

**AFRICAN DEVELOPMENT BANK
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Policy Based Lending Operations

Appraisal Report

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**AFRICAN DEVELOPMENT
BANK GROUP**

**PROGRAM: POVERTY REDUCTION SUPPORT LOAN III
COUNTRY: TANZANIA**

APPRAISAL REPORT

Date: September 2008

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Currency Equivalents*As of 2 September 2008*

| | | |
|-------|---|-------------|
| UA1 | = | US\$1.57 |
| US\$1 | = | Tsh1,228.85 |

Fiscal Year

Fiscal year beginning 1 July – 30 June

Acronyms and Abbreviations

| | |
|---------|---|
| ADB | African Development Bank |
| ADF | African Development Fund |
| AIDS | Acquired Immunity Deficiency Syndrome |
| BEST | Business Environment Strengthening for Tanzania |
| BOT | Bank of Tanzania |
| BRU | Better Regulation Unit |
| CCM | Chama cha Mapinduzi (Tanzania's ruling party) |
| CEO | Chief Executive Officer |
| CIDA | Canadian International Development Agency |
| CPAR | Country Procurement Assessment Report |
| CSP | Country Strategy Paper |
| DAC | Development Assistance Committee |
| DANIDA | Danish International Development Agency |
| DAWASA | Dar es Salaam Water and Sewerage Authority |
| DfID | Department for International Development |
| EAC | East African Community |
| EC | European Commission |
| EPZ | Export Processing Zone |
| FY | Fiscal Year |
| GBS | General Budget Support |
| GDP | Gross Domestic Product |
| GGCU | Good Governance Coordination Unit |
| GoT | Government of Tanzania |
| HBS | Household Budget Survey |
| HIPC | Heavily Indebted Poor Country Initiative |
| HIV | Human Immunodeficiency Virus |
| IDA | International Development Association |
| IFMS | Integrated Financial Management System |
| IMF | International Monetary Fund |
| LGAs | Local Government Authorities |
| LGRP | Local Government Reform Program |
| MDAs | Ministries, Departments and Agencies |
| MDGs | Millennium Development Goals |
| MoID | Ministry of Infrastructure and Development |
| MTEF | Medium-Term Expenditure Framework |
| NAO | National Audit Office |
| NGOs | Non-Governmental Organisations |
| PAF | Performance Assessment Framework |
| PE | Procuring Entities |
| PEFA | Public Expenditure and Financial Accountability |
| PER | Public Expenditure Review |
| PFMRP | Public Financial Management Reform Program |
| PO-RALG | President's Office-Regional Administration and Local Government |
| PPA | Public Procurement Act |
| PPRA | Public Procurement Regulatory Authority |
| PRS | Poverty Reduction Strategy |
| PRSC | Poverty Reduction Support Credit |

| | |
|------|---|
| PRSL | Poverty Reduction Support Loan |
| PSRP | Public Service Reform Program |
| SAL | Structural Adjustment Loan |
| SDC | Swiss Development Cooperation |
| SGR | Strategic Grain Reserve |
| SIDA | Swedish International Development Agency |
| TRA | Tanzania Revenue Authority |
| TRC | Tanzania Railway Corporation |
| TTCL | Tanzania Telecommunications Company Limited |
| Tsh | Tanzania Shilling |
| UA | Units of Account |
| UK | United Kingdom |
| UNDP | United Nations Development Program |
| URRP | Urgent Road Rehabilitation Program |
| URT | United Republic of Tanzania |
| US\$ | United States Dollar |

Loan Information

Client's information

BORROWER: Government of the United Republic of Tanzania

EXECUTING AGENCY: Ministry of Finance and Economic Affairs

Financing plan for 2008/2009

| Source | Amount (UA, million) | Instrument |
|-------------|----------------------|------------|
| ADF | 60.0 | Loan |
| Denmark | 11.7 | Grant |
| EU | 29.0 | Grant |
| Finland | 13.6 | Grant |
| Ireland | 13.6 | Grant |
| Japan | 10.7 | Loan |
| Germany | 7.2 | Grant |
| Netherlands | 27.2 | Grant |
| Norway | 30.0 | Grant |
| Sweden | 6.7 | Grant |
| Switzerland | 3.6 | Grant |
| UK | 118.2 | Grant |
| WB | 93.7 | Loan |

ADF key financing information

| | |
|---------------------|--|
| Loan Currency | Unit of Account (UA) |
| Repayment currency | In currency of disbursement selected by the borrower at signature among SDR currencies basket: (US\$, EUR, GBP, JPY) |
| Maturity | Up to 50 years |
| Grace period | Up to 10 years |
| Principal Repayment | 1% (from year 11 through year 20) 3% (thereafter) |
| Service charge | 0.75% of the principal amount disbursed and outstanding on semi-annual basis |
| Commitment fee | 0.5% on the undisbursed portion |

Timeframe - Main stepping stones (expected)

| | |
|-----------------------|---------------|
| Concept Note approval | June, 2008 |
| Appraisal | July 2008 |
| Program approval | October 2008 |
| Effectiveness | November 2008 |
| First Disbursement | November 2008 |
| Second Disbursement | July 2009 |
| Completion | December 2010 |

Program Executive Summary

| | |
|---------------------|---|
| Program | Poverty Reduction Support Loan III (PRSL III) |
| Borrower | Republic of Tanzania |
| Implementing Agency | Ministry of Finance and Economic Affairs |
| Amount | UA100 million |
| Terms | ADF loan: up to 50 year maturity, with 10 year grace period |
| Program period | Two fiscal years ending 30 June 2010 |
| Number of Tranches | Two tranches (1 per fiscal year) |
| Program Description | <p>The objective of the program is to enhance accountability and transparency in the allocation of public resources. The PRSL III will cover the period 2008 to 2010. The main pillars of the program are: (i) Enhanced Public Financial Management through: strengthened procurement practices, audit functions, and enhanced revenue mobilisation and (ii) Improve performance of infrastructure sector through better governance in the road sub-sector. The program is aligned with Tanzania's Poverty Reduction Strategy, the Bank's Joint Assistance Strategy (JAST), and the Governance Strategic Directions 2008-2012. In the memorandum of understanding between the GoT and the budget support donors, the PAF provides the framework for evaluating progress, setting out results indicators, selected policy actions, and review processes.</p> |
| Program Benefits | <p>The PRSL III will support government efforts in the implementation of its Poverty Reduction Strategy, with a focus on government institutions that aim to ensure accountability, transparency and fiduciary control in the allocation and management of public expenditures. In particular, it will contribute to enhancing the functions of: external auditing, regulatory arrangements and public procurement and tax revenue collection. Support to the road sub sector will strengthen the role of key implementers of road programs across the country.</p> <p>Tanzania's population will benefit from better public financial management that will translate into more resources for the delivery of essential goods and services. The processes and reforms supported will help to stimulate growth and poverty reduction.</p> |

| | |
|--------------|--|
| Risks | <p>Implementation capacity: Inadequate implementation capacity in key government institutions could delay progress and adversely impact the efforts of the program. Mitigating measures in place include ongoing Bank-funded projects such as the Institutional Support project, and the proposed PRSL III that will strengthen procurement reforms and increase transparency of financial management systems in the context of the PFMRP III. Existing weak PFM Information Management System lead to delays and even errors in the preparation of the budget execution affecting spending across all sectors. Within PFMRP III, the MoFEA, is working on enhancing its IFMIS, and strengthening the function of the Program Office that supports this oversight role. This will be enhanced by a strategic review that will be required to define business requirements of IFMIS across the government.</p> <p>Energy and food crises: The current global energy and food crisis pose a significant risk to the program. The increase in global prices that translates into higher costs for Tanzanians implies reduced agricultural production capacity and less disposable income for access to basic goods and services. The Bank and other partners are addressing the food crisis, by scaling up assistance for rapid agricultural production, and helping to finance the funding gap created by unplanned public expenditures, that will also help reduce the macro economic pressures from higher oil prices.</p> <p>Corruption – financial mismanagement: Recent corruption allegations have revealed cases of misappropriation of public funds by government officials. This has however been addressed in a very responsive way by government, and monitored closely by development partners. Evidence of progress in implementing the External Payment of Arrears action plan as a prerequisite to first disbursement (being done by all GBS partners), is further encouraging government’s responsiveness.</p> |
|--------------|--|

RESULTS BASED LOGICAL FRAMEWORK

| HIERARCHY OF OBJECTIVES | EXPECTED RESULTS | REACH | PERFORMANCE INDICATORS | INDICATIVE TARGETS TIMEFRAME | ASSUMPTIONS / RISKS, AND MITIGATING MEASURES |
|---|--|---|--|--|--|
| <p><u>Goal:</u></p> <p>Contribute to poverty reduction in Tanzania</p> | <p><u>Long term impact:</u></p> <p>Improved social and economic well being of the population</p> <p>Improved management of public financial resources</p> | <p><u>Beneficiaries:</u></p> <p>Tanzanian population as a whole</p> | <p><u>Impact Indicators:</u></p> <p>- Increase in Gross Domestic Product (GDP) per capita</p> <p>- Improved Human Development Index (HDI)</p> <p>- Improved Country Policy and Institutional Assessment (CPIA)</p> <p><i>Source: Household budget and labour surveys</i></p> | <p><u>Progress anticipated in the long term</u></p> <p>- GDP per capita to increase from \$359 in 2007 to \$400 in 2008, and \$480 in 2009</p> <p>- HDI to rise from \$ 618 in 2007/08 by 15% in 2010</p> <p>- CPIA increase from 7.6 in 2007, to 8.4 in 2008 and 9.2 in 2009</p> <p><i>Source: Annual country portfolio review Human Development report,</i></p> | <p><u>Assumption statement:</u></p> <p><i>Assumption</i>-Political and economic stability, and continued government commitment to poverty reduction strategy</p> <p><i>Risks</i>-Major shocks or disasters such as drought, or instability from the region</p> <p><i>Mitigation</i>- Emergency response mechanisms in place established by government (from 1990)</p> |
| <p><u>Program purpose:</u></p> <p>Support provided to the implementation of the national poverty reduction strategy</p> | <p><u>Outcomes:</u></p> <p>(i) Improved PFM accountability and transparency of national systems and processes</p> <p>(ii) Enhanced strategic direction for the mobilisation of non tax revenue</p> <p>(iii) More efficient implementation of procurement procedures</p> <p>(iv) Strengthened external audit function</p> <p>(v) Enhanced road sector</p> | <p><u>Beneficiaries:</u></p> <p>Tanzanian population benefiting from delivery of basic goods and services</p> <p>Road users</p> <p>Private sector</p> | <p><u>Outcome indicators:</u></p> <p>Improved PEFA score for 2009/2010</p> <p>Improved condition of trunk and regional roads, and increased construction of road networks</p> | <p><u>Progress anticipated in the medium term</u></p> <p><u>Timeframe:</u> by November 2010</p> <p>(i) PEFA score for competition, value for money and control in procurement increased from B to A</p> <p>(ii) PEFA score for scope, nature and follow up of external audit increased from C+ to B+</p> <p>(iii) Non tax revenue as % of GDP to increase from 0.8% in 2007 to 2%</p> <p>(iv) Condition of road networks</p> | <p><u>Assumption statement:</u></p> <p><i>Assumption</i>- Continued government support to its PFM and Infrastructure reform agenda. Ongoing collaboration with development partners</p> <p><i>Risks</i>- GBS partners do not deliver on financial commitments and government does not execute budget effectively</p> <p><i>Mitigation</i>-Increasingly participative GBS annual reviews with all stakeholders, for greater</p> |

| | | | | | |
|---|---|---|---|---|---|
| | governance framework | | | poor to reduce from 14% in 2006 to 10% <i>Source: PEFA 2009/2010</i> | accountability. PFMRP III, emphasises predictability of budget funding |
| <u>Inputs and activities</u> | <u>Short term outputs</u> | <u>Beneficiaries</u> | <u>Medium term outcome indicators</u> | <u>Progress anticipated in the short term: by June 2009</u> | <u>Assumption statement:</u> |
| I. Enhanced PFM through: (A) enhanced revenue mobilisation | I(i) Analysis of current non tax revenue collection and recommendations (ii) A needs assessment of MDAs to achieve identified areas of revenue extraction (iii) Review of legal framework of the established Executive agencies related to revenue extraction | Tanzanian population as a whole MoFEA NAO/ TRA/PPRA/ TANROADS/ Mol officials | I.A Completed Study on non tax revenue in Tanzania | I. (A) Domestic revenue as % of GDP to increase to 18.5% from 16.7% in 2007/2008 | <i>Assumption-</i> Government commitment to decentralizing functions and enhancing the institutional capacity of key agencies related to program. <i>Risk-</i> Constraints in institutional capacity to implement reforms. Lack of data and information for effective monitoring of activities. Financial mismanagement. |
| (B) strengthened procurement practices | (B) Procurement practices are more transparent and in line with PFMRP III objectives | | B. Progress in level of compliance of PE's with PPA | (B) Progress in level of compliance of PE's to the PPA to increase to 63% from 44% in 2008 | <i>Mitigation-</i> Ongoing government led capacity building initiatives. Updated IFMIS expected. Demonstrated government commitment to implementing EPA action plan. |
| (C) strengthened audit functions | (C) The expanded NAO function is strengthened and decentralized to MDAs and LGAs | | C. Effectiveness of Public Audit Act | (C) The NAO to reach level 3 on AFROSAIE capability scale from level 1 in 2007 | |
| II. Improved performance in infrastructure through better performance in the road sub | II. An independent TANROADS | | II. Appointment of Board members and establishment of an independent TANROADS | II. Delays to implement road project by TANROADS reduced by 50% <i>Source: Annual review report 2007/2008,</i> | |

**REPORT AND RECOMMENDATION OF THE MANAGEMENT OF
THE ADB GROUP TO THE BOARD OF DIRECTORS ON
A PROPOSED LOAN TO TANZANIA FOR
THE POVERTY REDUCTION SUPPORT LOAN III (PRSL III) PROGRAM**

I- THE PROPOSAL

Management submits the following report and recommendations on a proposed two tranche operation to finance the Bank's third Poverty Reduction Support Loan (PRSL III) in Tanzania. The proposed loan amount of UA 100 million will be disbursed to cover two fiscal years ending June 2010. The program is in line with the country's National Strategy for Growth and Reduction of Poverty (also known as the MKUKUTA), and the first pillar of the Bank's Joint Assistance Strategy (JAST) for 2006-2010. The program is also aligned to the priorities of the Bank's Governance Strategic Directions for 2008-2012.

II – COUNTRY AND PROGRAM CONTEXT

2.1 Government overall development strategy and medium-term reform priorities

2.1.1 Tanzania reviewed its Poverty Reduction Strategy (PRS) in 2004. It was one of the first countries to prepare a second generation of PRS which was approved by Government in 2005. It is now in its third year of implementing its Poverty Reduction Strategy (*MKUKUTA*)¹ that spans over five years, 2005/06 – 2009/10. The strategy outlines the Government's medium term development agenda and sets out the priorities and targets. This is Tanzania's second poverty reduction strategy and it is anchored in three complementary pillars, namely: (i) Growth and reduction of income poverty; (ii) Improved quality of life and social well-being, and; (iii) Governance and accountability.

2.1.2 The first pillar aimed at promoting sustainable and broad based growth underlines the importance of improving macro-economic stability as well as, achieving higher levels of efficiency and competitiveness in all productive sectors, expanding trade services and access to markets. It also focuses on improving the business environment needed to attract private investment. The second pillar encompasses, education, health, water and sanitation, social protection and the environment. The non-income side of the PRS is guided by two broad outcomes of improving the quality of life and social wellbeing especially among the most vulnerable, and reducing geographic, income, age and gender inequalities. The third pillar aims to achieve four broad outcomes of: good governance and the rule of law; enhanced accountability of leaders and public officials to citizens; social and political tolerance and democracy and; sustained political stability and national unity.

2.1.3 The MKUKUTA which is consistent with the objectives of the Millennium Development Goals (MDGs), draws from the longer term Vision 2025 for Tanzania, that identifies the kind of enabling environment essential for the country to prosper socially, economically, politically and culturally. The three core objectives identified within the vision of achieving a good quality life for all, promoting good governance and the rule of law and building a strong and resilient economy, are expected to offset the major challenges to Tanzania's development that include: donor dependence, and the lack of ownership over the development agenda; weak and low capacity for economic management; poor governance

¹ Derived from the Swahili title of the program: Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania.

and weak national institutional structures; and weak national implementation monitoring and evaluation mechanisms.

2.2 Recent economic-social developments, perspectives and constraints

2.2.1 Macro economy: Implementation of a comprehensive reform program that begun in the mid 1980s has boosted economic activity in Tanzania leading to high rates of economic growth. Inflation rose from 4.3% in 2002 to 7.3% in 2006, however this declined to 7.1% in 2007. The exchange rate to the dollar in 2007 was 1,245.0 falling slightly from 1,251.9 in 2006. Real GDP growth rate averaged 7.2% between 2002 and 2006, but have since remained steady at about 6.7% in 2006 and 7.3% in 2007. The future outlook is encouraging with GDP growth expected to maintain the same momentum, at 6.5% in 2008 and 6.7% in 2009. However, the recent increases in world fuel and food prices have raised concerns over the possibility of consistent growth rates. Inflation rates have risen from 6.8 in 2006 to 7.6 in 2007 also as a result of hiked global prices. Since February 2007 Tanzania has implemented a reform program under a 3 year IMF Policy Support Instrument (PSI), following the successful completion of the Poverty Reduction and Growth Facility (PRGF) program in December 2007. Good progress in macroeconomic management has been evidenced by Tanzania's graduation to the PSI status.

