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IMPLEMENTATION COMPLETION REPORT
(IDA-25070)

ON A

CREDIT

IN THE AMOUNT OF US$34.9 MILLION

TO THE

UNITED REPUBLIC OF TANZANIA

FOR A

PARASTATAL AND PUBLIC SECTOR REFORM PROJECT

05/28/2001

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 7, 2001)

Currency Unit = Tanzania Shillings
TSh 1 = US$ 0.001
US$ 1 = TSh 888.25

FISCAL YEAR

July - June

ABBREVIATIONS AND ACRONYMS

CSD	Civil Service Department
CSR	Civil Service Reform
CSRP	Civil Service Reform Program
DFID	Department for International Development, UK (formerly Overseas Development Agency)
IDA	International Development Association
LART	Loans and Advances Realization Trust
MOF	Ministry of Finance
NBS	National Bureau of Statistics
NPA	Non-Performing Assets
PE	Public Enterprise
PPSRP	Parastatal and Public Sector Reform Project
PPSDP	Privatization and Private Sector Development Project
PSAC	Public Sector Adjustment Credit
PSRC	Parastatal Sector Reform Commission
PSRP	Public Service Reform Project
SNA	Strengthening of National Accounting
UNDP	United Nations Development Program
VAT	Value Added Tax

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TANZANIA
PARASTATAL AND PUBLIC SECTOR REFORM PROJECT

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Project ID: P002788	*Project Name:* PRIV. PUB. SECT. MGT
Team Leader: Herve Assah	*TL Unit:* AFTPS
ICR Type: Core ICR	*Report Date: June 29, 2001*

1. Project Data

Name:	PRIV. PUB. SECT. MGT	*L/C/TF Number:*	IDA-25070
Country/Department:	TANZANIA	*Region:*	Africa Regional Office
Sector/subsector:	DV - Privatization		

KEY DATES

			Original	*Revised/Actual*
PCD: 10/06/1992		*Effective:*	07/01/1993	10/20/1993
Appraisal: 01/01/1993		*MTR:*		03/18/1996
Approval: 06/10/1993		*Closing:*	06/30/1998	01/31/2001

Borrower/Implementing Agency: GOVT OF TANZANIA/MIN. OF FINANCE
Other Partners:

STAFF	Current	At Appraisal
Vice President:	Callisto Madavo	Edward Jaycox
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2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: S
Sustainability: L
Institutional Development Impact: M
Bank Performance: S
Borrower Performance: S

	QAG (if available)	ICR
Quality at Entry:		S
Project at Risk at Any Time:	No	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

When the Parastatal and Public Sector Reform Project (PPSRP) was prepared in the early 1990s, the Tanzanian economy had been evolving steadily from one of pervasive controls and stagnation to one that displayed a market and growth orientation. The challenge of attaining appropriate growth rates remained despite the implementation of economic reforms under the Economic Recovery Program (launched by the Government in 1986). The contributions the financial burden of the parastatal sector played in stifling this required growth was acknowledged by the Government of Tanzania. The parastatal sector grew steadily from a few parastatal companies in 1967 to about 270 commercial and 30 non-commercial enterprises. State management and control was particularly critical in manufacturing, the largest sub-sector. Public enterprises dominated the formal economy and, in the industrial sector, accounted for about 67 percent of employment and 60 percent of value added. These enterprises were inefficient, non-viable, required subsidies to remain operational, and crowded out private investment. The parastatal sector's demand for resources and preferential status not only created fiscal problems for the government but also retarded private sector growth. Reducing the financial burden of the public sector through downsizing and meeting the requirements for efficient and effective performance were critically important to the Government.

In responding to the fiscal issues and the underlying need to accelerate the pace of reform, the Government adopted, in 1991, a two-pronged strategy to stimulate economic growth. The first was to establish an appropriate environment for the private sector to produce and deliver goods and services. The second was to limit the role of the public sector in production and strengthen its capacity to manage the economy, maintain appropriate incentives, and provide infrastructure and social services more effectively. In support of this strategy, the PPSRP was designed to provide assistance to meet the following project objectives: (i) institutional strengthening of appropriate Government organizations and departments in the areas of parastatal and civil service reforms; (ii) further design, refinement, and implementation of a comprehensive civil service reform program; and (iii) strengthening of selected features of macroeconomic management.

These objectives and scope of the reform program were realistic, clear, and consistent with the strategies of the Government and IDA and also received other donors' support. Significant upstream work (creation of the Loans and Advances Realization Trust (LART) under the LART Act, 1991; launching of the parastatal reform program, 1992; establishment of PSRC, 1993) were accomplished prior to and at the preparation stage of the project. Government officials who were expected to be involved in the implementation of the project actively participated in its development. Background studies and seminars were conducted to inculcate within Government the wide ranging benefits of the envisaged reforms. The project was expected to build the necessary institutional capacity within the Government to enable it to better respond to reform measures that were to be incorporated under a complementary project, the Public Sector Adjustment Credit (PSAC). However, the processing of PSAC experienced a setback when conditions under a prior operation, the Structural Adjustment Credit, still had to be met. Thus, PPSRP became the main instrument for dialogue between the Bank and the Government on privatization and civil service reform.

The project as designed was complex. The privatization component, which was fundamentally restructuring the entire formal economy and cleaning up the State-run financial sector (including debt collection), should have been supported under a stand-alone project. In like manner, the Civil Service Reform Program (CSRP), which sought to dramatically reduce the Civil Service and then re-shape it into a modern, meritocratic, technically competent civil service was equally a major task in its own right. The objectives of the project were complex particularly when considering the country was still in transition from a state-controlled economy to a liberalized, market economy. Also, each component required a wide range of policy and institutional changes, consistency in commitment and human capital, a high level of supervision resources and diverse expertise to manage and execute, specially in the absence of the PSAC.

3.2 Revised Objective:

The project objectives were not revised.

3.3 Original Components:

The project was consistent with the state of the art for privatizing and reforming the public sector when it was prepared in 1992. The project comprised four institutional strengthening components: (i) Privatization and Public Enterprise Reform; (ii) LART, (iii) Civil Service Reform, and (iv) Macroeconomic Management.

The Privatization and Public Enterprise Reform was designed to: (a) strengthen the Parastatal Sector Reform Commission (PSRC) and facilitate its coordination and implementation of the privatization program; (b) develop policy and perform tasks in diverse areas including legislation, divestiture planning, debt settlement, asset valuation, ownership instruments, labor redeployment and safety net schemes to effect privatization transactions; and (c) prepare and implement action plans to restructure and upgrade the performance of key retained public enterprises. LART was to facilitate the liquidation of non-performing assets including valuation, disposal of assets, financial controls, payment of obligations, and short-term management of going concerns. The Civil Service Reform component was developed to: (a) support the Civil Service Department (CSD) and other task forces to refine and implement a civil service strategy; (b) implement time bound action plans in areas including retrenchment, redeployment, pay reform, personnel management and control; and (c) support the Planning Commission as the lead organization (working closely with CSD) to effect ministerial rationalization. Under the Macroeconomic Management component, support was designed to: (a) build the capacity within the Planning Commission, Ministry of Finance (MOF), and the Bank of Tanzania in areas covering ministerial rationalization and budgetary and financial systems, including aid reporting and recording systems; (b) reform the tax system to incorporate a Value Added Tax (VAT) system; and (c) upgrade the national accounts and survey methodologies and enhance the capability of the National Bureau of Statistics (NBS) to produce relevant and complete economic indicators. Support was also provided to the MOF for project management and coordination. The Department for International Development (DFID, UK) co-financed the privatization and civil service components.

