

Assessing the Impact of the PRGF on Social Services



The Case of Tanzania



African Forum and Network
on Debt and Development

Assessing the Impact of the Poverty Reduction and Growth Facility on Social Services
The Case of Tanzania

ISBN 0-7974-3174-8

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AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

- 1 To enhance efficient and effective management and use of resources by African governments;
- 2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.
- 3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

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AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

Acknowledgements

AFRODAD wishes to acknowledge their great debt of gratitude to Dr Joseph Shitundu of the Economic Research Bureau at the University of Dar es Salaam in Tanzania and his research team for investing considerable time and effort in the research process of this report. Many thanks also go to those in the Tanzanian government, civil society, the UN family, International Financial Institutions, donor community and private sector who contributed to the research outcome through interviews or responding to questionnaires. We also remain indebted to Messrs. Christopher Mwakasege and Vitalis Meja for helping in the final edit and proof-reading of this report.

The central support of the Norwegian Church Aid's staff was invaluable to the project. The report benefited greatly from the facilitation of Ms. Gwen Berge at the South African Norwegian Church Aid offices and Mr. Tirivangani Mutazu at the AFRODAD secretariat. Many thanks to many of our colleagues whom we can not all name but whose input into the national research validation workshop remains vital to this output.

Preface

In order to achieve significant poverty reduction in poor and indebted countries, the International Monetary Fund (IMF) in 1999 introduced a new policy framework called the Poverty Reduction and Growth Facility (PRGF). The PRGF was introduced, among other things, to replace the Enhanced Structural Adjustment Facility (ESAF) of the IMF as a lending window for poor countries. The PRGF was supposed to usher in a new era of reduced international financial institution (IFI) conditionalities, but in reality this has not been the case. In countries that were implementing ESAF policies, these were simply renamed PRGF and continued with their restrictive conditionalities, which in many cases included the privatisation of public utilities in the various sectors of the economies. Some of the conditions attached to PRGF financing, such as user fees for education and health services as well as privatisation of water and energy services, have proved to be detrimental to social service delivery.

When signing up to the Millennium Development Goals (MDGs) in 2000 the International Monetary Fund (IMF) made poverty reduction the main objective of its activities in poor countries across the world. The Poverty Reduction and Growth Facility (PRGF) has been portrayed as a key part of this commitment, promising broad participation in the formulation of poverty reduction strategies, more pro-poor growth, greater flexibility in fiscal targets and social impact analysis of major macroeconomic adjustments and structural reforms.

While the PRGF can potentially represent an improvement from the structural adjustment policies of the past, a number of studies, including those of the Independent Evaluation Office (IEO), make us question the merit of the new approach. Although broader participation in the formulation of macroeconomic policies is explicitly stated as one of the key pillars of the PRGF, it is crystal clear that discussions still remain an almost exclusive preserve between the IMF and a few selected government officials. The lacking participation and the limited alignment between PRSPs and PRGFs represent severe limitations to the potential ownership and poverty reduction impact of Fund policies. This is a major reason for concern, knowing that the PRGF was supposed to be informed by the Poverty Reduction Strategy Papers (PRSPs), while the opposite is, in fact, true.

Tanzania provides a unique case of a country that seems to manage, to a large extent, to adhere to the letter and spirit of the IMF's PRGF prescriptions, although at the expense of poor people's social welfare. Economic stabilization in the country shows that the IMF had to engage in some form of negotiations with the government of Tanzania rather than simply impose its own conditionalities. Like elsewhere in Africa, the PRSP in Tanzania was technically expected to be the sourcebook for PRGF programs but there is no evidence that the PRSP fed into the PRGF realistically, nor was it a copy-cat of the PRSP.

Regardless of what seems to be a rather different PRGF approach in Tanzania by the IMF, research findings suggest that IMF policies are still based on rather arbitrary macroeconomic targets, failing to move from short-term stabilization programmes to long-term poverty reduction strategies. True, expenditures for education and health have increased relatively within the national budget, but still this leaves a lot to be desired in terms of equitable social service provision and the combat of extreme poverty among Tanzanians. The PRGF control of wage ceilings has eroded meaningful wages and in some cases added the rates of unemployment.

This Tanzanian case study raises a number of concerns. We do hope that both the IMF and the Tanzanian government will take the findings of this report seriously and address concerns aptly.



Charles Mutasa

Executive Director

AFRODAD

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List of Abbreviations

ADB	African Development Bank
BFIA	Banking and Financial Institutions Act
BoT	Bank of Tanzania
CPI	Consumer Price Index
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross Domestic Product
GGCU	Good Governance Coordination Unit
HIPC	Highly Indebted Poor Countries
IFMS	Integrated Financial Management Systems
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MDGs	Millennium Development Goals
MTEF	Medium-Term Expenditure Framework
NDA	Net Domestic Assets
NGOs	Non-Governmental Organizations
NIR	Net International Reserves
NMB	National Microfinance Bank
NPES	National Poverty Eradication Strategy
NSGRP	National Strategy for Growth and Reduction of Poverty
PER	Public Expenditure Review
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty reduction Strategy Paper
SDR	Short Term Drawing Rights
SOE	State Owned Enterprises
TAS	Tanzania Assistance Strategy
TRA	Tanzania Revenue Authority
UNDP	United Nations Development Programme
UNICEF	United Nations
US\$	United States Dollar
WB	World Bank

Executive Summary

Tanzania is currently implementing a second three-year (August 2003-August 2006) financial and economic programme under the IMF's Poverty Reduction and Growth Facility (PRGF). This follows a successful completion of the first three-year PRGF arrangement (April 2000-August 2003). The first PRGF arrangement involved approved and drawn SDR 135.0 million while the approved amount for the second PRGF arrangement was only SDR 19.6 million with SDR 11.20 million drawn so far.

The Tanzanian government has continued with strong implementation of sound macro-economic policies and structural reform under the two 3-year PRGF programmes. The policies have substantially boosted Tanzania's economic growth. Real GDP growth improved from an average of 2.7% during 1990-1995 to 4.6% during 1996-2002 and to 5.7% and 6.7%, respectively in 2003 and 2004. Other achievements show that fiscal imbalances have been reduced, expenditures reoriented to the social sectors and the external position substantially strengthened.

The first PRGF in Tanzania was not based on the full PRSP, but drew on the earlier ESAF and on the I-PRSP. There was limited stakeholder participation in the macroeconomic framework formulation. The process, however, derived its basis from documents such as the Poverty Reduction Strategy, the National Poverty Eradication Strategy (NPES), Vision 2025 and the Tanzania Assistance Strategy (TAS) which had been debated widely within government, civil society and the Parliament and the donor community. It must be noted however that in previous consultations, the inclusion of civil society was limited to social impact discussions, and not to the extent of including the economic framework. In most cases it was more of a public relations exercise with the Fund and Bank officials holding "informal" discussions with civil society representatives after the formal meetings. Critical documents such as the Bank Country Letter of Development Policy and the World Bank President's Report remained confidential and secretly guarded by both the Fund and the government, thus denying other stakeholders access to key information.

Tanzania has been implementing a number of structural conditionalities for ensuring fiscal discipline and stability. The privatization of water in Tanzania has generated a lot of public debate as the poor tend to be deprived of water which is their basic need and right. Nevertheless, the successful implementation of the IMF PRGF conditionalities has helped Tanzania to get external resource flows from other donors. Increased donor financial resource flows coupled with improved export earnings have enabled Tanzania to increase resource allocations to sectors providing social services. However, tangible achievements are substantial for education services. There are also some positive results with respect to health and water provision services.

In spite of the achievements, poverty remains high in the country, especially in rural areas. There are still immense challenges to substantially reduce poverty, improve further social services and achieve MDGs.

Recommendations for reversing the negative impacts of PRGF on Social Services in Tanzania:

(a) The Government of Tanzania, therefore, needs to do the following:

- (i) Build capacity to formulate economic and social policies and engage IMF without being overshadowed during policy discussions and formulation.
- (ii) Substantially invest in infrastructural development, especially rural roads which will facilitate rural development and especially agricultural development for effective poverty reduction.
- (iii) Ensure better utilization of foreign reserves which have been above the targets for the past two years. One way is to increase the absorptive capacity of foreign exchange through assisting to increase demand by private sector which currently is still small. Investment in infrastructural development can have positive effects on private sector development and hence increased absorptive capacity of foreign reserves.
- (iv) Continue with prudent economic management which has helped to establish fiscal discipline in the country and strengthened donor confidence.
- (v) To promote and facilitate local consultations with respect to PRGF arrangements in more or less the same way it is done for Public Expenditure Review (PER) process.

