government was adequate. Where the Borrower's performance was weak was in the area of progress reporting. Quarterly progress reports were not sent to the Bank regularly, and the Bank relied primarily on supervision missions, Public Expenditure Reviews (PER) and the sector review meetings to monitor the program. Overall, the performance of the Bank was satisfactory. However, one complaint by the Borrower was that the Bank's disbursement procedures for Policy Based Loans (PBLs) were cumbersome, and not in line with other donors' programme aid procedures.

1.4 SAL I was a successful operation as virtually all the agreed policy measures were implemented. This was a reflection of the Government's strong commitment to reform, and enhanced local ownership over the reform process. The program has resulted in improved budgetary allocations to priority sectors, and has established a decentralized framework for the management of social service delivery. Also, the privatization of National Bank of Commerce (NBC), and other key parastatal enterprises has reinforced the market orientation of the economy. Greater private sector participation in all sectors of the economy will further improve efficiency in resource mobilization and allocation. The likelihood that the reform process will be sustained over the medium to long term is high, especially in light of the Government's proven commitment to reform. This has been confirmed by subsequent Project Completion Reports.

2. Conclusions and Lessons Learned

The conclusion of this PCR is that SAL I was successfully implemented, albeit with some restructuring of conditions and delays. The PCR has brought out a number of lessons, the main ones highlighted below

- Building on the experience of SAL I, it is suggested that the scope of future PBLs be limited to those policies that are critical for poverty reduction and can be effectively monitored by the Bank.
- It is important to harmonize loan conditions with other donors, and the ADF needs to demonstrate its involvement is adding value to the programmes supported by other donors whilst ensuring it is fully harmonised.
- The Bank should develop key pieces of Economic Sector Work (ESW) to strengthen its policy dialogue with the Government and support future policy based operations.
- Where Government ownership and commitment to the reform agenda is strong and a credible reform record has been established, a shift from specific conditions to outcomes would be desirable especially in the context of poverty reduction strategies.
- The need for field presence to fully engage in the formulation and monitoring of budget support programmes.

1. Introduction and Origin

1.1 The SAL I of UA 45 million was approved on 05 November, 2000. It was the Bank Group's fourth policy-based loan to Tanzania. The first three were sector adjustment loans which supported policy reforms in the agricultural and transport sectors (Sector Rehabilitation Loan - Agriculture and Transport), the industrial sector (the Industrial Rehabilitation and Trade Adjustment Loan) and the financial sector (Financial Sector Adjustment Loan). The four PBL operations were funded from ADF resources and involved a total commitment of UA 128.81 million.

1.2 Like the previous PBLs, SAL I was financed in parallel to a World Bank operation. SAL I supported policy reforms aimed at improving public expenditure allocation and social service delivery whilst reinforcing the policy reforms advanced by previous operations. This was done by extending the privatization process to ailing parastatals in the banking and infrastructure sectors (namely telecommunication, railways and harbors).

1.3 During the early to mid 1990s, Tanzania's macro-economic reform effort suffered a major setback. The period was characterized by rising budget deficits and inflation resulting from serious problems with revenue collection and fiscal discipline. The setback in the reform effort was partly due to the fact that the political will to persevere with the structural reforms had weakened. It was also the case that a strong constituency for far reaching reforms had not been built. In the event, the program with the IMF was derailed and most donors withheld balance of payment support. The World Bank suspended processing of a Structural Adjustment Credit (SAC). The poverty situation, which improved during the early years of reform worsened from the mid-1990s, due to in part to the under-funding of basic social services and institutional weaknesses in the social sector. Furthermore, Government began struggling to sustain its extensive donor funded development portfolio due to the shortage of counterpart funding.

1.4 After the introduction of multi-party politics and the election of a new Government in 1995, the reform effort regained momentum. Fiscal discipline was quickly restored through the adoption of a cash budgeting system and the Government took to accelerating and broadening structural reforms to unleash Tanzania's growth potential and lay the foundation for sustained poverty reduction. The new Policy Framework Paper (PFP) covering the 1996/97-1998/99 period was approved in October, 1996 and a new IMF Enhanced Structural Adjustment Facility (ESAF) program was approved in November, 1996. This was followed by the approval a World Bank Structural Adjustment Credit of US \$ 135 million in June, 1997. In December, 1996 the Government requested the ADF to provide parallel financing for the SAC program. The Bank responded positively and SAL I was appraised in April, 1997 and negotiated in October, 1997. It was approved in November, 1997 and signed on 17 November, 1997.

1.5 Implementation of SAL I took two-and-half years, and the loan was closed on 30 June 2000 after the disbursement of the third and last tranche. The Borrower's draft Project Completion Report (PCR) was submitted to the Bank in November 2000. The Bank's PCR is based on the Staff Appraisal Report (SAR), the findings of a Bank's mission to Tanzania fielded between November 27 and December 15, 2000 and a review of documents collected during the mission and those in the project files. It also drew extensively from the Borrower's PCR.

2. Programme Summary

2.1 Programme Objectives and Formulation

The overall goal of the program, as set out in the SAR was to achieve accelerated economic growth and reduce poverty in the medium to long-term.

2.2 Programme Objectives

The specific objective of SAL I was to support the Government's efforts aimed at creating conditions for achieving accelerated economic growth and poverty reduction by improving the efficiency in resource allocation, decentralizing responsibilities for the management of social services and promoting private sector participation in key infrastructure enterprises and the banking sector.

2.3 Programme Components and Outputs

2.3.1 The programme components comprised: (i) the restructuring of public expenditures to improve budgetary allocation to priority sectors; (ii) social sector rationalization; (iii) the divestiture of strategic parastatals, and; (iv) banking sector reforms.

2.3.2 The Matrix for Project Design and Evaluation (MPDE) was prepared, but in retrospective the expected outputs should have been specified in terms of the outcomes to be achieved. This would have certainly have made the MPDE a more useful tool for monitoring the program's outcomes.

2.4 Loan Description

2.4.1 The Bank extended an ADF loan of UA 45 million to support the Government of Tanzania in its implementation of the macroeconomic and structural policies. SAL I was conceived as a quick disbursing balance of payment loan. It was to be disbursed in three equal tranches of UA 15 million. The understanding was that the counterpart funds to be generated from the loan would be used to provide budget support to priority sectors.

2.4.2 SAL I was parallel financed with the World Bank's SAC, the IMF ESAF and Norway. The total financing package of the overall programme was US\$425.4 million, of which the ADF loan constituted 15 percent.

2.5 Program Formulation

2.5.1 SAL I was linked to the World Bank's SAC which was designed within the broad framework of the PFP (1996/97-1998/99). The policies set out in the PFP included expenditure rationalization, civil service and parastatal reforms and social sector reforms, including decentralization of service delivery. The World Bank was at the stage of negotiation when SAL I was being prepared and appraised. A joint appraisal mission would have been ideal, but this was not practical at the time. It is, however, evident from the numerous correspondences between ADB and the World Bank that the ADB had made a conscious effort to harmonise and coordinate its operation with that of the World Bank and to have identical conditions. As earlier noted, the coverage of SAC I was much broader than that of SAL I. SAL I did not include as loan conditionalities the liberalization of the

petroleum sector nor the divestiture of state agencies in the shipping marine freight business. Another major difference is that SAC was to be disbursed in five tranches, four of which were floating tranches. The floating sectoral tranches were for the social sector, parastatal reform, the banking sector, and the social sector. In contrast to SAL I, the World Bank's SAC was complemented by institutional development projects in sectors covered by the program.