The project components were reasonably expected to contribute to achieving the project objectives. Attention was given to recognizing the political and administrative difficulties that would be faced by the implementing agencies and mitigating factors to these risks were considered and incorporated in the project. Mitigating measures incorporated in the project design emphasized the provision of an enabling environment where policy would be turned into action and newly acquired skills would be used and reinforced. To ensure appropriate and timely processing of the project, implementation plans relied on a simple project framework, frequent supervision work, and a detailed implementation manual. Lessons from prior operations in the sector and in the country were also reflected in the project design.

3.4 Revised Components:

The original project components were not revised.

3.5 Quality at Entry:

The project's quality at entry was satisfactory. As designed, it was consistent with the Government's objectives and IDA's country assistance strategy particularly when noting the fiscal burden the parastatal sector imposed on the Tanzanian economy and the Government's interest in addressing this problem and other major impediments to sustainable growth (poor economic management, deteriorating levels of public services, an overstaffed civil service sector). Also, the project was building on lessons learned and the institutional capacity of already-established implementing agencies. The risks facing this operation were correctly identified as (i) the Government's ability to successfully manage and implement the program; and (ii) the political and social pressures against the privatization process and civil service reforms. These risks were addressed and project execution plans called for frequent supervision visits and an implementation plan that incorporated revisiting organizational structures, defining clear responsibilities, agreeing on work programs and timetables. The environment to flag implementation issues and determine early and flexible resolution to problems was built into the project design.

However, in addition to this project being complex given two major undertakings being incorporated under one project, the inclusion of some important features would have improved the project design. Examples would be: (i) a comprehensive communications package that (a) highlighted the goals and benefits of privatization and civil service reform, (b) conveyed the need for changes particularly at a time the country was still constrained by cultural practices characteristic of a centrally-controlled economy, and (c) would be intensively carried out primarily when project execution commenced but also throughout implementation; (ii) measurable indicators (formal agreement on performance indicators was not an IDA requirement when the project was prepared); and (iii) a well-defined strategic plan for civil service reforms. These measures would have further minimized the political and social risks, emphasized the quality and impact on the fiscal resources of government, increased indigenous and foreign investor interest and effectiveness of Government support in the privatization process, and, overall, improved the responsiveness of the project to the underlying objectives.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

The overall project outcome is satisfactory. This assessment is based on the following factors: (i) satisfactory outcome and achievements under the project's main components, as summarized below; (ii) Government support to the privatization process and civil service reforms during project preparation, implementation, and regular operations; (iii) established institutions and procedures that will take the privatization and civil service reforms through the next development phase (to be implemented under two separate, IDA-financed projects, Privatization and Private Sector Development Project (PPSDP) and the Public Service Reform Project (PSRP)); however, inconsistencies still exist in standards applied and level of support provided in the privatization process and certain elements remain unaddressed including excessive salaries and tax issues in implementing agencies; and (iv) the Government's continued support for private sector development (related measures to be executed under the IDA-funded Programmatic Structural Adjustment Credit).

(i) Privatization and Public Enterprise Reform.

The objectives of the component were achieved satisfactorily. Over the project implementation period, the PSRC developed a well-established capability to handle public enterprise divestitures. The experiences gained in privatizing mostly small and medium sized public enterprises and a few large enterprises led to a more widespread acceptance of the need for and advantages of privatization. Following the mid-term review and the completion of the parastatal subsidy study, discussions with PSRC, MOF and the Ministry of Planning led to the Government's critical analysis of the economic and financial impact of parastatal support and a re-examination of its privatization policies. Thereafter, the Government decided to (i) sanction full sales and (ii) include banks, infrastructure and utilities in its privatization program. This represented a major shift from Government's initial hesitation about the private sector and its earlier plans supporting joint-ventures (essentially implying capital increases from investors while the Government maintained political control) or leases of the least important enterprises to incorporating any enterprise that was economically meaningful (or budgetarily significant in terms of subsidies) on the list for privatization.

A study commissioned by the Government documented that early indications from the privatization process demonstrate that with privatization: (i) the fiscal burden to the treasury was reduced through the elimination of direct subsidies to public enterprises and the generation of revenues from privatization transactions and increased tax returns, (ii) enterprise efficiency, productivity, and profitability improved enabling some to compete in the global market, and (iii) indigenous and foreign direct investment in the private sector expanded. On the enterprise level, more successful privatized enterprises exhibited certain characteristics: (i) they were divested to multi-national companies with experience in the industry and in operating in a competititive market environment; and (ii) they had funding available for investment and training. Enterprises that were experiencing difficulties also shared a number of characteristics, they: (i) were divested to domestic investors who lacked exposure to international business and resources to fund investments and rehabilitation requirements; and (ii) operated following a significant gap when the government ceased to suport the enterprise and when the new investor took control of the enterprise. The privatization process also contributed to decreasing the crowding out of credit resources to the private sector. As provided in the Indicators Table below, total lending to parastatals and state-owned enterprises dramatically reduced from about Tanzanian Shillings (Tsh) 101.2 billion in 1994 to about TSh 9.3 billion in 1999. It was projected to have further decreased to about Tsh 7.4 billion in 2000. Following successive declines in 1995 and 1996, claims on the private sector increased by approximately 39 percent, 48 percent, and 26 percent in 1997, 1998, and 1998, respectively. It was projected to grow by 10 percent to reach about Tsh 333.3 billion in 2000.

However, the project's impact could have been greater if the design features listed in Section 3.5 above were incorporated sooner and the Government decided much earlier to proceed with the privatization of the major utilities and infrastructure enterprises (the decision was made only in 1997). For now, other post-privatization problems still require attention including: (i) insufficient revenue to cover pre- and post-privatization liabilities of enterprises assumed by the Government, (ii) distribution of the remaining shares of the Government including the portion of equity reserved for employees, and (iii) the continued need to upgrade newly privatized enterprises' managerial, technical and production capacities.

(ii) Loans and Advances Realization Trust (LART)

LART satisfactorily met the project objective of facilitating the reform process of the banking sector through the liquidation of non-performing assets (NPAs) of state-owned banks. With the sale of assets, subsidies to some cash strapped parastatals were eliminated and assets were once again put to productive use.

(iii) Civil Service Reform Program

The satisfactory implementation of the organization and efficiency reviews within government agencies has led to a redefinition of the role of government and the rationalization of the core functions and organizational structure of ministries, independent departments, and regional secretariats. Central Government has been slowly withdrawing from direct delivery of economic and social goods and services and transferring these services to partners in local government, communities, NGOs, and the private sector. A framework has been agreed that reforms the compensation and personnel management systems and leads to the development of transparent and equitable salary structure, performance-based evaluation and merit-based recruitment, and a clear definition of the rights and obligations of civil servants. Implementation of the reforms are taking place in a gradual manner.

(iv) Macroeconomic Management.

The project objectives under this sub-component were partially met. Under the first sub-component, the transition in the Government tax revenue collection system to the VAT was completed. While the tax revenues, including the domestic sales tax, have been increasing annually, its growth rate has slowed down from approximately 36 percent in 1994 to about 8 percent in 1998. The growth of the domestic sales tax has also declined from about 44 percent in 1995 to negative one percent in 1997 before recovering in 1998 and growing by 11 percent in 1999 (to about TSh 179.5 billion). Revenue levels reflect annual increases in the VAT; the contribution of VAT to total revenues has ranged from 11 percent to 17 percent since its introduction in 1998. The second sub-component, support to the NBS, resulted in the agency's increased ability to more accurately estimate a key economic indicator, the Gross Domestic Product. However, the impact of upgrading the technical capacity within the NBS is not expected to contribute to the ability to estimate other key economic indicators unless the agency is well-organized, revamped and better-funded.