(b) IMF and WB need to do the following:

- (i) PGRF should be opened up for discussions and contributions by stakeholders to enhance participation and national ownership
- (ii) Both the WB and IMF should work with civil society representatives to develop engagement and policy dialogue, especially in macroeconomic policy
- (iii) WB and IMF policy conditionalities should be drawn directly from the PRSP or NSGRP outcome based.
- (iv) The WB and IMF should delegate greater decision making to staff located in PRSP/PRGF countries in order to create the conditions for in-depth dialogue with government and civil society and greater country ownership of the strategy and facility. This may require relocation of staff to country offices.

(c) Role of Private Sector

The private sector is the engine of growth for both PRSP and NSGRP. However, it is necessary to make it more interested in engagement with IMF/WB and Government so that their interests are taken on board in various arrangements including PRGF.

(d) Role of Civil Society

Civil societies too, need to enhance their participation in PRGF arrangements:

- (i) Civil Society must invest strategically in development of analytical capacity on macroeconomic issues
- (ii) Civil Society need to hold government accountable through budget analysis, monitoring and public advocacy.

1.0 Introduction

The IMF established the Poverty Reduction and Growth Facility (PRGF) in 1999 to make the objectives of poverty reduction and growth more central to lending operations¹ to its poorest member countries. This marked a further step in the IMF response to public criticism following the introduction of the HIPC initiative. Reviews of the PRGF by IMF staff in 2002 and by the Independent Evaluation Office (IEO) of the IMF in 2004 confirmed that the design of the programmes supported by PRGF lending had become more accommodating to higher public expenditure, in particular social spending on pro-poor services.

PRGF-supported programs are designed to cover only areas within the primary responsibility of the IMF, unless a particular measure is judged to have a direct, critical macroeconomic impact. Areas typically covered by the IMF include advising on prudent macroeconomic policies and related structural reforms such as exchange rate and tax policy, fiscal management, budget execution, fiscal transparency, and tax and customs administration. When appropriate, the IMF draws on World Bank expertise in designing PRGF-supported programs, and the staff of both the Fund and Bank cooperate closely on conditionality. The Bank staff take the lead in advising countries in areas such as poverty assessments, monitoring, structural and sectoral issues, social issues, and costing priority poverty-reducing expenditures.

A number of Sub-Saharan Africa development programs, especially Tanzania, depend on aid that in turn depends on donors feeling that their resources will be put to good use and not diverted elsewhere. This has been particularly critical in cases where donors, to the tune of above 30%, support national annual budgets. The IMF's approval of countries' macroeconomic policies functions as a type of international credit rating, and serves as an important signal or "green light" that opens the doors to millions of dollars in foreign aid from other bilateral and multilateral donors and creditors around the world, as well as to private foreign direct investment².

1.1 Background

The Poverty Reduction and Growth Facility (PRGF) was introduced by the International Monetary Fund (IMF) in 1999 as a successor to its Enhanced Structural Adjustment Facility (ESAF). One of the key changes reflected in this switch was the introduction of the Poverty Reduction Strategy Paper (PRSP) prepared by the borrowing country, to be endorsed by the Boards of the IMF and the World Bank (WB), and to act as the foundation for both the IMF's new instrument and that of the WB, the Poverty Reduction Strategy Credit (PRSC) (Adam, C. S. and Bevan, D. L., 2001). Thus, PRGF which is IMF's low interest lending facility for low income countries, aims at making poverty reduction efforts among low income countries a key and more explicit element of a renewed growth oriented economic strategy.

In Tanzania, the PRGF was launched in April 2000. This followed an approval, on March 31, 2000, of the country's three-year PRGF arrangement for SDR 135 million (about US\$ 174 million). By September 2001 Tanzania had drawn SDR 60 million (about US\$ 77 million) under the arrangement. In June 2003, the Tanzanian Government successfully completed the first three-year PRGF arrangement with the IMF, the successor programme to the ESAF³. The IMF Executive Board approved, for Tanzania, a new three-year PRGF arrangement in an amount equivalent to SDR 19.6 million (US\$ 27 million). The arrangement became effective on August 16th, 2003 and the first disbursement equivalent to SDR 2.8 million (US\$ 4 million) was made available on that date.

The Government of the United Republic of Tanzania is, therefore, implementing a second three-year financial and economic programme under the IMF's Poverty Reduction and Growth Facility (PRGF). This paper provides an overview of the PRGF implementation in Tanzania, the conditionalities attached to it and its impact on social services. It also presents some recommendations which could enable the roles played by the Government, World Bank, IMF, private sector and civil societies to become more effective with respect to poverty reduction and improved social services delivery.

¹<http://www.imf.org/external/np/exr/facts/howlend.htm>

²Jubilee USA, an anti-debt campaign movement notes in a Discussion Paper: Diminish or Close the IMF's PRGF To Partially Finance Debt Cancellation, Posted on www.jubileeusa.org on 15th April 2005

³From 1996 to 1999 Tanzania had an ESAF agreement. A Comparison of the first three-year PRGF-supported programme (2000-2003) to the ESAF arrangement of 1996-1999 indicates differences in three important aspects: (i) public expenditure reviews came to play an important role in the design and implementation of the PRGF-supported programme, eventually increasing resource flows to priority sectors; (ii) the programme coincided with unprecedented inflows of donor support to Tanzania, which meant that a broader range of expenditure priorities could be addressed within a wider resource envelope; and (iii) the two programmes also differed in terms of conditionality.

1.2 Objectives

The main objective of this paper is to find out the possible impact of the implementation of the PRGF arrangement on social services in Tanzania. The specific objectives are contained in the Terms of Reference and are as follows:

- To give a brief background of Tanzania's economic status especially the macro-economic framework with special reference to debt, aid flows and trade relations.
- To establish the extent to which the main elements of the PRGF have been drawn from Tanzania's PRSP.
- To identify the conditionalities attached to the PRGF and provide an analysis of those which are detrimental to poverty reduction and to meeting MDGs.
- To assess the poverty impacts of the PRGF in Tanzania and explain the extent to which the PRGF ensures income distribution and strong performance on the Human Development Index (HDI).
- To explain the sectoral allocation of resources disbursed under the PRGF, particularly the amounts allocated to social services and to finance the MDGs. To also explain the extent to which PRGF programmes in Tanzania reflect the Fund's appreciation of the different circumstances facing different countries and the likelihood of structural conditionalities being applied selectively. Furthermore, to explain if PRGF-related staff reports highlight flexibility in country choices.
- To establish the extent to which efforts have been made to ensure that PRGF policies and objectives are open to public debate.
- To quantify financial flows disbursed through the PRGF window compared to other sources of official finance. To establish whether PRGF provide guidance on how best to re-orient government spending towards pro-poor activities and the extent to which PRGF seeks commitments of higher aid flows and build these into the programme.
- To analyse the extent to which the IMF's signalling role has affected aid disbursements in Tanzania, especially resources targeted for social services and meeting the MDGs.
- To give specific, concrete and practical recommendations that could help in reversing the negative impacts of the Poverty Reduction Growth Facility (PRGF) on Social Services in Tanzania. The recommendations should be specific to:
 - i) Tanzanian Government
 - ii) International Financial Institutions (WB/IMF)
 - iii) Private sector
 - iv) Civil society organisations.

1.3 Methodology

The methodology for implementing this study involved desk research as well as interviews with key informants in institutions, which are concerned with the PRGF. These include the Ministry of Finance, Bank of Tanzania and the President's Office, Planning and Privatization. The other institutions are the UNDP, UNICEF and International Financial Institution representatives such as the World Bank and IMF.

1.4 Structure of the Report

This report has been organized into five main parts. The first part gives an introduction while the second part provides an overview of the recent economic development status in Tanzania. The third part deals with the conditionalities that are attached to PRGF arrangements, identifies the main elements that are drawn from Tanzania's PRSP and analyzes the financial flows and sectoral allocations of resources disbursed under PRGF arrangements in Tanzania while the fourth part presents the impact of PRGF on poverty reduction, social services in Tanzania. The last part provides recommendations for reversing the negative impacts of PRGF on social services in Tanzania. The specific recommendations are focused on the roles of the Tanzanian Government, World Bank, IMF, Private Sector and Civil Society Organisations.