2.2.2 Poverty and quality of life indicators: Despite improvements in Tanzania's macroeconomic situation, income and non-income poverty remain a concern. GDP per capita was estimated to be US \$ 359 in 2007, about less than half that of sub-Saharan African average of US \$ 989. According to the UNDP 2007/08 Human Development Report, Tanzania scored 0.467 on the Human Development Index or ranked 159 out of 177 countries in 2005.

2.2.3 The second progress report on the MDGs for Tanzania (December 2006) shows mixed progress. Tanzania is on track to achieve the MDGs on universal primary education (2) and reduction of child mortality (4). Trends in HIV/AIDS infection rates have also been decreasing, reaching 6.5% in 2005 down from 8% a decade earlier². Government commitment, good policies and increased resources have contributed to this progress. However challenges remain, especially in terms of quality of service delivery, and the weak management and planning capacities at the national and local levels.

2.2.4 Private sector development and export industry: The GoT emphasizes the private sector as a key partner in Tanzania's poverty reduction strategy, underscored by the high political commitment to the Tanzania Private Sector Foundation, chaired by the Head of State. Foreign Direct Investment (FDI) to Tanzania has also been strong, estimated at US\$475 million during 2006 and forecasted by the Tanzania Investment Centre (TIC) to rise to US\$550 million in 2007, about 3% of GDP growth. Efforts to address structural constraints to private sector development have yielded positive results in areas such as the streamlining of business licensing and registration requirements, legal and judicial reforms and access to finance. In the World Bank's Doing Business Indicators, Tanzania has improved from 142nd position out of 175 countries in 2006 to the 130th position out of 178 countries in 2007. Poor infrastructure in transport, communication and energy however, continue to be significant bottlenecks to sustained investment in the country.

2.2.5 Road Sector Development: Recent transport sector reforms have included the establishment of regulatory authorities, semi-autonomous agencies and the privatization of various operations. Current efforts by Government of Tanzania (GoT) are geared towards

² UNAIDS, 2007 HIV AIDS epidemic update for sub-Saharan Africa

ensuring that the transport sector effectively contributes to economic growth and poverty reduction in the country. In 2006, Tanzania had a road network of about 85,500 km out of which 4,741 km were paved with bitumen surface. The existing network needs improving both in terms of the construction of new roads and the maintenance of existing networks. The first phase of the 10 year Road Sector Development Program (RSDP) for the period 2001/02-2005/06 had an emphasis on providing a safe and efficient road network for the trunk and regional roads. The Second Phase of the RSDP is planned to be implemented from 2006/07 to 2010/11, and includes construction and maintenance works for trunk and regional roads, as well as institutional development initiatives for regulatory authorities.

2.2.6 Political context: Presidential and Parliamentary elections were held in December 2005, and the new President and ruling party *Chama cha Mapinduzi* won 80% of the vote and 206 out of 236 parliamentary seats. The new government came with a fresh mandate and strong support for reforms that are now driving Tanzania's economic and political agenda.

2.2.7 Governance: According to the World Bank's Governance indicators for 1997-2007, Tanzania's performance on the six governance dimensions³ is improving and remains above the 30 percentile rank among the countries surveyed. Since 2004, Voice and Accountability and Political Stability and Violence have improved slightly, while Government Effectiveness, Regulatory Quality, and the Rule of Law have remained unchanged. Aggregate indicators on the Control of Corruption saw a sharp improvement in performance between 2005 and 2006, and this has remained unchanged since 2006.

2.2.8 Though improvements have been made in governance indicators in Tanzania, challenges remain. Concern was raised about the credibility of the government run audit accounts following the findings of the special audit of the External Payment Arrears (EPA) conducted in 2007 indicating that about US\$100 million was irregularly paid out of the EPA account of the Bank of Tanzania (BoT). The GoT has been commended by the donor community for its prompt response, leading to the development of an action plan to address this issue, and the resignation of the Prime Minister and three Ministers. General Budget Support (GBS) partners have been closely monitoring progress in implementation of the EPA action plan.

2.2.9 Local Government Reform Program (LGRP): This program initiated in the mid 1990's addresses fiscal and service delivery decentralisation, where Local Government Authorities (LGAs) play a major role in service delivery. A major achievement of the program has been fiscal decentralisation with the adoption of financial transfer formulas under a harmonised Local Government Capital Development Grant System adopted in 2004. Although LGA expenditure has witnessed increased funding in the past three years, the budget process at the local level is not as transparent and easily comprehensible as would be desired. Major challenges in the LGRP include: weak capacity and accountability in public expenditure; reluctance in central Ministries, Departments and Agencies (MDAs) to relinquish primary service delivery responsibilities; generation of own LGA revenues; staffing budgeted positions (especially in remote areas).

2.2.10 Public sector reform: Since 1998 the GoT has undertaken a series of reforms in Public Financial Management (PFM) to improve performance and increase accountability and transparency in the public sector. The GoT has adopted a 'platform approach' to establish a logical sequence of PFM reform requirements, and this has informed the design of time

³ i) Voice and Accountability, ii) Political Stability and Lack of Violence/Terrorism, iii) Government Effectiveness, iv) Regulatory Quality, v) Rule of Law, and vi) Control of Corruption

bound phases. The first phase of the PFM Reform Program (PFMRP I), from 1998 to 2003, focused on minimizing resource leakages, strengthening financial controls and enhancing accountability, by reforming budget process and introducing the computerized Integrated Financial Management System (IFMS). The concentration was on delivering aggregate *fiscal discipline*, which was largely achieved.

2.2.11 The PFMRP II (2004-2008) was aimed at *modernising systems* and tools used in best practice PFM to promote strategically prioritised resource allocation. It concentrated on the second target of PFM, that of allocative efficiency, and provided the GoT with a stronger base for PFM accountability.

2.2.12 The GoT is now implementing the PFMRP III (2008 – 2010) aimed at enhancing predictability and availability of medium term resources for MDAs and LGAs, by 2010. The strategy for PFMRP III will be to *operationalise best practice tools* and techniques in order to enhance PFM delivery. As well as taking into account the main challenges of PFMRP II, the GoT has adopted a holistic view in its implementation of PFMRP III that aims to strengthen its strategic direction, and increase synergies with existing government policy and institutional frameworks. Whereas the Ministry of Finance and Economic Affairs (MoFEA) is responsible for spearheading the PFMRP, other actors contribute to the success of the program. Oversight bodies such as the National Audit Office (NAO), the Public Procurement Regulatory Authority (PPRA), the Tanzanian Revenue Authority (TRA) and the Tax Revenue Appeals Board (TRAB) and Parliament are the main institutions in the PFM cycle with functions that are critical to achieving PFMRP objectives.

2.3 Bank Group activities in Tanzania

2.3.1 The Bank's assistance for the period 2006-2010 is focused on two of the three pillars of the MKUKUTA: (i) Growth and reduction of income poverty and; (ii) Improvement of the quality of life and well being. Tanzania is the largest beneficiary of ADF XI resources with an allocation of UA404 million, as a result of continued high CPIA ratings (3.93, 3.96 and 4.07 for 2005, 2006 and 2007 respectively). Previous budget support operations include the Poverty Reduction Support Loans (PRSL) I and II that were successfully disbursed in September 2005 and July 2007 respectively, in single tranches, each amounting to UA50 million. Areas of focus for GBS partner's in 2008/2009 are summarised in Annex 2.

III- KEY DESIGN ELEMENTS

3.1 Link with the CSP, analytical work underpinnings and country readiness assessment

3.1.1 **Link with the CSP:** The Bank Group's Strategy for Tanzania for 2006-2010, approved by the Boards in May 2007, is set out in the Joint Assistance Strategy for Tanzania (JAST)⁴, the Joint Program Document (JPD) and the accompanying Cover Note. The JAST clearly identifies GBS as the preferred aid modality, as it allows for full integration of donor support into government systems and alignment with the MKUKUTA implementation. The

⁴ The JAST MOU was signed on 05 December 2006 by the Government and 19 participating development partners namely the AfDB, Belgium, Canada, Denmark, EC, Finland, France, Ireland, Japan, Germany, Netherlands, Norway, Spain, Switzerland, UK, UN, United States of America and the World Bank.

JPD also recognizes the benefits of GBS in terms of strengthening ownership and domestic systems for the management and implementation of the MKUKUTA. In line with the JAST and the JPD, the Cover Note that details the Bank Group's specific approach makes the case for provision of budget support as one of the modalities of providing assistance to Tanzania. It recognises that the Bank Group has embarked on strengthening its field office with the requisite staff numbers and skills mix to enable the staff to engage effectively in dialogue, to track the discussions across sectors and thematic areas and, to contribute effectively in areas of Bank Group interest.

3.1.2 Analytical work underpinnings: With regards to analytical work that strengthen accountability systems, both the Public Expenditure and Financial Accountability (PEFA) assessment and the Public Expenditure Review (PER) were undertaken for Tanzania in 2006. The PEFA instrument measures current progress in the national PFM system, using a common framework for monitoring performance that includes 28 indicators covering 6 key dimensions of the PFM systems and 3 indicators on donor practices. The PFM RP III uses the PEFA format as the basis for an annual assessment for internal progress monitoring and outcomes. The findings in 2006 indicated that in comparison to other African countries, Tanzania scores about 35% higher on the total PEFA score. (ref. Annex 10). The last Country Procurement Assessment (CPAR) for Tanzania was done in 2003. This was replaced with an assessment of Tanzania's Procurement systems undertaken in 2007 that made recommendations for the improvements in the: (i) the legislative and regulatory framework; (ii) institutional framework and management capacity; (iii) procurement operations and market practices, and; (iv) integrity of public procurement system.

3.1.3 Country readiness assessment: As shown in Table 1, Tanzania adequately meets the general and technical prerequisites for GBS.

Table 1: Summary assessment of the prerequisite conditions

| Prerequisite conditions | Focus | Comments on current situation |
|-------------------------|---|---|
| General prerequisites | <ul style="list-style-type: none"> ▪ Political stability | Overall Tanzania ranks among the most politically stable countries in Africa. Regular national and local elections are generally considered to be fair and term limits have been respected by all Presidents. The major concern relates to the political situation in Zanzibar, where the ruling and the main opposition party are in a close contest for power. |
| | <ul style="list-style-type: none"> ▪ Economic stability | Tanzania has in recent years enjoyed economic stability, grounded in macro-economic stability and far-reaching structural reforms. |
| Technical prerequisites | <ul style="list-style-type: none"> ▪ Existence of well designed PRSP or NDP | According to the Joint Staff Advisory Note undertaken by the IMF and World Bank in 2006, Tanzania's current national strategy for growth and reduction of poverty, the MKUKUTA, covering the period 2005-2010 provides a coordinated and solid framework for tackling poverty and directing external aid resources to priority poverty reduction programs. |
| | <ul style="list-style-type: none"> ▪ Availability of resources over the medium term period | Over the medium term, Government aims at increasing revenue collection to 20% of GDP by implementing significant revenue measures detailed in the Tanzania Revenue Authority's (TRA) new 5-year corporate business plan. Domestic revenue is expected to be complemented by external financing, and development partners are routinely requested to indicate their contributions over the MTEF horizon. |
| | <ul style="list-style-type: none"> ▪ Viable macro-economic and financial framework | The IMF completed the third review of the three-year Policy Support Instrument (PSI) for Tanzania in May 2008 and noted that continued implementation of sound macroeconomic policies has contributed to sustained robust economic growth. The Fund also noted that the Government has initiated measures aimed at strengthening public accountability, including a |

| | | |
|--|---|--|
| | | request for a voluntary safeguards assessment of the Bank of Tanzania. |
| | <ul style="list-style-type: none"> ▪ Strong partnership between RMC and donors | The JAST that came into place in 2006 provides a strong framework for donor coordination and partnership. One of its major objectives is to improve national ownership of development programs through aligning donor support to national priorities and government policy frameworks. |
| | <ul style="list-style-type: none"> ▪ Strong partnership among donors | The Development Partners' Group (DPG) is the main forum for coordination among donors at the country level and meets on a monthly basis. Within this group, there is the General Budget Support Group, comprising a subgroup of the 14 donors that provide direct budget support to the Government. |
| | <ul style="list-style-type: none"> ▪ Effective implementation mechanisms | The Government and GBS donors have agreed to keep track of their performance relative to jointly agreed indicators, targets, and actions listed in the Performance Assessment Framework. Monitoring and dialogue processes follow an annual review process aligned with the Government's planning, budgeting, and MKUKUTA review cycles. All formal performance assessments are undertaken jointly by the Government and GBS donors. |

3.2 Collaboration and coordination with other donors

3.2.1 The loan was prepared and appraised in close coordination with other donors that are providing budget support to Tanzania. These include the World Bank, which is participating through its Poverty Reduction Support Credit (PRSC) and 12 bilateral donors. The bilateral donors include Canada, Denmark, Finland, Germany, Ireland, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the European Union. The Bank with support from the Tanzania Field Office (TZFO), will continue the coordination with the other donors by participating in the joint annual reviews, which offer a forum to evaluate the overall progress in implementation that the Government is making towards the goal of poverty reduction as well as the specific policy actions.

3.3 Bank's comparative advantage

3.3.1 The unique feature of this operation, in contrast to financing of traditional stand-alone projects, is that it will enable the Bank to contribute to the overall resource envelope available for the implementation of Tanzania's MKUKUTA across all three clusters⁵. The PRSL III sector priorities (Economic and Financial Governance and Infrastructure) are areas where the Bank is exercising a leadership role in its Regional Member Countries (RMC's), in terms of its regional mandate and its capacity to deliver. In infrastructure the Bank is at the forefront of policy dialogue in the sector working group, and is one of the highest investors amongst development partners in the sector. Since adopting its Governance Strategic Directions and Action plan in May 2008, the Bank has also streamlined its approach to its work on governance, anchoring its focus on public financial management. In doing this it has scaled up its resources and reoriented its policy and institutional actions to respond to the challenges in key PFM reforms areas. The Bank has the experience to date, of having supported 7 policy based operations and 6 institutional support projects that have incorporated elements targeted at enhancing the transparency and accountability of public institutions.

3.3.2 The Bank's role as incoming chair of the GBS donor group in April 2009 will strategically position it during implementation of the PRSL III, to meaningfully influence key process and policy decisions related to budget expenditure and allocation of resources in Tanzania.

⁵ MKUKUTA three pillars include; (1) Growth and reduction of poverty; (2) Improvement of the quality of life and social well being and; (2) Governance and Accountability.

3.4 Outcomes of past and ongoing similar operations and lessons

3.4.1 This is the third General Budget Support that the Bank is providing to Tanzania. The performance of the previous two operations in terms of meeting the objectives has been satisfactory. The main lessons include the need to: (i) consider borrower's implementation capacity when designing conditionalities to avoid slippages which can hold back the flow of resources and undermine the credibility of the program; (ii) limit the number of conditionalities; (iii) be more selective in areas of intervention; and (iv) emphasise the importance of Economic and Sector Work (ESW) to be conducted in parallel. These lessons learnt emanated from the PCR's for the PRSL I completed in May 2007, and the PRSL II that has recently been finalised. The loan for PRSL II was subject to ten conditions, and three of these had to be waived as a result of changes in government that led to the restructuring of key ministries. The GoT has confirmed that it has fulfilled two of these conditions and is making progress in the remaining one⁶.

3.4.2 These lessons have been taken into account in the design of the PRSL III, mainly through adoption of a two tranche operation and focusing on a few areas. The first tranche will be disbursed based on the prior conditions already fulfilled during the 2007 GBS review, and on the principle of rewarding past satisfactory performance. This effectively means that the crucial conditions pertain to the disbursement of the second tranche and these are limited to two (on PFM and Infrastructure). Discussions with Government during appraisal indicated that there is strong commitment and substantial progress has already been made in meeting these undertakings.

3.5 Relationship to on-going Bank's operations⁷

3.5.1 The PRSL III aims at creating synergies with the Bank's on-going portfolio that includes support for infrastructure (roads and energy), agriculture, social sector (education and health), water, and public finance management (procurement reform). The operation is designed to leverage reforms aimed at strengthening the policy environment for the effectiveness of ongoing interventions. While the Bank-supported projects in roads, energy, and water are helping to boost the government's infrastructure investment program, the PRSL III will complement that support by strengthening the policy, legal and regulatory environment.

3.5.2 In the infrastructure sector direct synergies will be created with: (i) Singida Babati Minjingu road upgrading project; and (ii) the Road Rehabilitation and Upgrading project, through the support to reforms in the road sub-sector. The focus on issues relating to PFM is linked to the Bank's ongoing support to procurement reform through the Institutional Support project for Good Governance launched in 2006. This will also provide the opportunity to work with other donors to address the outstanding challenges in the area of coordination and strengthening the PFMRP III. The focus on revenue mobilization in the PRSL III will furthermore lead to an increase in resources and ultimately enhance delivery of goods and services throughout the country.

