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THE UNITED REPUBLIC OF TANZANIA

Joint Staff Advisory Note (JSAN)
of the National Strategy for Growth and Reduction of Poverty
(NSGRP—MKUKUTA II)

Prepared by the Staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

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I. INTRODUCTION

1. **This Joint Staff Advisory Note (JSAN) reviews Tanzania's Second National Strategy for Growth and Reduction of Poverty (NSGRP--MKUKUTA II) (2010/11-2014/15).** MKUKUTA II was made public during the Annual National Policy Dialogue on December 2, 2010, and was subsequently submitted by the authorities to the International Development Association (IDA) and the International Monetary Fund (IMF).

2. **Building on the first NSGRP (MKUKUTA I), MKUKUTA II provides an operational framework for achieving the Millennium Development Goals (MDGs) and Tanzania's Development Vision 2025, which aims to transform Tanzania into a middle income country.**[1] MKUKUTA II adopts a result-based approach focusing on three clusters: Cluster I: Raising economic growth for reducing income poverty; Cluster II: Improving the quality of life and social well-being; and Cluster III: Improving governance and accountability. MKUKUTA II focuses more than its predecessor on enhancing productivity and growth in order to achieve more marked success in reducing income poverty. To do this, MKUKUTA II identifies selected "growth drivers," such as agriculture, and outlines sectoral strategies to promote productivity and private sector activity in these areas. The strategy also calls for a shift toward a greater role of the private sector in economic growth. To that end, five overarching themes are established: strengthening and establishing well functioning institutions and markets;

[1] The United Republic of Tanzania is formed by the union of Tanganyika and the isles of Zanzibar; the latter has its own government for internal affairs, the Revolutionary Government of Zanzibar. The Revolutionary Government of Zanzibar developed a Zanzibar-specific strategy, the Second Zanzibar Strategy for Growth and Reduction of Poverty (MKUZA II), which was launched in December 2010. It provides a framework consistent with MKUKUTA II, guiding the growth and poverty reduction agenda in Zanzibar over 2010/11–2014/15.

efficient use and development of factors of production; provision of infrastructure; ensuring good economic governance; and resource mobilization and financing.

3. **MKUKUTA II was developed through a broad-based consultation process led by the Government and involving many stakeholders.** The process began with in-depth sectoral reviews of MKUKUTA I, the results of which informed the design of MKUKUTA II. Consultations on the draft were conducted with Ministries, Departments and Agencies (MDAs); Local Government Authorities (LGAs); the Parliament; civil society; academic institutions; and the private sector.

4. **MKUKUTA II was formally endorsed by the Government following federal elections on October 31, 2010, but its costing and some implementation/monitoring arrangements need to be further specified.** After being elected to his second term, President Jakaya Kikwete endorsed MKUKUTA II and made it public during the December 2010 Annual National Policy Dialogue to help further build ownership within his new administration. Nonetheless, some implementation arrangements still need to be specified: while MKUKUTA II outlines the desired goals, operational targets, and intervention packages for each cluster, a plan for implementation is still being developed and the plan for monitoring is being revised. Costing of sectoral programs has not been finalized, so aggregated MKUKUTA II costs are estimated, although many MKUKUTA II expenditures have already been incorporated into the Government's current fiscal year budget.

5. **For the past decade, Tanzania has experienced high rates of economic growth, thanks to economic liberalization, sound macroeconomic policy management, and an expanding public sector.** Growth accelerated from 3.5 percent on average in the 1990s to around 7 percent over the past decade. Improvements in tax administration, consistent provision of foreign aid, and debt relief created space for a significant expansion in public spending, which increased from less than 16 percent of GDP in 2000 to almost 28 percent in 2009. The increase in public expenditure in education and health allowed significant progresses toward achieving MDGs in those areas. These achievements notwithstanding, there has been less progress in reducing income poverty and boosting private consumption.