2.0 Recent Economic Development in Tanzania

Tanzania has taken significant measures to liberalize its economy along market lines and encourage both foreign and domestic private investment. Beginning in 1986, the Government of Tanzania adopted and implemented various reform measures⁴. As a result, the economy started to grow again.

Overall, the real economic growth averaged about 4% a year, during the 1986-1990 period, much better than the pre-reform era. Tanzania achieved considerable macroeconomic and structural adjustment beginning in the mid-1990s. Real GDP growth averaged 4.6% during 1996-2002 against 2.7% during 1990-1995.

Tanzania's macroeconomic performance continued to improve, accompanied by a strong economic expansion. The Gross Domestic Product (GDP) growth rate rose from 5.7% in 2001 to 6.2% in 2002, despite the continued worsening terms of trade. Growth in 2002 stemmed from relatively strong performances in agriculture, mining, manufacturing, as well as wholesale and retail trade. During 2003 the Tanzanian economy recorded a 5.6% growth rate despite the severe drought that affected agriculture and energy sectors, and a sharp rise in petroleum prices at the world market. In 2004, agricultural production recovered on account of improved weather conditions. Improved performance was also recorded for other sectors of the economy such as mining, tourism and manufacturing. During 2004, Tanzania recorded a 6.7% growth rate in real GDP compared to the projected 6.3% and an outturn of 5.7% in 2003. The higher than expected GDP growth stemmed almost entirely from the agriculture sector following favourable weather conditions and the recovery of some commodity prices. The economy is projected to grow at 6.9% in real terms in 2005, supported by the continued structural reforms and infrastructural investment, accelerating further to 7.5% over the medium term.

Tanzania's implementation of macro-economic policies continues to be strong. In addition to growth in real GDP inflation declined from around 30% in the pre-reform era to 5.1% at end-June 2001. The annual rate of inflation (based on the newly revised CPI index) dropped from 4.3% at end-June 2004 to 4.0 at end-April 2005, mainly because of the weather related recovery in food production. Inflation is expected to remain at an average of about 4% in 2005/06 and over the medium term. Growth will be driven by a continued expansion of agriculture, agro-processing, manufacturing, construction and trade.

Tanzania did not achieve its Highly Indebted Poor Countries 1 (HIPC 1) Completion Point at a date that was originally planned and hence was obliged to deliver a year's successful performance under its full PRSP to access the HIPC II Completion Point. This was achieved and HIPC II Completion Point was achieved in November 2001, making Tanzania the first HIPC country to secure full debt relief under the floating Completion Point arrangements.

Tanzania's HIPC Initiative debt relief in 1999/00 was Tshs 51.6 billion rising to Tshs 141.2 billion in 2000/01 before declining to Tshs 116.8 billion and Tshs 72.9 billion in 2001/02 and 2002/03, respectively. The relief increased again to Tshs 77.4 billion and Tshs 74.7 billion in 2003/04 and 2004/05, respectively.

As a result, Tanzania's debt service payments are cut substantially, by an average of 47% over time from about US\$ 193 million in fiscal year 1999/2000 (actually paid before HIPC assistance) to an average of US\$ 116 million during 2001/02 to 2010/11, and US\$ 87 million during 2011/12-2020/21. Debt service as a percentage of government revenue is reduced from 19 percent in 2000/01 before HIPC assistance to an average after HIPC relief of 7.7 % over 2000/01 to 2010/11 and 4.4% over 2011/12 to 2020/21. Resources made available by debt relief provided under the HIPC Initiative are being allocated to key anti-poverty programmes, which are outlined in Tanzania's PRSP and now National Strategy for Growth and Reduction of Poverty (NSGRP).

In general, the Tanzanian government has continued with strong implementation of sound macro-economic policies and structural reform under the two 3-year PRGF programmes. The policies have substantially boosted Tanzania's economic growth, raised average per capita incomes, and reduced inflation. Moreover, this policy record has helped Tanzania obtain debt relief under the enhanced HIPC Initiative, thus allowing the country to reach debt sustainability and support higher social sector spending. The external sector is strong with steady foreign assistance and direct investment supporting privatization and economic diversification. The country's indebtedness has been improving following the improvement of prudent management policies and the Highly Indebted Poor Countries Initiatives (HIPC) debt relief⁵.

⁴Tanzania embarked, since 1986, on adjustment programme to dismantle controls and restrictions and encourage more active participation of the private sector in the economy.

⁵See also Appendix 1 for Tanzania's External Debt Indicators.

Other factors to the improved indebtedness position include the good progress in the country's export growth and an accelerated shift of donors from loans to grants.

The overall balance of payments position has also strengthened mainly on account of an increase in exports (especially gold) and lower service related payments. Furthermore, Tanzania's good performance has encouraged the international community to provide a steady flow of highly concessional assistance and debt relief. A steady inflow of foreign assistance, coupled with HIPC debt relief, resulted in the increase in official gross reserves. This, in turn, has led to an improvement in the country's capacity in terms of equivalent months of imports of goods and non-factor services.

A PRSP target was to maintain foreign exchange reserves sufficient to finance four months of imports of goods and non-factor services by the end of 2002/03. However, by the end of June 2001, foreign exchange reserves were equivalent to about 5.5 months of imports; by the end of July 2002, to some six months worth of imports. This was achieved mainly through the liberalization of the foreign exchange regime, which promoted foreign exchange inflows. Further improvement was achieved as the foreign exchange reserves increased from US\$ 2,037.8 in 2003 to US\$ 2,296.1 in 2004. The foreign currency reserves were equivalent to 8.4 months of imports compared to 9.0 months of imports in 2003.

Table 1: Performance Indicators in Tanzania's External Trade, (US\$ million, %)

Year	Exports	% growth of Exports	Imports	% Growth of Imports	Trade Balance
1995	682.9	31.5	1,340.5	2.38	-657.6
1996	763.8	11.8	1,212.6	-9.54	-448.8
1997	752.6	-1.5	1,320.3	8.88	-567.7
1998	588.5	-21.8	1,588.7	20.33	-1,000.2
1999	543.3	-7.7	1,572.8	-1.00	-1,029.5
2000	663.3	22.1	1,533.9	-2.47	-870.6
2001	776.4	17.1	1,714.4	11.77	-938.0
2002	902.6	16.3	2,093.0	22.08	-1,190.4
2003	1,129.2	25.1	2,168.0	3.59	-1,038.8
2004	1,334.9	18.2	2,281.0	5.19	-946.1
TOTAL	813.8	11.1	1,683.0	6.1	-869.2

Source: Bank of Tanzania

The principal exports of Tanzania are minerals (especially gold), coffee, cotton, tea, sisal, tobacco, clove, pyrethrum, cashew nuts and manufactures (such as textiles and yarn, processed coffee and tea, sisal twine and ropes, paper and chemical products).

Total merchandise imports (fob) have been increasing. Imports, for instance, increased from US\$ 2,168 in 2003, to US\$ 2,281 million in 2004, equivalent to an increase of 5.2 percent. The high value of imports increasing compared to exports have expanded the trade balance deficit substantially.

The trade balance account registered a deficit of US\$ 946.1 million in 2004, compared to US\$ 1,038.8 million in 2003. The balance of the services account recorded a deficit of US\$ 135.2 million in 2004, compared to a deficit of US\$ 83.0 million in 2003. The overall balance of payments in 2004 registered a deficit of US\$ 323.0 million, compared to a surplus of US\$ 69.9 million in 2003. The deficit registered in 2004 was attributed to an increase in freight charges associated with increases of petroleum prices in world markets.

Table 2: The Share (%) of Exports, Imports and Trade Balance in Tanzania's GDP

	1996	2001	2002	2003	2004
Trade Balance	-6.9	-8.3	-6.2	-7.8	-9.2
Exports	11.8	8.2	9.2	11.0	11.1
Imports	-18.7	-16.5	-15.5	-18.8	-21.8

OECD, ADB (2005), "African Economic Outlook"

The positive and higher achievement in GDP growth has, however, not been substantial enough to improve significantly the lives of average Tanzanians as poverty remains pervasive, particularly in the rural areas. This is despite the fact that fiscal imbalances have been reduced, expenditures reoriented to the social sectors and the external position substantially strengthened.