2.5.2 SAL I and the World Bank's SAC were relevant to Tanzania's development needs and reflected its key policy priorities. Among the priorities was; (i) to improve the quality of social services by empowering local government authorities in the management of financial and human resources, and; (ii) improve the efficiency of the enterprises supplying key infrastructural services. In retrospect, the program was ambitious, particularly in respect of the privatisation programme. Most of the technical difficulties involved in privatizing large enterprises such as telecommunication were not foreseen at the time of designing the program. As a result, it took much longer to complete the divestiture process.

2.5.3 Negotiation of SAL I took place in Abidjan on October 1-3, 1997. The negotiation facilitated the exchange of views on the contents of the operation and confirmation of the conditions for tranche release. The negotiations also enabled the Bank to brief the Government team on the Bank's procurement and disbursement procedures as well as the general conditions stipulated in the Loan Agreements. At the time of the negotiations the Government submitted a copy of the letter amending the sections of the Letter of Development Policy relating to the reorganization National Bank of Commerce (NBC). The changes entailed splitting NBC into two instead of three entities. The Government team also submitted copies of the Acts and Certificate of Incorporation for the NBC (1997) and the National Micro-Finance Bank (NMB).

3. Program Implementation

3.1 Effectiveness, Start-up and Modifications

3.1.1 SAL I was declared effective on December 24, 1997 and the first tranche was released on January 7, 1998. The first tranche release was tied to five conditions; all were satisfied by the end of 1997. These included conditions related to the opening up of a Special Account and setting up an inter-Ministerial Committee for the SAL monitoring and reporting.

3.1.2 Most of the conditions for first tranche release were based on actions already implemented by the Borrower. This no doubt facilitated the speedy release of the first tranche. Clearly, the lesson to be learnt here is that where a Government has demonstrated good performance it needs to be rewarded. Typically, the conditionalities in structural adjustment loans were intended to pressure the Government into taking the agreed policy actions, but in hindsight it is important to note that this does not necessarily create ownership of the specified conditionalities.

3.1.3 The release of the second tranche was delayed by almost 15 months due to delays in fulfilling the condition relating to the award of concession of the container terminal. At the time of appraisal, no difficulties in implementing this action had been foreseen. In the circumstances Government requested for an amendment to the Loan Agreement in August, 1999, to change the sequence of some of the second and third tranche conditions. Accordingly, the second tranche condition relating to the concession of the container terminal of Tanzania Harbour Authority (THA) was shifted to third tranche while some of the social

sector policy conditionalities already fulfilled were switched to the second tranche. The proposal for the amendment was approved by the Board on 3 September, 2000 on a lapse of time basis. Under the amended Loan Agreement, only three conditions for third tranche remained, namely; (i) the privatisation of Tanzanian Telecommunications Company Limited (TTCL), the award of concession for the container terminal, and; (ii) the transfer of the management of primary schools to legally constituted local school committee.

3.1.4 By November, 1999 it had become evident that the Borrower would not be able to fulfill the conditions for third tranche release before the expiry date of the loan. In December 1999, the Government requested the extension of the closing date of the loan from December 31, 1999 to June 30, 2000 to facilitate the disbursement of the third tranche. The Bank approved the request and the closing date was extended to June 30, 2000. It is pertinent to mention here that in the case of the World Bank's SAC two extensions were granted. The original closing date of the SAC was 31 December, 1998 in contrast to 31 December, 1999 for SAL I.

3.2 Disbursement

3.2.1 SAL I was expected to disburse in three equal tranches of UA 15 million each. The first tranche was released in January 1998, which was on schedule. Second tranche release was scheduled for June 1998, after the mid-term review. The third tranche release was scheduled for December 1998, one year after loan effectiveness. The loan account was to remain active until December 31, 1999.

3.2.2 As planned, SAL I was disbursed in three equal tranches of UA15 million each, but after delays of several months for the second and third tranches, as discussed below. The proceeds of the loan were deposited in a Special Account (Acct. No: 021085897-TANZA) managed by the Bank of Tanzania (BOT) and held with the Federal Reserve Bank of New York. The counter value funds (TSh equivalent of the loan proceeds) were deposited into the account (Acct No. 9931/20218/00) of Government of Tanzania held at the Bank of Tanzania.

3.2.3 The first supervision/mid-term review mission, took place in August 1998, after a delay of about three months. The second tranche release was however only released in August 1999. Disbursement was delayed due to the difficulties the Government encountered in meeting some of the conditions relating to privatisation. With respect to the container terminal under THA, the Government wanted to change the approach to privatisation from one of awarding a concession to that of out right sale. The decision to change the divestiture modalities was subsequently reversed after the Government determined that the concession would be in the interest of the country. Unfortunately, this caused a delay of about six months between December 1997 and May 1998. Once a decision was made to put it back on track, the process of leasing the container terminal was finalised in May 2000. With respect to the privatisation of NBC (1997) Ltd. - the banking sector parastatal, the Memorandum of Understanding between ABSA Group (South Africa) and the Government was signed only in July 1999. The transfer of 35 percent of shares in TTCL - the telecom parastatal - was effected towards the end of 2000. These developments demonstrate that the privatization program was rather ambitious from the outset. It therefore necessitated the changes in the sequence of the conditions and the extension in the closing date of the account.

3.2.4 The BOT has reported that meeting the ADF disbursement requirements for PBLs proved to be extremely cumbersome and time consuming. Under the existing procedures, the

justification for use of the import support funds is in form of Bills of Entry from Customs, Tax Assessment from Tanzania Revenue Authority, Clean Reports of Pre-shipment Inspection, and Final Invoices. During the time of the Open General License, these documents were easily obtainable from the banking system. The BOT takes several weeks to assemble the documents for each and every transaction, which were then sent to Abidjan for verification. After verification, the documents are returned to BOT for audit purposes.

3.3 Monitoring and Reporting

3.3.1 According to the SAR the responsibilities for monitoring and implementation of the reform program was to be vested upon the Ministry of Finance (MOF). The Government was also expected to set up an Inter-Ministerial Committee to oversee the program with representation from the relevant Ministries and agencies. The Committee was to be headed by the Principal Secretary of MOF, which would co-ordinate, the implementation of the reforms. MOF was charged with the task of preparing and submitting to ADF quarterly progress reports on the implementation of the programme and its impacts on the economy. The BOT was to be responsible for the fiduciary aspects, including opening up and managing the Special Accounts, and maintaining records relating to each transaction of the loan. The BOT was required to submit to the Bank, through the MOF, audit reports on the use of the funds.

3.3.2 The monitoring of the overall program including SAL I was well organized and coordinated. The concerned sectoral ministries and other relevant Government agencies, such as the Parastatal Sector Reform Commission and the Local Government Reform Programme Unit met regularly to monitor the progress of the overall program. These meetings facilitated mid-course corrections in some of the policy actions necessitated by the actual implementation experience. The introduction of regular annual PERs and the quarterly sector review meetings also proved effective in reporting the progress in program implementation.

