Joint Donor Assessment of the Underlying Principles

in March 2014:

CONCLUSIONS

18/03/14

**Note:** While the World Bank and the African Development Bank support the approach set out in this assessment, they cannot adhere to it because of their respective overall legal mandates as well as their own operational policies and guidelines. Both institutions will however coordinate their assessment with the proposed approach in relevant areas.

**Overall Conclusions of the Assessment**

1. The Assessment concludes that the Government of Tanzania continues to be committed to the Underlying Principles outlined in the Partnership Framework Memorandum.
2. The Assessment identifies issues that Development Partners (DPs) would like to discuss further with the Government of the URT in order to identify and support solutions. A number of specific issues arising from this Assessment can be pursued through sector dialogues.
3. DPs remain concerned about lack of progress in poverty reduction and provision of equitable and quality services. Government initiative to further improve the access to and quality of public services would be much welcome.
4. DPs encourage the Government to take a more active approach in the fight against corruption.

| **UP** | **Summary Assessment** | **Issues for Dialogue** |
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| **(1) Continuing sound macroeconomic policies and management** | **Green** | **Orange** | * **GoT commitments and/or guarantees regarding parastatals**
* **The new VAT Act**
* **The adjustment to last year’s domestic borrowing and this year’s potential revenue shortfall**
* **Goal of renewing the PSI arrangement with IMF**
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| **(2) Commitment to achieving MKUKUTA II objectives and MDGs** | **Orange** | * **Pro-Poor Policies**
* **Inclusive Growth**
* **Attention to MDGs**
* **Equity & quality services**
* **Better data**
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| **(3) Continually strengthened budgeting and public financial management systems** | **Green** | * **Budget Credibility**
* **Legislative Reforms**
* **Debt Sustainability & Fiscal Risk**
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| **(4) Continuing peace and respect for human rights, the rule of law, democratic principles,****and the independence of the judiciary** | **Green** | **Orange** | * **Need to advance progressive legislative reforms**
* **Implementation of accepted UPR recommendations**
* **Transparency and security of land tenure**
* **Effectiveness of the election management bodies**
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| **(5) Good governance, accountability of the Government to the citizenry, and integrity in public life, including the active fight against corruption in accordance with the laws of the United Republic of Tanzania** | **Orange** | * M**ore active approach against corruption**
* **Administrative sanctions for petty corruption offences**
* **Regular, effective and well-informed HLD on Anti-Corruption**
* A**ccess to information**
* **Implementation of the recommendations of CAG reports; role of NAOT, Bunge**
* **Constitutional Review**
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**Underlying Principle 1**

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| **UP 1** | **Summary Assessment** | **Key concerns to Raise in Dialogue** |
| **Continuing sound Macroeconomic Policies and Management** | **Green** | **Orange** | * **GoT commitments and/or guarantees regarding parastatals** need to be discussed and addressed since these contingent liabilities have the potential to significantly impact GoT fiscal space. The PER study approved for 2014 on contingent liabilities and pensions can form an input for such discussions.
* **The new VAT Act** should be prepared and passed in order to improve tax revenue. This could include removal of a number of exemptions as well as looking at the discretionary powers from legislation.
* **The adjustment to last year’s domestic borrowing as well as this year’s potential revenue shortfall** should be managed in a planned and transparent way in line with fiscal targets. Technical agreement reached with recent IMF mission is welcome, but it is, important that Government now follows through with planned expenditure adjustment and is important that the government keeps to the medium term plan for deficit reduction as the deficit impacts government debt, private sector growth and overall macro stability. The accumulation of new arrears should be avoided. The potential for capacity improvements in the management of these types of issues should be discussed. It is recommended that the GoT follows its stated goal of renewing the PSI arrangement with IMF
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| **Conclusions:** Economic growth is expected to remain strong at approximately 7% but the uneven distribution of the economic benefits, mainly due to the lower growth in the populous agricultural sector, remain an issue for concern. Regarding macroeconomic policies and management, the Government of Tanzania has for the most part been able to manage main imbalances through a prudent monetary and fiscal policy. However for the fiscal year 2012/13 the high budget deficit of 5,8% of GDP, 0.3% higher than planned, resulted in net domestic financing at a level higher than agreed with IMF. The main reason was very ambitious revenue targets combined with higher than forecasted levels of expenditure. There has also been an increase in non-concessional borrowing resulting in rapidly increasing debt service. For the first part of this fiscal year, revenue has fallen short of initial projections, requiring an adjustment of the budget. The GoT handling of inflation is seen as adequate and inflation is down to single digits at 6.0% in January 2014. If Cabinet approves agreed expenditure reductions and draft VAT Act for submission to Parliament, the IMF will be able to conclude their SCF Review.The Current Account deficit, to a large part driven by expensive oil imports, is expected to decline in the medium term as cheaper gas from the Mtwara region becomes available. It is expected that the energy tariff increase in combination with the significant DP support that has been agreed will provide sufficient to allow the GoT to meet the financial difficulties of TANESCO within the agreed fiscal framework. Other issues potentially of concern are fluctuations in commodity prices, shortfalls in revenue collection, the substantial tax exemptions as well as contingent liabilities and arrears related to parastatals and PPPs. The 2014 PER studies will look at arrears, contingent liabilities, pensions, PPPs and non-tax revenues. |