⁶ Conditions of PRSL II waived: (1) Undertake a review in 2006 of the Infrastructure sector – *achieved*; (2) Submit national water sector development strategy to cabinet – *achieved* (3) Submit revised Water Sector Legislation – *in progress* - The revised Water Sector Legislation was discussed by the Cabinet Secretariat who requested some amendments; these have already been effected and will be discussed in the Inter-Ministerial Technical Committee with a target to submit the water sector legislation bill to the Parliament in November 2008. The delay in submitting the legislation to Parliament was unavoidable as the legislation had to wait until the NWSDS is approved in order to incorporate all directives in the strategy.

⁷ See Annex 8 Ongoing Bank operations.

IV – THE PROPOSED PROGRAM AND EXPECTED RESULTS

4.1 Objectives of the Program

4.1.2 The goal of the proposed loan is to provide the GoT with direct budget support to assist in implementing its Poverty Reduction Strategy. The implementation of the strategy will also help in realizing the MDGs in Tanzania, and in promoting sustainable economic growth and development. The objective of the program is to enhance accountability and transparency in the allocation and management of public financial resources. The program objectives will focus on selected policy actions and reforms that contribute towards Tanzania's public sector management reform agenda. These include: (i) effective Public Financial Management (PFM) reforms related to revenue mobilisation, procurement practices and audit functions; and (ii) performance of the infrastructure sector through better governance in the road sub sector.

4.1.3 The Bank will ensure harmonisation of its activities with GBS partners. In accordance with the PAF for 2008, under which development partners subscribing to GBS have agreed upon, PRSL III will support key reform measures being implemented by the GoT aimed at:

- (i) Enhancing PFM through:
 - Improved mobilisation of non-tax revenue through support to the implementation of Tanzania's Tax Revenue Authority (TRA) third Corporate Plan.
 - Strengthened procurement practices within the increasingly decentralised Public Procurement Regulatory Agency (PPRA)
 - Strengthened audit functions by reinforcing the capacity of the National Audit Office (NAO)
- (ii) Improving performance of the infrastructure sector through better governance in the road sub-sector by enhancing the independence of the Tanzania Roads Authority (TANROADS) and its institutional functions.

4.1.4 The expected results of this program, will support the GoT in strengthening the capacity and the internal governance structures of key institutions and agencies that determine the predictability, availability and effective use of public resources.

4.2 Program pillars components and expected outcomes

4.2.1 The areas of focus of this program are drawn from the priority areas outlined in the 2008/2009 Performance Assessment Framework (PAF) and respond to elements identified for the Bank and the GoT as described in the JAST and the MKUKUTA. They have been selected taking into account the recent progress in policy and institutional reforms that have been achieved by the GoT, as well as the remaining gaps and constraints that limit the pursuit of key development objectives.

4.2.2 Important lessons learnt from previous PRSL's (I and II) underscored the need to reduce the number of conditions for disbursement, and the need for selectivity and focus on a few areas. These lessons have been taken into account in the design of the PRSL III. Two of the sub-components described below have been tied to benchmarks that will be monitored closely throughout the program period (these will not be triggers for disbursement, but measures of progress in key reform areas). The remaining sub-component and component will be linked to specific conditions that will be triggers for disbursement; these will be tied to focus areas that are priorities to the Bank. Table 2 below summarises the design feature of benchmarks and conditions for the PRSL III:

Table 2: Benchmarks and Conditions

| 1st Disbursement | <i>Condition (trigger for disbursement)</i> | <i>Rationale</i> |
|--|---|---|
| | 1. Overall satisfactory performance of the PAF as evidenced by the Joint Aide Memoire of the November 2007 GBS annual review | This prior condition will reward past performance and enable quick disbursement of the first tranche. |
| | 2. Opening and notification by the GoT to the Bank of a foreign currency account at the Bank of Tanzania into which the proceeds of the loan will be deposited. | As required for all Bank operations. |
| | <i>Benchmarks (measure of progress)</i> | |
| | 3. Implementation of the (three) recommendations from the EPA action plan ⁸ | There is a need to harmonise approach to GoT's response to corruption allegations with other GBS donors. |
| 2nd Disbursement | <i>Condition(s) (trigger for disbursement)</i> | |
| | 1. Overall satisfactory performance of the PAF as evidenced by the Joint Aide Memoire of the November 2008 GBS annual review | This will allow the Bank to remain harmonized with other GBS partners. The condition is also an important measure of overall performance of Budget support. |
| | 2. Improvement in the level of compliance of Procuring Entities with the Procurement Act from 39% to 49% | <ul style="list-style-type: none"> ▪ Significant room for improvement in procurement compliance. ▪ Public procurement is a priority area in the Bank's governance strategic directions for 2008-2012. ▪ Complimentarity to ongoing Bank operation (ISP), which will reinforce the expected impact of the intervention. |
| | 3. Appointment of TANROADS Board members | <ul style="list-style-type: none"> ▪ The Bank's mandate and leadership role in the sector. ▪ Performance of existing stock of infrastructure projects needs to be improved. The program will be complimentary to ongoing road sub sector operations. |
| | <i>Benchmarks (measure of progress)</i> | |
| | 4. Final draft of the study on non tax revenue by the MoFEA | Revenue mobilisation is an increasingly important focus area for the Bank. It is currently being led by other development partners on the ground. |
| | 5. Regulations for the new Public Audit Act are prepared and approved by the MoFEA | A key part of the PFMRP III reform, that has made steady progress. |

⁸ The Government has already fulfilled this benchmark by making good progress in the three recommendations of the action plan

Pillar I: Enhanced Public Financial Management through – increased revenue mobilisation, strengthened procurement practices and audit functions⁹

1A Increased Revenue mobilisation

4.2.3 The Tanzania Revenue Authority (TRA) is the main government agency responsible for mobilizing and collecting tax revenue in Tanzania. TRA's activities and reforms are outlined in its medium term Corporate Plan. The main successes in the implementation of the second and most recent corporate plan (2003/4 to 2007/8) included integration of VAT and tax operations; customs modernization; strengthening of the large taxpayers' department; review of various tax laws, procedures and regulations; development of a taxpayers charter, and establishment of stakeholders forums and staff training on specialized skills. A total of 70 reform initiatives were planned, and, as at June 2008, TRA had implemented 95%. These achievements, contributed to the collection of net funds amounting to Tsh 2,577 billion from July 2006 to June 2007, which compares to the targeted revenue collection of Tsh 2,314 billion.

4.2.4 The TRA aims to create linkages between government requirements and resource needs through 88 initiatives in its third Corporate plan for 2008/2009 – 2012/2013. With development partners financing Tsh8 billion (UA4.1 million) of the cost of administering the Corporate Plan, the TRA still has a funding gap of Tsh210 billion (UA107.7 million). Efforts to increase Tanzania's tax and non-tax revenue base, will be guided by the strategic goals of the plan to: (i) increase revenue collection; (ii) modernize TRA operations; (iii) provide high quality and responsive customer service; (iv) promote voluntary tax compliance; and (v) enhance staff performance and management systems.

4.2.5 A key government objective (emphasized during the June 2008 budget speech) is to increase domestic revenue from 16.7% of GDP in 2007/2008 to 18.5% in 2008/09. The target for 2013 is 20.3% of GDP. The contribution of non tax revenue to the domestic revenue basket needs to be increased, especially given existing opportunities for improvement, mainly in the natural resource sector. It is estimated that non-tax revenue as a percentage of GDP declined from 1.1% in 2006 to 0.8% in 2007, and the target by the end of the third Corporate plan is 3%.

4.2.6 Increasing mobilization of non-tax revenue from natural resources (fisheries, minerals, oil and gas) is highlighted as a target indicator within the joint government and donor performance assessment framework, and is incorporated as a strategic objective in TRA's third corporate plan. There is however a lack of information and strategic direction on how this resource base will be expanded in the medium to long term. The MoFEA is recruiting a consultant to undertake a study, which will have the following objectives:

- Analysis of current non-tax revenue collection and recommendations on potential areas for new or increased revenue extraction, (taking into consideration international best practice);
- Needs assessment of MDAs to achieve identified areas of increased revenue extraction and;
- Review of the legal framework of the established Executive Agencies relating to revenue collection and reporting. This will take into consideration the Executive Agencies Act (1997) and provide recommendations for improvement.

⁹ See Annex 3 for expected outcomes and objectives of pillar

4.2.7 The study will help to identify measures to increase non-tax revenue to the identified targets. It will also contribute to the collection of data needed for future planning and tracking of progress in this area. This activity is expected to contribute to reforms underway in PFMRF III targeting more accurate and improved cash forecasting, and the expansion in the medium term, of revenue streams that are under exploited.

4.2.8 **Benchmark : Final Draft of the Study on non-tax revenue by the Ministry of Finance and Economic Affairs** . This process indicator has been agreed upon between the Government and the Bank as a measure of Government's commitment to implementing reforms related to non-tax revenue as outlined in TRA's Corporate Plan. It will demonstrate progress towards the 2008/9 PAF indicator of increased total value of revenue received from concessions and licenses (for the forestry sector) as a percentage of their estimated value¹⁰.

4.2.9 **Planned actions:** The Government will be assessed on its success in attaining the above benchmark. The Bank will engage in policy dialogue with government and other donors that are supporting this area, with the intention of guiding discussions and decisions that will lead to better resource management and optimisation of non tax revenue. These efforts should help improve revenue performance and increase domestic resources on a sustainable basis to finance public investments. With GBS estimated at 38% of all aid going to Tanzania in 2006/07, this reform area is expected to contribute to reducing the country's aid dependence¹¹. Under this program the Bank will support policy actions aimed at promoting more transparent and accountable reporting systems for license and concessions allocation to key sectors (fisheries, minerals, oil and gas).

1B Strengthened procurement practices

4.2.10 Procurement of goods and services is an important activity in the Tanzanian central government, comprising an estimated 70% of the government budget. Improving procurement operations in MDAs and LGAs is a key output and objective under PFMRF III. Currently, procurement planning and implementation at the level of MDAs and LGAs, and the implementation capacity of Procuring Entities (PEs) is weak, but improving. Procurement audits (at the time of the GBS annual review in November 2007) showed that of the 20 PE's audited, overall performance compliance with the procurement Act was 39% with 5 achieving over 50%. This compares to a compliance rate of 44% during appraisal in July 2008. (ref. Annex 5). In some cases the existing PMUs are not adequately staffed and some staff lack appropriate procurement qualifications.

4.2.11 The strengthening of procurement decentralization to the MDAs and LGAs is underway. Enactment of the Public Procurement Act (PPA) in 2004 was an important milestone in initiating these reforms, by fully decentralising procurement functions to PEs and establishing the Public Procurement Regulatory Authority (PPRA). The PPRA plays an important role in monitoring procurement practice for improved accountability to ensure adherence to public procurement rules. Reforms were also enhanced by Government fully operationalising the Public Procurement Appeals Authority (PPAA), with a function of resolving complaints and disputes arising from the procurement process. Progress towards PFM reforms are demonstrated by the PEFA exercise of 2007 with an improved score for competition, value for money and control in procurement. Furthermore in accordance with the 2007/2008 PAF, PPRA formulated its procurement indicators on the basis of OECD-DAC indicators in 2008.

¹⁰ PAF 2008/9 target to increase from 4-15% in 2007 to 25% in 2008

¹¹ Official Development Assistance (ODA) to Tanzania has steadily increased in the last five years, rising from about 6% of GDP in 1999/00 to 11% in 2004/05.

4.2.12 The major challenges being faced in procurement were highlighted in the national assessment of procurement systems carried out in 2007, that suggest strengthened reforms in areas related to the: (i) legislative and regulatory framework; (ii) institutional framework and management capacity; (iii) procurement operations and market practices and; (iv) the integrity of public procurement systems. The PPRA is in its third phase of implementing procurement reforms under the PFMRP, and it has requested the GoT to assist in consolidating its achievements, and addressing its remaining challenges, linked to (i) capacity constraints that have expanded in the increasingly decentralised structure, especially with regard to PMUs; (ii) weak reporting and monitoring functions of procurement activities; and (iii) inadequate procurement management information systems. An estimated Tsh20.6 billion (UA10.7 million) is required by the PPRA to implement these measures, which will help to achieve its 2010 target of 80% compliance by PEs to the PPA act.

4.2.13 **Condition: Improvement in the level of compliance of Procuring Entities (PE) with the Procurement Act from 39%¹² to 49%.** This condition, which is in line with the PAF targets for 2008/2009, will be a trigger for disbursement of PRSL III's second tranche for FY 2009/10. Achieving this target will be an indicator of improved efficiency by implementing agencies.

4.2.14 **Planned actions:** The Bank's proposed program will support measures to enhance national procurement practices in the context of the PFMRP III. This is expected to increase the average level of compliance of PEs with the Procurement Act, for more transparent and accountable delivery of goods and services by MDAs and LGAs. It will also serve to improve implementation progress of the Bank's portfolio in Tanzania which is currently constrained by severe procurement problems. Support to ongoing reforms through the program will assist in improving procurement planning and implementation through the existing capacity building strategy. Ongoing government reforms targeting procurement capacity building, the roll out of procurement information systems and the development of policy frameworks for enhanced coordination of activities, will be closely monitored through participation in the PFM working group. This sub pillar of the PRSL III, will create important linkages with the Institutional Support Project for Good Governance launched in 2006.

1C Strengthened audit functions

4.2.15 The NAO's mission is to provide efficient audit services that enhance accountability and value for money in the collection and use of public resources. Efforts to fulfil expectations of this mission were noted during the GBS annual review of November 2007 when for the second time in a row, the NAO was able to submit its report within the 9 month statutory deadline. The government's formal response to the report, and the subsequent discussion on the recommendation proposed by the Control and Auditor General (CAG), were also commendable. On 7 July 2008, the parliament of Tanzania passed the Public Audit Bill, a development expected to contribute to increased institutional capability and effectiveness of the NAO function. Furthermore, various reforms are being undertaken and will enable Tanzania to transition from a level 1 on the AFROSAIE capability scale to level 3 by November 2010 GBS review (ref. Annex 6). Ongoing reforms have strengthened the following areas: (a) the independence of the NAO from the Ministry of Finance and Economic Affairs; (b) the role of the Parliamentary Accounts Committee (PAC); (c) adoption of improved salary scheme to address the challenge of staff retention; (d) the establishment of a new organisational structure, and; (e) a strengthened role of the CAG.

¹² Target indicator reached during 2007 GBS review

4.2.16 There are however issues of establishing NAO's independence that remain, and this pertains especially to NAO's required funding that is still subject to determination by the MoFEA. In addition their offices are in the auditee's premises. Lastly, NAO officers are part of the civil service and thus subject to the civil scheme of service, which impairs their independence as auditors. Enactment of the Public Audit Bill will reinforce NAO's independence and strengthen its function. Limited access of the public to audited reports of public bodies is a concern. (These are currently submitted directly to the boards of the respective bodies). Publication and debate of public audit reports would enhance transparency and accountability of this process. Expansion of the audit function, introduced with the new act, calls upon greater support to the enhancement of the capacity and the role of the NAO, and better decentralisation of reforms to the LGAs.

4.2.17 Benchmark: Regulations for the new Public Audit Act are prepared and approved by the MoFEA. This is a process indicator for the 2008/2009 PAF. It will contribute to NAO's ability to achieve Level 3 of the 'AFROSAIE capability model' and demonstrate actualisation of reforms for an expanded NAO function. This will be assessed during the GBS annual review in November 2008, and the evidence will be the finalisation and submission of the Regulations for the Act by the MoFEA.

4.2.18 Planned actions: The Bank through PRSL III will support the reforms being undertaken by the NAO. A more independent NAO, with strengthened institutional capacity, will promote better financial reporting and management of public resources. Through participation in the donor working group and policy dialogue, the Bank will: encourage government to provide timely responses to audit reports; support expansion of services to incorporate forensic audit, public debt, and payroll audit; support capacity building initiatives especially with regard to the recommendation for improvement in internal auditing; and support implementation of the audit component under the PFM RP III.

4.2.19 Pillar 2: Improve Performance of Infrastructure Sector through better Governance in the Road sub-Sector¹³

4.2.20 Phase I of the Transport Sector Investment Program (TSIP) that was jointly financed by the GoT and the development partners, targeted the road sub-sector. Total allocation to the road sub-sector increased from US\$215.5 million in 2004/05 to US\$415.1 million in 2005/06. During this period, other modes of transport, namely railways, ports and airports used internally generated funds for capital expenditures with minimum support from the government and donor community. Phase II of the TSIP (2007/08 - 2011/2012) takes on board all modes of transport: roads, air, railways and marine transport. The total investment cost of the entire program is estimated at US\$6.2 billion, with the road sub-sector, remaining a priority for the GoT, taking 69% of the total cost, or US\$4.3 billion.

Table 3: TSIP phase II cost estimate

| | Program Component | Total (US\$ Million) |
|---|--------------------------|-----------------------------|
| 1 | Roads | 4,274.9 |
| 2 | Air transport | 303.3 |
| 3 | Railways | 946.5 |
| 4 | Marine transport | 456.8 |
| 5 | Institutional support | 157.6 |
| 6 | Cross cutting issues | 53.5 |
| | Grand total | 6,192.5 |

¹³ See Annex 4 for expected outcomes and objectives of pillar

4.2.21 Out of the estimated US\$ 6.2 billion, US\$ 2.48 billion (40%) has already been committed, leaving a funding gap of US\$ 3.71 billion (60%) to be bridged by government revenues, donor assistance, loans from financial institutions and the private sector. Effective use of resources allocated to this sector will be reliant on improved preparation processes and close supervision of project implementation by well equipped staff.