Indicators Table

	1993	1994	1995	1996	1997	1998	1999	2000
Macroeconomic Indicators								
Growth rate - Real GDP (%)	1.2	1.6	3.6	4.5	3.5	4.0	4.8	5.084
Inflation (%)	24.0	33.5	27.4	21.0	16.1	12.8	7.9	5.894
Exchange rate (Tsh./USD, end of period)	479.9	519.5	558.2	595.6	624.6	681.0	797.3	803.260
Tax Revenue (Tsh. millions)	220,358	299,900	383,752	514,556	566,144	616,467	691,958	805,866 1/
Taxes on domestic sales	70,388	72,643	104,650	141,738	140,542	161,336	179,471	195,918 1/
VAT					64,475	105,509	110,522	124,477 1/
Monetary Survey								
Net domestic assets (Tsh. Billions)								
Claims on parastatals and other public sector		101.2	84.3	24.8	20.7	8.4	9.3	7.4 1/
Claims on the private sector		178.9	163.5	116.6	162.3	239.9	302.2	333.3 1/

1/ Projected

Source: Government of Tanzania, IMF Projections

4.2 Outputs by components:

(i) Privatization and Public Enterprise Reform.

Capacity building assistance extended through consultant services, external training and exposure tours, and in-country sensitizing workshops yielded positive results under the privatization component. Of the 385 companies originally in the Government's divestiture program, it is estimated that, when the project closed at end-January 2001, about 248 (approximately 64 percent) had been divested. The divestiture process was implemented under the guidance from the PSRC Secretariat and with the support from relevant ministries and the PSRC. By sector, this represents roughly about 43 percent in industry, 29 percent in agriculture, and 28 percent in services (hotels, transport, banking) and other sectors. Most were small- to medium-sized enterprises; few were larger enterprises (National Bank of Commerce, Tanzania Telecommunications Company Ltd., Dar es Salaam Container Terminal, hotel, brewery, cement, tobacco and sugar companies). The privatization process for other important public enterprises including the Tanzania Harbors Authority, Dar es Salaam Water and Sanitation Authority, Tanzania Railways Corporation, and the Tanzania Electricity Supply Company are continuing. Divestitures were made through various means. Preliminary estimates are that about 68 percent were outright sales to local and foreign private investors, 15 percent liquidations and closures, 8 percent leases, and 15 percent by other means. There were over 50 enterprises in varying stages of the divestiture process, including companies returned to PSRC's portfolio for re-sale. Based on the audit report for the period ending June 2000, proceeds from the divestiture program amounted to Tsh 29.4 billion.

Other studies commissioned by the Government with funding from the project, including one on parastatal debt (1998), retrenchment of employees (1998), the regulatory framework (1998), and privatization approval and operating procedures (1999), served as the basis for defining policy options and revising PSRC's operating procedures to minimize the cost of the privatization process to the Treasury.

Performance contracts were prepared (following actions initiated outside this project for some institutions) for three institutions originally planned for retention in the public sector: Tanzania Harbour Authority, Tanzania Railway Corporation, and Tanzania Telecommunications Corporation Ltd. Measurable achievements were limited in the absence of specific guidelines in drawing up performance contracts, an earlier indifferent attitude to implementing them, lack of funding support, and insufficient time to determine results. Some operational improvements in the Postal Corporation were realized (following its split from Tanzania Telecommunications Corporation and the subsequent cut in cross subsidies) when the requirements highlighted in the performance contracts, particularly relating to management, quality of service, customer satisfaction, marketing and other commercial practices to remain competitive, were implemented. It became clear to the Government, however, that even with performance contracts, a substantial difference in turning around a company is not possible without the required injection of shareholders' capital contributions to support corporate strategic plans. In the absence of capital infusion, the Government decided to privatize the utilities and other strategic enterprises shortly after these contracts were put in place.

A privatization Trust Unit of the PSRC was established to temporarily house shares of enterprises prior t their sale to local investors. Exposure visits were conducted in Zambia, India, and the UK to assist the trustees in learning from other's experience and to determine the requirements to establish a unit trust in Tanzania. The Trust is yet to become fully operational; resources have been allocated for this purpose under the ongoing, second IDA-financed Financial Institutions Development Project.

(ii) Loans and Advances Realization Trust

LART's strong management, professional staff, operational autonomy, and the ability to move collection cases rapidly through a dedicated court, which was funded by the Government, enabled LART to effectively and satisfactorily carry out its mandate. (The LART Tribunal followed temporary injunction rules and simplified rules of procedure reducing the hearing time from 1-5 years to an average of three months.) In spite of court actions against it, limited local investment capacity, and obsolete assets that contributed to debt recovery difficulties, LART launched an aggressive collection campaign. As a result, at end-January 2001 approximately US$20 million (approximately 59 per cent of the value of NPAs transferred to LART) were recovered. Collections were realized through direct recovery of outstanding liabilities, rescheduling of assets, negotiated settlement, packaging of assets to facilitate disposition, and auctions. In compliance with the Loans and Advances Realization Trust Act, of the total collections made, about 25 per cent were utilized to meet operational cost, 4 per cent for payments to creditors, 27 per cent are in fixed deposits, 41 per cent were remitted to the Treasury, and 3 percent are held in LART's collection account. Of the 144 cases filed under the LART Tribunal since it commenced operations in January 1994, 12 cases were pending judgment by the Tribunal when the project closed in January 2001. Two decisions by the Tribunal were being challenged before the Court of Appeals of Tanzania.

(iii) Civil Service Reform Program

The achievements under the CSRP were satisfactory. CSRP was implemented in two phases to achieve a smaller, affordable, well compensated, efficient and effectively performing civil service. The first phase focused on restoring the structural preconditions to support fiscal stabilization measures, including removal of ghost workers, staff retrenchment, rationalization of the pay and grading system, and reinstatement and establishment of payroll controls. The second phase focused on institutional improvements and included a redefinition of the role of government, restructuring for organizational effectiveness and efficiency, outsourcing certain services, decentralization of service delivery, and managerial capacity building. CSRP provided the strategic framework for the mobilization of donor support for the civil service reform program. (Donors included the Department for International Development (UK), UNDP, Norwegian Agency for International Development, Swedish International Development Agency, Netherlands, European Union, Switzerland, and the Danish International Development Agency.)

The specific achievements of the component are summarized as follows.

- Organization and efficiency reviews were conducted in the Ministries of Health, Education, Water, Agriculture, Local Government, Industry and Trade, Communications, National Resources and Justice, and in departments, regions, municipalities, and districts; reviews centered mainly on structural changes and streamlining.

- Public service employees were reduced from about 355,000 in 1992 to 266,769 when the project closed and after selective additional recruitment into the key sectors of education, health and law and order.

- Effective controls on employment and the wage bill were institutionalized. All recruitment and entries into the payroll are now controlled. A reliable central personnel database has been established and a computerized payroll system (funded by DFID) is operational. Distortions in the compensation system were removed with the incorporation of all ad-hoc and non-transparent allowances into a consolidated basic salary structure and the rationalization of salary scales and grades. The civil service salary structure has been decompressed from a ratio of about 9 to 1 (in 1992) to about 21 to 1.

- Programs to improve the leadership, management and governance qualities of the public service, including training in key areas of leadership and management development, were implemented. A new code of ethics and conduct for public servants has been promulgated. Programs aimed at training public servants to adopt a more facilitating approach to private sector operators were conducted in collaboration with the US Agency for International Development.