**Underlying Principle 2**

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| **UP** | **Summary Assessment** | **Points to Raise in Dialogue** |
| **Commitment to Achieving MKUKUTA II Objectives and MDGs** | **Orange** | * **Pro-Poor Policies:** With MKUKUTA II coming to an end in 2015 it will be crucial to retain a comprehensive policy framework with clear pro-poor focus.
* **Inclusive Growth:** Economic growth needs to become more inclusive in the light of persistence of poverty and limited broad-based job creation.
* **MDGs:** Greater attention is needed for MDGs registering less progress (poverty and hunger, maternal mortality, education, water access and sanitation, environmental sustainability).
* **Equity & quality services:** Commitment to equity in different sectors needs to be strengthened within and outside BRN, with particular emphasis on reaching the rural, poor and vulnerable. It is important that improved service delivery in health remains a government priority, even if it is not currently part of BRN. Improved efficiency in expenditure, implementa­tion capacity, institutional and regulatory framework are necessary in all sectors.
* **Better data:** There is a need to more thoroughly understand poverty dynamics through better data, analysis and debate, in order to be able to formulate better pro-poor policies and priorities.
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| **Conclusions**: Despite impressively high GDP growth rates over the past decade, poverty in Tanzania has remained unchanged. It is estimated that about one third of Tanzania’s population lives in poverty without significant changes over the past decade. Population growth continues to be rapid, and the expansion of services struggles to keep up with a huge increase in numbers of children and young people. The country should be in a position by 2015 to achieve the MDG goals for gender equality, reduction of infant mortality and fight against the spread of HIV and AIDS, malaria and others diseases. Goals that will likely not be met by 2015 are the ones related to the eradication of extreme poverty and hunger, maternal health and environmental sustainability regarding the proportion of population having access to safe drinking water, safe sanitation and primary education. The fast growing sectors of the economy have not been able to trickle down and reach the poor. The deficient progress in poverty reduction indicates that economic growth needs to become more inclusive. The growth in the economy has not been sufficient to provide full, productive employment to more than a small portion of the 700,000 additional workers who enter the domestic labour market every year. One major challenge is to reach out to labour intensive sectors and enhance rural livelihoods and public service delivery. In order to be able to formulate better pro-poor policies and priorities, poverty trends and dynamics need to be better understood. The results of the long awaited Household Budget Survey 2012 indicate that the overall basic needs poverty in Tanzania is 36,482 Tanzanian Shillings per adult equivalent per month and the food poverty line is 26,085 Tanzanian Shillings per adult equivalent per month. This means that 28.2% of the Tanzanian population fall below the basic needs poverty line with a percentage of 33.3 in rural areas, and 9,7% fall below the food poverty line. It is important to review HBS 2007 to attempt to match with HBS 2011/2012 methodology to be able to analyse and confirm the poverty trend. Overall, there is a need to ensure timely and high quality data, in-depth analysis and dedicated debate to poverty trends. It will be important that findings on poverty are used to inform the development of more pro-poor policies and prioritisation of spending, so that quality and equity of services can be improved. Recent HBS 2011/2012 reveals that 28,2 % of the Tanzanian population falls below the basic needs poverty line and 9,7% falls below the food poverty line. In an effort to strengthen its pledge to reduce poverty, the GoT embarked, in 2013, on a further narrowing of focus and strives to speed up the implementation of the FYDP through the initiative Big Results Now (BRN). This new tool is being put in place to assist the GoT in setting priorities and monitor the rapid implementation of these key priorities (before mid-2015). Six key priority areas have been identified: energy, agriculture, water, education, transport and revenue mobilization. One additional Lab on Business Environment has been put in place early 2014 to prioritise fixing the business climate challenges and to elevate the search for solutions and action plans. It provides an opportunity to brainstorm with the private sector around what are the imperative steps to achieve economic development and poverty reduction. In addition to political leadership at the highest level, inter-ministerial collaboration and coordination are needed to address many of the systemic causes which continue to give shape to the current situation. Moreover, equitable resourcing and implementation of articulated pro-poor policies are required to demonstrate GoT’s renewed commitment. It is necessary to engage with the private sector through public private partnership to participate in FYDP and BRN’s investments plans. In terms of growth contributing sectors, the transport sector is facing important financing gaps that have affected maintenance and long-term planning. In addition, the lack of reliable, affordable and sustainable energy services continues to be a critical constraint for private sector development. There are improvements in key areas (e.g. institutional strengthening for agricultural research, upgrade and rehabilitation of trunk and regional roads, draft national policy for private sector development); however challenges remain for public expenditure efficiency and the regulatory framework. In relation to public service delivery - particularly in terms of overall access to education and health - Tanzania is making important progress. However, there is concern about the unequal access to and quality of basic public services. For education, water, and health sectors, inequities exist based on geography, wealth, and urban/rural residence. While there has been success across a range of public service delivery areas, there is a need to improve both quality of public service delivery and measurement of their implementation effectiveness on the ground. Insufficient budget allocation, weak management and a lack of accountability for the delivery of results and quality services are compromising service delivery.  |