3.3.3 Although an Inter-Ministerial Committee was established in December 1997 to meet one of SAL's first tranche conditions, its need became superfluous as the functions were overtaken by the Inter-Ministerial Technical Committee (IMTC). The IMTC oversees the overall reform program and reports to the Secretary to the Cabinet. Unfortunately, the Government did not inform the Bank about the changes introduced. The submission of quarterly progress reports to the Bank was not regular. The records show that only three progress reports were received by the Bank. This contravened the reporting covenant in the Loan Agreement. Compared to other donors, the Bank was at a disadvantage in maintaining regular dialogue with the Government since it lacked a field presence. This underlines the need for the Government to report regularly to the Bank on the progress in program implementation.

3.3.4 The performance in terms of submission of audit reports was better. Two audit reports were submitted. The audit reports provided by the borrower were fairly comprehensive. For instance, the Audit Report No. A/10/98-99, dated September 8, 1998 examined several procurement and disbursement issues under SAL I. Firstly, the Report indicated that all the applications which were submitted by BOT to ADF were supported by the relevant documents, and were approved and the amount reimbursed to BOT. Secondly, BOT had put in place a computer system that would avoid the reuse of supporting documents to more than one donor, thereby preventing double financing of the same import. Thirdly, ADB's procurement procedures were complied with, implying no procurement had been made from ineligible countries and the negative list. Fourth, all the funds disbursed by ADB were duly

received and recorded in the relevant books of account of the Bank of Tanzania and the counterpart funds credited to the Treasury's accounts on a timely basis.. The third audit report was submitted after the initial draft of the PCR.

3.4 Financial Sources

3.4.1 The SAR (ref. SAR par. 4.3) identified the following sources of finance.

Source	Amount UA Mil.	Amount US\$ Mil.	Percentage
IDA	90.00	125.00	29.4
ADF	45.00	62.00	14.6
IMF	169.00	235.00	55.2
Norway	2.48	3.38	0.8
Total	306.48	425.38	100.00

3.4.2 The total financing was estimated at US\$425.4 million (or UA306.5 million), of which ADF contributed 14.6 percent. The funding was intended to complement other external financing over the 1996/97-1998/99 period. The funds from all sources were disbursed albeit with delay ranging from a few months to over a year. The delays made budgetary releases unpredictable given the cash budgeting system already in place.

4 Operating, Performance, Results and Ratings

4.1 Overall Assessment

4.1.1 Overall the Programme has been rated satisfactory (ref. Annex II and III). The Programme was consistent with the government's development policies as articulated in the Letter of Development Policy and with the Bank's Vision regarding poverty reduction and private sector development. Moreover, a high level of commitment and ownership of the Programme was demonstrated by the Government. The sustainability of the Programme in the short- to the medium-term does not seem questionable. The Program had support at the highest level of the political leadership. One major challenge, that even now still exists, although to a lesser extent, is corruption, which was viewed as being endemic in Tanzania.

4.1.2 SAL I marked the first ADF policy based lending to directly address issues of human resources development. The emphasis on social sector reforms complemented the Bank's newly approved projects in the social sector namely the First Health Rehabilitation Project and the Education II Project.

4.1.3 A discussion of the performance and achievements of SAL I is presented below. Section 4.2 and 4.3 provide the achievements in terms of the quantitative targets. Some basic data on the targets and actual performance are provided in Annex I. Section 5 outlines the achievement in institutional areas. It also deals with the performance of the borrower and the Bank. The economic and social impacts and the sustainability of the results are dealt with in Sections 6 and 7, respectively.

4.2 Relevance and Achievements

4.2.1 Restructuring of Public Expenditures

4.2.1.1 The Government of Tanzania has made a concerted effort to improve the allocation of public expenditures. The scope of the public sector has been redefined in many areas and the government was withdrawing from directly productive activities. The private sector and communities were encouraged to provide basic services to complement public interventions. Where there are compelling reasons for public provision of basic services and infrastructure, the government introduced annual public expenditure reviews (PERs) and a rolling Medium-term Expenditure Framework (MTEF) to rationalise the allocation and use of public resources.

4.2.1.2 In the 1997/98 fiscal year, the first year of SAL I, the Government committed to allocate a minimum of Tsh 20 billion from domestic revenue (excluding the road fund) for development spending for priority sectors of health, education, water, transport and power (ref. SAR par. 3.2.4). In the Letter of Development Policy, the Government further indicated that it would review the development budget and reduce the number of projects from about 1400 to less than 800 in FY1998.

4.2.1.3 In line with the target, the government started to devote more of its own resources for development projects. In 1998/99 and 1999/00, the Government spent about Tsh 18.8 billion and Tsh 23.4 billion, respectively, for development projects from domestic revenue (excluding the road fund).³ In contrast, with the exception of 1992/93, no development expenditure was financed from domestic revenue between 1991 and 1997.

4.2.1.4 The project portfolio is largely funded by donors, and in the early 1990s there was a proliferation of uncoordinated projects. Some projects were carried out without the Government's knowledge and outside the budget. When projects were handed over to the Government, it was not in a position to provide the recurrent expenditures. In some cases, the recurrent cost of unexpected projects took a large chunk of resources, depriving the Government of counterpart funds to implement projects negotiated with donors, such as ADB. It was with this background that the Government set out to streamline the number of projects from 1400 to 800. To this end, the Government identified a core of investment programs as part of the rolling MTEF with the goal of focussing expenditures. Clear criteria were established to prune the projects and started implementation with the budget of 1997/98. During negotiation in October 1997, the number of projects to be retained in the portfolio had already dropped to 646. This number was further cut to about 400 in 2000. Since 2000 the number of donors projects have reduced even further and a large proportion of donor funds are being provided through Budget Support.

4.2.2 Social Sector Rationalisation

4.2.2.1 The social sector policy actions entailed shifting responsibilities for managing resources (budget and personnel) and basic services to the local authorities. Specifically, it included actions to (i) transfer the budget for health centres and dispensaries, and primary education in at least 20 districts to district councils as block grant to cover salaries and other operational expenses (ref. SAR par. 3.2. 10 & 11); (ii) transfer the management of primary schools to legally constituted local school committees in at least 20 districts (ref. SAR par. 3.2.10); (iii) provide authority for hiring and deployment of health and education personnel (subject to approval of sector ministries in some case) to 20 districts (ref. SAR par. 3.2. 10 & 11);

(iv) increase the share of primary education in the 1997/98 in the approved recurrent education budget to 64% (ref. SAR par. 3.2.8), and; (v) introduce 50 percent cost recovery for pharmaceuticals delivered at hospitals in 20 districts and establish a revolving fund with an additional 50 percent contribution from the Government and donors (ref. SAR par. 3.2.11).

4.2.2.2 Since the first three actions related to the devolution of authority, they will be discussed together. As SAL I became effective, the Government adopted a more ambitious program of decentralisation under the Local Government Reform Programme (LGRP), covering 35 districts (38 districts including the 3 in Dar-Es-Salaam) in Phase I, instead of the original 20 districts agreed to. The LGRP was adopted by Cabinet in June 1998 and amendment to seven Acts (i.e. those issued in 1973, 1982, 1983 and 1997) provided the legal instrument to implement the policies. These Amendments granted power to the local authorities relating to financial (i.e. block grant) and personnel management (including recruitment, redeployment, discharge, etc.). A Circular issued by the Prime Minister's Office in January 1999 transferred all staff working in the district hospitals, primary schools and other public services to the district councils. In addition, the Civil Service Department - the Department responsible for overseeing the implementation of the Public Sector Reform Program (PSRP) - issued a Circular to the Regional Administrative Secretaries (RAS), local authorities and relevant Commissions reassigning staff to the local authorities. Accordingly, the reassignment letters had been issued by the relevant agencies.