6. **Key risks for MKUKUTA II implementation include insufficient financing, delays with meaningful structural reforms to address supply constraints, and unclear prioritization.** The increase in MKUKUTA II-related spending is ambitious: MKUKUTA II identifies financing needs and some options to meet those needs, but it does not consider the various pros and cons or feasibility of the options. Moreover, it is based on very ambitious domestic revenue projections: implementation of its components should be better prioritized, as contingency planning in case the resource envelope turns out to be smaller than envisaged. Significant political will is needed to implement structural reforms to improve the business climate, which remains a key constraint to private-sector led growth. Moreover, constraints to capacity for such large spending increases could result in under-execution or potential losses in spending efficiency: MKUKUTA I monitoring revealed that better prioritization would have strengthened the quality and pace of its implementation. An implementation plan and a monitoring plan for MKUKUTA II will be central complements.

7. **This JSAN provides the staffs' analysis and advice to strengthen MKUKUTA II to help ensure its effective implementation.** Key recommendations are to expand fiscal space through improving spending efficiency and enhancing domestic revenue mobilization in line with its potential, decisive actions to improve the investment climate, a well-considered plan for addressing infrastructure gaps, better prioritization of the strategy's objectives, and better specification of costing and realistic financing.

II. POVERTY DIAGNOSIS AND SOCIO-ECONOMIC STATUS

8. **MKUKUTA II describes the poverty profile and socio-economic status in Tanzania, drawing mainly on recent household and sectoral surveys.** Tanzania is on track to meet roughly half of the MDGs by 2015. The primary school enrollment improved from 59 percent in 2000/01 to 95.4 percent in 2010 on the mainland;[2] it also increased substantively in Zanzibar, from 75.7 percent in 2006 to 81.4 percent in 2010.[3] Mortality rates for under-five children decreased from 112 per 1000 live births in 2004/05 to 81 in 2009/10 on the mainland and from 101 in 2004/05 to 79 in 2007/08 in Zanzibar.[4] The prevalence of HIV/AIDS dropped from 7.0 percent in 2003 to 5.7 percent in 2007/08, and there were only 27 reported cases of malaria per 1000 persons in 2007/08.[5]

9. **Nonetheless, MKUKUTA II acknowledges that income poverty has been reduced only marginally, making it a central priority.** On the mainland, the incidence of poverty was 33.6 percent in 2007, declining slightly from 35.6 percent in 2000/01.[6] In Zanzibar, the incidence of poverty is projected to have declined from 49 percent in 2004/05 to 40 percent in 2009, missing the target of 25 percent by 2010 by a large margin.[7] The country is unlikely to meet the MDG target of halving income poverty by 2015.

10. **MKUKUTA II notes that progress in reducing poverty in rural areas has been particularly slow, which is supported by existing analytic work.** On the mainland, the incidence of poverty in rural areas, which house the majority of the population, reached 37.6 percent in 2007, only 1.1 percent below its level in 2001. In contrast, the incidence of poverty was 16.4 percent in Dar es Salaam and 24.1 percent in other urban areas in 2007.[8] Tanzania has comparative advantages in agricultural production, making agriculture a central channel for reducing income poverty, especially in rural areas. However, the sector has not performed in line with expectations over the past decade. Among those who identified agriculture as their main source of income, poverty incidence is the highest at 38.7 percent.[9] Agricultural growth in Tanzania has been mainly driven by an expansion in land under cultivation, rather than an increase in productivity per unit of land, partly reflecting underdeveloped rural infrastructure.[10] In addition, a maze of taxes and regulations by LGAs,

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[2] MKUKUTA Annual Implementation Report 2009/10; World Bank, Rapid Poverty Assessment 2008.
[3] MKUZA October 2010.
[4] MKUKUTA Annual Implementation Report 2009/10; MKUZA October 2010.
[5] Tanzania HIV/AIDS and Malaria Indicator Survey 2007/08.
[6] World Bank, Rapid Poverty Assessment 2008.
[7] Zanzibar Human Development Report 2009; the target was set in MKUZA I (2007).
[8] World Bank, Rapid Poverty Assessment 2008.
[9] Rapid Poverty Assessment 2008
[10] World Bank, Country Economic Memorandum 2007.