**Underlying Principle 3**

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| **UP** | **Summary Assessment** | **Key Concerns to Raise in Dialogue** |
| **Continually strengthened budgeting and public financial management systems** | **Green** | **(a) Budget Credibility**(1) The budget process delivers a budget which is not being realistic. Of particular concern are fiscal expansion, inaccurate revenue forecasting and accumulation of arrears.(2) PFMRP is engaging on all these issues but continued high level ownership is required. **(b) Legislative Reforms**A number of necessary legislative reforms are pending. These include VAT Act, Tax Administration Act, amendments to Public Finance Act, Local Government Finance Act, new Loans and Guarantees Act, Treasury Registrar Act and others. It is necessary that these changes are submitted to parliament as quickly as possible in order to support increased revenue generation and better management of fiscal risks. **(c) Debt Sustainability & Fiscal Risk**(1) The institutional set up of the Debt Management Office is still pending. It is of high importance to finalize the institutional set-up and to approve staff.(2) Strengthening of the Treasury Registrar is critical to improve monitoring the fiscal risk posed by PA&OBs.  |
| **Conclusions:**The overall picture remains positive. It is evident that the budgeting and public financial management systems are continually being strengthened.Several improvements are noted in the PEFA 2013 report. Aspects that have improved include:* Effectiveness of internal audit,
* Effectiveness of payroll control,
* Annual budget process and
* Procurement oversight and external audit.

As noted by the PEFA report, there are multiple PFM weaknesses which contribute towards the lack of budget credibility. These include weaknesses in the budget preparation system (over-budgeting in the development budget, under-budgeting in some areas of recurrent expenditure) and the budget execution system (cash rationing due to resource uncertainty, lack of commitment controls). As a result expenditure arrears have been accumulating, which are paid out of budgets in following years at the expense of planned service delivery. The following issues, which all impact directly on the credibility of the budget, require special attention:* Weaknesses in cash flow management and payment arrears,
* Weaknesses in and non-compliance with internal control systems,
* Fiscal risks posed by Public Authorities and Other Bodies (PA &OB).