4.2.2.3 Now, all public sector employees, including teachers, health, agriculture, etc., (personnel) working in the districts/local authorities report to their respective districts. The Sector ministries are consulted in the recruitment of the senior professionals, such as the District Health Officer or the District Education Officer. The sector ministries are also involved in quality control, certification, monitoring and evaluation, training, curriculum development, etc. The budget for 1999/00 provided conditional and unconditional block grants directly to the 35 districts for education, health, water, roads and agriculture. Along the same line, the budget for 2000/01 provided a consolidated budget, combining the conditional and unconditional components, for the priority sectors of basic education, primary health, water supplies, rural roads, and agricultural research and extension. Each district is now empowered to prepare its work plan, subject to service standards established by the Sector Ministries, and review and consolidation at the Ministry of Regional Administration and Local Government (MRALG), and release funds accordingly.

4.2.2.4 The Education Act (1978) provided for local school committees. The Local Government Act (1999) re-defined the role, power and authority of the committees and the Head Teacher. It also defined the role of the Village Government *vis-a-vis* the school committees. Such committees (with both male and female membership) have been established in 60 districts. Members have been trained, through the financial support of donors, to carry out their responsibilities effectively.

4.2.2.5 The decentralisation programme however suffered from capacity limitations at the local level. Obviously, designing multi-sectoral programmes and managing functions that had previously been managed by several sectoral ministries would not been an easy endeavour for the nascent local governments. In addition, there was a critical shortage of accounting, procurement and financial personnel that would compromise the integrity of the devolution effort. Although capacity building programmes are in place, staff (particularly IT staff) leave the service for better opportunities elsewhere once they become proficient in their trade. Finally, inter- and intra-sectoral co-ordination at the national and local levels is weak.

4.2.2.6 The Ministry of Health introduced a comprehensive programme to improve the financing of drugs at all levels of the health delivery system in a more sustainable manner. One initiative was to introduce a revolving fund. Operational guidelines and accounting procedures were prepared and disseminated. Staff in selected hospitals received training in the management of the fund. Full cost recovery has been instituted in those hospitals. At the second tier health delivery outposts, 50 percent recovery (with exemption for pregnant women, children, TB, and HIV/AIDS patients) is in place. In 10 districts, a Community Health Fund (CHF) has been established. The Fund is based on voluntary membership. Each member (family) contributes an agreed amount at the start of a year and is issued a Membership Card. The Fund is managed by local committees. Members receive their drugs free of charge when needed. To the contrary, about 103 districts still receive free drugs from the Government. CHF has been made mandatory in the remaining districts.

4.2.2.7 The share of social sector expenditures increased between 1997 and 2000. Their share in recurrent expenditure increased from 26.2 percent in 1996/97 to 32.7 percent in 1999/00. During the same period, the share of the priority sectors, including judiciary, increased from 42.8 percent to 46.7 percent of the recurrent allocations. To ensure the effectiveness of service delivery, the release of the non-wage component was held at 122 percent of the budgeted amount in 1998/99, although the corresponding performance for the eight months of 1999/00 had declined to 93 percents. The share of primary education was held over 64 percent between 1997 and 2000, thus showing a commitment to raise and maintain budgetary allocation for primary education.

4.2.3 Divestiture of Parastatals

4.2.3.1 The parastatals slated for privatisation under SAL I were the container terminal of the Tanzania Harbours Authority (THA), the Tanzania Railway Corporation (TRC), and Tanzania Telecommunication Company Ltd. (TTCL). With respect to THA, the Government agreed to award a concession for the container terminal. For TRC, the Government and the Corporation agreed to sign a performance contract that would compensate TRC for undertaking unprofitable operations on behalf of the Government, and to close other unprofitable services. Under the program TTCL was to be brought to the point of sale.

4.2.3.2 Regarding the container terminal of THA, the approach to privatisation, as indicated above, shifted from concession to out-right sale and back to concession again. Once this decision was made the process went smoothly. The Government received bids in October 1999. The lease agreement for the container terminal was signed on May 5, 2000 for a period of 10 years with a consortium comprising the International Container Terminal Services Inc. (ICTSI) of The Philippines and the Tanzania International Container Terminal Services Ltd. The Consortium took over operations on September 10, 2000.

4.2.3.3 With respect to TRC, the Government and the Corporation signed a three and half year performance contract in May, 1997. The Contract ended in December, 2001. As part of TRC's restructuring the Marine Division has been hived off and a new company Marine Services Company Ltd. was formed. At completion point of this SAL a study was underway to determine the options for privatising Marine Service. The road services have been closed, and the non-core services, such as the eatery, have been divested. The core services of TRC have now been delineated and the preferred option of privatisation has been determined. A policy paper was prepared for Cabinet's decision with the objective of completing the process in 2001 or in early 2002. This was eventually completed in 2002.

4.2.3.4 The process of privatising TTCL - the telecom company - took longer than expected but was concluded recently after completion of the programme. The Government issued an Investment (information) Memorandum (IM) for pre-qualification in October 1998. It received six proposals. After evaluation, the Government selected four candidates and invited them to undertake due diligence. Two of the four candidates chose not to participate in the due diligence, and the other two failed to complete the process in the stipulated period. It was then decided to extend the period and partially re-open the process. After the approval of Cabinet, the winners - the consortium of Detcom and MCI (both affiliates of Deutsche Telecom) - were notified in June 2000. They acquired 35 percent of equity in TTCL for US\$120 million. Government was keen to sell additional 15 percent to international development institutions such as IFC, CDC, etc., and the another 10 percent to domestic development institutions. Four percent would be retained to employees of TTCL and the remaining 36 percent remained under Government's Trust.

4.2.4 Banking Sector Reforms

4.2.4.1 ADF started involvement in the reform of the banking and financial sector with the Financial Sector Adjustment Programme (FSAP). Through FSAP, the NBC had been subdivided into the NBC (1997) and NMB. After re-capitalisation, transfer of the bad debts and cut in the size of branches and staff, these Banks signed a Memorandum of Understanding (MOU) with the Government to operate under a hard budget requirement. It was then decided to privatise both banks. More specifically, it was anticipated that the Government would distribute Information Memorandum (IM) and call bids for NBC (1997) under SAL I.

4.2.4.2 The Government distributed the IM for NBC (1997) in July 1998. Twenty-three companies obtained copies of the IM. Then, the Government issued a call for bids for sale of 70 percent of the shares in both international and local papers between August and November 1998. On November 30, 1998, following the unsatisfactory nature of the bids obtained, four bidders were invited to re-submit improved bids by January 29, 1999. Bids were received from ABSA Group (South Africa), Barclays Bank PLC (UK), First Adili Bancorp/Tanzania Consortium (Tanzania), and Stanbic (T) Limited (Tanzania). Bids evaluation was carried out in accordance with the agreed criteria provided for in the IM. Finally, ABSA won the deal and was therefore invited for negotiations. The MOU was signed on July 22, 1999. Seventy percent of the shares were transferred to ABSA in March 2000. The Government retains 30 percent of the shares which were subsequently sold to the public.