Crop Boards, and cooperatives has driven a wedge between producer and market prices, reducing farmers' incentives to produce. Determined efforts are needed to address these bottlenecks and unleash the potential of the agricultural sector as a leading driver of growth and employment creation.

Private sector growth is curtailed by serious supply constraints, undermining its contribution to income poverty reduction, which MKUKUTA II could usefully provide more in-depth discussions. The costs of basic inputs for private business, e.g. power, water, transport, and legal protection, remain very high, while inefficient factor markets and regulatory burdens undermine investment incentives. Access to financial services is quite limited—less than 17 percent of formal businesses reported borrowing from financial institutions and the stock of private sector credit is only 16–17 percent of GDP.[11] The formal private sector is too narrowly based to provide sufficient employment opportunities—less than 30 percent of total non-agriculture employment was registered as private wage employment in 2006.[12] In recent years, measures to improve the business climate and productivity have been quite limited, and Tanzania's ranking in the World Bank's Doing Business Database has deteriorated, from 125 in 2009 to 128 in 2010. Measures to facilitate private investment and employment generation could complement public actions to lower poverty in Tanzania.

11. **MKUKUTA II rightly pointed out that rapid population growth has impeded poverty reduction.** Even though the poverty rate declined between 2001 and 2007, the absolute number of the poor increased by 1.3 million over the same period. Fast population growth poses challenges for youth employment and the provision of social services. Such tensions will continue since the still-high fertility rate has been combined with positive developments such as lower child mortality and increased life expectancy. Polices are needed to address the demographic challenges, including by improving secondary school attainment for girls and providing incentives to employ women and young people, to reduce both population growth and income poverty.

III. PRIORITY ACTIONS AND CRITICAL AREAS FOR PRO-POOR GROWTH

A. Macroeconomic Framework and Fiscal Choices

12. **The ambitious growth projections underlying MKUKUTA II (8.5 percent annually) will require policy interventions on multiple fronts.** Many are identified in MKUKUTA II, but would need further specification to ensure their effective and timely implementation. In particular, the public investment program needs to identify high-return infrastructure projects to reduce inordinately high input costs, for example, in transport, power, water, and telecommunication.

13. **Underlying revenue projections are likely to err on the optimistic side.** In the absence of aggregated costing of sectors, MKUKUTA II costs are drawn from revenue projections. The budget framework for FY10/11–FY14/15 assumes an increase of domestic revenues from the current level of 15 percent of GDP to 19 percent; however, currently proposed measures to

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[11] World Bank, World Development Indicators; World Bank, FinStats Database 2010.
[12] World Bank Staff calculations based on Tanzania Integrated Labor Force Survey, 2006.

improve tax administration are unlikely to achieve these gains, and the projections are far above those agreed in Tanzania's program under the IMF's Policy Support Instrument (PSI). Moreover, MKUKUTA II is to absorb a significantly higher share of domestic revenue (84 percent, compared to 60 percent under MKUKUTA I) through a combination of an increasing revenue envelope and constraints on growth of recurrent spending. If domestic revenue expansion is less than projected and/or recurrent spending is not contained, implementation of MKUKUTA II could be jeopardized.

14. **The discussion of external debt policy shows some inconsistency.** The strategy commits, on the one hand, to reduce external debt given the risks it could pose for maintaining macroeconomic stability, and, on the other hand, relies on foreign borrowing, both concessional and non concessional, to finance infrastructure investment. Although the amount of foreign borrowing is broadly in line with that projected in the PSI-supported program and is not expected to threaten debt sustainability, the choice between alternative financing options will be a critical factor in limiting the rise of debt servicing costs in the budget. In addition, it will be important to ensure that the maturity of the debt aligns with the likely returns from the investment. In that context, staffs encourage the authorities to strengthen debt management capacity as a priority, in line with recommendations from their technical assistance partners.