The medium-term objective of the PRGF was to create conditions favourable for higher growth, with a particular focus on poverty reduction. Macroeconomic objectives included increasing growth from 5.2% to 6% annually by the end of the programme, and reducing inflation from 7% to rates comparable to those among Tanzania's main trading partners, that is, about 4%. Monetary expansion was to be kept at about 10% per year. The above discussion shows that these were achieved. Surprisingly, however, for a programme focusing on poverty reduction and the expansion of service delivery, total government expenditure was expected to remain relatively unchanged at about 16% of GDP. Grants as a percent of GDP were also projected to decline by a full percentage point during the programme. The implication was that increasing priority expenditure would have required reduction in non-priority spending relative to GDP. At this stage, the higher resource inflows expected from the HIPC Initiative and grants were not yet sufficiently factored into the projections. The original PRGF thus projected a fairly restrictive fiscal stance. PRGF resources for the second three-year programme are marginal and do not have any significant and direct impact on poverty reduction and priority spending.

3.0 The PRGF Conditionalities

Main elements drawn from PRSP Tanzania

3.1 Overview of the two 3-year PRGF Programmes and Conditionalities in Tanzania

Tanzania's PRGF programmes are, like those of other countries, designed and implemented under certain general terms, as are summarized in the following box.

Box 1:

Terms of the PRGF: As of March 2005, 78 low-income countries are eligible for PRGF assistance

- Eligibility is based principally on the IMF's assessment of a country's per capita Income, drawing on the cutoff point for eligibility to world Bank concessional lending (current 2003 per capita gross national income of US\$ 895)
- Loans under the PRGF carry an annual interest rate of 0.5%, with repayments made semiannually, beginning 5.5 years and ending 10 years after the disbursement.
- An eligible country may normally borrow up to a maximum of 140% of the IMF quota under a three-year arrangement, although this may be increased to 185% of quota in exceptional circumstances. In each case, the amount will depend on the country's balance of payments need, the strength of its adjustment programme, and its previous and outstanding use of IMF credit. The expected average access under the initial three-year arrangement is 90% of quota, and 65, 55, 45, 35 and 25% of quota for second through sixth-time users of the facility, respectively. "Low access" PRGF arrangements with a standard level of 10% of quota may be used for members with little or no immediate balance of payments need. PRGF-eligible members with per capita income above 75% of the cutoff for World Bank concessional lending, or members borrowing on commercial terms, may combine PRGF arrangements with lending from the IMF's non-concessional Extended Fund Facility.

Tanzania's first PRGF facility, like that of Ethiopia, Malawi and Vietnam, was negotiated after the introduction of the PRGF in November 1999:

- (i) PRGF March 2000-April 2003 (previous ESAF completed successfully in February 2000)
- (ii) SDR 135 million (68% of Quota)

The second PRGF programme, however, followed the "low access" PRGF arrangements with 10% of quota, particularly because by the time of its approval and commencement Tanzania had no balance of payments crisis.

Both PRGF programmes have had specific conditionalities that were attached and are checked during reviews done after every six months.

3.1.1 First PRGF Programme March 2000-April 2003

Tanzania's first three year PRGF arrangement was approved on March 31, 2000, following the completion of the Interim-PRSP in March 2000, which was a prerequisite for reaching Decision Point under the HIPC Initiative. Thus, the PRGF preceded the full PRSP by six months⁶. It became the IMF's main vehicle for providing inputs into the macro-economic framework of the poverty reduction strategy in Tanzania and for participation in domestic debates and processes and collaboration with the WB and other donors.

⁶Tanzania's full PRSP was endorsed by the Boards of the WB and the IMF on November 30 and December 1, 2000.

Table 3: Issues around which the PRGF-supported Programme of 2000/01-2002/03 was Designed

	Emphasized from the beginning of the Programme	More pronounced after first year of the Programme
1. consolidation of macroeconomic stability	X	
2. Focus on structural reforms in the IMF's core areas of responsibility		X
3. Reduced conditionality		X
4. Commitment and expenditure controls to ensure transparency and accountability	X	
5. Higher outlays on priority sectors		X
6. Increasing fiscal flexibility		X
7. Revenue generation	X	
8. Expansion of credit to the private sector	X	

Source: IMF (2003a)

The PRGF-supported programme was launched in April 2000 for SDR 135 million (about US\$ 174 million). By September 2001 Tanzania had drawn SDR 60 million (about US\$ 77 million) under the arrangement. By November 2002 Tanzania had drawn SDR 100 million (about US\$ 134 million) under the arrangement.

The first 18 months of the first PRGF in Tanzania were relatively successful. The facility followed directly from the successful ESAF and was developed hand-in-hand with the I-PRSP, itself evolved from the National Eradication Strategy developed in 1997. The annual quantitative benchmarks were consistently satisfied and in many cases exceeded, while progress against structural benchmarks were good as shown by the first and second reviews.

The Third Review of Tanzania's arrangement under the PRGF was completed on 24 September 2001. As a result Tanzania was able to draw up to SDR 20 million (about US\$ 26 million) under the arrangement. The fourth, fifth and sixth reviews were subsequently done as planned. On 19 November 2002, the Executive Board of the IMF completed the Fifth Review of Tanzania's economic performance under the PRGF arrangement. As a result Tanzania was able to draw up to SDR 20 million (about US\$ 27 million) under the arrangement.

The Executive Board of the IMF completed the sixth and final review of Tanzania's economic performance under the PRGF arrangement. As a result Tanzania was able to draw the equivalent of SDR 15 million (about US\$ 21 million) under the arrangement, which brought the total amount drawn under the arrangement to the equivalent to SDR 135 (about US\$ 189 million) (IMF, 2003b). Thus, in June 2003, the Tanzanian Government successfully completed the first 3-year PRGF arrangement with the IMF. In completing the review, however, the Executive Board granted a waiver for the non-observance of the end-February 2003 structural performance criterion on the submission to Parliament of the amendments of the Loans, Guarantees, and Grants Act and reviewed the second annual progress report of Tanzania's PRSP and considered it a sound basis for IMF concessional assistance.

With regard to conditionalities, it is noted that the biggest changes heralded by (or at least concurrent with) the PRSP/PRGF structure include the streamlining of conditionality and greater transparency in the IMF's operations.

Under the PRGF there is an extremely clear delineation of responsibility between the IMF and the WB. The IMF's structural conditionality focuses predominantly on matters relating to fiscal governance (clearance of arrears, public debt monitoring, revenue and expenditure tracking and monitoring) and, to a much less degree, on strengthening the financial sector.

In the first year of the PRGF programme in Tanzania explicit targets for childhood immunization rates and for school mapping were included as structural conditions. These reflected specific HIPC requirements and were subsequently dropped: The only non-conventional quantitative condition that was retained in the programme is a targeted floor for government revenue mobilization by the Tanzania Revenue Authority (TRA). Overall, the list of conditions was reduced substantially compared to the ESAF/PRGF completed in February 2000.

The Executive Board of IMF extended the arrangement until end-June 2003 to allow time for the final review to be completed and waived Tanzania's non-observance of the structural performance criterion on the approval procedures for foreign borrowing and the continuous performance criterion on non-accumulation of external payment arrears.

The quantitative benchmarks and performance criteria on central government revenue and the net domestic financing of the central government were met by wide margins. All other quantitative performance criteria and benchmarks for end-December 2002 were also observed. (IMF, 2003a)

The structural performance criterion on submission to Parliament of amendments to the Loans, Guarantees and Grants Act by February 2003 was delayed, and a request for waiver for the non-observance of this criterion was made. However, the bill was subsequently passed by Parliament in April 2003. The implementation of the centralized motor vehicle registration system was also delayed owing to litigation by a vendor. However, the system started functioning in May 2003.