4.2.5 Macroeconomic Results

4.2.5.1 Although there are no explicit macroeconomic policy actions supported by SAL I, the Government's LDP provided some targets for FY98 and FY99. These related to; (i) anticipated real GDP growth rate; (ii) reduction in the average rate of inflation; (iii) central Government savings, and; (iv) external current account deficit. The targets and the actual performance are given in Annex I and II and will be dealt in brief below.

4.2.5.2 In general, most of the targets were slightly ambitious. Real GDP was expected to grow at 6 percent in 1997/98 and 1998/99, but it actually grew at 3.3 percent and 4 percent, respectively. Inflation has dropped sharply between 1997 and 2000, but not as quickly as expected. It decelerated to 5-6 percent only in the second half of 2000. The share of Government savings to GDP was maintained at 1 percent and 0.5 percent in 1997/98 and 1998/99, respectively, as against the target of 1.6 percent and 2.5 percent. Except in 1998/99,

the actual external current account balance (excluding grants) to GDP was lower than anticipated. Finally, due to considerable inflows of donor resources, the gross official reserve improved from about 12 weeks of import cover to 18 weeks. The achievement of the reserve target was in line with or slightly better than expectations.

5. Institutional Performance

5.1 Performance of Programmatic Institutions

5.1.1 This Section discusses the performance (results) of institutions affected by the programme. Institutions, in this context, are formal and informal arrangements through which scarce resources are allocated - such as technocrats (i.e. the borrower and the Bank) and markets. The ones referred to as programmatic institutions are those where private or semi-private firms make decision based on market forces. SAL I has started a process of institutional transformation that is shifting ownership and resource allocation from government and administrative fiat, respectively, to private ownership and market-based resource allocation.

5.1.2 As the parastatals are privatised and as more secure environment is created, opportunities for private sector development have been opened up. For instance, through SAL I, and its precursor FSAL, the financial sector has been fully liberalised and privatised. As a result, close to 20 commercial banks have emerged, and a more competitive environment has been created in the banking sector, although NBC (1997) still remains dominant. In addition, with the approval of the Telecommunication Policy by Cabinet in October 1997 and the privatisation of TTCL, private service providers have proliferated. Telephone connections have improved markedly and the cost of internal and external calls have dropped. Tanzania Communications Commission - a regulatory agency - has been set up to regulate the postal, telephone and telegraph industry.

5.1.3 At the local and community levels, the devolution of authority for financial and personnel management has provided the 35 Phase I districts the opportunity to plan and execute their own development plans. There were, of course, teething problems. With the capacity building initiatives and experience in local administration in due course, considerable improvement was realised in the effectiveness and efficiency of Government programmes.

5.2 Performance and Borrower

5.2.1 The MOF was the executing agency and the BOT was delegated to handle financial management. It was intended that an Inter-Ministerial Committee would be set up to assist MOF in monitoring and evaluation of the programme (ref. SAR par. 4.4). As mentioned above, this arrangement became obsolete as the economic reform programme proceeded and a more elaborate system was put in place.

5.2.2 The performance of the borrower was satisfactory (Annex II). By and large, implementation of the operation went smoothly. Except a few strategic (or in some case unforeseen) delays in the privatisation of parastatals, most policy actions were implemented as per the agreed schedule. The concessioning of the Container Terminal of the Tanzania Harbours Authority and the privatization of the Tanzania Telecommunication Company Ltd took longer than envisaged due to the complexity of the transactions and the lengthy

procedures involved. The delays necessitated a modification to the sequencing of the conditions and an extension of the closing date of the loan from 31 December, 1999 to June, 2000. Although the policy actions were directly under the control of Government the unrealistic timeframe for the conditions are equally the responsibility of donors. The use of privatisation conditions in Structural Adjustment type operations remained a flaw throughout their implementation.

5.2.3 Monitoring of the overall programme, of which SAL I was a component, was adequate. Reports, including audit reports, were not however sent to the Bank regularly even though reports were prepared and shared with the other donors resident in Tanzania. The Bank's absence on the ground made it difficult to obtain timely reports and to participate in the regular dialogue between GOT and donors. Until such time that ADF establishes local presence, the Government should see to it that regular reports are submitted to the Bank on a timely bases.

5.3 Performance of the Bank and Other Co-financiers

5.3.1 The Bank's performance was rated satisfactory (Annex III), although design and adherence to the proposed time schedule needs to improve significantly. SAL I reflected the Government's Letter of Development Policies, and the policy actions were relevant and timely. The SAR was thorough and informative. SAL I was ambitious, particularly in the area of privatisation. The level of co-ordination with the other multilateral and bilateral donors was adequate. Extensive effort had been made, from the outset, to harmonise SAL I to World Bank's SAC. The Bank is recognised as one of the actors in policy based lending.

5.3.2 ADF would need to build on its experience in at least three areas. First, more active and frequent involvement in the policy dialogue would be required. Second, PBLs, such as SAL I, should be supported by some independent economic and sector studies. While maintaining co-ordination with the other multilateral agencies, such studies would allow ADF to bring its own perspectives to bear on policy dialogue and design. Third, closer link and more synergy are warranted between PBLs and the Bank's sector and TA operations. This would create complementarity and reinforce the impact of the Bank's initiatives in several, otherwise, disparate areas.

5.3.3 Judged by SAL I's experience, the Bank is viewed as responsive to the clients needs. Examples are the Bank's consent to change the sequencing of the second and third tranche conditions, and its willingness to extend the closing date of the loan agreement. But, this is considered as an exception rather than the rule. The Borrower reported that it faced major difficulties meeting the Bank's disbursement procedures. This is said to be cumbersome, expensive, and comparatively archaic. The client cites the flexibility of the World Bank's operation as an example. Indeed more donors are shifting their program financing to budgetary support. If the Bank is to be more client responsive, it would need to consider reviewing its PBL disbursement procedures in line with the evolving needs of its borrowers, which has been subsequently been done. SAL I conducted three full-fledged supervision missions. These missions were, adequate and appreciated by the Borrower. However, given the multi-sectoral nature of the operations some of the missions should have included sector specialists, particularly the social sector.

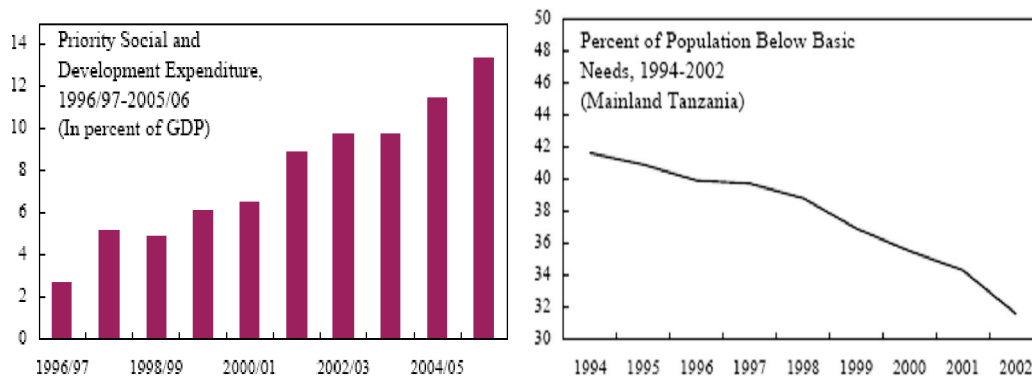
5.3.4 Co-Financiers: The World Bank took the lead in designing the program and as already mentioned SAC I was complemented by the Bank's on-going operations in the various

sectors. During program implementation the World Bank collaborated closely with the ADF. The collaboration was in form of exchange of information on the status of program implementation. This enabled the Bank to more effectively coordinate its tranche release with that of the World Bank. The PCR mission was on the field concurrently with that of the ADB PCR mission. The two missions exchanged ideas and views about the performance of the SAC and the SAL. The impression of the performance of the SAC was that it was satisfactory.