The pace of improvement may not be quick. PFM reforms are complex and influenced by manifold factors, some of them outside the control of the Ministry of Finance (MoF), such as political pressure on the executive in regard to budget preparation and execution and heavy bureaucracy in the Tanzanian administration, i.e. legislative procedure, adoption of regulations. It is clear that the PFM systems continue to be strengthened albeit slowly, and that the Government shows strong leadership in addressing weaknesses highlighted in the PEFA 2013 . |

**Underlying Principle 4**

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|  | **Summary Assessment** | **Key Concerns to Raise in Dialogue** |
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| **Continuing peace and respect for human rights, the rule of law, democratic principles,and the independence of the judiciary** | Green | Orange | * Need to advance progressive legislative reforms, e.g. Media Services Bill; FoI Legislation and Public Leadership Code of Ethics legislation. Free and independent media should be properly regulated but also protected by appropriate legislation.
* Important to set out plans, prioritisation and progress for implementation of accepted UPR recommendations and to other main HR committees (CESCR, CCPR, CRC, CEDAW) and to Government commitment to consider ratification of the CAT.
* Action is required to increase the transparency and security of land tenure. Current weaknesses inhibit land rights which increase the potential for conflicts, can be an investment disincentive and be of risk for sustainable use of natural resources.
* Paramount to ensure the effectiveness of the election management bodies (NEC, ZEC, RPP) and the voter registers to ensure a peaceful and credible Constitutional referendum and the 2015 elections.
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| **Conclusions:** Peace: Tanzania has overall enjoyed sustained peaceful relations with its neighbours and remains a relatively cohesive state despite growing tensions, either religious in nature or under the guise of religion, and increased demand from some on Zanzibar for greater autonomy.Human Rights: Tanzania has a stable human rights record. Fundamental freedoms are enshrined and generally respected but some restrictions are noted; some laws discriminate against women. A number of challenges and concerns are however noted:* The main challenge lies in practical implementation of international and domestic human rights commitments;
* Most pervasive human rights issues relate to status of women and children – which remains a serious issue;
* Some restrictions on freedom of assembly and rights of expression and opinion remain;
* An increase in incidents relating to the treatment of the media and journalists has been observed;
* There is a need to increase transparency & security of land tenure to improve land rights/decrease conflict potential.

The 2011 UPR and Tanzania’s subsequent response offers an agenda for human rights advancement.Rule of Law/Independence of the Judiciary: Tanzania enshrines the rule of law and equitable access to justice. The Judiciary is seen as lacking capacity and there are consistently high perceptions of corruption reported. However it is more independent than it once was and Parliament as more assertive, but the Executive continues to exercise influence over both.Democratic Principles: The 2010 elections fell short of some international principles but credible & improvement on previous elections. The Constitutional Referendum and the 2015 elections offer opportunities to consolidate and improve Tanzania’s credentials, but there are potential risks if outcomes are not regarded as progressive. Especially crucial is the (perceived) integrity of the voter registers and the institutions responsible for the conduct of credible elections. Recent demonstrations suggest that GoT’s effective management of public order will be critical going forward. |