15. **Even with optimistic revenue estimates, MKUKUTA II acknowledges that there will be a substantial financing gap in the Government budget.** A number of options are explored to eliminate this gap, including public-private partnerships (PPPs) and higher recourse to net domestic financing (NDF). However, there are limits on the extent to which these sources can be tapped. While PPPs could be helpful for financing MKUKUTA II, the authorities will need to develop their capacity to assess potential related contingent risks. In addition, there are reasons for caution about the amounts that can be raised that way. Even in countries where PPPs have been successful, the size of the private sector contribution has been modest. As for domestic borrowing, its use is limited by Tanzania's relatively shallow financial markets and its closed capital account. Given these constraints, the staffs encourage the authorities to expand fiscal space through spending rationalization, improving spending efficiency, and reducing tax exemptions.

16. **Tanzania's floating exchange rate policy has facilitated adjustment in the face of external shocks and staffs strongly advise that it be maintained.** The staffs concur that more export diversification would improve Tanzania's overall competitiveness. However, in terms of public measures, improvements in competitiveness would be more effectively facilitated through structural reforms than through manipulation of the exchange rate. The consideration of measures to curb capital flight appears to be at odds with plans to gradually liberalize the capital account in preparation for future EAC monetary integration. Staffs see benefits in setting up mechanisms to monitor existing capital flows to inform future policy measures in this area.

17. **Notwithstanding food and energy price fluctuations, monetary policy has been successful in keeping core inflation in check.** The staffs concur that monetary policy should remain accommodative in order to help boost private sector credit, as long as inflationary pressures remain low. The inflation projections in MKUKUTA II seem reasonable and feasible, based on recent trends.

B. Structural Reforms and Sectoral Policies

18. **The staffs support the general emphasis and prioritization in MKUKUTA II on structural reforms.** Tanzania's relatively modest private sector suggests an untapped potential for broader-based growth and income poverty reduction. The staffs view inadequate structural reform to address supply constraints as a major risk for implementation of MKUKUTA II. In contrast to the emphasis in the overall strategy on strengthening market institutions and removing binding constraints to private sector development, the strategy for individual sectors (e.g. agriculture and manufacturing) relies more on direct public interventions that risk slowing structural reform and crowding out the private sector.

19. **The staffs welcome MKUKUTA II's emphasis on well-functioning institutions and markets for scaling up the participation of the private sector.** The government's vision for private sector development could be articulated in more detail, delineating the responsibilities of different Government offices in regulating the private sector, and listing concrete steps to improve the market environment. The staffs welcome the recently developed Roadmap for Improvement of Tanzania's Investment Climate but recommend adding a timeline and precise measurable outputs to bring about demonstrable results. Moreover, a strengthening of legislation governing the competition regime is especially important in light of high market concentration levels in most manufacturing industries, about which the strategy is silent. Priority could be given to the provision of services such as extension services for agriculture and support for accessing technology, as they are important to increase the productivity of small farmers and small and medium enterprises; in some cases, sunset clauses may be appropriate. Lastly, as "promotion of trade" is identified as a key priority area, it could be accompanied by a fuller discussion of trade policy, regional integration, and South-South trade issues, together with a more outwardly focus on how to remove bottlenecks to cross-border trade and investment.

20. MKUKUTA II would benefit from more in-depth discussions of action plans for factor market reforms:

- ***Financial sector and legal reforms*****:** Judicial reform for contract enforcement and establishment of a credit registry and a national identification card would help in reducing risks to lenders. Mobile banking is still in the initial stage: it needs to have a better regulatory framework built on banking and telecommunication laws, combined with efforts to enhance financial literacy. The regulatory framework for banks is sound, but supervision of other financial services, particularly pensions and insurance, could be enhanced. Provisions for small-scale development financing in rural areas should be well targeted to those who would otherwise lack credit and operated on a commercial basis.