3.1.2 Second PRGF Programme August 2003-August 2006

The Executive Board approved a new 3-year PRGF arrangement in an amount equivalent to SDR 19.6 million (US\$ 27 million). The arrangement was effective on August 16, 2003 and the first disbursement equivalent to SDR 2.8 million (US\$ 4 million) was made available on that date. (IMF, 2003b)

Table 4: Tanzania: Proposed Schedule of Disbursements under the PRGF Arrangement, 2003-2006

Date	Disbursement Schedule		Event
	Millions of SDRs	Percent of quota	
August 2003	2.8	1.4	Effectiveness of PRGF arrangement
End-September 2003	...	...	Test date for quantitative performance criteria for first review
February 2004	2.8	1.4	Completion of First Review
End-March 2004	...	...	Test date for quantitative performance criteria for second review
August 2004	2.8	1.4	Completion of Second Review
End-September 2004	...	...	Test date for quantitative performance criteria for Third Review
February 2005	2.8	1.4	Completion of Third Review
End-March 2005	...	...	Test date for quantitative performance criteria for Fourth Review
August 2005	2.8	1.4	Completion of Fourth Review
End-September 2005	...	...	Test date for quantitative performance criteria Review for Fifth Review
February 2006	2.8	1.4	Completion of Fifth Review
End-March 2006	...	...	Test date for quantitative performance criteria for Sixth Review
August 2006	2.8	1.4	Completion of Sixth Review

Source: IMF (2003b)

The new PRGF-supported programme for 2003-06 aims to contain inflation at about 4% and raise real GDP growth further, to above 6%. Growth will be underpinned by substantial investments in physical infrastructure as outlined in the PRSP. The current account deficit is projected to decline steadily; given robust growth in exports and a modest increase in imports.

The Executive Board of the IMF completed the first review of Tanzania's performance under a SDR 19.6 million (about US\$ 29.3 million) PGRF arrangement. The completion of this review enabled the release of a further SDR 2.8 (about US\$ 4.2 million), which brought the total amount drawn under the arrangement to SDR 5.6 million (about US\$ 8.3 million).

In completing the review, the Board waived the non-observance of the performance criterion related to the submission to Parliament of the new income tax law, which was delayed to February 2004. (IMF, 2004)

Completion of the second review of Tanzania's economic performance under the three-year PRGF arrangement enabled Tanzania to the entitlement of a further release of SDR 2.8 million (about US\$ 4 million) under the arrangement, bringing the total disbursements under the programme to SDR 8.4 million (about US\$ 12 million). (IMF, 2004)

Progress under the 2004/05 programme was satisfactory. All except for one quantitative performance criterion and one quantitative benchmark for end of September 2004 were observed. The BoT Net International Reserves (NIR) (performance criterion) and Net Domestic Assets (NDA) (benchmark) targets for end-September 2004 were missed on account of more than the projected foreign exchange outflows, driven by higher-than-projected external payments for oil imports and public sector obligations. (IMF, 2005b)

The programme remained on track, with all end-March 2005 quantitative performance criteria and indicative targets met. Net domestic financing of the government was below the programme target consistent with continued strong fiscal performance, and targets for reserve money and net international reserves (performance criteria) were met. (IMF, URT, 2005b)

All structural performance criteria and benchmarks through June 2005 were met or completed with minor delays with one exception. The submission of amendments to the BoT Act and the Banking and Financial Institutions Act (BFIA) to Parliament (performance criteria) was delayed from end-April until end-July. This was due to longer than expected consultations with the Zanzibar Authorities and a tight legislative schedule. The Tanzanian government requested waivers.

Completion of the fourth review entitled Tanzania to another disbursement of SDR 2.8 million. There were, however, as noted above, some minor delays with respect to implementation of various structural performance criteria. In many of these significant progress was recorded⁷:

- The preferred bidder for the partial privatization of the National Microfinance Bank (NMB) was approved and announced by Government in April 2005, a structural performance criterion under the PRGF programme. The final negotiations with the preferred bidder were expected to be concluded shortly. The Government is also pursuing the restructuring of the Tanzania Postal Bank, as part of the ongoing strategy to further boost competition and efficiency in the sector. (MoF, 2005)
- Consistent with the structural benchmark in the PRGF programme, draft anticorruption strategies and action plans for all Local Government Authorities were prepared and submitted to the Good Governance Coordination Unit (GGCU) in June 2005, with implementation starting in 2005/06.
- A draft bill on Business Activities Registration and Reform of the Regulatory Licensing System was prepared and submitted to Parliament in July 2005.
- A review of the crop boards has been undertaken and a strategy for the implementation of the Crop Board Reform Study was adopted by Government in June 2005.
- The Government continues to monitor closely the developments in the energy sector, with a view to avoiding power shortages or escalation of the cost of energy.

In general, the above discussion shows that structural conditionality focuses on tax administration, financial sector reform, and governance. (IMF, URT, 2005b)

3.2 The Main Elements of PRGF Drawn from PRSP

The main goals of the PRGF programme remain that of accelerating growth and reducing poverty. In this context, Tanzania has begun implementing its new five-year NSGRP which adopts an outcome-based approach focusing on growth and reduction of income poverty, improved quality of life and social wellbeing and good governance and accountability. NSGRP, which utilizes a macroeconomic framework broadly consistent with the PRGF, focuses on a number of reforms to stimulate private sector activity. (IMF, URT, 2005b)

⁷See also appendices 2 and 3

PRGF-supported programmes are framed around comprehensive, country-owned PRSPs. PRSPs are prepared by governments with the active participation of civil society organisations and other development partners. PRSPs are then considered by the Executive Boards of the IMF and WB as the basis for concessional lending from each institution and debt relief under the joint HIPC Initiative. The targets and policy conditions in a PRGF-supported programme are, in principle, drawn from the country's PRSP.

In the first year of the programme the emphasis was on the consolidation of macroeconomic stability, commitment and expenditure controls to ensure transparency and accountability; revenue generation; and the expansion of credit to the private sector. In the second and third years of the programme, that is after the introduction of the PRSP, the focus was extended to ensuring higher outlays on priority sectors; increased focus on the IMF's core areas of responsibility; and modifications to the design of the financial programme, especially toward increased fiscal flexibility.

Key Features of the PRGF that are related to PRSP

In general, PRGF-supported programmes are framed around comprehensive, country-owned PRSPs. PRSPs are prepared by governments with the active participation of civil society and other development partners. PRSPs are then considered by the Executive Boards of the IMF and the WB as the basis for concessional lending from each institution and debt relief under the joint HIPC Initiative. The targets and policy conditions in a PRGF-supported programme are drawn from the country's PRSP. (IMF, 2004)

In Tanzania, the alignment between PRGF and PRSP can be seen in the following areas:

(i) Broad participation and greater ownership

The first annual programme (2000/01) of the PRGF was not based on the full PRSP, but drew on the earlier ESAF and on the I-PRSP⁸. Though there was limited stakeholder participation in the macroeconomic framework formulated during this period, the processes on which the poverty reduction strategy was based, such as the National Poverty Eradication Strategy (NPES), Vision 2025 and the Tanzania Assistance Strategy (TAS), had been debated widely within government, civil society and the Parliament and the donor community.

The next two years of the PRGF-supported programme, were more closely related to the PRSP. Macroeconomic measures, especially fiscal policy, were subjected to greater scrutiny and domestic debate under the PER process. A major outcome of the debate was the reaching of a domestic consensus on the need to increase priority expenditures, with the wider deficit financed by grants and concessional loans. Priority expenditure doubled during the course of the PRGF. However, there were limited public debates and participation of civil society on some macroeconomic policy aspects notably trade liberalization and fiscal federalism.

In general, it is noted that the consultation process under the PRSP, over time, had a significant impact on the content of macroeconomic policies, and that the PRGF-supported framework showed considerable flexibility. In this sense there was eventually an "alignment" with the key objectives of the PRSP although the process was not driven by preparation of the original PRSP.

(ii) Embedding the PRGF in the overall strategy for growth and poverty reduction

The PRGF-supported programme in Tanzania was embedded in the overall strategy for growth and poverty reduction in three respects. First, public expenditures were increasingly prioritized, with emphasis on accountability and ability of local level recipients to provide feedback to the centre. Secondly, the programme encouraged further reforms in key areas of economic activity such as taxation, land reform, and the financial sector, notably microfinance, with a view of expanding private sector activities. Thirdly, with respect to growth, the programme focused on the consolidation of macroeconomic stability and creation of incentives for investment

(iii) Budgets which are more pro-poor and pro-growth

Tanzanian budgets have become more pro-poor during the PRGF, at least in the specific sense that sectors thought to have a huge impact on the welfare of the poor such as health, education, justice and other areas, such as HIV/AIDS, identified in the Tanzanian PRSP receive an increasing share of total budgetary resources.