- A comprehensive decentralization and local government reform program (LGRP) was launched in 1997 and resulted in a reduction from about 14,000 to less than 2,000 staff establishments in the regional administrations when the program was completed in 1998. Also, the first phase of the program involving the restructuring of regional administrations was completed and the establishments in each of the 20 regional administration units were reduced from an average of 700 to about 83.

(iv) Macroeconomic Management.

The achievements under this component are satisfactory. Adoption of the VAT commenced with the appointment of the VAT Implementation Team in 1994. The Value Added Tax Act was enacted by Parliament, assented by the Government in October 1997, and became operational by July 1998. Sufficient resource allocation and staff dedication led to the full implementation of the VAT program. Over 2,800 employees implementing the VAT program were trained in-house or through study tours. Tax payer awareness and educational programs were implemented nationwide to familiarize economic agents and tax payers with the new tax system. Computerization of the system was completed in Dar es Salaam and Zanzibar. About 13,000 business establishments (87 percent of the target number) in Dar es Salaam and 498 (67 percent of the target number) in Zanzibar were registered by December 1999.

The implementation of the NBS component resulted in: (a) updates to the national accounts methodology to improve the quality of estimates; (b) surveys being conducted in the areas that were identified as having little or no data (e.g. construction, transport, internal trade, etc.) to strengthen the basic data incorporated in the national income estimates; and (c) the enhanced capacity of the NBS as staff received further training, survey data was upgraded, and the statistics systems were computerized.

The above impact and achievements were realized also with the essential support the project received from a number of donors. DFID funded consulting work (parastatal subsidy study and transactional work) and advisors (for PSRC) that was critical to pushing the project forward. Support by DFID and a group of other donors for retrenchment payments (civil service) was important in keeping the project on track. The partnership between the Bank and DFID throughout the project in terms of planning, joint supervision missions and discussion of developments was essential and valuable. The work done by USAID on the Investor Roadmap) provided scope to understand and mitigate some of the difficulties facing potential investors in Tanzania. No performance indicators were provided in the President's Report although a logframe was drawn after the mid-term review (see Annex 1).

4.3 Net Present Value/Economic rate of return:

Not applicable.

4.4 Financial rate of return:

Not applicable.

4.5 Institutional development impact:

PSRC developed a well-established capability to handle public enterprise divestitures. The experiences it gained in privatizing mostly small and medium public enterprises, a few large enterprises, and the major national commercial bank positioned it to play a key role in the next phase of the divestiture program. This phase will focus on privatizing major public utilities. LART's effectiveness in expediting collections on non-performing assets of the state-owned banks provided the base for it to extend its services to the banking sector at large and participate in the debt collection market in support of the financial sector. Civil service reforms has moved the Government to its next development phase where steps will be taken to further ensure public services are results oriented. Measures would be taken to decentralize, contract out services, privatize publicly held enterprises, and abolish non-core functions. These measures will enable the Government to better focus its roles and functions on policy-making, regulation, good governance and the provision of essential public services and infrastructure necessary to provide an enabling environment for private sector development, economic growth, and poverty reduction.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

The key factors that affected the project's implementation and outcome were the: (i) ambitious and sometimes unrealistic privatization targets set by the International Monetary Fund and the Bank under the SAC, which were often times very difficult to implement but also provided the necessary impetus under this project for government officials to achieve the Government's objectives; (iii) in the earlier years of project implementation, the absence of an agreed, common vision among donors for civil service reforms resulted in the imposition of different donor priorities on the Government and the provision of conflicting advice from a large number of technical advisers; and (iii) the limited ability of nationals to accumulate financial assets deterring their ability to acquire and revitalize state-owned assets.

5.2 Factors generally subject to government control:

Several factors substantially delayed the privatization process. While capacity limitations were recognized at the design stage of the project and assistance to strengthen policy making, planning, and management capacities were provided during the implementation phase of the project, the Government's focus had been on short-term problems instead of legal and regulatory issues and institutional development. The program, therefore, had to pass through a longer learning process before sufficient expertise was developed at a level that allowed the pace of implementation to accelerate. Early on, there was no consensus within the Government on the opportunity of efficiency gains through the privatization program. This was reflected in the delayed, complex, and expensive Government approval and oversight system (multiple levels of review including the Commission, an inter-ministerial committee, Cabinet, and relevant ministries). Also, the Government did not have a clear policy on how various types of debt would be dealt within the context of the privatization program leading to *ad hoc* treatment of parastatal debt. The lack of a streamlined, predictable debt treatment policy cost the government significant amounts and made it more difficult to outsource transaction work in a cost effective manner (transaction advisors insisted on contract clauses which ensure that they are paid in the event of such delays). In addition, the system of public enterprise retrenchment payments was *ad hoc,* did not reflect economic and social costs, and led to widely varying retrenchment payments across public enterprises. Further, there was no enabling regulatory framework for the utilities and infrastructure parastatals.

On the liquidation of non-performing assets, the absence of the necessary business infrastructure substantially contributed to difficulties in constructing financial data and valuing assets of enterprises, obtaining contracts or documentary evidence of mortgages, acquiring a clear deed to land, among others. This also slowed down the progress of the privatization process.

The key factors partially contributing to the performance of the civil service reform program were the absence of a strategic civil service reform plan and weak Government leadership. While the organization and efficiency reviews were conducted by central ministries in a highly participatory way, these reviews were delayed. In addition, the early definition of priority functions of ministries and departments compatible with the budget framework and efficient civil service performance would have increased the impact of the program.

The VAT program was partially affected by the resistance to a suitable VAT organizational structure by key government officials in the sales tax department resulting in the adoption of a less than efficient structure led by two deputy commissioners with similar responsibilities. Also, the absence of harmonized VAT laws in the mainland and in Zanzibar complicates the administration of VAT goods in Zanzibar. These situations still need to be rectified by the Government.

5.3 Factors generally subject to implementing agency control:

The results of the project were partially affected by certain inactions by PSRC and the overall project coordinator, and the strong performance of LART. PSRC's procedures for divestiture transactions were not modified early on even if they entailed the use of multiple, and sometimes subjective, criteria in the evaluation of bidders and the awarding of sales. Consultations within the Government and negotiations with potential investors were protracted making the process time consuming and less than fully transparent to all participants. LART's strong management, professional staff, and its operational autonomy and its ability to ensure that collection cases were moved rapidly through a dedicated court contributed to its successful operations. For the civil service program, the CSRP's effective coordination efforts with donors enabled it to mainstream the reforms in the ministries and take the program to the next development phase to realize improvements in the quality of public services. During the early years of implementation, personality clashes and complaints interchanged by the relevant ministry and the project coordinator resulted in delays in contract payments amounting to almost $2 million.

5.4 Costs and financing:

Differences between the projected and final cost and financing were primarily due to the project execution requirements over the project life. Two extensions to the closing date were agreed between the Government and IDA to enable the Government to continue supporting the privatization process and the civil service reforms while the follow-on operations, the PPSDP and the PSRP, were not yet effective. Support was also extended to enable the Government to evaluate the impact of the project components. Co-financing resources were provided by DFID. The original allocation was US$7.0 million; actual amounts have not been provided by DFID.