- ***Labor reforms*****:** Balancing worker protection with labor market flexibility is important. Tanzania has started to set up a new legal framework for the labor market through laws such as the Employment and Labor Relationship Act and the Labor Institution Act. These reforms have been beneficial in terms of accessibility and transparency but their higher compliance costs may hinder job creation and prevent formalization of the informal sector, which in turn limits labor protection.

- ***Land reforms***: It is important that the Government work to implement the Land Act, the Village Land Act, and other components of the legal framework. Measures to improve coordination need to be put in place among different Government offices in implementing the law. There needs to be a push for land surveying and titling to reduce overlap and illegal selling of land. There is also a need to design mechanisms to guard against bias toward weaker social groups and block land grabbing.

21. **Additional focus is needed on prioritizing infrastructure projects most pivotal for private sector-led growth, and sector.** Overall, more focus is needed on a systematic and consistent approach to appraisal of infrastructure projects to determine those with the highest returns to growth, both in terms of growth and fiscal revenues, and to develop realistic, phased implementation plans. Investing in systematic processes for project assessment and selection goes hand-in-hand with making wise choices for new borrowing, including partly on non-concessional terms, and ensuring that new debt accrual remains sustainable. The recently adopted Public Private Partnership (PPP) Act provides an important legal framework for private sector participation in public goods provisions. Sectoral level policies need to be prepared to support the implementation of the Act, taking lessons from past experiences with PPPs. For specific sectors:

- In ***transport,*** the Transport Strategy Implementation Plan Phase II, in preparation, should be aligned with MKUKUTA II and ensure more focus on the maintenance and rehabilitation of existing infrastructure. Insufficient periodic maintenance has resulted in more expensive rehabilitation, and current trends indicate a decline in budget allocation for road maintenance. While better maintenance is essential for sustaining existing road infrastructure, additional budget will be required to extend the network to remote areas. The government will need to spell out feasible plans, particularly financing options, to achieve the proposed rural road development as well as to improve the management of railways and ports.

- For ***energy***, a more strategic plan should be laid out in support of MKUKUTA II. The proposed operational target for electricity generation should be more clearly specified as it is currently vague and is not based on adequate analysis of feasibility and affordability. Above all, the financing arrangements for both domestic and regional master plans (e.g. Power System Master Plan, Southern African Power Pool) must be clarified.

- For ***water***, the Government needs to address the capacity constraints in systematic planning, budgeting, monitoring, and reporting, including fiduciary and safeguard aspects. Moreover, the delivery of water supply and sanitation services is decentralized.[13] The plan should use appropriate unit costs and technology options to maximize benefits to the most people; improve sustainability from the point of view of water resource management; and ensure affordability with respect to operation, maintenance, and renewal.

22. **The staffs strongly support MKUKUTA II's focus on the agriculture sector.** The Government has made commendable efforts in establishing a policy framework for the sector via the Agriculture Sector Development Strategy 2001 (ASDS) and the Agriculture Sector

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[13] The delivery of WSS relies on Urban Water Supply and Sewerage Authorities, other district / small town utilities and LGAs.

Investment Program 2005, and more recently the "Agriculture First" (*Kilimo Kwanza)* policy. However, progress has been slow. Main problems include underdeveloped rural infrastructure; market distortions through crop boards and primary societies/cooperatives; export bans; the preference for subsidies over research, extension, and irrigation; a complex maze of local taxes, levies, and exceptions; and excessive transportation costs associated with the port system and border posts. The proposed 6 percent growth rate for the agriculture sector will be hard to achieve without consistent and determined policy reforms. MDAs and LGAs should collaborate to strengthen the institutional framework, creating a favorable climate for commercial activities, and investing in core public goods.