4.2.22 The Tanzanian National Roads Agency (TANROADS) is a semi-autonomous agency that reports to the Ministry of Infrastructure Development, with an advisory board established under the Executive Agency Act of 1997. It was established in July 2000 to take over the responsibility of management, development and maintenance of mainland trunk and regional roads. The aim of TANROADS is to provide cost-effective and sustainable maintenance and development of all trunk and regional road networks amounting to 28,892 km, to support the socio-economic development of Tanzania¹⁴. It also manages operations of the weighbridges and provides technical assistance to road authorities. Enhancing its function is an integral part of the TSIP's reform agenda. Establishing a more independent Board is an important step to enhance the effectiveness of the agency that will facilitate the implementation of key road development activities in line with the new Roads Act 2007¹⁵. The Roads Act was a significant step towards achieving some of the desirable key reforms related to the road sub-sector, namely an independent roads authority. Benefits associated with supporting an independent TANROADS include: (i) greater autonomy and accountability that will accelerate decision making processes especially in institutional capacity building decisions, and; (ii) reduced potential for negative interference or influence in the sector.

4.2.23 TANROADS may have improved the condition of the road networks from 50% poor in 2000 to 14% in 2006. However institutional constraints within the agency remain a challenge. This relates to the low numbers of experts compared to the workload, which affects the speed of project preparation and implementation. A skills gap exists in almost all areas of expertise including design, contract and project management and enhanced business management systems and practices. The agency is a vital institution that has been receiving increasingly large amounts of public funds being directed to the road sub-sector. Greater independence of the Board and the TANROADS as an institution is likely to increase effectiveness, accountability and transparency in the utilization of these resources.

4.2.24 Condition: Appointment of all the members of the TANROADS Board in accordance with the Roads Act 2007. This condition is in line with the PAF targets for 2008/2009 and will be the trigger for the PRSL III's second disbursement. The Bank will expect confirmation by the Ministry of Infrastructure and Development (MoID) of the nomination of Board members. Evidence should be in the form of official communication to the Bank from the MoID. Appointment of the Board is expected to increase TANROADS independence and tighten its governance framework for greater effectiveness accountability and transparency in the utilisation of resources dedicated to the road sub-sector.

4.2.25 Planned actions: This component of the PRSL III will contribute to strengthening the Bank's currently weak management of the infrastructure portfolio in Tanzania by supporting the ongoing road sector operations. Three out of the four road sector projects with a total of about 485 km of road construction are managed by TANROADS. The projects are the multinational Kenya / Tanzania Arusha – Namanga – Athi River road rehabilitation

¹⁴ The remaining 56,180 km of urban and rural roads network is the responsibility of the office of the President's Office of Regional Administration and Local Government, and other road authorities

¹⁵ The new Roads Act 2007 (No 13 of 2007) Part III section 9 mentions the establishment of the TANROADS board. Its functions are in section 10.

project, the Road Rehabilitation and Upgrading (Kagoma – Lusahunga road) project and the Singida-Babati-Minjingu road upgrading project. The Bank will remain engaged with the GoT and development partners through the Infrastructure Sector Working Group, and will support capacity building initiatives and the establishment of an enhanced and independent TANROADS board through policy dialogue. The reforms supported under this operation and underpinned in the Roads Act (2007) will help to deliver the Road Sector Development Program¹⁶ objectives that calls for more effective and sustainable road networks in Tanzania. This will contribute to greater socio-economic development within the framework of the poverty reduction strategy and the consolidation of the Bank's leadership in the Infrastructure sector.

Implementation of EPA Action Plan

4.2.26 The EPA action plan includes 18 recommendations from the Special Audit. In the GBS partners' communication of 11 April 2008 to the MoFEA on the 2008/09 commitments, development partners confirmed that disbursements will be subject to satisfactory progress in three action points. To harmonise the Bank's approach with the GBS partners, these will be included as benchmarks for PRSL III, to be assessed prior to disbursement of the first tranche and monitored during the GBS annual review in November 2008.

4.2.27 **Benchmarks:** Progress in three recommendations of the EPA action plan that include: (i) The report of Presidential Task Team investigating the EPA, demonstrating to the GBS partners that the investigations are credible and will lead to concrete outcomes; (ii) The timeline for finalising the investigation of four cases of corruption¹⁷ linked to the Bank of Tanzania (BoT), and; (iii) The 2006/2007 audit of the BoT made public once it has been presented to Parliament. Progress along these prerequisites have been closely monitored by development partners in Tanzania, and briefings to GBS donors by the Minister of Finance and Economic Affairs have been held on monthly basis. The Presidential Task Team Report has been submitted to the President and made public. Furthermore positive progress has been made in determining time bound action plans for the four corruption cases. The 2006/7 BoT audit report has already been presented to the Parliamentary Committee on Public Organisations (POC) for eventual submission to Parliament. Confirmation of disbursement commitments for FY 2008/09 by donors was held-up for almost four months until July 2008, owing to the EPA corruption allegations with the Bank of Tanzania. As a result of positive progress established on the three recommendations, GBS partners have confirmed that they will start disbursing their commitments in September 2008.

4.2.28 The annual review in November 2008 will determine the common approach to be taken by GBS partners in the next fiscal year (2009/2010), and this will be the basis for the Bank's continued engagement in issues related to the implementation of the EPA action plan in the second year of the Bank's PRSL III.

¹⁶ Road Sector Development Program is in its second phase of implementation for 2006/07 – 2010/11

¹⁷ (i) BoT twin tower (ii) Alex Stewart Assayers (iii) Mwananchi Gold deal and (iv) Meremeta/Tangold.

4.3. Financing needs and arrangements

4.3.1 In 2006/2007, Tanzania received considerable debt relief through the Multilateral Debt Relief Initiative (MDRI) and the Highly Indebted Poor Countries Initiative (HIPC). As a result, the country's external debt stock reduced to US\$4.9 billion (about 31% of GDP), at end-June 2007. This was nearly 44% below the June 2006 debt stock. A joint IMF-World Bank analysis in July 2007, concluded that Tanzania's external debt will remain sustainable as long as the current account deficit is financed on highly concessional terms. The Government has agreed to refrain from non-concessional external borrowing.

4.3.2 During the fiscal year 2008/09, Government expenditures are estimated at Tsh7,216 billion, out of which recurrent expenditure is Tsh4,726 billion which is fully covered by the estimated domestic revenue of Tsh4,728 billion. Table 4 below summarises the budget frame for 2008/09.

Table 4: Budget Frame for 2008/2009

| | Revenue | Shillings in billion |
|-------------|---|----------------------|
| A. | Domestic Revenue | 4,728.6 |
| | (i) Tax Revenue | 4,497.1 |
| | (ii) Non-tax Revenue | 231.5 |
| B. | Foreign Loans and Grants including MDRI/MCA(T) | 2,429.5 |
| C. | Sale of Shares | 58.0 |
| | Total Revenue | 7,216.1 |
| EXPENDITURE | | |
| D. | Recurrent Expenditure | 4,726.7 |
| | (i) Public Debt | 648.3 |
| | (ii) Ministries | 2,478.1 |
| | (iii) Regions | 85.7 |
| | (iv) Local Governments | 908.8 |
| | (v) Special Expenditures | 364.4 |
| | (iv) Wages & Salaries adjustment | 241.4 |
| E. | Development Expenditure | 2,489.5 |
| | (a) Domestic Resources | 938.4 |
| | (b) External Resources | 1,551.1 |
| | Total Expenditure | 7,216.1 |

Source Ministry of Finance and Economic Affairs : Budget speech June 12, 2008

4.3.3 Development expenditure is estimated at Tsh2,489 billion, out of which Tsh1,551 billion (about 64%) will be provided by the development partners through projects and basket funds. The remaining 36% (938.380 billion) will be covered by general budget support and the surplus from domestic revenue. Multilateral donors (the African Development Bank, World Bank and the European Union) will contribute 41% of the total GBS and the bilateral donors will contribute 59%.

Table 5: Donor contributions for GBS for FY 2008/2009

| Source | Amount | | Share of total % |
|------------------|--------------|--------------|------------------|
| | UA million | Tsh billion | |
| IDA | 93.7 | 182.9 | 22.5% |
| ADF | 50.0 | 97.5 | 11.9% |
| EU | 29.0 | 77.8 | 6.9% |
| Bilateral donors | 244.5 | 476.9 | 58.6% |
| Total | 417.2 | 835.1 | 100% |

4.4 Program beneficiaries

4.4.1 The PRSL III is designed to support the GoT to implement its Poverty Reduction Strategy. The program will benefit the government institutions that are directly tasked with accountability, transparency and fiduciary control in the allocation and expenditure of public resources. In particular, it will contribute to enhancing the functions of: external auditing, regulatory arrangements and public procurement and tax revenue collection. Support to the road-sub sector will strengthen the role of key implementers of road programs across the country. The people of Tanzania will benefit from better public financial management that will translate into more resources for the delivery of essential goods and services and improved quality. The processes and reforms supported will help to stimulate growth, reduce poverty and foster greater economic integration.

4.5 Impact on Gender

4.5.1 The Country Gender Profile (2005) for Tanzania conducted by the Bank Group notes that the GoT has made significant efforts to mainstream gender concerns in its development policies and strategies. However, the country still faces large gender gaps in most of the human development indicators. As a response, the GoT has commissioned the Tanzania Gender Network Program (TGNP) to sensitize the budget process through the Gender Budget Initiative (GBI). This has led to the training of several key government officials involved in budget preparation. The MoFEA promoted the GBI in other ministries by training about 300 officials mainly Members of Parliament, budget officers and planners, gender focal points and officials from the President's Office. Furthermore, the 2006/07 budget guidelines, for the first time, required government institutions to include gender mainstreaming targets in their submissions. This demonstrates commitment on the part of government to strengthen gender-responsive budgeting. It also suggests that resources provided through the PRSL III, will be applied equitably to women, men and children in Tanzania.

4.5.2 It is recognised that there is inadequate analytical capacity in the MoFEA and the Ministry of Community Development Gender and Children, to establish the gender gaps, develop indicators and tools for more gender-responsive budgeting. The Budget Department in the MoFEA, is seeking a consultant to undertake a study and develop a manual on the gender gaps¹⁸. The final report is expected in June 2009. This is expected to promote more efficient and equitable allocation of resources; introduce gender data segregation; and enhance sustainable gender-sensitivity in budget reforms. With the implementation of the findings of the study, the second fiscal year of the Bank's PRSL III (2009/2010), is expected to have an even greater impact on women, men and children in Tanzania.

4.6 Environmental Impact

4.6.1 This is a policy-based operation, and therefore does not have direct environmental impacts. It falls under category 3 of the Bank's environmental classification. It is important to note that the environment is a key priority under the second pillar of the MKUKUTA.

¹⁸ The World Bank, UNIFEM and the Swiss Cooperation are supporting this exercise.

V. – IMPLEMENTATION, MONITORING AND EVALUATION

5.1. Implementation arrangements

5.1.1 **Executing Agency:** The MoFEA is the executing agency for the program. However, for most of the program areas, dialogue will be carried out on a continuous basis within the sectors or thematic programs.

5.1.2 **Procurement Arrangements:** National procurement systems and procedures will apply. These systems have been reviewed and are satisfactory.

5.1.3 **Disbursement Arrangements:** The ADF loan will be disbursed in two tranches. The first tranche of UA 60 million will be disbursed in 2008/9 and the second of UA 40 million in 2009/10. Frontloading the loan, is aimed to supporting the GoT in its efforts to address to the food crisis¹⁹. The Government will be required to provide a common GBS account at the Bank of Tanzania into which the funds will be disbursed. The funds will subsequently be transferred to the Treasury to support the budget. The Government will provide evidence of receipt of funds in the special account and the transfer of funds to the Paymaster General Account. Disbursement will not be linked to any specific purchase.

5.1.4 **Audit Arrangements:** The Government has undertaken to provide all GBS Partners with the annual audit report of the Controller and Auditor General on the Public Accounts of Tanzania. The annual report will be availed to the GBS Partners after its submission to Parliament (due nine months after the end of the fiscal year). As a member of the GBS partnership, the Bank Group will have access to the report.

5.2. Monitoring and evaluation

5.2.1 **Institution responsible:** The Partnership Framework Memorandum signed by the GoT and the GBS Partners in January 2006 mandates both parties to monitor their performance relative to jointly agreed indicators, targets, and actions drawn from the PAF. The Tanzania Field Office maintains close contact with the MoFEA and will therefore play this role for the Bank.

5.2.2 **Information system:** Information and analysis for the annual review will be drawn primarily from the MKUKUTA monitoring system, and other underlying review processes outlined in the PAF. These review processes will provide the main avenues for detailed discussion and dialogue, while the Annual Review will bring the analysis together and provide the opportunity to identify key issues for further dialogue.

5.2.3 **Monitoring:** Supervision will take place in close collaboration with other donors and be consistent with the MKUKUTA review mechanism. For most of the program areas, supervision and dialogue will proceed on a continuous basis within the sectors or thematic programs. The Bank will participate in the joint GBS Annual Review (normally held in November), for the overall assessment of progress in each of the program areas. In addition, Civil Society Organizations (CSOs) and the Private Sector participate in the annual Consultative Group Meeting, normally held around April/May before finalization of budget preparations, in which past and future Budget priorities and performance are reviewed.

¹⁹ Tanzania is not benefiting through the Bank's Africa food Crisis Response Framework, however it remains vulnerable to the crisis (classified in the third quartile of the Bank's vulnerability assessment)

5.2.4 Results monitoring of budget support is constrained by the unavailability or low frequency of some of the critical outcome indicators (such as poverty estimates, health outcomes, or education achievements). The national poverty survey to be completed at the end of 2008 and the demographic and health survey planned for 2009 will provide important data to assess progress on the outcome indicators.

5.2.5 **Evaluation:** The PRSL III will be evaluated under the PAF for general budget support. Under the Memorandum of Understanding signed by the government and the budget support donors, the PAF constitutes the single and coherent framework for evaluating progress, setting out results indicators, selected policy actions, and review processes. The PAF focuses primarily on a small number of indicators that allow an assessment of overall progress and the definition of local processes that provide the forum for in depth policy dialogue on which the GBS facility can draw.

VI – LEGAL INSTRUMENTS AND AUTHORITY

6.1 Legal Instruments

6.1.1 The legal document that will be executed in relation to the program is the Loan Agreement. Also part of the legal documentation related to the PRSL III, is the Joint Assistance Strategy Memorandum of Understanding signed between the Government of Tanzania and 19 development partners in December 2006.

6.2. Conditions associated with Bank's intervention

6.2.1 Entry into force of this loan shall be subject to the fulfilment of the provisions of section 5.01 of the general conditions.

6.2.2 The Loan shall be disbursed in two tranches of UA 60 million and UA 40 million for the fiscal years 2008/09 and 2009/10 respectively. The condition of the first tranche is linked to prior actions met during the 2007 GBS review. In line with best practice principles of GBS operations and based on lessons from previous PRSLs, this operation will reward past satisfactory performance and enable quick disbursement. This will be linked to PRSL III's priority areas. In order to harmonise its approach to government with GBS partners, the benchmark for disbursement of the first tranche relates to progress made in government's implementation of the EPA action plan (see section 4.2.27). As evidenced by the GBS partners, this has been reached. Conditions precedent to the first disbursement will be:

General

- (i) Opening and notification by the GoT to the Bank of a foreign currency account at the Bank of Tanzania into which the proceeds of the loan will be deposited.
- (ii) Satisfactory performance of the PAF as evidenced by the joint Aide Memoire of the November 2007 GBS review (with particular reference to fulfilment of four PAF indicators linked to the PRSL III pillars, ref. annex 7)

6.2.3 Conditions for the second tranche are derived from the PAF for 2008/09 (ref. annex 9), and are linked to the priority areas outlined in the program (section 4.2.13 and 4.2.24). Two benchmarks will be assessed prior to disbursement of the second tranche (section 4.2.8, and section 4.2.17). Disbursement of the second tranche will be conditional upon submission of evidence satisfactory to the Fund of:

General

- (i) Satisfactory performance of the PAF as evidenced by the joint GBS annual review report of November 2008.

Specific

- (i) Appointment of all the members of the TANROADS Board in accordance with the Roads Act 2007.
- (iii) Improvement in the level of compliance of Procuring Entities (PE) with the Procurement Act from 39%²⁰ to 49%.

6.3. Compliance with Bank Policies

6.3.1 This program complies with all applicable Bank policies and guidelines, these include:

- (i) The General Budget Support Guidelines; (ii) The Bank's Joint Assistance Strategy on Tanzania; and (iii) The Bank's Governance Strategic Directions and action plan for 2008-2010.

VII RISK MANAGEMENT

7.1 Implementation capacity: Inadequate implementation capacity in key government institutions could delay progress and adversely impact the efforts of the program. Further, the fact that Tanzania has been undertaking a decentralization program poses additional capacity constraints both at the Centre and in the decentralized entities. This is particularly so in the area of administrative and procurement capacity of public institutions. Mitigating measures in place include the ongoing Bank-funded projects such as the Institutional Support Project (ISP) which is strengthening the public procurement regulatory authority that aims to be of international standards. The project entails establishing the agency, appointing the Board and Chief Executive Officer, recruiting and training staff in procurement issues and providing appropriate IT infrastructure. The project will also support capacity development of the Judiciary in Zanzibar. It is part of a wider program that is supported by other donors who are providing basket funds to support capacity enhancement in PFM. The existing weak PFM Information Management system which is not adequately integrated, risks leading to delays and errors in the preparation of the budget execution affecting spending across all sectors. Within PFM III, the MoFEA, is working on enhancing its IFMIS, and strengthening the function of the Program Office that supports this oversight role. This will be enhanced by a strategic review that will be required to define business requirements of IFMIS across the government.