6. Sustainability

6.1 Rationale for sustainability rating:

The sustainability of the accomplishments under the project is likely. The Government is committed to further its privatization program and continue reforming the civil service sector. Transition arrangements are currently being implementing under two IDA-funded follow-on projects, the PPSDP and PSRP. These projects build on achievements made and lessons learned to sustain and expand the developments under the privatization and civil service reform programs. How effective they will be on the privatization program depends on their ability to continue to provide stable macro-economic conditions and a favorable business environment, strengthen the financial system and provide a broad-based shareholding mechanism, enable private enterprises to access competitively-priced utility services, and foster the rapid development of indigenous managerial, financial and technical skills. It will also be affected by the manner in which the Government deals with post-privatization issues including collection of sales proceeds and payment of claims of creditors and workers. Through the assistance provided under the project, implementing agencies, the PSRC, LART, Government ministries and departments and agencies in central and local government, the Tanzania Revenue Authority and NBS, have matured in their roles and functions. It is essential to sustain the project's achievements that the Government does not back track on the reforms and commitments it made under the privatization and civil service reform programs. Reforms in the Government revenue system would prevail if the system is computerized in other zones in the country, staff continue to be trained and controls against corruption in revenue departments are maintained.

6.2 Transition arrangement to regular operations:

The Government has been receiving additional support to further its privatization efforts and implement a civil service reform program under two Bank-funded projects, the PPSDP and the PSRP. Under the PPSDP, the Government is implementing the next phase of the divestiture program to privatize major public utilities (telecommunications, power, water) and infrastructure (ports, railways, airlines). This phase includes key features such as the (i) development of appropriate regulatory framework for utilities and infrastructure; (ii) active communication and public awareness campaigns; (iii) increased delegation of responsibilities to sector ministries for preparation, adoption and later monitoring of sector strategy and policies; (iv) streamlined governmental approval process using definitive, competitive bidding procedures, increased authority and responsibility of transaction agents, and appointment of a process auditor; and (v) consistent and standard approaches and policy guidelines on the treatment of public enterprise debt and employee retrenchment payments. To complement the PE divestiture program, the Project also supports active consultations between the government and the private sector to help define key policy, regulatory, and institutional reforms for improving the business environment for private investment and foreign direct investment.

LART's efforts to further realize collections on non-performing assets of state-owned and private banks is being supported also under the PPSDP. In addition, resources will fund the development of a strategy and the implementation of: (i) the subsequent transfer of LART to the private sector, as part of a broader approach to the financial sector, through the creation of a competitive debt collection market, and (ii) the subsequent transfer of the LART Tribunal to the commercial court system.

The following key performance indicators have been established:

- On the main objective of reallocating national resources to achieve development goals: (i) contribution to growth of GDP thru privatized sectors; (ii) investment in privatised enterprises; (iii) post-privatization growth in employment.

- On the project development objective of reducing the role of the State in commercial activities: (i) reduction of PE portfolio; (ii) reduction of government assistance to PEs; (iii) number of PEs privatized: 20 strategic/large enterprises; 180small/medium enterprises; (iii) share of PE sector privatized by 2004: 80 percent of sector by total employment & turnover; 60 percent increase private sector contribution to GDP; 10 percent expansion of employment; 20 percent increase in labour productivity; 20 percent increase revenue flows to government; (iv) numbers of or involvement of Tanzanians in the privatization process increased through share ownership through spin offs-local businesses supplying privatized enterprises and value of shares listed; (v) reduction in the number and percent of NPAs in the banking/financial system: more than 90 percent of NPAs recovered by 2004; (vi) creation of competitive debt management market industry at least 3 agencies, including privatized LART, and functioning by 2004; (vii) over 100 firms investing private funds into the economy; over US$5.0 billion of investment; (viii) over 50 policy recommendations to government.

Indicators are also in place for each project component.

The PSRP is supporting the Public Service Reform Program, a three-phase, 12-year program that will institutionalize the reforms accomplished under the CSRP and bring about further improvements in the quality of public services. To this end, Phase I (2000-2004) of the program will build on the executive agency program, management information system, and leadership, management, and governance components of the CSRP. Components focus on performance improvement and program coordination, and monitoring and evaluation. The performance improvement component will initiate a long-term process of sustainable capacity building and the transformation of the public service to results-oriented management. Building on the CSRP monitoring and evaluation system, it will cover outcomes and impact assessments in terms of changes in the quality of and access to public services, responding to public expectations for value, satisfaction, and relevance of services. These components are key to the success of the Program and will be given high priority at the outset of Phase 1. After installing the strategic process for sustainable performance improvement, and the new institutional framework for service delivery, the focus of Phase 2 (2005-2008) will be on instituting a performance management culture in the public sector. Once achieved, the total client orientation through continuous quality cycles (benchmarking, total quality management) will be introduced in Phase 3 (2009-2011). The project's development objectives and key performance indicators are summarized as follows:

- On CAS-related goal of improving public expenditure efficiency: (i) public sector is downsized towards affordable level and total wage bill sustained at levels consistent with fiscal stability; (ii) budgets of ministries, departments, and agencies (MDAs) reflect sector priorities and improved allocation to operational and maintenance expenditures; (iii) accountability and reporting on use of public resources is improved;
- On Program purpose of ensuring service delivery within priority sectors of public service: (i) the quality of public services retained by the public sector is improved; (ii) the participation of the private sector in delivery of public services is increased; (iii) policies and regulations necessary for decentralization, private sector development and poverty reduction are implemented;
- On the Program development objectives on accountability, transparency and resource management: (i) services are delivered efficiently and effectively and performance orientation in the Government's key economic and social programs are improved; (ii) capacity and performance in the core functions of Government are strengthened.

Indicators have also been established for all the Phase I components which include: (a) Performance Improvement; (b) Restructuring and Private Sector Participation; (c) Executive Agencies Program; (d) Management Information Systems; (e) Leadership Management and Governance; (f) Coordination, Monitoring and Evaluation; and (g) Distance Learning Center.

7. Bank and Borrower Performance

Bank

7.1 Lending:

During project identification, the Bank was satisfied that the project objectives were consistent with the Bank's assistance strategy for Tanzania, the country's development needs at that time, and the Government's development strategy in response to those needs. Driven by the Government's commitment to the reforms required to relieve the fiscal burden, the Bank and the Government proceeded to define the project activities and design the project incorporating lessons from previous projects in the country and the sector. An effective and constructive relationship between the Government and the Bank team, comprising members with the required technical, financial, economic, and institutional skills, was maintained during project preparation. The Bank correctly assessed the project's major risks (including potential political and social opposition and the Government's limited experience in implementing privatization plans) and the project cost and financial requirements. However, the incorporation of two major activities in one project, i.e. restructuring the formal economy including cleaning up the State-run financial sector, and reducing the Civil Service, resulted in a very complex project to implement. Also, as indicated earlier, the project impact would have increased if it incorporated a comprehensive communications package, measurable indicators, and a well-defined strategic plan for civil service reforms. Nonetheless, some design gaps were filled primarily because the Bank introduced flexibility during project implementation in the project design. The Bank's performance during project preparation is rated satisfactory.

7.2 Supervision:

The supervision of the project by the Bank was satisfactory. This was confirmed when the Bank's Quality Assurance Group reviewed the project and selected it for the Excellence in Supervision award in 1998. Given the project was far-reaching, ambitious and complex, the inclusion of staff and consultants with specialized skills and the complementary operational, procurement, and audit support from the Bank's field office staff was required. Progress on major privatization procedures, policy on infrastructure, debt and retrenchment were significantly made following intensive, cordial and productive working relationships with various units of the Government and donors. This support, however, increased the administrative cost to the Bank. Task managers faced difficulties in getting the Bank's management to recognize the high cost of supervising such a complex project and to sufficiently provide for a team dedicated to ensure implementation progress was kept on track. Over the seven years of project implementation, 18 supervision missions were conducted, an average of two missions per year. Aide-memoires were regularly prepared and transmitted to alert the Government to problems with project execution and provide remedies.