**Underlying Principle 5**

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| **UP** | **Summary Assessment** | **Key Concerns to Raise in Dialogue** |
| **Good Governance, accountability of the government to the citizenry and integrity of public life, including the active fight against corruption in accordance with the laws of the United Republic of Tanzania.** | **Orange** | * A **more active approach against corruption** is needed - including movement on potential grand corruption in key sectors (Health, Port, Energy). With regard to the energy sector, there is particular concern around potential wrongdoing including possible corruption in respect of the IPTL case. Such wrongdoing merits GoT investigation.
* A greater use of administrative sanctions for petty corruption offences is required; including the police and judiciary.
* The current situation underlines the ongoing requirement for regular, effective and well-informed HLD.
* Strong government commitments on **access to information** (e.g. EITI, OGP, FoI) but implementation and impact is still limited. Increasing public access to information (data, policy, budget allocations etc.), including at the local level, would be a major boost for accountability.
* Better follow-up and implementation of the **recommendations of CAG reports** would further improve the important oversight role of the NAOT. It is also crucial to ensure that Bunge's debate of CAG reports retains its important role in the accountability cycle.
* The **Constitutional Review Commission** has done commendable work and the review process has been a positive indication of citizen’s participation to-date. It is important that the inclusive approach is maintained in subsequent phases.
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| **Conclusions:**Access to information/transparency: The GoT demonstrated high international political-level commitment to improved openness, transparency and access to information through OGP (Open Government Partnership) and EITI. Commitments to OGP have been reiterated at the highest level of GoT on several occasions in 2013. EITI in turn has sparked a broad debate on resource transparency which otherwise might have been absent. The Multi-Stakeholder Group (MSG) of EITI has approved the rather ambitious Action plan for 2014, which implements new EITI standards. Also, the Big Results Now offers opportunity for deepening accountability to citizenry. However, in particular OGP commitments have to be followed by much more rigorous implementation. Progress to date has been minimal, as evidenced both by the GoT’s OGP self-assessment report and the OGP Independent Review Mechanism report. .Access to information remains limited despite OGP commitments and despite being articulated clearly in the Constitutional Review consultations. This is further emphasized by constraints on the media (see UP4). The public commitment by the President of GoT in October 2013 to present a modern Access to Information bill to parliament by April 2014 constitutes a positive sign.Citizen’s voice and participation: The Constitutional Review Process has been broad-based and inclusive, showing a high degree of citizen’s participation. The conclusion of this on-going process in a bipartisan and inclusive way could make the Tanzanian CRP a model for the region. However, in general terms, citizen’s participation and engagement in domestic processes and decision making still leave considerable room for improvement. Transparency of government, access to information, freedom of the media and supportive legislation are crucial in this regard. |
| Executive accountability to Parliament: Parliamentary scrutiny of the budget, budget debates in parliamentary committees and plenary, and the quality of audit reports have consistently improved. The revised budget cycle has contributed positively to this. However, there is still scope for strengthening parliamentary oversight of the budget, in particular with regard to access to budget information. A serious concern is that GoT follow-up to audit findings and recommendations remains weak. Amendments made to the Audit Act (early 2013) implied a delay in the parliamentary debate of CAG audit reports (and PAC reports of the same), which raised concerns whether the oversight role of parliament in scrutinizing CAG reports would be weakened. In 2013, the executive's response to audit findings was submitted in October permitting subsequent parliamentary debate in the November session of Bunge. It remains crucial to ensure that the parliamentary debate of audit reports is timely and informed also in the future.Good Governance:Governance systems that function with efficacy are an underlying assumption for GoT to achieve its development objectives and the delivery of essential basic services. The core governance reforms have been the principal mechanisms to improve such systems and processes to date. Progress in these programs has lately stalled, and GoT’s own financial contributions to the programs have been limited. In addition, many international indices measuring aspects of governance in Tanzania point to either stagnation or a slight decline in recent years (e.g. IIAG, BTI, WGI, Ease of doing business). The GoT’s plans for improving governance systems after 2014 remain currently unclear.Corruption: The evidence reviewed shows a society where corruption is highly prevalent, and risk of corruption is substantial. After some positive movements in 2012, there were few significant developments in the fight against corruption in 2013. A high number of unresolved corruption cases remain in the courts. Under-use of administrative sanctions is also a central concern. Tanzanians perceive an increase in corruption over the past 4-5 years and rank Police and Judiciary as most corrupt sectors. Looking at a wider range of indicators, the overall trend on corruption appears static to declining. Recently published data sources (TI, Bertelsmann) show a slight decline in scores for Tanzania, and in most indicators Tanzania now hovers around the Sub-Saharan African average. The key question remains whether an active fight against corruption is in place; more evidence is required to provide a comprehensive judgement on this, taking into account the full range of action taken by the Government, beyond legal sanctions. Ensuring an effective HLD as means for dialogue and information sharing will be critical in this regard.  |