7.2 Corruption-financial mismanagement: The mismanagement of public financial resources could lead to loss in the credibility of the budget process. The GoT has strived to fight corruption and promote greater transparency and accountability in the use of public resources. This has been demonstrated by the special audit conducted on the Bank of Tanzania, which inspired the development of an action for the External Payment of Arrears. Implementation of the recommendations from this action plan, is being closely monitored by all GBS partners. Efforts are ongoing to strengthen other key oversight bodies such as the NAO, the PAC and the Parastatal Organisation Committee.

²⁰ Target indicator reached during 2007 GBS review

7.3 Energy and food crises: The current global energy and food crisis pose a significant risk to the program. Tanzania relies on imports of oil for its manufacturing and transport industries, it also imports some of its key agricultural inputs such as fertiliser. The increase in these global prices would translate into higher costs for Tanzanians, leading to possible inflationary pressures which pose a threat to the macro-economy. The increased prices may also lead to reduced agricultural production capacity and less disposable income which could reduce access to basic goods and services and general welfare as a whole. This is likely to undermine the overall performance of the economy and reduce the impact of the program.

7.4 The Bank and other partners are addressing the higher food and oil prices, by scaling up assistance for rapid agricultural production, and helping to finance the funding gap created by unplanned public expenditures, that will also help reduce the macro economic pressures from higher oil prices. The Bank is currently implementing 3 projects in the agricultural sector which will help mitigate the impact of higher food prices by enhancing agricultural production in the Country. The recently approved Agricultural Sector Development Program is a sector budget support that will address overall constraints in the Sector. The District Agricultural Sector Investment Project (DASIP), as well as the Agricultural Marketing System Development Program (AMSDP) that aim at improving agricultural infrastructure and marketing facilities, will have a long term impact on food sufficiency in the country.

VIII RECOMMENDATION

8.1 Management invites the Board of Directors to approve the proposed loan of UA 100 million to the Government of The United Republic of Tanzania for the purposes outlined in the report and subject to the conditions stipulated above.

APPENDIX 1

International Monetary Fund

Washington, D.C. 20431 USA

Press Release No. 07/26

February 16, 2007



IMF Executive Board Completes Sixth Review Under Tanzania's PRGF Arrangement and Approves a Three-Year Policy Support Instrument

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and last review of Tanzania's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement (see [Press Release No. 03/128](#)). The completion of the review enables a further release of SDR 2.8 million (about US\$4.2 million) and will bring the total disbursements under the arrangement to SDR 19.6 million (about US\$29.4 million).

The Executive Board also approved a three-year Policy Support Instrument (PSI) for Tanzania to support the country's economic efforts. The PSI seeks high and sustainable growth and more rapid poverty reduction based on enhancing public resource mobilization and efficiency of spending, increasing the financial sector's contribution to growth and the effectiveness of the monetary policy, and improving the business climate. Approval of a PSI for Tanzania signifies IMF endorsement of the policies outlined in the program.

The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. Members' performance under a PSI is normally reviewed semi-annually, irrespective of the status of the program. (see [Public Information Notice No. 05/145](#)).

Following the Board's discussion on Tanzania, Mr. Murilo Portugal, Deputy Managing Director and Acting Chairman, stated:

"Tanzania has achieved sustained strong economic performance through market-oriented policies within an appropriate macroeconomic framework. To consolidate recent successes, Tanzania will need to maintain sound policies and steadily pursue key structural reforms, including in the critical energy sector, and capacity building to remove key impediments to growth and achieve lasting inroads against poverty.

"The Tanzanian authorities are undertaking actions and commitments to address the allegations of an impropriety in the management of the government external payment arrears account managed by the Bank of Tanzania. The authorities remain committed to transparency and to consult with the Fund in adopting and implementing appropriate remedial measures.

"The Policy Support Instrument is viewed as the appropriate next step in the Fund's relations with Tanzania. Tanzania's macroeconomic framework and structural reform agenda are consistent with the government's objectives of high and sustained broad-based economic growth and poverty reduction within a stable macroeconomic environment.

"Tanzania is undertaking structural reforms in three key areas. First, tax, customs, and capacity-building reforms are expected to further mobilize public resources, improve the efficiency of government spending, and support economic and social objectives. Second, financial sector reforms, including improvements in credit information, pension investment guidelines, and liquidity management, will help enhance this sector's contribution to growth and the effectiveness of monetary policy. Third, improvements in the business environment, including anti-corruption efforts, are expected to facilitate productive private sector activity and investment.

"Fiscal policy should remain focused on economic and social objectives while limiting net domestic financing to avoid crowding out private sector credit. The monetary framework remains appropriate, with the envisaged deceleration of broad money growth consistent with inflation objectives while still facilitating adequate credit to the private sector.

"Recent energy production shortfalls have been damaging. Resolving energy supply issues on a timely basis, including through appropriate increases in generation capacity and tariffs as envisioned under the PSI, will be critical to maintaining strong economic performance and putting the finances of the energy parastatal, TANESCO, on a sound and sustainable basis," Mr. Portugal said.

APPENDIX 2: LETTER OF DEVELOPMENT POLICY

THE UNITED REPUBLIC OF TANZANIA MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

Telegrams: "TREASURY", Dar es Salaam,
Tel: 2111174/6, Fax 2110326.
Telex: 41329.
(All Official communications should be
addressed to the Permanent Secretary to
the Treasury and NOT to individuals).



P. O. Box 9111,
DAR ES SALAAM,
TANZANIA.

In reply please quote: **TYC/B/30/55**

15 September 2008

Mr. Donald Kaberuka,
President,
African Development Bank Group,
B.P. 323, 1002 Tunis, Belvedere,
TUNISIA

Dear Mr. Kaberuka,

RE: Letter of Development Policy

1. On behalf of the Government of the United Republic of Tanzania, I hereby write to request for approval of the Third Poverty Reduction Support Loan (PRSL III) in the amount of UA 100 million. This Loan will assist in the implementation of the National Strategy for Growth and Reduction of Poverty (MKUKUTA) and support in the implementation of the ongoing Government reforms aiming at maintaining macroeconomic stability, facilitate private sector's participation in the economy, rural development, infrastructure and energy and in health, education, and water sectors, strengthening the public financial management, improvement in public service delivery, enhance governance, and ensure environmental sustainability.

I. BACKGROUND AND RECENT DEVELOPMENTS

A. MACROECONOMIC PERFORMANCE

2. Tanzania continued to enjoy good macro-economic performance, with a 7.3 percent real GDP growth rate recorded during the year ending December, 2007 compared to 6.7 percent growth rate of the same period in 2006. Largely the good performance was attributed by the communications (19.8 percent), mining and quarrying (14.0 percent), financial intermediation (12.0 percent), construction, trade and repairs (9.7 percent each) sectors. During the year, the National Bureau of Statistics (NBS) revised the National Accounts series in line with the UN System of National Accounts – 1993 Manual), and applied 2001 as the base year. The revision incorporates new sources of data on the production of goods and services, and introduces certain methodological changes to ensure compliance with international standards set by the United Nations Statistical Office. Therefore, the revision of the national accounts statistics resulted into a number of changes in GDP tables including the overall GDP growth, the structure of the economy, levels and shares.

3. The economy continued to experience inflationary pressures during 2007/08 emanating mainly from persistent increase in oil prices in the world market; increase in power tariff and depreciation of the shilling in the first three quarters of 2007. From 5.9 percent in June 2007, and 9.0 percent in September, 2007, annual headline inflation rate eased to 6.4 percent by end December 2007 before increasing again to reach 9.7 percent by April, 2008. The government has allowed the importation of cereals to ease any food shortages, and food prices are expected to ease in the following months leading to decline in inflation.

4. There have been some positive external developments during the first 7 months of 2007/08 despite the adverse impact on tourism of events in Kenya, an unexpected decline in gold production, and a further increase in oil prices. Goods exports grew by about 18 percent during the period, reflecting mainly a very rapid increase in manufacturing exports, and a recovery of traditional exports from last year's sharp drop due to adverse weather conditions. At the same time, imports also grew at a very rapid pace—nearly 25 percent during the first 7 months of the year—driven mainly by higher fuel costs and increased investment-related imports. As a result, between July and December 2007, the current account deficit widened to USD 938.4 million, compared with USD 589.9 million registered in the same period of the previous year, consistent with PSI program projections for 2007/08.

5. As at the end of December, 2007 gross official reserves stood at USD 2,755.2 million, equivalent to 4.9 months of imports of goods and services. This level represents an increase of 4.6 percent from the level of USD 2,634.5 million at the end of June, 2006. In the same period, the nominal exchange rate of the shilling to the U.S. dollar appreciated from TZS 1,281.0 at end July 2007 to TZS 1,132.1 at end December 2007.

B. BUDGET SUPPORT AND ASSISTANCE FOR THE GOVERNMENT'S OWN REFORM PROCESS

6. The government reaffirms that General Budget Support (GBS) is the preferred aid modality because of its advantages over other modalities in terms of Government ownership over resource allocation, and its full integration in the national budget, public financial management, and accountability systems. Project and basket funding modalities are expected to be fully in line with national priorities, strategies and programmes, and rely on Government structures for implementation in line with the Joint Assistance Strategy for Tanzania (JAST) principles. The JAST Action Plan and Monitoring Framework have been prepared. This is a comprehensive tool that spells out actions, monitoring indicators and targets for the implementation of JAST commitments. The actions are based on the four key areas which include: Formulation and implementation of TA Policy; Strengthen MTEF projections and integrate all external resources in the Government budget and Exchequer system; Establish effective division of labour within Government and among Development Partners (DPs); and Harmonise and rationalise Government and DPs processes in line with national calendar of processes.

II. REFORM PROGRAMME UNDER THE PAF 2005/6 – 2006/7

7. The JAST adopts all of the existing national MKUKUTA and GBS processes for monitoring and evaluation. Under the Partnership Framework Memorandum governing the PAF, an annual review is held to bring together sector and thematic reviews and against the overall framework and a joint assessment of performance is produced. The latest Annual

Review was held in October 2007 and the Government together with DPs assessed the achievements of the PAF/PRSL II agreed actions as outlined hereunder.

C. INFRASTRUCTURE

8. Government recognises the role of Energy and Transport in the development of the economy. In this regard, removing the impediments to a smooth functioning of these subsectors is pertinent in ensuring a broad based growth in the economy. The Government is committed to ensuring adequate resources are provided to spearhead the process of establishing smooth energy and transport infrastructure for a sustainable implementation of MKUKUTA's growth cluster.

Improve performance of infrastructure sector through better governance in the road sub-sector

9. Since the adoption of the Roads act in 2007, the Ministry of Infrastructure Development has taken important measures to support developments in the road sector. An important achievement is government's total undertaking of maintenance costs for roads. Out of the USD 1 billion financing resources for the implementation of the Transport Sector Investment Program (TSIP), the Government will also be contributing up to 50% of the costs, in contrast to approximately one third which it used to contribute. The government is working on the establishment of a more independent Tanzania Roads Agency (TANROADS), responsible for the planning, supervising and procuring of systems for national and regional roads, which will be strengthened with the establishment of the Board that is expected to be in place by October 2008. Members of the Board have already been identified. The establishment of this board is recognised as first step towards overcoming the institutional constraints of the agency, and tightening the governance framework for greater accountability and transparency in the allocation and expenditure of resources in the roads sub sector. Furthermore it is expected to contribute to strengthening the Bank's portfolio in the infrastructure sector that is currently weak.

D. PUBLIC FINANCIAL MANAGEMENT

Enhanced Public Financial Management through: strengthened procurement practices, audit functions, and enhanced revenue mobilisation

Strengthened procurement practices

10. The Public Procurement Regulatory Authority (PPRA) has highlighted three areas that need support and that will be important for strengthened reforms for better procurement practices. The first relates to the procurement capacity building strategy, (in particular staff, and the strengthening the training institutes). The capacity concerns have grown in the increasingly decentralised structure of the PPRA, especially with regards to the Procurement Management Units (PMU's). The structure of reporting and monitoring of procurement activities also needs strengthening based on recent audits. The second related to the structure of reporting and monitoring of procurement activities, and lastly the third relates to ensuring an adequate procurement management information system. With regards to the achieved level of compliance of Procuring Entities (PEs) to the Procurement Act, the Joint Steering Committee Review on PFMRP III confirmed that compliance levels have increased to 44% from 39% observed during the time of the annual GBS review in October 2007. The goal is to increase the levels of compliance to 80% by 2010.

Strengthened National Audit functions

11. The draft Public Audit Bill was passed by the Parliament in June, 2008, and it is expected to further strengthen the independence of the National Audit Office. The government's effort to strengthen the public financial management (PFM) systems is focusing on strategic resource allocation, and ensuring value for money in budget execution. The government has adopted a revised strategy for the Public Financial Management Reform Program (PFMRP). Phase III of the PFMRP will strengthen the management of the program, increase ownership of the reforms by the various components, and roll out reforms to the line ministries and Local Government Authorities. The program seeks to achieve allocative efficiency through ensuring aggregate fiscal discipline and accountability, allocation of resources in accordance with government priorities, and promoting efficient service delivery through enhanced predictability and availability of medium term resources for implementing agencies (MDAs). Ongoing reforms have strengthened the following areas: (a) the independence of the NAO; (b) the role of the Parliamentary Accounts Committee (PAC). (c) adoption of improved salary scheme to address the challenge of staff retention; (d) the establishment of a new organisational structure, and; (e) the overall strengthened role of the Controller and Auditor General (CAG).

Enhanced revenue mobilisation

12. Tanzania's Tax Revenue Authority (TRA) is currently implementing its reforms under the third Corporate Plan for 2008/2009 – 2012/2013. The plan attempts to create the linkage between government requirement and resource needs. At present Tanzania's revenue mobilization is 17.1% of GDP, with a target of 20.3% by 2013. The planned initiatives captured in the Corporate Plan are strategically aimed at increasing Tanzania's tax and non tax revenue base, and modernizing the systems in place to make them more effective and customer oriented. With development partners financing Tsh 8 billion of the cost of administering the Corporate Plan, TRA still has a funding gap of Tsh 210 billion that it needs to implement its plan.

13. With regards to the mobilization of non tax revenue from natural resources (i.e from fisheries, minerals, oil and gas) there is a clear lack of information and strategic direction for how this is going to be expanded in the medium to long term. It is estimated that non tax revenue as a percentage of GDP has reduced from 1.1% to 0.8%. A consultant has been recruited to undertake a study mapping the way forward and highlighting the status of this revenue base. This study will be critical in helping to identify measures to increase revenue to the targeted minimum of 3% by the end of the third Corporate Plan period.

14. The government intends to further improve domestic resources mobilisation with the view to generate sufficient resources to fund reform initiatives aiming at sustainable growth and poverty reduction with domestic revenues projected at 16.7 percent of GDP in 2007/08, 18.5 percent in 2008/09, 18.6 percent in 2009/10 and 19.0 percent in 2010/11. This will benefit from the impact of continued strengthening of tax and customs administration, and policy measures, including putting in place better procedures for non-tax revenues collection. It will also involve the amendments of Non Tax Revenue Laws.. Revenue administration measures include widening the tax base by registering new taxpayers, improve compliance, and continue improving the investment and business environment; the expansion of tax base as a result of high economic growth particularly in the sectors that contribute substantially to Government revenue together with the management and control of tax exemptions; strengthen supervision of excise and customs duties; and implementation of the TRA Third Corporate Plan, which focuses on promoting compliance and accountability among the taxpayers and tax collectors.

E. MACROECONOMIC PROJECTIONS

15. The government projects a real GDP growth rate to reach 7.8 percent in 2008, 8.1 percent in 2009, 8.8 percent in 2010 and 9.2 percent by 2011. In addition to a steady growth in agriculture which is expected to benefit from good weather conditions in the current year, strong performance is expected to continue in the communication, construction, financial intermediation, and manufacturing sub-sectors. Accelerating the rate of growth and poverty reduction in the medium to long term will continue to be central in the programme design and implementation. The Poverty and Human Development Report for 2007 was launched in May and it indicated good progress towards the targets set by Millennium Development Goals. In addition, the government projects the following in the medium term: to control inflation at below 7.0 percent by end June, 2009; Contain the growth rate of M₂ within bands of 24.9 percent in 2007/08, 23.9 percent in 2008/09 and 22.9 in 2009/10, consistent with GDP growth and inflation targets; Maintain adequate official foreign reserves of not less than a value equivalent to five months worth of imports of goods and non-factor service; Maintain a market determined realistic exchange rate, with Bank of Tanzania's interventions exclusively limited to smoothing wide fluctuations and/or liquidity management purposes; and Accelerate reforms to the requisite legal and regulatory framework for enhancing access to credit by the private sector.