6. Economic, Social and Environmental Impact

6.1 Assessing the economic and social impacts of SAL I is difficult. Firstly, outcome and impact indicators do not change fast. SAL I became effective late 1997 and at the time of initial drafting it was too early to expect any perceptible changes in outcome and impact indicators. Second, it is often a problem to link results/impact to a particular policy action(s). Subsequent PCRs have concluded that long-term outcomes were achieved however. Progress as reported in the PCRs of SAL II and PRSL implies long-term progress in Tanzania through Budget Support. Tanzania embarked on a period of sustained economic growth in 2000 and maintained growth rates of 5% per annum. Key allocations to education and health expenditures were protected and progress was made on key sectoral indicators. Although the social impact is now evident, the PCRs of SAL II and PRSL I have revealed that growth in the longer term has not led to an equal reduction in poverty, mainly due to the inequitable distribution of growth. In the short-term, however, the impact of poverty reduction is evident.

Fig. 1: Increased Priority Social & Development Spending & Decrease in Poverty



6.2 The first, and perhaps most important, impact was qualitative. SAL I marked a major turning point in economic policy thinking, and approaches to solving economic, social and political problems in Tanzania. In spite of the lingering problems, Tanzania has made concrete steps to reform the economic and social system. Private investment is being promoted and resource allocation is based on market forces.

6.3 On the macroeconomic front, positive real GDP growth rate has been achieved, and to some extent maintained, in successive years. These have led to positive per capita growth but most of the growth occurred in mining, tourism and manufacturing. Considering that poverty is most pervasive and severe in rural areas, the slow (even negative) per capita growth in agriculture is still alarming. Of greatest concern is the lack of resilience in the agricultural sector. Indeed, agricultural output increased at 5.8 percent in 1995, but the growth rate subsided to less than 2.5 percent - less than the rate of population growth - for 3 successive years, mainly due to drought and *El Nino* flooding. In 1999, it increased by over 6 percent. Maintaining the growth rate at about 6 percent yearly is a major challenge.

6.4 During SAL I, inflation dropped significantly. This was a major achievement and had a significant impact on poverty and income distribution. In effect, inflation is a regressive tax since it falls mainly on consumption expenditure. Since the poor spend proportionately more of their income on consumption, the tax tends to affect them more. Cutting inflation, therefore, keeps real income from eroding fast. Tanzania's inflation dropped from 21 to 5 percent between 1997 and 2001. This had positive impacts on fixed income earners.

6.5 Schools, health facilities, roads and water facilities both in urban and rural areas have been repaired and maintained more regularly now than before. Although donor financing remains critical, the Government resources, other than the road fund, are being channelled to priority sectors.

6.6 Privatisation has helped reduce (eliminate) the fiscal burden of parastatal subsidies. In 1992/93 and 1993/94, such subsidies had reached TSh 15 to 16 billion each year. The amount fell sharply in 1995/96 to about TSh 0.2 billion. Although it rose to TSh 3 billion in 1997/98, the subsidy was maintained at less than TSh 0.5 billion yearly since the mid-1990s.

6.7 A study commissioned by Government to assess the impact of privatisation indicated that, although it is difficult to provide conclusive assessment in such a short time, its impact has been positive. Studies indicate that investment in the privatised enterprises has increased, their profitability has improved and cash flow to the government has risen. Post-privatisation employment level is lower than the pre-privatisation period but employees of successful privatised enterprises earn higher now than before.

6.8 Anecdotal evidence indicates that telephones services have improved and costs lowered; and the time to load and unload at the container terminal reduced. However, despite the proliferation of banks and the privatization of NBC Ltd, the lending rate is still high and the real sector suffers from lack of access to credit.

6.9 The SAL had little discernable environmental impacts. The appraisal report did not directly address potential environmental impacts. In future operations this should be addressed more adequately.

7. Sustainability of Outcomes

7.1 The SAL I outcomes are judged sustainable. During SAL I, there was high level of commitment and ownership of the policy actions on the part of the Government. Delays in implementation occurred, because of conscious and deliberate changes in the strategy of privatisation, and the absence of credible buyers (strategic investors) for some of the public assets put on the market. The sustainability of the programme in the short- to the medium-term did not seem questionable. Commitment for the reforms existed at all levels of the political leadership. During the election in November 1999, opposition parties ran on a platform of continued reforms. The PCRs of SAL II and PRSL confirm this to be the case.

7.2 Lack of good governance, however, remained a major concern. On the operational side, public accounting and auditing practices were improved. A computer-based Integrated Financial Management System (IFMS) was introduced to track the flow of resources from the Treasury to each spending unit in Ministries and districts. Each spending unit is granted autonomy in expenditure and is also held accountable for result. An anti-corruption office - Prevention of Corruption Bureau (PCB) - has been established to address the problem on

continuous bases. These measures produce credible results, but after the SAL I period (and on a sustained bases), the perception of corruption in Tanzania will remain.

7.3 Another area of concern was the distribution of the economic benefits from the reforms. In order to marshal continued popular support for the reforms, policy-makers should see to it that the gains from the reform benefit most Tanzanians. Unless the policy actions are inclusive and empower the majority of Tanzanians, popular support for the reforms could diminish. Subsequent PCRs support the fact that equality of economic benefits still remains elusive.

7.4 There is regular formal and informal dialogue on the reform among government agencies, and between Government agencies and the development partners and this has culminated in the Poverty Reduction Budget Support group in 2004. At the time the major donors and the Government operated in unison and these relationships have been strengthened. Whether this is due to a convergence on policy options by the government and the key development partners or whether it is due to the influence of a few Tanzanians holding key positions in the multilateral development institutions or Government needs to be assessed.

7.5 The effort to manage the existing financial resources well is considerable. With the introduction of regular annual PERs and MTEF, the allocation of resources for O&M, particularly for the core sectors, has improved. But, due to limited revenue, O&M is not yet adequately funded. Raising government revenue from the current level is a challenge. Most development and some recurrent expenditure are still financed by donors, and is likely to be the case in the medium-term. Capacity-wise, the key staffs managing the reform agenda are capable but seemed to be over-stretched. There is still limited capacity in many Government agencies.

7.6 The environmental impact of privatisation would require closer attention in the future. There is an Environmental Protection Agency but its capacity to analyse the long-term environmental effect of the policies and to pre-empt adverse effects or take corrective actions needs to be strengthened.