The impact and sustainability of the project would have improved if the Bank also incorporated guidelines and benchmarks that would have guided the assessment of the project achievements. This was more important after the mid-term review when a comprehensive assessment of the accomplishment and implementation experience was conducted. The Bank's efforts were focussed instead on the development of the follow-on operations. Also, the number of changes in project team leadership caused some stress to implementing agencies when changes were belatedly communicated to these agencies and procurement matters remained unattended for extended periods of time. This was eventually corrected.

7.3 Overall Bank performance:

The Bank's overall performance was satisfactory.

Borrower
7.4 Preparation:

The Government's level of commitment to the objectives of the project was demonstrated early during project preparation. Government counterparts were available to provide the required technical, financial, economic, and institutional support when the project was being defined. Key officials and staff who were expected to play an active role in the implementation of the project collaborated with the Bank's project team during project preparation. To launch its privatization program, a formal privatization policy statement was issued and the Presidential Parastatal Sector Reform Commission was established to coordinate the program. The establishment of LART was also timely. The Government's performance during the project preparation stage was satisfactory.

7.5 Government implementation performance:

The Government's performance during project implementation was satisfactory. Although it experienced major difficulties during the first two years of project implementation (see section 5.2 for a detailed explanation), the Government's sustained commitment to the project goals led to the satisfactory achievements under the privatization and civil service reform programs. This was most evident in the selection of qualified staff to implement the project components, its establishment of the LART Tribunal, and coordination with various donors to implement a far-reaching civil service program. The impact of the project improved after the mid-term review when the leadership in Government took steps (albeit belatedly) to correct the slow progress in implementation and focus on the requirements to privatize the larger enterprises in order to eventually realize a greater impact on the fiscal problems. The replacement of the project coordinator whose work was disruptive particularly to the implementation of civil service reform initiatives, the timely payments of consultant fees, and the disbursement process also improved project execution.

7.6 Implementing Agency:

The collaboration between all the implementing agencies during project execution was satisfactory. Following the resolution of the problems experienced during the early years of project execution, particularly relating to the Borrower's buy-in of the privatization policies and procedures and the civil service reforms after the mid-term review, qualified and dedicated officers maintained a level of commitment necessary to realize the reform objectives. Officers at LART and the LART Tribunal implemented their program professionally and proactively and utilized the capacity building resources effectively. The project coordinating unit's problem with the coordinator negatively affected procurement and disbursement processes and the postponement in removing this official unnecessarily delayed important initiatives and payments to consultants. Progress reports and annual work plans and budgets were prepared as required. Audit reports were submitted as required and received unqualified opinions.

7.7 Overall Borrower performance:
Noting the key areas summarized above, the Borrower's overall performance was satisfactory.

8. Lessons Learned

The key lessons learned under this project include the following.

- A credible privatization program will require (a) a comprehensive communications program designed to reach all stakeholders (including the general public) and to educate them on the policies, the program and the use of the proceeds particularly at the very early stages of project implementation and throughout project execution; (b) a retrenchment and public enterprise debt policy that is carefully evaluated, planned, and implemented consistently; and (c) increased technical capacity through contracting out to experienced sector investment advisers and consultants (particularly for large, infrastructure related firms).

- There is a need to define upfront the privatization strategy including measurable targets, modalities and the roles of the various institutions and agencies involved (at ministerial, cabinet, and implementing agency levels) to ensure an efficient, transparent process. This is particularly important as experience has shown that the lack of a clearly delineated process with clear areas of responsibility has led to confusion, lack of coordination, and lack of accountability.

- Attracting sufficient high quality investors and operators and ensuring effective competition in the privatization process are possible only when a regulatory framework (particularly in key sectors including banking, infrastructure, and utility sectors) is in place and clearly spells out fair treatment of investors, reduced ability of the concerned parties (including future governments) to unilaterally undo commitments, and protection of consumers from misuse of monopoly power.

- An effective civil service reform program will require: overt and widely held political sponsorship; government commitment to reforms; sufficient capacity for change management in ministries, departments, and agencies; strong monitoring and evaluation mechanisms; clear incentives for the institutions and individuals to achieve reform objectives; and sufficient funding resources to complete program implementation.

- When the Bank decides to support complex, far-reaching projects in a country experiencing changing levels of commitment and insufficient human capital to manage the project, it is essential that the Bank allocates sufficient budgetary resources that reflect a recognition of the levels of expertise and the time required to realize essential changes in policy and procedures.

The above lessons have been incorporated in the project design, including the key performance indicators, for the PPSDP and PSRP (see section 6 above).

9. Partner Comments

(a) Borrower/implementing agency:

1.0 Background

1.1 Following Government's commitment in undertaking economic recovery reforms, a number of programmes have been initiated and implemented. Although these reforms have since induced economic recovery, the concern (as from 1990s) remained with the following:-

- Fiscal drain caused by inefficient and financially distressed parastatal sector;
- An overstaffed civil service sector; and
- Poor economic management due to Government's weak capacity.

1.2 The weaknesses out-lined above became a major concern and made Government to shift its focus towards public sector reform. The objective of the desired reform aimed at easing fiscal burden and enhancing capacity to manage continued economic reforms. In order to implement these reforms and move forward, IDA assisted the Government through the Public Sector Adjustment Credit (PSAC).

1.3 Against this background, the Parastatal and Public Sector Reform Project (PPSRP) was Government's parallel and complementary operation which provided the requisite technical assistance for Public Sector Adjustment Credit (PSAC). The PPSRP was, therefore, formulated to provide the technical assistance and longer-term capacity building needs.

1.4 Negotiations for PPSRP were held in Washington, D.C. in 1993 between the representatives of the Government of United Republic of Tanzania (URT) and the International Development Association (IDA); and on July 26th, 1993 the Development Credit Agreement amounting to SDR 25.2 million was signed. The Government of U.K. through Department for International Development (DIFD) provided a grant of USD 7.0 million for Parastatal Sector Reform Commission (PSRC) and Civil Service Reform Programme (CSRP) respectively; and the Government of Finland and the European Union (EU) also provided grant of USD 0.383 million and 4.23 million to VAT respectively. These grants were separately administered and disbursed.

2.0 Execution Arrangement

2.1 The overall supervision of the project was vested on a Steering Committee of Permanent Secretaries of Finance, Civil Service Department (CSD), and Planning Commission; and implementation component managers of Parastatal Sector Reform Commission (PSRC), Loans and Advances Realization Trust (LART), LART Tribunal, Civil Service Reform Programme (CSRP), Strengthening of National Accounting (SNA) and Value Added Tax (VAT). The Steering Committee was chaired by the Permanent Secretary to the Treasury.

Mid-Term Review

2.2 The PPSRP mid-term review was undertaken between February and March, 1996 to assess on the progress of implementation of the credit. Also a post-mid-term supervision mission was undertaken in June, 1996 to assess progress of implementation.

3.0 **Performance of Components**

A: **Parastatal Reforms**

3.1 The parastatal reforms were being undertaken as a measureto ease the fiscal burden on the parastatal sector. To implement the parastatal reform programme, the Government took the following actions:-

(a) The Parastatal Sector Reform Commission (PSRC) was created to coordinate and implement divestiture and restructuring of parastatal enterprises;

(b) The Loans and Advances Realization Trust (LART) and LART Tribunal were created and put in place to act as an integral part of the parastatal reform programme. The basic functions being to liquidate non-performing assets held on the bank's books.