16. Total national debt stock at end December 2007 stood at USD 7,041.2 million, compared to USD 7,188.4 million at end December 2006. Out of this amount, USD 1,673.5 million was domestic debt and USD 5,367.7 million was external debt. The stock level shows a decline of 2 percent, equivalent to USD 147.2 million relative to the level in the preceding year. Consequently, the share of domestic debt to total debt rose from 18.4 percent to 23.8 percent and that of external debt to total debt fell from 81.6 percent to 76.2 percent.

F. IMPROVEMENT IN THE EFFECTIVENESS OF DELIVERY OF PUBLIC SERVICES

17. The Government recognises the importance of sustaining macroeconomic stability, improving the quality of budget formulation and its implementation as well as ensuring the overall expenditure discipline. The underlying processes for this area include the Budget Guidelines, the Public Expenditure and Financial Accountability Review (PEFAR), Policy Support Instrument (PSI), Annual MKUKUTA Progress Report, and quarterly Budget Execution Reports.

18. Budget execution for the year 2006/07 was broadly in line with the approved budget with domestic revenues registering a 2 percent over performance against budget estimate. The good performance in revenue collection during 2006/07 was driven by income taxes, import duties and excise duty on imports both petroleum and other imports.

G. IMPROVED PERFORMANCE OF THE PUBLIC SECTOR AND THE OVERALL INCENTIVE ENVIRONMENT

19. Government has continued with its efforts to improve performance of the public service to deliver better services. The achievements in Public Service Reform Programme (PSRP) Phase I (2000-2007) include: the documentation of PSRP Phase II; increased levels of pay and instituting accountability framework for all MDAs across the government. The key focus of the PSRP was to institute performance management systems in MDAs whereas the second phase is aimed at deepening the focus on performance and accountability and putting in place quality improvement cycles. Specifically, Phase II of the Public Service

Reform Program (2008-2012) will have greater focus on implementation of reforms by Ministries, Departments and Agencies (MDAs) and that will also seek to enhance the coordination of core reforms at the centre of government. In addition, very wealthy information has been made available to the public through the website and can easily be downloaded. They contain indicators that are monitored throughout the implementation of the program and the yearly benchmarks. During this phase, review process will be open to key Ministries and is expect to gradually include representatives from non-state actors.

20. Significant progress has been made in the legal sector reform as well as local government reform; the government has streamlined the prosecution service and modernized investigation system. As with local government reform, efforts have been placed in fiscal decentralizations with six MDAs²¹ having embedded Decentralisation by Devolution (D by D); establishment of a Ministerial Task Force to expedite D by D and increased capacity for councillors and staff of LGAs. However the challenge remains on attracting and retaining staff in remote areas and balancing allowances and salary.

H. MINIMISATION OF RESOURCE LEAKAGES AND THE STRENGTHENING OF ACCOUNTABILITY

21. Government sustains the effort to promote transparency and accountability in the management of public resources through the Audit Committees established in all MDAs. The Committees' main focus is to address the observations of the National Audit Office (NAO) Annual Report and assist the MDAs to better manage public resources. Spending agencies are producing quarterly reports of implementation of recommendation of CAG and PPRA audits.

22. The Government continues to make progress in addressing governance issues. The PCCB is actively investigating several prominent cases of alleged corruption and has presented a number of cases to the public prosecutor for legal action. Following the completion of the special audit of the EPA Account in November 2007, the Government has developed an action plan for implementing the recommendations of the audit report. Several measures have already been taken.

23. The Government intends to further reinforce good governance and accountability, particularly in the area of public procurement with the objective of strengthening the capacity of procurement agencies to comply with procurement regulations. In line with its action plan responding to the recommendations of the EPA audit, the Government will carry out a verification of the remaining EPA claims and develop a strategy for acknowledging and eventually settling the accounts legitimately due on the basis of guidelines for settlement of public debt. The BOT is also undertaking a fundamental review of its functions, with a view to identifying those that could be outsourced or hived off from the bank. The government will clarify the relationship between the Ministry of Finance and Economic Affairs (MOFEAEA) and the BOT regarding some of the tasks that the BOT conducts on behalf of the MOFEA, including the management of the EPA account.

I. ENVIRONMENTAL SUSTAINABILITY

24. A Strategic Plan is in place for the implementation of the Environmental Management Act (EMA) 2004 by each MDA and LGA. In this regard, MDAs and LGAs have started implementing EMA. In addition, the National Environment Management Council (NEMC) is already implementing the Act by undertaking unscheduled checks on industries. However there is a need to strengthen supervision and monitoring.

²¹ These ministries are Education and Vocational Training, Health and Social Welfare, PMO-PALG, Infrastructure Development, Community Development Gender and Children and Agriculture.

J. PRIVATE SECTOR DEVELOPMENT

25. The government will continue to sustain a conducive environment for private sector participation in the economy. Improvement of the business environment to promote investment is a prerequisite for accelerated and sustainable growth in a stable macroeconomic environment. This includes availability of credit to private sector, which is being addressed under the Second Generation Financial Sector Reform Programme.

26. In cognisance of the need to provide sector specific information, public and private sector information sharing through TNBC will be strengthened. This may involve promotion of lively discussion with apparent consensus on the need for an operational Growth Strategy, with participation drawn from MDAs, private sector, academia and DPs sides. The Tanzania National Business Council (TNBC) may constitute a forum for charting out the growth strategy. In this regard, the government will review existing strategies with a view to implementing a more coherent growth strategy with focus on prioritization of expenditures and outputs.

K. CONCLUSION

27. The Government remains committed to continue focusing on sustaining macroeconomic stability, increasing domestic resource mobilisation, promoting pro poor economic growth, and increased investment in core social services like education, health and water. The Government is confident that various reforms pursued under the PRSLs and others in the PAF will further improve service delivery in public sector. Further, the government recognises that the support by the Bank and other development partners will complement government's efforts to ensuring adequate funding of MKUKUTA interventions, a key to sustainable growth and poverty reduction. Thus, the Government requests the African Development Fund to approve the provision of UA 100 million to support the Government's efforts in sustaining macroeconomic stability and continuing to implement the reforms.

Thank you for your continued support.

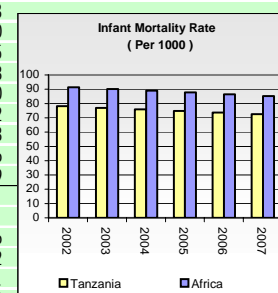
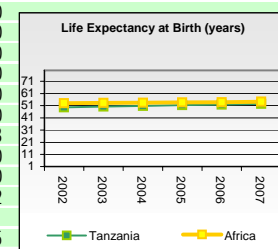
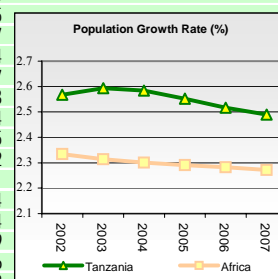
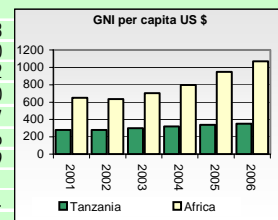
Yours sincerely,

Gray S. Mgonja

PERMANENT SECRETARY - TREASURY

ANNEX 1: COMPARATIVE SOCIO-ECONOMIC INDICATORS

| | Year | Tanzania | Africa | Developing Countries | Developed Countries |
|---|---------|----------|--------|----------------------|---------------------|
| Basic Indicators | | | | | |
| Area ('000 Km ²) | | 945 | 30 307 | 80 976 | 54 658 |
| Total Population (millions) | 2007 | 40.5 | 963.7 | 5 448.2 | 1 223.0 |
| Urban Population (% of Total) | 2007 | 25.2 | 39.8 | 43.5 | 74.2 |
| Population Density (per Km ²) | 2007 | 42.8 | 31.8 | 65.7 | 23.0 |
| GNI per Capita (US \$) | 2006 | 350 | 1 071 | 2 000 | 36 487 |
| Labor Force Participation - Total (%) | 2005 | 51.5 | 42.3 | 45.6 | 54.6 |
| Labor Force Participation - Female (%) | 2005 | 49.0 | 41.1 | 39.7 | 44.9 |
| Gender -Related Development Index Value | 2005 | 0.464 | 0.486 | 0.694 | 0.911 |
| Human Develop. Index (Rank among 174 countries) | 2005 | 159 | n.a. | n.a. | n.a. |
| Popul. Living Below \$ 1 a Day (% of Population) | 2001 | 35.7 | 34.3 | ... | ... |
| Demographic Indicators | | | | | |
| Population Growth Rate - Total (%) | 2007 | 2.5 | 2.3 | 1.4 | 0.3 |
| Population Growth Rate - Urban (%) | 2007 | 4.3 | 3.5 | 2.6 | 0.5 |
| Population < 15 years (%) | 2007 | 44.3 | 41.0 | 30.2 | 16.7 |
| Population >= 65 years (%) | 2007 | 3.1 | 3.5 | 5.6 | 16.4 |
| Dependency Ratio (%) | 2007 | 89.6 | 80.1 | 56.0 | 47.7 |
| Sex Ratio (per 100 female) | 2007 | 99.0 | 99.3 | 103.2 | 94.3 |
| Female Population 15-49 years (% of total population) | 2007 | 23.1 | 24.2 | 24.5 | 31.4 |
| Life Expectancy at Birth - Total (years) | 2007 | 52.5 | 54.2 | 65.4 | 76.5 |
| Life Expectancy at Birth - Female (years) | 2007 | 53.6 | 55.3 | 67.2 | 80.2 |
| Crude Birth Rate (per 1,000) | 2007 | 39.0 | 36.1 | 22.4 | 11.1 |
| Crude Death Rate (per 1,000) | 2007 | 12.9 | 13.2 | 8.3 | 10.4 |
| Infant Mortality Rate (per 1,000) | 2007 | 72.6 | 85.3 | 57.3 | 7.4 |
| Child Mortality Rate (per 1,000) | 2007 | 118.4 | 130.2 | 80.8 | 8.9 |
| Total Fertility Rate (per woman) | 2007 | 5.2 | 4.7 | 2.8 | 1.6 |
| Maternal Mortality Rate (per 100,000) | 2004 | 578.0 | 723.6 | 450 | 8 |
| Women Using Contraception (%) | 2004 | 26.4 | 29.8 | 61.0 | 75.0 |
| Health & Nutrition Indicators | | | | | |
| Physicians (per 100,000 people) | 2007 | 4.8 | 39.6 | 78.0 | 287.0 |
| Nurses (per 100,000 people) | 2007 | 102.4 | 120.4 | 98.0 | 782.0 |
| Births attended by Trained Health Personnel (%) | 2005 | 43.0 | 50.4 | 59.0 | 99.0 |
| Access to Safe Water (% of Population) | 2004 | 62.0 | 62.3 | 80.0 | 100.0 |
| Access to Health Services (% of Population)* | 2004 | 42.0 | 61.7 | 80.0 | 100.0 |
| Access to Sanitation (% of Population) | 2004 | 47.0 | 45.8 | 50.0 | 100.0 |
| Percent. of Adults (aged 15-49) Living with HIV/AIDS | 2005 | 6.5 | 4.7 | 1.3 | 0.3 |
| Incidence of Tuberculosis (per 100,000) | 2005 | 342.0 | 300.7 | 275.0 | 18.0 |
| Child Immunization Against Tuberculosis (%) | 2006 | 99.0 | 83.7 | 85.0 | 93.0 |
| Child Immunization Against Measles (%) | 2006 | 93.0 | 75.4 | 78.0 | 93.2 |
| Underweight Children (% of children under 5 years) | 2005 | 22.0 | 28.6 | 27.0 | 0.1 |
| Daily Calorie Supply per Capita | 2004 | 1 963 | 2 436 | 2 675 | 3 285 |
| Public Expenditure on Health (as % of GDP) | 2004 | 1.7 | 2.4 | 1.8 | 6.3 |
| Education Indicators | | | | | |
| Gross Enrolment Ratio (%) | | | | | |
| Primary School - Total | 2006 | 110.3 | 96.4 | 91.0 | 102.3 |
| Primary School - Female | 2006 | 108.8 | 92.1 | 105.0 | 102.0 |
| Secondary School - Total | 2001 | 36.0 | 44.5 | 88.0 | 99.5 |
| Secondary School - Female | 2001 | 4.9 | 41.8 | 45.8 | 100.8 |
| Primary School Female Teaching Staff (% of Total) | 2006 | 48.3 | 47.5 | 51.0 | 82.0 |
| Adult Illiteracy Rate - Total (%) | 2007 | 18.2 | 33.3 | 26.6 | 1.2 |
| Adult Illiteracy Rate - Male (%) | 2007 | 11.8 | 25.6 | 19.0 | 0.8 |
| Adult Illiteracy Rate - Female (%) | 2007 | 24.4 | 40.8 | 34.2 | 1.6 |
| Percentage of GDP Spent on Education* | 2003 | 6.2 | 4.7 | 3.9 | 5.9 |
| Environmental Indicators | | | | | |
| Land Use (Arable Land as % of Total Land Area) | 2005-07 | 4.2 | 6.0 | 9.9 | 11.6 |
| Annual Rate of Deforestation (%) | 2000-07 | 0.2 | 0.7 | 0.4 | -0.2 |
| Annual Rate of Reforestation (%) | 2000-07 | 8.0 | 10.9 | ... | ... |
| Per Capita CO2 Emissions (metric tons) | 2005-07 | 0.1 | 1.0 | 1.9 | 12.3 |



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update : April 2008

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports

Note : n.a. : Not Applicable ; ... : Data Not Available;

ANNEX 2: FOCUS AREAS OF DEVELOPMENT PARTNERS

World Bank

The World Bank's allocation for its current operation PRSC 6 is **USD 160 million** (for FY 2008/2009), compared to its previous operation of USD 190 million last year. It is expected to disburse at the end of November 2008, and has identified 11 prior actions for disbursement for PRSC 6, and 8 prior actions for PRSC 7, to be disbursed next year. For PRSC 6, it has also included triggers linked to internal controls and audits from the EPA action plan. The German Cooperation (KfW), the Japan Bank for International Cooperation (JBIC), and the Canadian International Development Agency (CIDA) have linked their support to the World Bank triggers.

PRSC 6 prior actions

1. Establishment of crop Board (agriculture)
 2. Transport sector (a) Approval of new road bill
(b) Finalization of TSIP
 3. Energy sector – Progress in TANESCO financing plan
 4. Social sector (Water, Education, Health)
 5. Submission to parliament of anti-corruption bill, and anti corruption bill enacted
 6. Submission to parliament of audit bill
 7. Budget: Alignment of 2007/2008 budget
 8. Execution of 2006/2007 budget
- Three triggers in EPA action plan*
9. Completion of Voluntary Safeguard Assessment
 10. Completion of 2006/2007 audit for BoT (as it relates to EPA)
 11. Action plan on corruption cases related to the BoT

PRSC 7 prior actions

1. Transport sector – adoption of PPP policy
2. Energy sector - approval of regulation consistent with BEST
3. Energy sector – Progress in TANESCO financial plan
4. Forestry and natural resources – licensing of natural resources
5. Social (Health, Education) Development of sector performance. Water sector review
6. PFM – Authorization for internal audit department. Regulation to implement procurement Act to set up service cadre for procurement
7. Alignment on execution of budget
8. Revised Medium term civil service reform, for revised salaries

European Commission (EC)

50% of the EC's program is a fixed tranche linked to progress in Tanzania's macro-economy, poverty and PFM, and the remaining 50% is a variable tranche linked to specific outcome indicators in health, education and PFM. Disbursement is expected in October 2008.

In 2009, which will be the first year of the next EDF cycle, the EC will be introducing a 6 year MDG contract program, aimed at providing long term commitment to the GoT, and improving predictability. This will be for an amount of 305 million euro. 70% of the loan amount will be guaranteed, and of the 30% remaining, 15% will be a variable tranche, and 15% will be disbursed subject to a mid contract review, where progress in outcome indicators will be assessed.

DFID

Its budget support of USD 210 million, which is 80% of its portfolio in Tanzania, was disbursed in September, 2008. Conditions in place are linked to the overall satisfaction of the GBS review.

DANIDA

The DANIDA allocation for 2008/2009 is approximately USD 20 million of which 20% is a variable tranche based on the PAF, and 80% is a fixed tranche. The team was informed that this is a slight increase compared to its allocation for the previous year.