⁸In general, endorsement of an interim PRSP, a PRSP or a PRSP Progress report by Bank and Fund Boards concurrently or within the preceding 12 months would be a prerequisite for approval of a new PRGF arrangement or completion of reviews under existing arrangements. For post-conflict countries, countries hit by natural disaster, or countries entering directly into a new PRGF programme without a recent previous PRGF arrangement, an interim PRSP would be sufficient to underpin the first request for Board approval of the arrangement.

Budgeting is now more firmly based on the Mid-term Expenditure Framework (MTEF), with priorities set under the participatory framework of the PER.

(iv) Ensuring appropriate flexibility in fiscal targets

In the face of the government's low capacity for revenue generation and its ambition to maintain low inflation, there was not much fiscal flexibility under the ESAF. The government depended on a cash budget to ration resources and undertook net repayments to the banking system in order to consolidate macroeconomic stability and encourage the expansion of credit to the private sector.

A debate undertaken under the auspices of the PER, with the participation of donors and civil society and the government, made it clear that the fiscal stance in the initial PRGF-supported programmes was too tight as evidenced by a combination of higher concessional financing, a sharp accumulation of reserves, negative net bank credit to the government, and continued fiscal arrears. The debate led to the abandonment of the government's policy of maintaining negative net domestic financing and to the restructuring of public expenditures towards increased shares of priority sectors. Thus, the PRGF now accommodates higher total spending as well as a higher deficit than the ESAF-supported programme.

(v) More selective structural conditionality

Structural conditionality under the PRGF has been progressively streamlined, though not necessarily reduced in terms of number of conditions. The first year of the programme had a number of structural carryovers from the ESAF-supported programme, with performance criteria and structural benchmarks imposed on a total of eight areas including trade liberalization, public finance, financial sector development, financial transparency and governance, petroleum, parastatals, poverty and statistics, in all totaling 25 structural measures, with seven focusing on privatization and State Owned Enterprises (SOE) reform.

The last two years of the first PRGF saw a sharp reduction in both the numbers of conditions and the areas on which they were imposed, focusing essentially on public finance, financial sector development and governance and financial transparency. Within public finance, the number of structural measures has not been reduced, but there has been a shift of focus towards institutional reforms, including legislation, and public debt management. Structural measures on SOE reforms were reduced because privatization had matured, similarly for financial sector development. Still in terms of numbers, conditionality in the last two years of the PRGF was not very different from the ESAF levels.

(vi) Emphasis on measures to improve public resource management/accountability

The government has been able to increase the level of accountability in central government. The Integrated Financial Management System (IFMS) was introduced at the central level to provide a government-wide system for improving accounting practices and accountability, and subsequently rolled out to the districts. The various reviews of the PRGF have included items that focused on streamlining procedures and on closing loopholes that facilitate abuse. In this regard, important legislation and anti-corruption strategies were introduced in 2001, notably the Public Finance Act. It established requirements for internal and external audits for every government ministry and agency. With a view to raising accountability at the local level the amounts of money sent to the districts from the center are published in local newspapers and on notice boards in local administrative centers. Local authorities are also required to present quarterly reports of their revenue sources. With regard to monitoring whether targets under the poverty reduction strategy are being met, the government launched an elaborate poverty monitoring master plan. However, to be effective all these innovations require adequate capacities for data collection and analysis, which are scarce in Tanzania.

(v) PRGF and the National Strategy for Growth and Reduction of Poverty (NSGRP)

The NSGRP adopts an outcome-based approach (in contrast to the priority sector spending approach under the first PRSP) in three major areas: (i) growth and reduction of income poverty, (ii) improved quality of life and social well-being, and (iii) good governance and accountability. Some of the specific constraints to growth and poverty reduction targeted in the NSGRP are poor infrastructure, limited access to credit, structural impediments to agriculture and exports (such as inefficient crop boards, cumbersome business licensing requirements, substandard technology, and local nuisance taxes), and generally low productivity and capacity constraints. It utilizes a macroeconomic framework that is broadly consistent with the PRGF and is expected to go to Cabinet for approval in February. (IMF, URT, 2005b).

3.3 The Role of Public Debates on PRGF Policies and Objectives

The initial formulation of the Tanzania's PRSP took place within an extremely compressed timetable, under pressure to reach the HIPC completion. Civil society inputs in the preparation of the PRSP were limited and hence had little influence on the initial policy content of the PRSP (www.worldbank.org/oed/prsp and www.imf.org/leo). One area where stakeholder involvement has been limited is on macro policy issues, involving mainly the government, donors, and the WB and the IMF. According to the IMF External Evaluation report of the Tanzania PRGF the limited participation of CSOs in this process was partly due to the weak technical capacity among civil society groups.

This assertion is strongly objected to by the CSOs who argue that while the Government of Tanzania was willing to open up the PRGF for public debate and NGOs were willing and ready to participate, they were hindered by the HIPC timetable. According to HIPC timetable, PRGF was to be signed before a country reached a "Decision Point" while the PRSP participatory process was planned to start after a country had reached a "Decision Point". Further complication resulted from the fact that macroeconomic issues in the PRSP were not debated but were adopted from the PRGF.

Tanzania is now implementing its second PRGF which also is not participatory and hence lack of pro-poor growth strategy in both PRGFs. The CSOs, however, successfully lobbied for inclusion of macroeconomic issues in the debates and preparations of the second PRSP or NSGRP. This was prompted by the fact that in recent years Tanzania has registered impressive annual economic growth numbers with very little impact on poverty for the majority of Tanzanians. Thus, NSGRP includes pro-poor growth strategies which were missing in the first PRSP. We further note that, although PRGF is still a separate document, most of the key macro economic issues are included in the NSGRP, which is participatory.

In the initial phase of its implementation, the PRSP was mainly focused on improving service delivery, particularly in education and health, by increasing social sector expenditures.

Effective networking by key government officials, reinforced by donor concerns that the initial macroeconomic framework did not sufficiently accommodate increased aid flows, helped bring onboard technical expertise from local consultants, academics, NGOs and others from abroad. In this sense, the substantive revisions that were made in the original PRGF programme design reflected an effective contribution of the institutional framework set up for consultation. However, this participatory process was incomplete since it largely involved government, BWIs, and bilateral donors, with civil society stakeholders largely on the sidelines

The role of the IMF Resident Representative in the domestic policy debate in Tanzania has clearly been enhanced during the PRSP/PRGF process. The Representative is not only invited to all major meetings on the economy, often with a major role assigned, but is also routinely invited to workshops organized by NGOs and groups with which the IMF would have had little contact only a few years ago. However, the IMF Representative's office in Tanzania is quite small (the only other technical member of the staff being an economist recruited from the Bank of Tanzania) and can only take on a limited number of assignments and tasks.

In conclusion, while establishing causality is not straightforward, the latter years of the PRGF-supported programme seem to indicate increasing influence of the PRSP process on macroeconomic policy.

Thanks to a domestic debate on important aspects of the macroeconomic framework, in this case on financial programming and the cash budget, the PRGF-supported programme became better aligned to the PRSP. Although there were practical limitations to the nature of the debate, with lack of civil society participation and an evidently more dominant role played by donors as financiers and providers of technical expertise, the results from this debate, in terms of a more flexible fiscal stance and increased priority expenditures, better insulated from temporary budgetary shocks, were fully in line with the spirit of the PRSP.

3.4. Financial flows and Sectoral allocations of resources disbursed under PRGF

Table 5: Tanzania Financial Arrangements with IMF

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF	8/11/1996	7/2/2000	181.59	191.59
PRGF	4/4/2000	15/8/2003	135.0	135.0
PRGF	16/8/2003	15/8/2006	19.6	11.20

Source: IMF, URT (2005b)

3.5 Comparison of PRGF with other sources of official finance

The combined HIPC-related inflows and grants and improved export earnings to Tanzania have led to a rapid expansion of the country's international reserves, reaching nine months of imports of goods and services in 2003, as opposed to the four months targeted in the PRSP and PRGF. The portion of PRGF resources in Tanzania's total assistance disbursement (including HIPC) is presented in the following Table:

Table 6: Disbursement of PRGF resources and Total assistance to Tanzania (US\$ million)

Source of Disbursement	2003/04	2004/05		2004/05	
		September	December	March	June
Total Assistance	614.5	365.8	320.9	58.6	81.3
Of Which HIPC	71.8	15.4	13.4	14.2	18.3
IMF	11.7	2.0	2.6	2.5	2.5

Source: Extracted from Appendix 4.