(i) **Parastatal Sector Reform Commission (PSRC)**

3.2 The Parastatal Sector Reform Commission (PSRC) was charged with coordination and implementation of divestiture and restructuring of 395 parastatal enterprises. At the end of the project, PSRC had already divested 333 parastatals (84 percent) out of 395 earmarked for divestiture. The divestiture methods were through share sale, lease, liquidation, outright sale and/or management employee buy out (MEBO). The divestiture values as at the end of the project were USD 275 million and TShs.50,965 million respectively. Investment value amounted to TShs.50,519 million and USD 585.21 million respectively.

3.3 During implementation of the PSRC sub-component, there were a number of constraints which hindered or delayed timely implementation of the required plans. These included:-

- The capacity building programme for members of PSRC on divestiture and restructuring delayed implementation of component activities for two years.
- Lack of records made the valuation of companies earmarked for divestiture difficult and time consuming.
- Marketing of parastatals proved to be a difficult task due to absence of an economic and financial environment conducive for privatization.
- Absence of clear policy guidelines regarding the payment of retrenchees benefits and treatment of debts.

(ii) **Loans and Advances Realization Trust and Tibunal**

3.4 The Loans and Advances Realization Trust (LART) was created with the objective of liquidating non-performing assets (NPAs) held on the bank's books. There were 104 NPAs with face value of TShs.27.0 billion transferred to LART for liquidation. As at the end of the project, the value on NPAs recovered was TShs.14.8 billion (54.7 percent) of estimated face value of 104 NPAs. The distribution of these NPAs was as follows:-

Bank*	No. of NPAs	Value (TShs. Billion)	%
NBC	56	18.89	70
CRDB	37	5.24	19
PBZ	11	2.87	11
Total NPAs	104	27.0	100

* NBC - National Bank of Commerce
CRDB - Cooperatives and Rural Development Bank
PBZ - Peoples Bank of Zanzibar

3.5 To expedite the process of NPA recovery and bring about meaningful fiscal performance, LART Tribunal was created. The Tribunal, an adjudicatory body of LART was established to hear and determine all disputes arising in the process of implementing the provisions of the LART Act. This was also meant to ensure LART realized its objectives within its time frame.

3.6 In the course of implementation, the sub-components faced the following constraints:-

- Absence of mechanisms and procedures for guiding the process of NPAs recovery.
- Lack of ownership of some debts.
- Lack of proper and secure collateral for some NPAs.
- Lack of ability and capability to repay the obligations.
- Lack of market potential to absorb the NPAs.
- Legal actions hindered the NPA recovery process.

Impact Emanating from Parastatal Reform

3.7 The impact emanating from the implementation of the Parastatal Sector Reform include:-

- The divested parastatals have reduced the fiscal burden on Government.
- Induced capacity for local ownership of divested parastatals.
- Divestiture has induced increased direct foreign investment (DFI) hence increased capital

formation.

- Divestiture has induced creation of new skills and technology.
- Privatized enterprises have improved competitiveness in terms of increased efficiency, productivity and capacity utilization.
- Divestiture has induced and increased competitiveness of local products.
- Contributed to Government revenue in form of taxes and dividends.
- Some NPAs have been collected and induced other non-performing assets (NPAs) to perform.
- Improved financial performance and discipline in credit management of banks and financial institutions.
- Creation of new employment opportunities and improved terms and conditions.

B: <u>Civil Service Reform Programme (CSRP)</u>

3.8 The Civil Service Reform Programme (CSRP) was designed to implement the following:-

(a) Organization and Efficiency: The following were implemented:

- Completed the redefinition of the role of the Government.
- Commenced creation of Executive Agencies by putting nine (9) agencies in place out of 117 redefined and planned.
- Appropriate Organization Structures for ministries and independent departments determined.
- Restructuring of regional secretariats undertaken and completed.
- Improved services (Quick wins) in some ministries and independent departments put in place.

(b) Pay Reform: With regard to this aspect, the following were achieved:

- Simplified salary structure from 196 grades and 23 scales to 45 grades and 4 scales respectively.
- Civil Service Salary structure adjusted from a ratio of 9:1 to 2:1.
- Compensation structures simplified and inequitable allowances eliminated.

(c) Personnel Management Systems:

- Drafts on Code of Ethics and Staff Appraisal system completed.
- A Unit of Ethics created at Civil Service Department (CSD).

(d) Personnel Control and Information Systems:

- Central payroll database established.
- Ghost workers and fraudulent payments eliminated.
- Database of all civil servants put in place.

- Personnel Control Section at Civil Service Department (CSD) strengthened.
- Payroll Control Section at Ministry of Finance (MOF) strengthened.
- A team of information system analysts from Civil Service Department and Ministry of Finance put in place .
- Integrated payroll and human resources system established and computerized.

(e) Retrenchment and Redeployment:

- On retrenchment, 89,000 employees were retrenched at a cost of T.Shs.68.75 billion.
- Civil Service employees reduced from 355,000 in 1992 to 266,000 in 2000.
- On redeployment, a total of 40,500 out of 47,500 retrenchees benefited from counseling services, skills training and enterprise development training.

Impact Resulting from Civil Service Reform

3.9 The implementation of the Civil Service Reform programme produced the following impacts:-

- The Wage bill reduced by 30 percent of total recurrent expenditure.
- The size of civil service establishment downsized.
- Effective systems of personnel control and payroll put in place.

C: Macro-economic Management

3.10 The component was designed to improve selected aspects of the macro-economic management system for sustenance of overall public sector reform programmes. The selected elements were:

- Preparation and introduction of VAT as an improvement in areas of taxation.
- Improvement in the area of national income accounts.

(i) Value Added Tax VAT

3.11 VAT was introduced to replace Sales Tax Act with a view to broadening tax base and ensuring compliance to taxpayers. The actions taken in the establishment of VAT included:-

- The VAT Act, 1997 was put in place, and became operational on July 1, 1998.
- About 1,400 employees were trained in various areas relating to VAT administration and operations.
- Publicity and taxpayer education for creating awareness of and compliance to VAT was conducted.
- All internal control procedures were put in place.
- Computerization was completed in Dar es Salaam Zone.

- In the first year of implementation, 13,132 (87 percent) taxpayers were registered for VAT compared to 15,000 targeted for registration.

(ii) Strengthening of National Accounts (SNA)

3.12 The Strengthening of National Accounts sub-component aimed at:-

- Up-grading the methodology of national accounts estimation;
- Development of raw data for selected sectors; and
- Integrating the new data into GDP.

3.13 In the course of implementation, the following achievements were realized:-

(a) The national accounts methodology was upgraded.
(b) The survey conducted improved the coverage in the construction, trade and transport sectors.
(c) Capacity building for the National Bureau of Statistics (NBS) staff was undertaken.
(d) National Accounts were computerized.

Impact Resulting from Implementation

3.14 The impact resulting from the implementation of the selected macroeconomic features – VAT and SNA include:

- Broadened tax base with high level of compliance to payment of taxes.
- Tax revenue collection increased from TShs.140,520 million in 1997/98 to TShs.208,579 million in 1998/99 after introduction of VAT.
- Government revenue enhanced with the introduction of VAT.
- Estimation of GDP has been upgraded, thus reflecting improved coverage of the national economy.
- Upgrading of methodology has changed the macroeconomic indicator by integrating more data into GDP.

4.0 Overall Coordination and Supervision

4.1 The overall coordination and supervision of the project was the responsibility of the Project Steering Committee comprised of:-

- Permanent Secretaries of Ministry of Finance, Planning Commission and Civil Service Department; and
- Component Managers of PSRC, CSRP, LART, VAT and SNA.
  The Steering Committee was chaired by the Permanent Secretary, MOF and assisted by the Secretariat headed by Project Administrator.