8. Conclusions and Recommendations

8.1 Overall Performance and Rating

Overall performance is rated as satisfactory using the detailed criteria that aggregate Overall Implementation Performance and Bank Performance ó see Annex II and III.

8.2 Conclusions and Lessons Learnt

8.2.1 SAL I was a successful operation as all the agreed policy actions were implemented, though behind schedule. There were no waivers of any condition. This demonstrates the Government's strong commitment to the reforms. The program focused on policy areas that were key to poverty reduction and the scope was limited and manageable. Clearly the number of proposed tranches delayed disbursement, and involved significant rescheduling of conditions. This was especially the case in terms of the privatisation programmes.

8.2.2 The important lesson learnt can be listed as follows:

- As in previous PBLs the Bank was not involved in policy design. In the future, it would be beneficial for the Bank to be directly involved in the policy design so as to influence the content of the program. The linkage between the Bank's policy operation and the other sector operations should be explicit in the context of the CSP.
- Because of weak reporting, it was difficult for the Bank to regularly monitor progress in programme implementation. While the Government does produce reports on the progress of the reforms regularly, the reports were not transmitted to the Bank as and when they are being distributed to donors resident in Tanzania.
- It is only during supervision missions and Consultative Group meetings that information on the status of the program was made available to the Bank. This again underscored the need for the Bank to establish a field presence.

8.3 Recommendations

The following are the recommendations which are summarized in Annex IV together with the assignment of responsibilities:

- Building on the positive experience of SAL I, it is suggested that the scope of PBLs be limited to the most important issues and to those, which could be designed and easily implemented without overstressing the existing institutional capacity. While it is important to harmonize the loan conditionalities, the ADF should add value to the program design.
- In situations where some rapport has been established between the Bank and the policy-makers, and ownership and commitment to the reform agenda has been demonstrated, it would be better to shift from specific conditions to broader goals. The conditions relating to expenditure allocation require active Bank participation in the PER process.
- As long as the Government's reform effort is strong, the number of up front conditionalities should be decreased to facilitate effectiveness and start-up of programmes. This would in effect be rewarding the Borrower for consistent performance. It is suggested that the Bank allocate more resources for preparation (including economic and sector studies) and appraisal (in addition to supervision) so that staff would have a better handle on the policy issues and options. The preparation of the programmes also needs to be participatory
- As a medium to long-term solution to the problems in disbursement, the Bank Group should study the possibilities of shifting from BOP to budgetary and basket funding. For operations, such as PBLs, whose expected life span is a year or two, a mid-term review would not be necessary. Instead, it would be beneficial to strengthen and increase the number of supervisions. It is also suggested to stagger PCRs and follow-up operations (e.g. PCR of SAL and preparation of SAL II).
- It is suggested to improve the understanding of the environmental impact of the reforms (e.g. privatisation, fuel pricing, etc.) and support programs to reduce any adverse effects as these were not directly addressed in the original Appraisal Report.
- To marshal support for the reform agenda, it would be beneficial to make the reform programme more inclusive and empowering to Indigenous Tanzanians. To this end, it is suggested to conduct studies and identify ways of supporting the informal sector, and small and medium businesses (i.e. improving agricultural productivity, entrepreneurship development, labour-based public works, share ownership, etc.).

Retrospective MPDE

Hierarchy of Objectives	Verifiable Indicators	Means of Verification	Risks/Assumptions
Goal: Accelerate economic growth and poverty reduction	Growth of GDP & macro-indicators Poverty indices	Planning Commission Bureau of Statistics Sector Ministries	
Programme Objectives: Human resources, capabilities improved Productivity and investment in private sector enhanced	Health standards, nutritional standards, educational & skill standards No. of start-ups, capacity utilization, consumers' satisfaction, etc.	Sectoral Ministries Self-standing or regular standard surveys, Investment Agency data, Planning Commission	Budget allocated for surveys; Reform programme maintained Good weather prevailed; Image of Tanzania as investment improved;
Programme Outputs: Primary school enrolment increased and quality of education improved; Immunization level increased; adequate drug supply maintained; AIDS/health awareness programmes expanded; Public subsidies to parastatals reduced; efficiency of services improved; competitive market conditions emerged; Ownership (or management) transferred;	Enrolment level in the selected districts (boys, girls) No of children immunized No. and form (radio, TV, fliers, etc) of AIDS awareness programs offered Amount of subsidy in Tsh billion Efficiency indicators for banking, telecom, harbors, railways	Min of Educ. & Culture Min of Health Bureau of Statistics Min of Information Min of Finance, budget & expend data (PER, MTEF) Parastatal Sector Reform Commission, BOT, Ministry of Transport & Comm.	Adequate food with basic nutrients supplied to children at home; People changing of sexual behaviour increased; More resources made available for infrastructural development; Infrastructure improved; Skilled personnel available

<p>Programme Components /Activities</p> <p>(i) Restructuring of Public Expenditures</p> <p>(ii) Tsh 20 billion of domestic revenue allocated for development expenditure</p> <p>(iii) Social Sector Rationalization 50% cost sharing for drugs introduced at</p>	<p>Disbursement of UA 45 million credit</p> <p>Total cost of drugs at the 20 district hospitals & payment for drugs by patients</p> <p>Budget & expenditure data for block grants, domestically funded development expenditure, recurrent expenditure for education, including for primary schools</p>	<p>Audit Reports, Special Account, BOT records, Disbursement at ADB</p> <p>Financial Records at 20 district hospitals Budget, Expenditure report, PERs, MTEF at MOF (Integrated Financial Management System),</p> <p>Min of Regional Adm. & Local Gov' Local Gov't Reform</p>	<p>School supplies ordered, text books printed, and distributed to districts on time;</p> <p>Children are willing to go to school & parents are willing to send them</p> <p>Health, teaching, and parastatal staff agree to changes</p>
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Tanzania SAL I Programme Outcomes

N°	Component Indicators	Score (0 to 3)	Remarks
1	Relevance and Achievement of Objectives	2	The Programme was consistent with the Government's LDP and the PFP. The themes of human and private sector development, which are at the core of poverty reduction, were addressed.
i)	Macro-economic Policy	Not Relevant	The Programme was predicated on a sound macro-economic framework. There were no specific conditions relating macro-economic policies as it was the IMF which was monitoring the macro-economic performance benchmark under the ESAF.
ii)	Fiscal policies, including public expenditure allocations	2	Strengthening of public financial management ways one of the key policy actions under the programme. The focus was to improve funding of priority sectors and increase the level of domestic financing of the development expenditure. This objective has been achieved.
iii)	Poverty Reduction	2	The Programme laid emphasis on the improvement of primary education and preventative and primary health services through higher expenditure allocation, and decentralization.
iv)	Private sector development	1.5	Privatization and banking sector reform gave private sector participation impetus. However, policy measures are needed to make PSD more inclusive so that indigenous Tanzanians can benefit from the process, specifically the provision of micro-finance and micro-credit.
2	Institutional Development (ID)	2	Institutions and processes for monitoring the reforms are in place. These include the PER and quarterly sector review meetings
i)	Institutional Framework including Public sector restructuring	2	The Programme laid emphasis on the delegation of authority to districts to improve accountability. The other positive institutional change was privatization to improve the efficiency of key enterprises. PERs are being carried out regularly, and a rolling Medium-Term Expenditure Framework (MTEF) is in place. The overall economic reform program is well-coordinated and well monitored.
ii)	Financial and Management Information Systems including Audit Systems	2	An Integrated Financial Management System (IFMS) has been introduced to improve the management and control of public finances. All ministries, departments, agencies (MDA) and 35 districts now use the IFMS. Capacity building in financial management at the district level is underway .
3	Sustainability	2	There is greater Government commitment to reform, and the reform process is, therefore, likely to be sustained in the medium term.