As pointed out earlier, Tanzania has been receiving less than 1% of total assistance disbursement of resources from the implementation of second PRGF arrangements with IMF. Most of the assistance resources are being contributed through other multilateral and bilateral loan and grants arrangements.

3.6 Sectoral allocations of PRGF financial Resources and the Effect of IMF's signaling role on aid disbursement in Tanzania

As pointed out above, PRGF financial resources in Tanzania, particularly during the second arrangement, do not go directly to the government budget and hence are not directly included in sectoral allocations. This is because since Tanzania started implementing reforms it has been able to meet its international obligations with respect to external payments. The BoT do not need IMF resources for payment of balance of payments. Therefore, the funds for external balance of payments from PRGF arrangements are negligible (Table 6).

It should, however, be pointed out that more financial resources are being allocated to priority sectors especially those that were identified in the PRSP. With NSGRP more resources will be made available to any sector using the outcome-based approach. It is quite clear that Tanzania is still donor dependent. Thus, the role of IMF, through PRGF arrangement is to ensure fiscal discipline and stability which are in turn used to send signals to donor community to increase their funding. The IMF reviews and reports have been showing that Tanzania is implementing well reform policies and has achieved fiscal discipline and stability and hence it deserves debt relief and more financial aid.

The savings from debt relief and the increased aid has enabled Tanzania to increase resource allocations to several sectors such as education, health, water, among others (See Appendix 5)

4.0 The Impact of PRGF in Tanzania

The PRGF seems to be haunted by the same problems that haunted structural adjustment programs. Although PRGF implementation can be done to the letter, the trickle-down effects of growth have not really translated into poverty reduction. Policies such as trade liberalization; privatization, devaluation, tax systems reforms, and inflation and deficit targets continue to have negative impacts on people's welfare, education and health, despite promises that these will be streamlined and selective.

Privatization of the National Bank of Commerce was one of the most difficult reforms to implement. Liberalization of the petroleum sector was also a requirement for Tanzania to reach the Decision Point. Impact - Removing subsidies on petroleum have, predictably, led to a rise in prices. Bus fares increased by 50 per cent earlier this year. Past experience suggests these price hikes will eventually be translated into price rises for most goods, including food. People in Tanzania are also concerned that their main bank will now be owned by a foreign company.

4.1 PRGF Impact on General Poverty Reduction

Despite the above noted achievements, poverty remains widespread, especially in rural areas⁹, and economic development has been uneven across the country. Thus, the authorities are committed to sustained economic reform efforts in order to make further progress toward the growth and poverty reduction objectives articulated in the PRSP. The strengthening of the business environment and of agricultural performance, as well as measures to manage the macroeconomic impact of high aid flows, will be key elements of these reforms and achievement of better results of poverty reduction under NSGRP. (IMF, 2004). It is important to note that in 2004 Tanzania developed a new PRSP in order to enhance the link between policy and resource allocations by strengthening the formulation of medium term budget strategy. The development of the NSGRP represents a shift away from sector based prioritization used in the first PRSP to a broader based strategy using an outcome approach. The outcome approach encourages an inter-sector approach toward achieving specific cluster outcomes.

Instead of priority sectors in which social sectors took prominence, three main clusters have been identified now in the NSGRP: (i) Growth and reduction of income poverty; (ii) Improvement of quality of life and social well-being (iii) Governance and accountability. This shift on the programme focus has also necessitated a shift on resource allocations, which might impact on the social sector gains from the first PRSP.

4.2 Impact on Social Services

Agricultural commodity markets are said to have collapsed due to the withdrawal of the state from commodity marketing, removal of farm subsidies and selling of pro-poor banks.

4.2.1. Education

The Government remains highly committed to poverty reduction. The first PRS has been in operation for three years. With the PRGF in Tanzania, marked improvements occurred in primary education with enrolment doubling and evidence of many newly built classrooms. Out of all school-going age children, 90% are now in school yet post-primary school attendance remains low (30%). The most tangible gains have been in primary education where nine out of ten children of school age are now enrolled in primary schools.

After a period of virtually stagnant enrolment ratios in the late 1990s, there have been huge gains in primary enrolment in the past three years. Actual enrolment grew by 50 per cent, up from 4.4m in 2000 to 6.6m in 2003, far outstripping the growth of the school age population. Indeed, both net and gross enrolment ratios have increased by about 30 per cent points. The largest increase in enrolment came in 2002, coinciding with the official abolition of the Universal Primary Education (UPE) levy and other mandatory contributions and the launch of the Primary Education Development Plan 2002-2006 (PEDP). The considerable increase in enrolment recorded in the previous year could be attributed to widespread public knowledge of the impending abolition and the Ministry of Education and Culture's announcement that parents would not need to pay anything as a condition for enrolling children in school into 2001 (see figure 7).

⁹According to the Household Budget Survey for 2001/02, 12.6 million Tanzanians, 36% of the population, live under the basic needs poverty line, with about one in five living in abject poverty. The majority of the poor Tanzanians live in rural areas.

However, enrolment levels rise, the quality of education remains a concern, and it is growing because of the extra strain the increased enrolment puts on the system. The impact of HIV/AIDS on the teaching staff further complicates this. The transition rates to secondary schools remain extremely low especially for girls. The education sector also suffers from poor infrastructure, low level of academic attainment, especially among the female student in the areas of science and technology, ageing of teaching staff and fewer younger teaching staff on post and incidence of HIV/AIDS.

The trends observed on transition from primary to secondary levels are disturbing. High wages tend to be earned by those with higher levels of education. The fact that secondary education is not free makes it hard for children from poor households to afford higher education; as a result, they remain confined to low paying jobs due to their low education status. This, in the end, does not auger well for poverty reduction.

Table7: Primary Education- Net and Gross Enrolment Ratios, Ratio of Girls to Boys Enrolment

	1997-99 [1]	2000	2001	2002	2003
NER (%)	57	59	66	81	89
<i>Female</i>	58	60	66	79	87
<i>Male</i>	56	59	66	82	90
GER (%)	77	78	85	99	105
<i>Female</i>	77	78	84	96	102
<i>Male</i>	78	79	86	101	109
Girls/Boys: all Stds	0.99	0.98	0.97	0.96	0.95
<i>Std 1</i>	0.97	0.94	0.93	0.94	0.94

Source: Tanzania HDR 2004

4.2.2. Health

Both macroeconomic and social sector reforms can have a huge impact on health, because they influence people's health behaviour and health care consumption. Take the example of user fees. User fees are known to lead to lower and different utilization rates, exclusion and coping strategies, particularly among the poor. Policies such as trade liberalization, privatization, devaluation, tax systems reforms, and inflation and deficit targets have an impact on people's welfare and therefore on their health. This impact can be direct or indirect (through intermediate factors that influence determinants of health) and may be felt immediately or after a longer period. Macroeconomic and structural policies commonly have an indirect impact on health.

Under the PRGF, there have also been some notable achievements in the health sector of Tanzania. In particular the supply of drugs has greatly improved, including at local health units. In addition, within the social sectors a major increase in recurrent expenditure during the 2003/04 was on health. According to the data from the Ministry of Finance as presented in appendix 5 of this report, the budget for the health sector more than tripled from Tshs 9.1 billion in 1999/00 to Tshs 43.1 billion in 2003/04 before more than doubling to Tshs 102.9 billion in 2004/05. The budget increase were also effected for the water sector were there was a more than five fold increase from Tshs 7.9 billion in 1999/00 to Tshs 48.2 billion in 2003/04. These tremendous budget increases to the social sectors reflect the importance these sectors are being accorded in the poverty reduction initiatives in Tanzania.

Trends in health service outputs show a mixed picture. The 1990s have shown no substantial progress in the reduction of infant and under-five mortality. Child mortality rates increased from 141 per 1,000 live births in 1992 to 147 in 2000. There are even indications that there may have been a slight increase in infant and under-five mortality rates in recent years, probably related to HIV/AIDS and malaria (URT, 2004c:7).