23. **The staffs note the Government's target for a sustainable utilization of natural resources in MKUKUTA II.** Weaknesses in governance have been the main constraint in the natural resources sector, especially lack of transparency and accountability, inequitable sharing of benefits with local communities, and weak monitoring and surveillance of stocks, especially of forestry and wildlife resources. Progress has been made to improve the institutional environment through, for example, legislation for commercial natural resources management (NRM). However, weak law enforcement and regulatory capacity continue to threaten the sustainability of the system. The staffs encourage the Government to focus on improving revenue collection systems through decentralization, raising the ability of local communities to benefit from revenue collection, promoting market-based principles, and strengthening capacity for data collection, monitoring, and surveillance.

C. Human Development and Social Wellbeing

24. **MKUKUTA II rightly emphasizes investing in people and sustaining socio-economic progress, especially in view of the challenging demographic trend.** Social service delivery capacity is a top priority. Accountability in delivering social services remains insufficient, in particular due to (i) continuing shortages of qualified staff; (ii) still problematic flows of funds to service delivery units at the local levels, both in terms of timing and transparency; (iii) inequitable distribution of resources, including both funding and human resources, across districts and regions in Tanzania, resulting in significant differences in access to services and to health and education outcomes; and (iv) inadequate information on procedures to access different social services. Moreover, the current strategy provides for disjointed interventions for service delivery. A multi-sectoral approach that focuses on strengthening service delivery capacity, and links these investments to labor market issues would increase the effectiveness of the Government's policies. This in turn calls for effective coordination structures which the strategy needs to address.

25. **The staffs agree with MKUKUTA II's renewed focus on the quality of schooling and the efficiency of resource allocation in education.** MKUKUTA II candidly points to the declines in quality due to rapid expansion in enrollment, and the unequal distribution of education services across the country. The strategy also rightly refers to the regressive nature of the heavy subsidy to tertiary education. Nonetheless, the strategy aims at more rapid growth in all school sectors and commits to the existing model of tertiary expansion. In-depth analysis of inefficiencies in the schooling system, measures to improve quality, performance and accountability, and modalities of private investment could help to resolve these conflicting

objectives. There is also a need to identify options to shift the education budget away from subsidies to higher education towards primary and secondary education.

26. **The priority given to improving survival, health, nutrition and well being, especially for children, women, and vulnerable groups, is well justified.** It places emphasis on key issues such as improving maternal, newborn, and child health; reducing fertility; improving nutrition; and addressing HIV/AIDS and tuberculosis. While there is a cross-cutting focus on health systems strengthening and improving service delivery, this does not come out quite as clearly in the document, so particular care will need to be taken implementation planning to ensure that these issues are appropriately addressed. Health sector finance deserves more policy focus, because a more cohesive, equitable, and sustainable health financing system is essential if health targets are to be achieved.

27. **The staffs support MKUKUTA II's emphasis on social safety nets and social protection**. The government has developed a National Social Protection Framework (NSPF) to provide more comprehensive national coverage for the most vulnerable, including through knitting together some existing social protection systems. However, the current fiscal budget does not provide financing for the NSPF or any of its pilots. The Social Security Regulatory Act (2008) is in place and the Social Security Regulatory Agency has been formed recently to enforce the Act, covering all pension schemes and health insurance services. Although Tanzania's six pension schemes are considered sustainable now, the pension fund practices could be significantly improved to increase efficiency and avoid accumulating contingent liabilities for the Government.

D. Governance and Public Sector Management

28. **MKUKUTA II acknowledges the need to accelerate implementation of public financial management reforms to ensure that increased spending under MKUKUTA II can be executed, and executed well.** Efficient public spending remains a cornerstone for faster growth, poverty reduction, and social wellbeing. Tanzania's public financial management (PFM) system is more solid than most in Africa, but recent performance has been mixed. For the first time in three years, the General Budget Support Annual Review rated progress on PFM reform satisfactory. However, the Controller and Auditor General reports still identified weaknesses with the Integrated Financial Management Information System, and problems reconciling accounts. Staffs agree that dedicated, unwavering effort is now needed to speed progress in this area.