4.2 The project was properly supervised and the credit proceeds effectively utilized according to the project work plans. The borrower utilized SDR 24.78 million out of SDR 25.2 million being 98 percent of the credit proceeds.

5.0 **Lessons Learned**

- In future, it is considered important to have all fundamental policy issues addressed to at the design stage to avoid delays in implementation.
- The public awareness campaign should have been planned during project design stage.
- Mechanisms and procedures required to guide the process of debt recovery ought to have been put in place during project design.
- Local capacities and capabilities have been created for sustained economic reforms.
- Government and donors were all committed to the successful implementation of the project.
- The project was professionally and competently administered.

6.0 **Conclusion**

6.1 The credit for the implementation of the parastatal and public sector reforms was very useful as it supported government efforts in implementing the on-going economic reforms. Progress has been made in the divestiture and restructuring of parastatals. Over 84 percent of parastatals have been divested and about 55 percent of NPAs liquidated and recovered. The macroeconomic management improved; and the Civil Service sector continues to be realigned and strengthened.

6.2 The divestiture and restructuring of the parastatals, improved macroeconomic management and realigned and strengthened civil service have all contributed to curbing of fiscal drain and brought an improvement on overall government revenue and allocation of resources. Privatization, in particular, has stimulated private local ownership and competition for local and global markets. Demand for attracting international capital has therefore increased.

(b) Cofinanciers:

DFID reviewed this report and is in agreement with the general conclusions documented herein.

(c) Other partners (NGOs/private sector):

10. Additional Information

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Civil Service Reform: - implementation of retrenchment program in central and local governments, and military - implementation of personnel management and control, pay reform, and ministerial organization & efficiency reviews	December 1999	December 1999
Parastatal Reform: - implementation of GOT's PE divestiture program including larger parastatals in key sectors notably tradables and utilities - entry of private investors into sectors previously dominated by PEs - reduction of fiscal drain caused by	On-going under the Privatization and Private Sector Development Project; by 2004	On-going under the Privatization and Private Sector Development Project; by 2004
VAT Reform: - implementation of an efficient well-operating value added tax, contributing to increased tax revenues	December 1999	December 1999
LART: - successful legal settlement of non-performing assets of state-owned banks assigned to LART, contributing to reduced fiscal drain and improved credit discipline	On-going under the Privatization and Private Sector Development Project; by 2003	On-going under the Privatization and Private Sector Development Project; by 2003
National Accounts: - implementation of sustainable improvements in statistical systems for national accounts	May 1997	May 1997

Output Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate

[1] End of project

Annex 2. Project Costs and Financing

Project Cost by Component (in US$ million equivalent)

Project Cost By Component	Appraisal Estimate US$ million	Actual/Latest Estimate US$ million	Percentage of Appraisal
Privatization	22.21	24.58	111
LART	3.03	8.75	289
Civil service reform	15.29	11.28	74
Macroeconomic management	2.00	4.73	237
Project implementation	0.35	1.52	937
Total Baseline Cost	42.88	50.86	
Price Contingencies	2.81		
Total Project Costs	45.69	50.86	
Total Financing Required	45.69	50.86	

Project Costs by Procurement Arrangements (Appraisal Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods	1.61 (1.61)	0.20 (0.20)	0.20 (0.20)	0.00 (0.00)	2.01 (2.01)
3. Services	0.00 (0.00)	0.00 (0.00)	32.66 (32.66)	7.00 (0.00)	39.66 (32.66)
4. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
5. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.41 (0.23)	3.80 (0.00)	4.21 (0.23)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	1.61 (1.61)	0.20 (0.20)	33.27 (33.09)	10.80 (0.00)	45.88 (34.90)

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods	1.52 (1.52)	0.23 (0.23)	0.75 (0.16)	0.00 (0.00)	2.50 (1.91)
3. Services	5.08 (5.08)	25.78 (24.24)	3.16 (3.16)	0.00 (0.00)	34.02 (32.48)

4. Miscellaneous	0.00 (0.00)	0.00 (0.00)	14.34 (0.60)	0.00 (0.00)	14.34 (0.60)
5. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	6.60 (6.60)	26.01 (24.47)	18.25 (3.92)	0.00 (0.00)	50.86 (34.99)

[1/] Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

[2/] Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	IDA	Govt.	CoF.	Bank	Govt.	CoF.	Bank	Govt.	CoF.
Privatization				17.03	7.94				
LART				4.34	3.89				
Civil service reform				10.53	1.10				
Macroeconomic management				2.73	2.19				
Project implementation				0.35	0.75				

Appraisal estimates are not available.

Annex 3. Economic Costs and Benefits

Not applicable.

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle Month/Year	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.) Count	 Specialty	Performance Rating Implementation Progress	 Development Objective
Identification/Preparation				
February 1993	*1*	Economics		
June 1993	*1*	Economics		
July 1993	*1*	Public Sector Management		
August 1993	*Knapp*	Public Sector Management		
Appraisal/Negotiation				
Appraisal - December 1992	*4*			
Negotiations April 1993				
Supervision				
2/94	*1*	Public Sector Management	S	HS
4/94	*2* *Mrope*	Public Sector Management		
8/94	*1*	Public Sector Management	S	HS
3/95	*1*	Public Sector Management		
5/95	*4*	Institutional Development, Economics, Public Sector Management	S	S
7/95	*1*	Economics		
10/95	*1*	Economics	S	S
4/96 (MTR)		Economics, Operations/Procurement, robert craver, Public Sector Management, Operations, Privatization, Country Program, Macroeconomics	S	U
6/96	*3*	Economics, Public Sector Management, Privatization, Operations	S	S
4/97	*2*	Public Sector Management, Operations	S	S
9/97	*4*	Industrial Economics, Public Sector Management, Privatization, Operations/ Procurement	S	S
12/97	*5*	Industrial Economics, Public Sector Management, Operations/Procurement, Privatization, Utilities Regulations	S	S

	5/98 (including preparation of follow-on project)	*6*	Industrial Economics, Public Sector Management, Privatization, Operations/ Procurement, Private Participation in Infrastructure, Operations, Utilities Regulations		
	10/98 (including preparation of follow-on project)	*3*	Industrial Economics, Privatization, Operations	S	S
	4/99 (including preparation of follow-on project)	*9*	Industrial Economics, Privatization, Operations, Utilities Regulations, Economics, Financial Management, Procurement	S	S
	10/99 (including preparation of follow-on project)	*3*	Industrial Economics, Utilities Regulations, Privatization		
	03/00 (including preparation of follow-on project)	*3*	Industrial Economics, Utilities Regulations, Privatization		
	11/00 (including follow-on project)	*3*	Industrial Economics, Utilities Regulations, Privatization		
ICR	3/01(including supervision of follow-on project)	*5*	Privatization, Operations	S	S

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation	8.1	20.2
Appraisal/Negotiation	50.3	84.2
Supervision	252.4	550.9
ICR	5.0	19.6
Total	315.8	674.9

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating
☐ *Macro policies*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Sector Policies*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Physical*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Financial*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Institutional Development*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Environmental*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
Social	
☐ *Poverty Reduction*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Gender*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Other (Please specify)*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Private sector development*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Public sector management*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Other (Please specify)*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*
☐ *Lending*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Supervision*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

6.2 Borrower performance	*Rating*
☐ *Preparation*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Government implementation performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Implementation agency performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

Annex 7. List of Supporting Documents

1. List of Studies included in Project
2. ICR Mission Aide Memoire
3. Implementation Completion Report prepared by the Borrower
4. Quarterly Progress Reports and Annual Reports
5. Minutes of ICR review meeting