

## **NEW EU – TANZANIA SUPPORT STRATEGY**

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### **DIRECT FINANCE FOR TANZANIA'S BUDGET**

#### **Macro-economic reforms as a pre-requisite**

Continued macro-economic reforms are a basic foundation of the Tanzanian Poverty Reduction Strategy (PRSP). Among the reforms initiated since 1995, most noteworthy has been the success of the macro-economic stabilization program. This program was implemented with great commitment. As a result, GDP growth average 4% in 1996-2000, inflation declined from 30% to 6% and substantial foreign exchange reserve were built up. The big domestic and foreign debt stocks partly inherited from the past, making Tanzania one of the world's most indebted countries, have been tackled with donor assistance. HIPC will result in a net reduction of 45% in Tanzania's foreign debt, hitherto amounting to 7.6 billion US\$.

#### **Donors' support to macro-economic reforms**

A large number of donors have been involved in support to macro reforms, through balance of payments aid sector-specific interventions, mainly under co-financing arrangements.

The second 8<sup>th</sup> EDF macro-economic support operation of 76 M€ to be disbursed in FY 2001/02 and 2002/03, has been conceived as a contribution to the poverty Reduction Budget Support (PRBS) facility in which Denmark, Finland, Ireland, Netherlands, Sweden and the UK, plus two non-EU partners participate. The main purpose of PRBS is to contribute to achieving Poverty Reduction Strategy objectives through general budget support. The joint mechanism reduces cost for the Government of absorbing external assistance and allows for joint monitoring of expenditure plans, budget execution and financial management reforms.

#### **Budget support will represent 34% of the 9<sup>th</sup> EDF overall envelope for Tanzania**

Government will allocate significant funds to priority sectors identified in its Poverty Reduction Strategy, with the objectives to reduce income poverty, improve quality of life and social well being of the poor whilst maintaining macro-economic stability. The EC will support the Government in its effort to combat poverty by contributing to the general budget, together with a number of other donors. Donor support to the budget will then permit substantially higher levels of allocations to priority sectors. It is expected that donors will finance about 55% of the priority recurrent expenditure or 30% of the overall budget. The instrument for channeling funds will be the Poverty Reduction Budget Support Facility (PRBS) put in place in 2000 to accommodate external budget aid to the general budget.

#### **Transparency and effectiveness in funds' management must be guaranteed**

The Cotonou Agreement allows for general budgetary aid as long as public expenditure management is transparent, accountable and effective. The prerequisite for any budget support, therefore, would be that Tanzania ascertains the necessary standards in the management of such funds. A set of joint performance indicators, applicable by all

donors involved, will allow monitoring progress in these key areas. Disbursement of yearly tranches of EC support will depend on the achievement of satisfactory results. A package accompanying measure aimed at strengthening capacity in accounting, procurement and internal auditing through technical assistance and training, as well as for improving the production of macro-economic and financial statistics will be designed and supported by the EC.

## **SUPPORT TO ROAD SECTOR IS MAINTAINED**

### **Road sector reform process**

In 1998 and 1999, institutional reforms were made in the road sub-sector. Following the establishment of the road Fund in August 1999 and the Road Agency Tan Roads in 2000, the European Commission and the Tanzanian Government signed Financing Agreements for road projects totaling over € 160 million. In 2001, discussion continued between Government of Tanzania and the road donors on the implementation of the reform. This included a sector coordination meeting in June 2001 and the Consultative Group Meeting in September 2001. The European Commission plays a coordinating role for donors involved in the road sector. The main issues under discussion are:

- The consolidation of the road sector reform process
- The redefinition of the role of the Ministry of Works and the implementation of the transition towards this new role
- The adequacy of road maintenance funding
- Continued support for further capacity building of Tanroads
- Strengthening of districts and municipalities to deliver district road programme

### **Current EU financed projects under 7<sup>th</sup> and 8<sup>th</sup> EDF.**

Following the agreement on the road sector reform in 1999, the European Commission approved three major road projects in 2000 and 2001 to be funded by the 8<sup>th</sup> EDF:

- Mwanza border – Tinde & Nzega – Isaka road (€85 million) was approved in March 2000.
- Mwanza Region Transport Programme (€35 million) in March 2000
- Backlog Maintenance Project (€42 million) in March 2001

Two other major road projects funded by the 7<sup>th</sup> EDF were under implementation in the roads sector during 2001:

- RUSIRM project (€23.8 million)
- Wazo Hill – Bagamoyo Road (EDF €2 million, Italy €13 million for works).