29. **An effective anti-corruption program requires enhanced institutional capacity and resource allocation.** MKUKUTA II lacks specificity in this area—for example, it mentions stepping up the activities of the steering comittee for the National Anti-Corruption Strategy and Action Plan, but no concrete measures are proposed. In fact, the committee has not been able to operate at full capacity due to collaboration issues between different agencies. Similarly, MKUKUTA II touches on capacity building for oversight and watchdog institutions and increasing public involvement, but institutional arrangements are not specified.

30. **The staffs encourage the Government to take a firmer stance on managing the public service on the basis of performance**. Areas for improvement include implementing

accountability and performance monitoring systems, and reviewing the remuneration system and incentive structure for public servants. Appointments, rewards, promotions, and transfers should be a function of performance rather than seniority or other discretionary criteria, in order to improve efficiency and effectiveness. Additionally, greater transparency and better provision of information would strengthen the demand side for good governance.

IV. IMPLEMENTATION FRAMEWORK, MONITORING AND EVALUATION

31. **The staffs note that MKUKUTA II tries to better prioritize strategic policies and collaborate efforts, taking lessons from the implementation of MKUKUTA I**. For each broad goal, the strategy sets out operational targets and outlines corresponding intervention packages supported by a Result Matrix. Priority areas are also presented. However, it does not fully clarify the linkages between operational targets and suggested intervention packages, the relationship between priority areas and intervention packages, and consistency across sectoral plans. The staffs urge the Government to complete the implementation plan envisaged to address these issues. The Implementation Plan should present costed sectoral programs to drive a prioritized public investment framework.

32. **The staffs note that efficient implementation of the strategy will require continued improvements in public expenditure management.** In particular, spending efficiency will need to be increased, particularly regarding recurrent spending, in order to make fiscal space for higher development spending. At the sectoral level, the alignment between MKUKUTA II targets, the medium term expenditure framework (MTEF), and annual budget allocations will need to be strengthened. For that purpose, the staffs support the Government's efforts in reforming the Strategic Budget Allocation System and the proposal for mandatory public expenditure review by MDAs. In addition, the Government needs to take a firmer stance on ensuring the consistency between budget allocation and execution. The staffs welcome the Government's efforts to better manage cash payments through use of the payment settlements system, and regular monitoring of outstanding payment claims.

33. **The staffs urge the Government to strengthen the results framework and complete the MKUKUTA II Monitoring Master Plan.** For tracking and reporting on implementation, a more focused results framework needs to be established to define realistic and measurable indicators. The envisaged MKUKUTA II Monitoring Master Plan includes the key features for a good Monitoring and Evaluation system, including defined institutional responsibilities, a survey calendar, a calendar of planning, budgeting and reporting, and a funding mechanism. The staffs note that the challenge is to finish the revisions in time to effectively monitor implementation.

V. CONCLUSIONS AND ISSUES FOR DISCUSSION

34. The staffs endorse the reorientation in MKUKUTA II to hasten progress to reduce income poverty. Building on the socio-economic progress in the past decade, determined efforts to scale up the participation of the private sector in growth and employment generation and continued endeavors to improve the quality of life and social wellbeing and to ensure good governance and accountability should help ensure broader-based growth. Nonetheless, low

domestic revenue expansion, inadequate structural reform, and lack of prioritization could adversely affect implementation.

35. The staffs recommend that as the authorities implement MKUKUTA II, special attention be given to the following issues:

- Improve spending efficiency and mobilize domestic revenues by reducing exemptions and other measures to expand the tax base;
- Decisively carry out structural reforms to improve the investment climate; in particular, follow the Roadmap to bring about demonstrable results, improve factor market efficiency, and address infrastructure bottlenecks;
- Strengthen public service delivery capacity through a multi-sectoral approach;
- Speed up public financial management reform; and
- Improve prioritization in implementation

In considering MKUKUTA II and the JSAN, do Executive Directors concur with the staffs' characterization of the risks, and recommendations by the staffs to strengthen the strategy and its implementation?