ANNEX 3

Pillar 1: Enhanced Public Financial Management

| Objective | Context/challenge | Measure taken by Government | ADF Support | Expected outcome |
|--|--|--|---|---|
| (1a) Enhance revenue mobilisation | Tanzania is highly dependent of development assistance. The Corporate plan for 2008/09 – 2012/13 incorporates objective to increase non-tax revenue (currently at 0.8% of GDP) especially from the natural resources sector. There is a lack of data, and strategic direction on how revenue from this sector can be exploited. | <ul style="list-style-type: none"> - Tax modernisation program review of 2007 - MoFEA plans a study to determine the status and strategic direction for enhancing revenue mobilisation. | <ul style="list-style-type: none"> - Support to TRA reform program - Increased revenue from licences and concessions from forestry, fishing and wildlife sector | <ul style="list-style-type: none"> - Draft study on non tax revenue finalised by June 2009 - Increase on non tax revenue to 3% of GDP by end of corporate plan period - Improved reporting systems for transparent and accountable systems of licence allocation |
| (1b) Strengthen procurement practices | <p>The PPRA is the regulatory agency charged with monitoring procurement practice for better accountability and adherence to procurement rules. According to the 2007 GBS review, PPRA made progress especially in respect to implementing its Procurement Capacity Building Strategy, (over 2400 people were trained).</p> <p>However compliance at the level of MDAs and LGAs of Procuring entities to the procurement act is still low, due mostly to capacity constraints of PMUs.</p> | <ul style="list-style-type: none"> - Approval of the Public Procurement Act (2004) - Formulation of procurement indicators on the basis of OECD-DAC were confirmed by the GoT in November 2007 GBS review. - In July 2008 a proposal was submitted to GoT by PPRA for phase two of procurement reforms in the context of PFM RP. - Initiation of a System for Checking and Monitoring Procurement installed in SPE's | <ul style="list-style-type: none"> - Support to policy and institutional actions to increase capacity of PMUs and compliance of PEs with the procurement Act | <ul style="list-style-type: none"> - Progress in level of PE compliance to increase from 39% - Greater predictability and availability of medium term resources to PEs for more financial autonomy and accountability to MDAs and LGAs by 2010 |
| (1c) Strengthen audit functions | Progress towards NAO reaching level 3 of the AFROSAIE model by 2010 is on track, it is at 58.6% points to reaching that level. NAO organised accountability conference in 2007, and it has also made progressed with training. It still needs strengthened independence given its expanded and decentralised focus on MDAs and LGAs. | <ul style="list-style-type: none"> - During the GBS review of November 2007 Government formally responded to the NAO report for 2006/2007. - The government formally responded also to the recommendation proposed in the Control and Auditor Generals (CAG) - Parliament's approval of the audit bill in July 2008 launched a series of audit reforms | <ul style="list-style-type: none"> - Support to reforms aimed at expanding the audit focus to MDA's and LGAs - Policy dialogue with development partners and GoT through PFM working group. | <ul style="list-style-type: none"> - Development of regulations for the effectiveness of the public audit act - Transition of NAO from level 1 to level 3 of the AFROSAIE capability model |

ANNEX 4

Pillar 2: Improve performance of infrastructure sector

| Objective | Context/challenge | Measure taken by Government | ADF Support | Expected outcome |
|--|---|---|--|---|
| Improve governance structures and accountability systems of the road sub sector | Tanzania is in its second phase of implementing the Transport Sector Investment Program (TSIP) for the period 2007/08-2011/12. The Ministry of Infrastructure still has a financing gap of USD 3.71 billion which is needed to support the ongoing road sector reforms. Constraints to the sector include inadequate capacity and accountability of TANROADS to manage and allocate resources dedicated to the development of the road sector networks. | <ul style="list-style-type: none"> - The Roads Act was submitted and approved by parliament in 2007 and regulations have been developed to guide the reforms in this sub sector. - Infrastructure sector review in 2007 | <ul style="list-style-type: none"> - Leadership role in infrastructure sector working group - Promotion of an independent TANROADS authority for enhanced accountability and improved decision making processes. | <ul style="list-style-type: none"> - Appointment of TANROADS Board members and establishment of an independent Board - Increased capacity within the agency and better supervision and implementation of road projects - Enhanced performance of Bank portfolio of infrastructure projects - Improvement in the quality and maintenance of road networks - Reduced time taken to implement road projects |

ANNEX 5 - List of audited PEs and their average compliance based on the established compliance indicators

| Procuring entity | Average compliance |
|---|---------------------------|
| Sumbawanga Municipal council | 26% |
| National Social Security Fund | 59% |
| Tabora Municipal Council | 39% |
| Sumbawanga District Council | 25% |
| National Health Insurance Fund | 23% |
| National Board of Accountants and Auditors | 66% |
| Tanzania Civil Aviation Authority | 68% |
| Arusha Urban Water Supplies Authority | 36% |
| Moshi Urban Water Supplies Authority | 32% |
| Ministry of Community Development Gender and Children | 34% |
| Bukoba District council | 53% |
| Muhimbi University College of Health Sciences | 44% |
| Tanzania Commission for Aids | 38% |
| Kigoma Ujiji Municipal Council | 43% |
| Ministry of Justice and Constitutional Affairs | 39% |
| Songea Municipal Council | 32% |
| Morogoro Municipal Council | 59% |
| Songea District Council | 25% |
| Open University of Tanzania | 46% |
| Arumeru District Council | 48% |

Tanzania Procurement Journal, 30 June, 2008

ANNEX 6 - AFROSAI CAPABILITY LEVELS

The following five broad Supreme Audit Institutions (SAI) capability levels or stages in implementing independence appear to be most appropriate to use in evaluating the status of independence and capability at an SAI:

Level 1 - The Setting-up level:

(The SAI is structured as part of the governmental organization)

The setting-up level describes the characteristics of an SAI that has not yet established independence and does not provide an independent external public audit service. At this level, in the absence of independence, the SAI's ability to report independently on the activities of the executive is controlled by the same executive; it could, therefore, be regarded as an internal audit function.

Level 2 – The Development level

(Legal provision for independence but resources are controlled by the executive)

SAIs on this level intend to develop and implement a framework, systems and structures to ensure the establishment of a fully independent structure. At this level SAIs will have an appropriate and effective legal framework in place to establish their mandate but will still be dependent on the executive for resources and other support.

Level 3 – The Established level

(Legal provision for independence and independent resources are in place)

At this level the focus is on ensuring that adequate resources are available and that audit reports are issued timeously in accordance with internationally accepted auditing standards. The following situation exists at the SAI:

- An appropriate and effective constitutional/statutory framework exists.
- Strong political will exists and the Auditor-General has full support in exercising his/her mandate.
- The conditions for appointment to, terms in and removal from the Office of the Auditor-General are constitutionalised and entrenched.
- All audit reports are issued within one year after financial year end.
- Audit reports are issued on the sole discretion of the Auditor-General.
- An effective internal audit approach based on internationally accepted auditing standards, guidelines and procedures is in place.
- An internal quality control process is in place.
- Financial resources are appropriated by Parliament without any involvement of the executive, including auditees. The recovering of audit fees is regarded as an involvement of auditees.
- Human, administrative and other resources to execute the mandate are independently managed (staff are not public servants) by the Auditor-General and his/her Office.
- An independent parliamentary process exists to oversee the activities of the SAI. The SAI or its governing body determine key policies and practices.

Level 4 – The Managed level

(In addition to level 3, SAIs are capable of managing their core business on a cost-effective basis)

At level 4 an SAI will be capable of both measuring and managing its risks and can tailor management practices within its operating units to manage audit costs effectively. At this level it is also assumed that full compliance at level 3 has been achieved. Vigorous internal and external quality control processes are in place to ensure compliance with international standards.

Level 5 – The Optimizing level

(In addition to level 4, SAIs focus on continuous improvement and learning to increase the value of their audit products)

At level 5 the focus is on continuous improvement and learning. An SAI at the optimizing level uses information from inside and outside the organization to set and achieve strategic targets or objectives for improvements. Achieving these targets enables the SAI to increase the value of its audit products to legislatures. At this level it is also assumed that full compliance at level 4 has been achieved.

ANNEX 7

Indicators from the 2007/08 PAF assessed during the November 2007 GBS review, and linked to the pillars of the PRSL III:

- 1) Draft Roads Act submitted to Parliament by 2007;**
- 2) Undertaking of a Tax modernization program review as evidenced by a letter of confirmation from the Tanzania Revenue Authority;**
- 3) Formulation of procurement indicators on the basis of OECD-DAC indicators as evidenced by the Tanzania Procurement Journal;**
- 4) Government provides a structured response to NAO audit report of the Financial Statements of the Government for the year ended June 30 2006**

ANNEX 8: LIST OF ONGOING PROJECTS AS AT 31 AUGUST, 2008

| A. ONGOING OPERATIONS | | | | | | | | |
|---|---------------|---------------|-----------------|--------------|----------------|--------------|---------------|---------------------|
| SECTOR/PROJECT TITLE | FUNDS SOURCES | DATE APPROVED | AMNT (UA Mill.) | DATE SIGNED | DATE EFFECTIVE | AMNT DISB. | PER CENT DISB | DEADLINE FINAL DISB |
| <u>AGRICULTURE</u> | | | | | | | | |
| Agric. Marketing Systems Dev. Programme | ADF | 18-Sep-2002 | 15.90 | 12 May. 2003 | 15 Dec. 2003 | 10.31 | 64.84 | 31.12.2008 |
| | ADF- G | 18-Sep-2002 | 1.00 | 12 May. 2003 | 15 Dec. 2003 | 0.73 | 73.00 | 31.12.2008 |
| District Agricultural Sector Investment Project | ADF | 24-Nov-2004 | 36.00 | 11-Feb-2005 | 20-Jul-2005 | 8.42 | 23.39 | 30.06.2012 |
| | ADF- G | 24-Nov-2004 | 7.00 | 11-Feb-2005 | 20-Jul-2005 | 2.17 | 31.00 | 30.06.2012 |
| Agriculture Sector Dev. Programme | ADF | 05 Sep 2007 | 40.00 | 19-Nov-07 | 20-Feb-08 | 7.40 | 0.00 | 31.12.13 |
| SUB-TOTAL | | | 99.90 | | | 29.03 | 29.06 | |
| <u>TRANSPORT</u> | | | | | | | | |
| Road Rehabilitation / Upg. Project | ADF | 03 Sep. 2001 | 38.65 | 28 Sep. 2001 | 6-Jun-2003 | 15.55 | 40.23 | 31.03.09 |
| Zanzibar Roads Upgrading Project | ADF | 9-Jun-2004 | 16.22 | 24-Jun-2004 | 5-Oct-2004 | 6.02 | 37.11 | 31.12.09 |
| | ADF- G | 9-Jun-2004 | 0.71 | 24-Jun-2004 | 12-Dec-2005 | 0.25 | 35.21 | 31.12.09 |
| Singida-Minjingu-Babati Road | ADF | 17 Sep 2007 | 60.00 | 19-Nov-07 | 13-Feb-08 | 0 | 0.00 | 31.12.14 |
| SUB-TOTAL | | | 115.58 | | | 21.82 | 18.88 | |
| <u>PUBLIC UTILITIES</u> | | | | | | | | |
| Dar es Salaam Water Supply | ADF | 17 Dec 2001 | 36.94 | 29 May 2002 | 19 Nov. 2003 | 14.63 | 39.60 | 31.12.07 |
| | ADF- G | 17 Dec 2001 | 1.31 | 29 May 2002 | 19 Nov. 2003 | 1.01 | 77.10 | 31.12.07 |
| Monduli Rural District Water Project | ADF- G | 27 Nov 2003 | 15.51 | 10 Feb 2004 | 14Jul y 2004 | 10.62 | 68.47 | 31.12.08 |
| Rural Water Supply and Sanitation Programme | ADF | 13 Sept 2006 | 45.00 | 29 Nov 2006 | 14 Mar 2007 | 16.57 | 36.82 | 31.12.11 |
| | ADF-G | 13 Sept 2006 | 10.00 | 29 Nov 2006 | 14 Mar 2007 | 6.31 | 63.10 | 31.12.11 |
| Electricity V | ADF | 14 Dec 2007 | 28.68 | 6-Mar-08 | na | 0.00 | 0.00 | 31.12.12 |
| | ADF-G | 14 Dec 2007 | 1.32 | 6-Mar-08 | na | 0.00 | 0.00 | 31.12.12 |

| | | | | | | | | |
|---|--------|---------------------|---------------|----------------|-------------|---------------|--------------|----------|
| SUB-TOTAL | | | 138.76 | | | 49.14 | 35.41 | |
| SOCIAL | | | | | | | | |
| Alternative Learning & Skills Dev. Project | ADF | 31 Oct 2000 | 5.56 | 30-Jan-2001 | 24-Dec-2001 | 3.82 | 68.71 | 28.06.08 |
| | ADF- G | 31 Oct 2000 | 1.01 | 30-Jan-2001 | 24-Dec-2001 | 0.88 | 87.13 | 28.06.08 |
| SAP for Vocational Ed & Training | ADF | 09 July 2003 | 14.22 | 15-Sep-2003 | 16-Feb-2004 | 4.67 | 32.84 | 31.12.08 |
| | ADF- G | 09 July 2003 | 1.60 | 15-Sep-2003 | 16-Feb-2004 | 0.48 | 30.00 | 31.12.08 |
| Support to Maternal Mortality Reduction Project | ADF | 11 Oct 2006 | 40.00 | 29 Nov 2006 | 5-Mar-2007 | 1.26 | 3.15 | 31.12.12 |
| Support to Secondary Education Dev. Plan | ADF | 05 Sep 2007 | 20.00 | 19-Nov-07 | 14-Mar-08 | 9.75 | 48.75 | 31.12.11 |
| SUB-TOTAL | | | 82.39 | | | 20.86 | 25.32 | |
| MULTI-SECTOR | | | | | | | | |
| Institutional Support for Good Governance | ADF-G | 13 Dec 2004 | 4.80 | 11-Feb-2005 | 30-Mar-2006 | 1.64 | 34.17 | 31.12.08 |
| SUB-TOTAL | | | 4.80 | | | 1.64 | 34.17 | |
| GRAND TOTAL | | | 441.43 | | | 122.49 | 27.75 | |

ANNEX 9: REVISED PERFORMANCE ASSESSMENT FRAMEWORK FOR GBS 2008 REVIEW

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|--|--|---|--|--|--|---|---------------------------------------|---|
| Mkukuta Cluster 1: Growth and Reduction of Income Poverty | | | | | | | | |
| | <ul style="list-style-type: none"> Government will produce poverty estimates in June 2008 based on the Household Budget Survey, and undertake a National Panel Survey in 2008/09 as a pilot which will give the indication of the frequency of poverty estimates. | a. Annual Poverty incidence | To be determined after publication of the 2007/08 HBS. | | | | | |
| Energy Sector Review | <p>b. Government adopts the Power Sector Master Plan by September 2008</p> <p>c. Further progress in implementation of the TANESCO financial recovery plan by the Government, taking all necessary actions regarding: (a) Tanesco's signing of the EPC contract for the conversion of the IPTL plant from HFO to gas firing by October 2008; and (b) any additional measures that may be required to strengthen Tanesco's revenue base, as appropriate by October 2008</p> <p>d. Electricity Bill submitted to</p> | <p>(i) Total electricity generating capacity and utilization</p> <p>(ii) % of population with access to electricity</p> | <p>Baseline: Installed capacity 889 MW, availability of supply 62% Target: Installed capacity 1278MW, availability of supply 85%</p> <p>Baseline: 8.2% (2.928 million) of the population with access to electricity Target: 20% (8.5 million) of the population with access to electricity</p> | <p>Installed capacity 1062MW, availability of supply 75%</p> <p>11.1% (4.329 million) of the population with access to electricity</p> | <p>Installed capacity 1220MW</p> <p>11% of population (3.85 million)</p> | <p>Installed capacity 1420MW</p> <p>12% of population (4.2 million)</p> | | |

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|--|--|---|--|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|
| | Parliament By November 2008 e. Power Sector Reform Strategy adopted by Government by March 2008 | | | | | | | |
| Annual Infrastructure Sector Review | a. Framework for PPP in the entire Transport Sector finalized and approved by September 2008 b. Road Safety Policy adopted by the Government by January 2008 and Road Safety Board in place by July 2008 c. Establish a TANROADS Board based on the Roads Act by end February 2008 | (i) % of trunk and regional roads network in good and fair condition (ii) % of rural roads that are passable (good and fair condition) (iii) Time taken for a container from off-loading until clearing from port | Baseline: Good: 47% Fair: 35% Target: Good: 75% Fair: 20% Baseline: 50% Target: 75% Baseline: 11.95 days Target: 8 days | Good: 42% Fair: 37% 55% | Good: 56% Fair:28% 58% | Good: 62% Fair:25% 63% | Good: 68% Fair:22% 69% | Good: 75% Fair:20% 75% |

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|---|--|--|--|-------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|
| | | | | 13.00 days | 23 days | 18 days | 15 days | 12 days |
| Agricultural Sector Review | (i) Amendment of Legislation for all Crop Boards by June 2008; | (i)Number of districts qualifying for district agricultural development grants according to agreed performance criteria ii)Annual agriculture GDP growth as a proxy for reduction of income poverty in rural population | Baseline 84 (2006) Target 132 Baseline: 5.4% Target²²: 10% | 102 4.1% | 107 6.6% | 118 6.8% | 5.15% | |
| BEST Program Review | (i) Business Activities Registration Act subsidiary regulations consistent with one-stop-shop good practice approved by April 2008 | (i)Enabling environment for private sector lead growth improved as reflected in “Doing Business” ranking | Baseline: Tanzania ranked 150 Target: ranking 99 | 132 | | | | |
| Financial Sector Reform Program Review | | | | | | | | |
| Tax Modernization Program Review | | | | | | | | |
| | (i) Program implementation document for Diagnostic Trade Integration Study (DTIS) approved | | | | | | | |
| | (i) Collect information and report on transparent and accountable systems of licenses/concession allocations and how this meets market values in the | (i) Total value of revenue received from concessions and licenses for forestry (Traffic Report Districts), fishing and wildlife as | Baseline: Forestry 4-15% (2007) Target: 2010: 50% | 15% | 25% | 40% | 50% | |

²² Realistic target to be worked out (in the context of MKUKUTA implementation review)