### **Road sector perspective under 9<sup>th</sup> EDF**

Roads remain the biggest sector under 9<sup>th</sup> EDF programme. The overall aim is to support the Tanzanian Government's National Transport Policy and improve access to local, regional and international markets and services. There are four components in the support strategy:

- Support for the road sector policy reform programme and strategy implementation
- Finance for backlog, periodic and routine maintenance to bring the network to a maintainable condition
- Continued support for the development of the high priority truck road network
- Active donor coordination

## **BASIC EDUCATION TO REMAIN TOP PRIORITY**

### **EU support to Tanzania Development Strategy**

Considerable progress has been made in developing an Education Sector Development Strategy (ESDS) since the beginning of 2001 under the leadership of the Prime Minister's Office. In June 2001, the Minister of Education and Culture approved the Primary Education Development Plan (PEDP) as the first component of ESDP to become operational. Concurrently, Government-donor dialogue on the political and technical level quickly improved. As a consequence, the idea of supporting the District Based Support to Primary Education programme was dropped in favor of support to PEDP. Moreover, EDF funds remaining unspent under the Interim Textbook Programme, which came to an end in 2001, will be reallocated to support PEDP.

### **Urgent needs**

PEDP first of all aims at absorbing the increase in primary enrolment resulting from the abolition of primary school fees earlier this year. Enrolment in standard I is expected to increase from 800,000 to 1,500,000 pupils. This requires an estimated 14,000 new classrooms and 7,000 new teachers during 2002, as well as textbooks and other educational material. At the same time, PEDP includes strategies to improve the quality of education in order to reduce drop-out rates, and strategies to improve regional, social and gender equality in the education system.

### **Pooled funding**

EU support to the PEDP will be provided through a pooled funding arrangement. Government and donors have recently signed a Memorandum of Understanding which lays down the procedures for the management of the pooled fund. The Financing Proposal for an amount of € 25 million from EDF 8 will be presented to the EDF Committee in September 2002.

### **Renewed support under 9<sup>th</sup> EDF**

Under the 9<sup>th</sup> EDF, it is intended to allocate 15% of the funds towards the Primary Education Development Programme.

## **AGRICULTURE NOT FORGOTTEN**

### **Sector Development Programme**

In 2001, the EU and selected other donors assisted the Tanzanian Government in the preparation of its Agricultural Sector Development Strategy (ASDS) as an instrument for stimulating growth and reducing poverty. Due to diversity of the agricultural sector, many actors are involved in the Development of this sector: public institutions, private stakeholders, civil society and Development partners. The success of the ASDS will depend on the ability of each sector to effectively play their role and the establishment of effective institutional coordination mechanisms.

### **EC involvement**

Since the beginning of the 1990's an amount of €51 million from STABEX resources has been allocated to the coffee sub sector. These STABEX transfers have been used, on the one hand, to support macro-economic reforms through the provision of the foreign

coffee sector (improvement of coffee quality, multiplication and distribution of plants) and, on the other hand, to support the preparation and implementation of reform (coffee research and extension, etc).

STABEX Resources have also been allocated to the tea sector for an amount of €3.0 million and to the cotton sector for €2.2 million.

### **Future support**

The EU and the Ministry of Finance are finalizing a new agreement of support to the agricultural sector. A total amount of €40 million will be allocated. The priorities for the use of those funds will be improving productivity, quality and profitability of smallholder coffee production; reducing marketing costs and access to services, through the improvement of rural feeder roads; and supporting the government's Agricultural Sector Development Programme to stimulate agriculture growth.