i)	Continued Borrower Commitment	3	Commitment to reform exists at all levels of the political leadership. All opposition parties ran on a platform of continued reform during the election of November, 2000. Lack of good governance (financial accountability and corruption), however, is a major concern.
ii)	Environmental Policy/viability	1.5	The environmental impact of privatization would require closer attention in the future. There is an Environmental Protection Agency but its capacity to analyze the long-term environmental effect of the policies would need to be assessed
iii)	Institutional Framework	2	There is regular formal and informal dialogue on the reform among government agencies and with the development partners.
iv)	Technical capacity and Staffing	2	The key staff managing the reform are capable but are over-stretched. The problem of capacity is more acute at the local government level.
v)	Financial Viability including cost recovery systems	2	The capacity to manage the public resources is improving while partial cost recovery has been extended to drugs. Raising government revenue from the current level remains a challenge. A high proportion of the development and recurrent expenditure is financed by donors, and this is likely to be the case in the medium-term.
vi)	O&M funding (availability of recurrent funding, foreign exchange, etc.)	2	With the introduction of regular annual PERs and the MTEF, the allocation of resources for O&M, particularly in priority sectors has improved. But, due to limited revenue collection, O&M is not yet fully funded.
	TOTAL	2.0	
	Overall Assessment of Outcome	Satisfactory	The Programme was consistent with the government's development policies geared to poverty reduction. It was also, in line with the Bank Vision. Moreover, a high level of commitment and ownership of the Programme was demonstrated by Government. The prospects for sustainability of the Programme in the short- to the medium-term are favourable. There is, however, the problem of attribution, i.e. what portion of the results are attributed to ADB's intervention

SAL Implementation Performance

Component indicators	Score (0 to 3)	Remarks
1. Adherence to Time Schedule	1.2	As per the Appraisal Report, the release of 3 rd tranche was scheduled for 31/12/98. The closing date was 31/12/99. After one extension, the 3 rd tranche was released on 15/6/2000, and the account closed on 30/6/2000.
2. Adherence to cost Schedule	Not Relevant	
3. Compliance with Covenants	1.3	Quarterly reports were not submitted in a timely manner. Performance with respect to audit reports was better.
4. Adequacy of Monitoring & Evaluation and Reporting	2.2	Programme monitoring by the Government was adequate. The ADF relied mostly on supervision missions, the PER and sector review meetings for programme monitoring.
5. Satisfactory Operations (if applicable)	Not Relevant	
TOTAL	1.6	
Overall Assessment of Implementation Performance	Satisfactory	Implementation of the program went smoothly. Except for delays in the privatization of parastatals, most policy actions were implemented as per the agreed schedule.

Bank Performance

Component Indicators	Score (1 to 4)	Remarks
1. At Identification/Preparation	2	The Programme reflected the Government's Letter of Development Policies and the PFP (1996/97-1998/99) Efforts were made, from the outset, to harmonize SAL I to the World Bank's SAC. Hence the conditions were identical, though the tranching arrangement was different. Bank involvement in programme was not supported by any economic/sector work. Also, linkages with the Bank's sector operations was not strong or explicit.
2. At appraisal	2	The SAR was well prepared and adequate. The programme, was rather ambitious with regard to privatization.
3. At Supervision	2	Three supervision missions, including a mid- term review mission were carried out. Supervisions would have been more effective if the team included social sector specialists. The borrower had difficulties meeting the Bank's disbursement procedures, which it found cumbersome and time consuming.
Overall Assessment of Bank Performance	Satisfactory	The policies advanced through the Programme were relevant to Government's long-term development goals and the ADF VII policies and the subsequent Bank Vision Statement. The resources provided through the loan helped to meet part of the shortfall in the external and budgetary financing requirements. The level of co-ordination with the other multilateral and bilateral donors was also generally adequate. But in future, efforts should be made to undertake joint missions with other development partners to reduce the transaction costs on Government.
Overall SAL performance	1.9	Satisfactory

SAL I PCR Recommendations and Follow-Up Matrix

MAIN FINDINGS & CONCLUSIONS	LESSONS LEARNED/RECOMMENDATIONS	FOLLOW-UP ACTIONS	RESPONSIBILITY
Formulation & Programme Rationale	<ul style="list-style-type: none"> É Create more synergy and complementarity between the sector operations, PBLs and TAS É Limit the scope of PBLs to ensure effective monitoring; É Continue to harmonize PBL to other multi-lateral donors but critically examine the relevance and advisability of the policies in light of current circumstances of the country concerned; É Take account of the government's implementation capacity at the stage of preparation and appraisal; É Consult with all stakeholders affected by a PBL before putting the policy actions to be taken; É Shift from specific conditions to broader goals and outcomes e.g. improvement in service delivery and social outcomes É Shift from setting conditions to a combination of rewards and conditions É Increase the effectiveness of Bank involvement in the macro-economic and policy dialogue process. 	<ul style="list-style-type: none"> É Conduct economic & sector Studies É Establish a field presence in the country 	<p>OCDE/FSPR</p> <p>CDs</p>

Programme Implementation	<p>ÉStudy the opportunities of shifting from BOP to budgetary support. Engage in basket funding in one sector on a pilot basis;</p> <p>ÉExercise flexibility e.g. changing the sequence of conditions during implementation or introducing floating arrangements;</p> <p>ÉImprove communication between Head Quarter and the client</p> <p>ÉMake disbursements more predictable, thereby establishing closer relationship between disbursements and government's budget;</p>		OCOD/CDs
Compliance with Loan conditions & Covenants	ÉTo submit progress reports more regularly.	ÉReview the disbursement procedures for PBLs. Study the opportunities and constraints to budget support	CDs/FLAD/OCOD Borrower
Performance Evaluation & Programme Outcome	<ul style="list-style-type: none"> • Re-define role/inter-relationship of supervision & mid-term reports; • Bank PBL monitoring arrangement should be mainstreamed with existing country led arrangements. • Having separate mechanisms for reporting on ADB operations is no longer necessary. 	<p>ÉMid-term review to be undertaken for programmes with a two to three year period.</p> <p>ÉHarmonize monitoring with World Bank s</p> <p>ÉSeek to enforce regular reporting by borrower</p>	CDs OCDE OCDE
Sustainability	<p>ÉImprove understanding of the environmental impact of the reforms (e.g. privatization, fuel pricing, etc.) and support programs to reduce any adverse effects;</p> <p>ÉMake the reform programme more inclusive and empowering to the endogenous Tanzanians (i.e. improving agricultural productivity, entrepreneurship development, labor-based public works, share ownership, etc.);</p>	<p>ÉLaunch studies on the environmental impact of policy reforms</p> <p>ÉConduct studies and identify ways of supporting the informal sector, and small and medium businesses</p>	OESU/FSPR/OCDE Borrower(s) OCDE/OPSD/FSPR Borrower(s)

Map of Tanzania



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