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|---|--|--|--------------------------------------|-------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|
| | Forestry, Fisheries, Wildlife, Minerals and Oil & Gas sectors ²³ | percentage of their estimated value. | | | | | | |
| MKUKUTA Cluster 2: Improvement of Quality of Life and Social Wellbeing | | | | | | | | |
| Implementation of the National Environment Management Act, 2004 | (i) A preliminary State of Environment reporting system in place before GBS Annual Review 2008 | (i)% of DSM covered by solid waste collection (geographical area) (ii) % of industries in DSM with waste water treatment plants (iii) Number of Districts allocating budget to EMA implementation (vi) Number of environmental focal points appointed at the District level ²⁴ | Baselines for both to be established | | | | | |
| | (i) National Social Protection Framework adopted by Government by June 2008 | | | | | | | |
| Health Sector Review | (i) Updating the 2006/07 Health Sector Performance Report by January 31, 2008 (ii) Health Sector Performance Report for 2007/08 produced and disseminated by end August 2008. | (i) Sustaining the high proportion (85%) of children that receive three doses of vaccine against diphtheria, pertussis (whooping cough), tetanus, and Hepatitis B under two years. (ii) Proportion of births attended by a skilled health workers | Baseline: 81% Target: 85% | 87% (EPI reporting) | 85% | 85% | 85% | 85% |

²³ Governance issues relating to the temporary process action and the outcome indicator may be discussed in CWG3

²⁴ Until PMO-RALG confirms, it is not considered as part of 2008 PAF

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|--|---------------------------|---|---|---|---------------------------------------|---------------------------------------|---------------------------------------|---|
| | | (iii) Sustaining the high (80%) Tuberculosis completion treatment rate | Baseline: 62.8% (2006) Target: 80%(2010) | 65% | 65% | 65% | 65% | 65% |
| | | (iv) Number of people with advanced HIV infection receiving Anti-Retro Viral combination therapy | Baseline: 82.6% Target: | 80% | 80% | 80% | 80% | 80% |
| | | | Baseline: 60,000 Target: 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 |
| National Multisectoral Strategic Framework for HIV/AIDS Bi-Annual Review | | (i)National HIV prevalence ²⁵ in the 15 – 24 years age group (MKUKUTA Indicator) (male and female) | Baseline: 4% (2003/04) Target: 4% | To be determined after undertaking a second THIS survey 2007/08 | | | | |

²⁵ Target to be reviewed to take into account the effect of ARVs

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|--------------------------------|--|--|--|--|---------------------------------------|---------------------------------------|---------------------------------------|---|
| Education Sector Review | (i) By September 2008, agree on education sector performance report on the basis of an agreed sector monitoring tool | (i) Net primary school enrolment | Baseline: Average 94.8% Boys 95.6% Girls 93.9% Target: 99% | Average 97.3% Boys 97.6% Girls 97% | 97.7% | 98.2% | 98.8% | 99% |
| | (ii) By January 2008, agreement on a calendar of key education sector meetings | (ii) Transition rate from Standard VII to Form I | Baseline: Average 36.1% Boys 36.6% Girls 35.6% Target ²⁸ : 67.5% (50%) | Average 67.5% Boys 69.8% Girls 65.2% | 49% | 49% | 49% | 50% |
| | | (iii) Gross Higher Education enrolment ²⁶ | Baseline: 0.27% (2002) Target: 2% (6%) | Average 1.22% | 1.3% | 1.6% | 2.8% | 3.6% |
| | | (iv) Pupils : qualified Teacher ²⁷ Ratio in Primary Education | Baseline: 1: 73 (2007) Target: 1 :62 (2010) | | 1:73 | 1:71 | 1:66 | 1:62 |

²⁶ No figures for tertiary education are reliably available yet; therefore only higher education is used.

²⁷ Qualified Primary Education Teacher means Teacher of Grade A and/or above

²⁸ These are the realistic worked out targets for transition rate from Standard VII to Form I and for Gross Higher Education enrolment – those in brackets are MKUKUTA targets

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|---|---|---|---|-------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|
| Water Sector Review | (i) Submission to Parliament of principle Water Bills by end of first quarter 2008 | (i) Percentage of the population that has access to clean and safe water from a piped or protected source | Baseline: Rural 53% (2003) Urban 73.0% (2003) Targets: Rural 65%; Urban 90% | Rural 55.7%; Urban 78% | Rural 58.7% Urban 82% | Rural 61.9% Urban 85% | Rural 65% Urban 90% | |
| MKUKUTA Cluster 3: Governance and Accountability | | | | | | | | |
| Quality of consultations between Government and domestic stakeholders on the implementation of the MKUKUTA ²⁹ | | | | | | | | |
| Executive's Accountability to Parliament ³⁰ | | | | | | | | |
| NACSAP (II) | (i) A minimum of 5 grand corruption cases are either ready for prosecution or have been dismissed for reasons which have been made public by September 2008 ³¹ | (i) Number of grand corruption cases prosecuted as a % of investigated cases proposed by PCCB to the Director of Public Prosecutions | Baseline: 20% Target: 50% | 21% | 20% | 20% | 20% | |
| PSRP Review | (i) Pay Reform: A revised Medium-Term Pay Policy is adopted by Government by December 2008 as the | | | | | | | |

²⁹ The criteria for assessing this underlying process will be based on the proposed New Dialogue Structure

³⁰ Assessment criteria – Government reports submitted to the Parliament

³¹ The cases may include those mentioned at the 2007 GBS AR: Grand corruption is understood to mean one of the following characteristics; the amount involved in the allegation is huge; the personalities are high profile; the transaction alleged has cross boarder elements; and the matter is of public interest

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|----------------------|--|---|--|-------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|
| | <p>basis for reform of pay and allowances. Draft available by October 2008.³²</p> <p>(ii) Percentage of Citizens' requests for information that were met by Government <i>(Until the Governance group discusses and agrees on the methodology for data collection and assessment, it is not considered as part of 2008 PAF)</i></p> | | | | | | | |
| LSRP Review | <p>(i) Government to develop and implement a comprehensive capacity development and technical assistance program for the LSRP's implementing institutions including link officers</p> <p>(ii) Government to implement the LSRP MTS Coordination and Monitoring Structure as agreed with the LSWG</p> | (i) Percentage of Court cases outstanding for 2 years or more | Baseline: 70% or 58% Target: 40% | 46.7% | | | | |
| LGRP Review | <p>(i) Fast track harmonisation of channels of funding to LGAs from central government, DPs and NGOs.</p> <p>(ii) Simplify GoT budget structure to make</p> | (i) Percentage of total government budget allocated directly to LGAs, which does not go through ministerial votes and is calculated on a formula basis | Baseline: 16.1% 06/07 This budget figure awaiting Budget outturn figure. Target 25% | 19.7% | | | | |

³² Government has concluded a consultative process on the Medium Term Pay Policy by October 2008

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|--|--|---|--|--|--|---|---------------------------------------|---|
| | central local transfers more transparent, easy to monitor and on time. | | | | | | | |
| MKUKUTA Cluster 4(&5): Macro, Resource allocation and Public Financial Management | | | | | | | | |
| PFM Reform Program Review | <p>(i) Translate new PFMRP Strategic Plan into Annual Plan for 2008-09 and present at JSC of April 2008.</p> <p>(ii) Carry-out post-implementation review of IFMS by October 2008 provided funds are made available.</p> <p>(iii) Procurement Management Units (PMU's) established in all procuring entities (PE's) and full operationalisation of scheme of service for procurement cadre by 2010.</p> <p>Targets: October 2008: Regulations under the Procurement and Supplies Professional Board Act prepared and issued (gazetted). March 2009: Code of Conduct and Professional Standards for the Procurement and Supplies Professional issued. October 2010: Institutionalized Procurement training policy, standards, and monitoring and evaluation tools in place.</p> | <p>(i) NAO reaches level 3 of Afrosai capability model by 2010</p> <p>(ii) Average level of compliance of procuring entities with the Procurement Act 2004 to reach 80% by 2010¹ See Endnote</p> <p>(iii) Cash Management Unit in ACGEN and Cash Management Committee</p> | <p>Baseline: NAO starting to introduce Intosai and Isa international standards regarding formats, procedures and reports</p> <p>Targets: ¹See endnote Baseline: 2006/07: 39%</p> | <p>Audit manual which is in line with International Standards of Auditing and International Organisation of supreme audit Institutions (INTOSAI) prepared.</p> | <p>The Public audit act enacted</p> <p>49%</p> | <p>Train auditors on tracking expenditure through IFIMS.</p> <p>63%</p> | <p>80%</p> | |

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|----------------------------|---|--|---|-------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|
| | <p>(iv) Road map to be presented at the JSC of April 2008 on how to reach Internal Audit Standards by 2015.</p> <p>(v) Government to provide structured reply to the latest NAO report by end September 2008.</p> <p>(vi) Approval granted by October 2008 to create a new Department of Internal Audit in the Ministry of Finance and Economic Affairs .</p> | (including both MOFEA and BOT staff) to produce updated Government's three month rolling cash flow forecast and liquidity management plan at the end of each quarter | | | | | | |
| Budget Guidelines | | (iv)Approved budget broadly in line with policy objectives (MKUKUTA, sector policies) | | | | | | |
| Fiscal Reports (BER,QDR) | | (v)Expenditure outturn consistent with approved budget and recurrent budget deviation reduced: | Baseline: 18% Target: 10% | 17% (2006) | | | | 15% |
| PER/PEFAR | | | | | | | | |
| MKUKUTA Progress Reporting | | | | | | | | |
| PSI Review | | <p>(vi)Fiscal and monetary stability, reflected by:</p> <p>(i) Fiscal Deficit (after grants) as % of GDP consistent with PSI targets.</p> | Baseline: 6% Target: As per PSI review | | | | | |

³³ Confirmation to introduce period average in the calculation of inflation rate and for introducing targets both on fiscal deficit and inflation rate instead for as per PSI review is awaited from the Cluster lead

| Underlying Processes | Temporary Process Actions | Outcome Indicators | Baseline (2005) / Target (2010) | Actual as reported in AR 2007 | Target AR 2008 (data 2007 or 2007/08) | Target AR 2009 (data 2008 or 2008/09) | Target AR 2010 (data 2009 or 2009/10) | (MKUKUTA) Target AR 2011 (data 2010 or 2010/11) |
|----------------------|---------------------------|---|---|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|
| | | (ii) Inflation rate consistent with PSI targets ³³ . | Baseline: 4.5% Target: As per PSI review | 5.0% (FY06/07) 6.3% (FY06/07) | 4.1% 6.0% | 4.4% 5.3% | 3.8% 5.0% | 3.6% 5.0% |

ⁱ Baseline on Compliance with Procurement Act:

This average is an average for all the procuring entities (PEs) that are the subject of yearly procurement audits by PPRA (in 2006/07 there were 20 PEs, and in 2007/08 the plan is to audit 95 PEs). The system used is based on Compliance and Performance Indicators established by OECD/DAC – WB joint venture and few added by PPRA. PPRA is monitoring this indicator annually.

ⁱⁱ Targets for reaching level 3 of Afrosai capability model:

1) by February 2008

Submission of Public Audit Bill to Parliament

2) by April, 2008

- Start of roll-out of a new audit methodology using electronic working papers to a number of MDAs/LGAs as per NAOT plans

- Audit report for 2006/2007 released within nine months

3) by July 2008

- The new Public Audit Act is effective

- A new Establishment (organisational structure) for NAO is approved by the GoT and operationalised.

- Establishment of an increased number (minimum 2) of current regional offices to be independent of auditees' premises

- IT connectivity between a number of upcountry offices and NAO HQs established in accordance with NAO plans

4) by April 2009

- Audit report for 2007/2008 released within nine months

5) by July 2009

- Establishment of an increased number (minimum 2) of current regional offices to be independent of auditees' premises.

6) by April 2010

- Completion of the roll-out of the new audit methodology using electronic working papers according to NAO plans

- Audit report for 2008/2009 released within nine months

7) by July 2010

- Establishment of an increased number (minimum 2) of current regional offices to be independent of auditees' premises.

8) by October 2010, AFROSAI-E level 3 standards met (there are ten standards, all listed on the AFROSAI-E website)

| ANNEX 10: FINDINGS OF PEFA, 2006 | | | | | | |
|----------------------------------|--|---------|----|----|---|--|
| No. | Indicators | Scoring | | | | Comments |
| | | 07 | 04 | 05 | 06 | |
| A | PFM OUT-TURNS: Credibility of the budget | | | | Some improvement | |
| 1 | Aggregate expenditure out-turn compared to original approved budget | B | B | A | A | In 05/06 12% deviation. 06/07 3%. GBS shortfalls |
| 2 | Composition of expenditure out-turn compared to original approved budget | C | B | D | D | Contingency and new recruitment problems in 04/05 – now planned at MDA level |
| 3 | Aggregate revenue out-turn compared to original approved budget | A | A | A | A | Low as % of GDP but consistently exceeding targets |
| 4 | Stock & monitoring of expenditure payment areas | C+ | A | A | A | No info on consolidated stock of arrears. Previously generously scored. |
| B | KEY CROSS-CUTTING FEATURES: Comprehensiveness and Transparency | | | | Some improvement | |
| 5 | Classification of the budget | C | C | C | C | No COFOG. Stagnated |
| 6 | Comprehensiveness of information included in budget documentation | A | B | A | A | No MTEF. No change |
| 7 | Extent of unreported government operations | B | C | B | B | Data only for aid projects (24% of aid off budget) |
| 8 | Transparency of inter-governmental fiscal relations | C+ | | C+ | C+ | Development of formula – improvement but still problems. Weak communication from CG to LG |
| 9 | Oversight of aggregate fiscal risk from other public sector and entities | C | C | C | C | No data consolidation for SN G, AGAs and PEs. Laws are an obstacle. Due diligence and central dbase developing during 07/08 |
| 10 | Public access to key fiscal information | B | C | B | B | Improvement of websites and publication of releases. Need improvement of presentation |
| C | BUDGET CYCLE | | | | | |
| | C (i) Policy-Based Budgeting | | | | Worse | |
| 11 | Orderliness and participation in the annual budget process | C | C | B | B | Stagnation / worse |
| 12 | Multi-year perspective and fiscal planning, expenditure policy & budgeting | C+ | B- | B | B | Stagnation. Investment in SBAS but not linked to MTEF. Capturing of PEs at MDA level improvement |
| | C (ii) Predictability and Control in Budget Execution | | | | Mixed. Some improvement, some efforts underway, some stagnation | |
| 13 | Transparency of tax-payer obligations & liabilities | B+ | | B | B | Improvement esp. VAT and income tax laws but still long way to go – e.g. taxation procedures court. Good education program ▲ |
| 14 | Effectiveness of measures for tax-payer registration & tax assessment | C+ | | C | C | Despite ITAX and TIN still isolated systems. Penalties not specially defined. LTD good audit but DRD weak |
| 15 | Effectiveness in collection of tax payments | D+ | | D+ | C | Debt collection ratio improved – written off bad debts. Weak reconciliation |
| 16 | Predictability and the availability of funds for commitment for expenditures | C+ | C | C+ | C+ | Stagnation. Cash budget system so MDA requests not always met. Budget adjustments quite frequent |
| 17 | Recording and management of cash balances debt and guarantees | B | | B | B | Big improvement 2000-2002 but little change since then |

| | | | | | | |
|----|---|----|-----------|----|----|--|
| 18 | Effectiveness of payroll control | C | B | C+ | C+ | Reconciliation not monthly as required but at least every 6 months by MDAs. Computerisation delayed |
| 19 | Competition, value for money and control in procurement | B | C- | D+ | D+ | Improvement – PPA 2004, PPRA 2005. Need to monitor and justify use of less competitive methods |
| 20 | Effectiveness of internal controls for non-salary expenditure | B+ | C | C+ | C+ | IFMS roll out continuing. Unclear controls without IFMS |
| 21 | Effectiveness of internal audit | C | C | C | C | Efforts to improve (CIA unit) but will take time to see improvement. Still very limited capacity ▲ |
| | C(iii) Accounting, Recording and Reporting | | | | | No change |
| 22 | Timeliness and regularity of accounts reconciliation | C+ | B | B | C | Treasury accounts – not all of G |
| 23 | Availability of information on resources received by service delivering units | C | | C | C | Lack of info – PETS tracking shown low % of funds received. |
| 24 | Quality and timeliness of in-year budget reports | C+ | C | C+ | C+ | Flash reports contain a lot of information, however accuracy problems which are not highlighted |
| 25 | Quality and timeliness of annual financial statements | B+ | | B+ | B+ | No change |
| | C(iv) External Scrutiny and Audit | | | | | Problems remain |
| 26 | Scope, nature and follow up of external audit | C+ | D | D+ | C | Still weak but efforts to improve follow up. |
| 27 | Legislative scrutiny of annual budget law | C+ | | C+ | C+ | Weak capacity |
| 28 | Legislative scrutiny of external audit reports | C | B- | C+ | C+ | Serious delays and not evidence of efforts to improve |
| D | DONOR PRACTICES | | | | | Limited improvement re GBS |
| 1 | Predictability of direct budget support | C+ | C all aid | C | C | Improvement of GBS predictability. Still problems with project funds and worsening for basket funds |
| 2 | Financial information provided by donors for budgeting & reporting on aid | C | | C | C | Still challenges |
| 3 | Proportion of aid that is managed by use of national procedures | C | D | C | C | No update |