Due to the PRGF conditionalities especially those relating to wage bill ceilings that restrict the hiring and retention of health staff, maternal mortality rates are extremely high, measured at 530 per 100,000 live births in 1996. The main drivers of maternal mortality include unsafe abortions, eclampsia, hemorrhage, anemia, and obstructed labor (UN, 2004:74). The ratio of trained medical staff to the population is appalling.

The proportion of births that were attended by trained personnel and those that took place in health facilities declined and urban-rural disparities increased. (URT, 2004c:7) Rural areas and the poor remain disadvantaged both in terms of outcomes and service uptake. Life expectancy in Tanzania is low at 44 years; having decreased by 6 years between 1990 and 2000, primarily due to the HIV/AIDS pandemic and declining health service provision (URT, 2004c:7). User fees in the health sector remain a major stumbling block for the majority of the poor people to access health services.

The cost of services due to the retention of user fees under PRGF at public hospitals and clinics is also a problem as was in the structural adjustment days. One third of respondents who were ill and did not use health services said that it was because of cost; this proportion is over one half of individuals who were ill and perceived a need to use services but did not do so (HBS 2000-01). The participatory poverty assessment PPA report 2003 mentions unofficial payments as one of the main barriers for utilization of health care facilities.(Tz HDR: 2004:43)

In other poverty indicators the picture is mixed. Reducing poverty in rural areas remains the most difficult challenge. The government recognizes that given that 80% of the poor live in the rural areas, growth of the rural economy is critical. Long term growth lies in economic diversification, better physical infrastructure and transformation of agriculture sector. These are addressed in the NSGRP.

In this area another challenge is on social sector sustainability. We note that ESAF programmes led to the decrease on the expenditure on social sectors and thus impacting them negatively. PRGF, however, put emphasis on redressing this issue so as to reduce poverty. This led to a progressive spending increase on social sectors through PRSPs. Currently the budget requirement for the social sector is big while there is not enough domestic revenue to finance it. There continues to be a big donor dependence to finance the social sectors. Such high levels of dependence pose danger to both financial and political sustainability particularly in the event of sour government-donor relations.

5.0 Recommendations for reversing the negative impacts of PRGF on Social Services

5.1 Role of Tanzanian Government

Tanzania's sustained reforms have generated strong macroeconomic performance. The country will, however, need to maintain high growth, low inflation, and a steady pace of structural reforms for many years to achieve inroads against poverty. The NSGRP provides a roadmap to achieve these objectives. Official assistance has increased along with donor confidence, foreign reserves have risen to comfortable levels, the debt burden has fallen, expenditures in priority areas have increased, and poverty is declining¹⁰. Institutional capacity has also improved, albeit from a weak base, including stronger structures for domestic revenue collection and expenditure management.

Tanzania nevertheless has a long road ahead to overcome poverty. Per capita income remains low, aid dependence is high (more than 40% of government budget comes from external resources), trade volume is comparatively low, and the financial sector, though growing rapidly, still plays only a limited role in the economy. The cost of doing business remains high, and basic infrastructure remains poor. Tanzania will need to sustain sound macroeconomic policies and reforms for many years to achieve lasting inroads against poverty.

PRGF growth policies and strategies impact more on sectors which do not employ the majority of the poor, such as Mining, Construction, and Tourism. These are the same sectors which attract more Foreign Direct Investments than other sectors which employ the majority of the poor such as the agriculture sector. Growth alone is therefore not enough to reduce poverty and hence more "tailored" strategies are required.

The Government of Tanzania, therefore, needs to do the following:

- (i) Build capacity to formulate economic and social policies and engage IMF without being overshadowed during policy discussions and formulation. This, in turn, requires strengthening the education system and providing better pay to the civil servants.
- (ii) Substantially invest in infrastructural development, especially rural roads and water, which will facilitate rural development and especially agricultural development for effective poverty reduction.
- (iii) Ensure better utilization of foreign reserves which have been above the targets for the past two years. One way is to increase the absorptive capacity of foreign exchange through assisting to increase demand by private sector which currently is still small. Investment in infrastructural development can have positive effects on private sector development and hence increased absorptive capacity of foreign reserves.
- (iv) Continue with prudent economic management especially efficiency of public spending, which have helped to establish fiscal discipline in the country and strengthened donor confidence.
- (v) To promote and facilitate local consultations with respect to PRGF arrangements in more or less the same way it is done for Public Expenditure Review (PER) process.

5.2 Role of International Financial Institutions (WB/IMF)

Both the World Bank and IMF have been playing various roles which in different ways support the implementation of PRSP and now NSGRP in the country. The World Bank, for instance, has accepted responsibility, at least in principle, for longer-term issues in governance, the development of MTEF, public utility regulation, privatization, and supply side developments.

The Bank played a facilitative role, providing technical advice to the government during the short formulation period of the PRS as well as in identifying key process issues, which influenced the sectoral contents of the strategy and helped promote a more participatory process.

¹⁰The decline in poverty, however, has not been quite significant. Only Dar-es-Salaam saw a substantial decrease in the population under the basic needs poverty line, from 28.1% in 1992/92 to 17.6% in 2001/02.

On the other hand, PRGF-supported programmes are designed to cover only areas within the primary responsibility of the IMF, unless a particular measure is judged to have a direct, critical macroeconomic impact.

Areas typically covered by the IMF include advising on prudent macroeconomic policies and related structural reforms such as exchange rate and tax policy, fiscal management, budget execution, fiscal transparency, and tax and customs administration.

When appropriate, the IMF draws on WB expertise in designing PRGF-supported programmes, and the staff of both the Fund and Bank cooperate closely on conditionality. The Bank staff takes the lead in advising the Tanzanian government in the design of poverty reduction strategies in areas such as poverty assessments, monitoring, structural and sectoral issues, social issues, and costing priority poverty-reducing spending.

However, the Bank and the Fund are largely failing to meet the commitments made under the principles of the PRSP and PRGF. A key problem is the failure of the Bank and Fund to adopt roles which allow broad country ownership of PRSPs and now NSGRP. An overarching recommendation, therefore, is that a development forum with broad stakeholder participation, including government, Parliament, civil society, donors and the International Financial Institutions (IFIs) should be adopted as structures within which to take key decisions on the PRSP or NSGRP framework. This should include design, implementation, monitoring and reporting of the PRSP and harmonization of donor conditionalities.

The following specific recommendations are made for the two institutions:

- (i) PRGF should be opened up for discussions and contributions by stakeholders to enhance participation and national ownership
- (ii) Both the WB and IMF should work with civil society representatives to develop engagement and policy dialogue especially in macroeconomic policy
- (iii) WB and IMF continue advising on policy conditionalities which are drawn directly from the PRSP or NSGRP outcome based. However, it should be noted that this will improve as the government finishes the exercise of putting together indicators which will help make precise certain policies from NSGRP.
- (iv) The WB and IMF should delegate greater decision-making to staff located in PRSP/PRGF countries in order to create the conditions for in-depth dialogue with government and civil society and greater country ownership of the strategy and facility. This may require relocation of staff to country offices.

5.3 Role of Private Sector

The private sector is the engine of growth for both PRSP and NSGRP. However, there is a need to make it more interested in engagement with IMF/WB and Government so that their interests are taken on board in various arrangements including PRGF. In turn this can ensure more PRGF impact on sectors such as manufacturing, mining and agriculture where the private sector is being expected to play a greater role.

5.4 Role of Civil Society

Civil society too needs to increase their participation in policy dialogue, and in design, implementation and monitoring of the arrangements such as PRGF. Currently, even civil society organisations themselves appear to agree that PRSP is participatory but PRGF is not. The following recommendations are therefore made so as to enhance the participation of civil CSOs in PRGF arrangements:

- (i) CSOs must invest strategically in development of analytical capacity on macroeconomic issues
- (ii) CSOs need to hold government accountable through budget analysis, monitoring and public advocacy.

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Appendix 1: Tanzania External Debt indicators, 2001/02 - 2011/12 1/

(After bilateral relief beyond the enhanced HIPC Initiative)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Debt indicators at the HIPC completion point 2/											
NPV of debt-to-GDP ratio	14.2	14.7	14.8	14.8	14.9	15.1	15.1	15.1	15.0	14.9	14.9
NPV of debt-to-exports ratio 3/4/	105.2	112.1	115.6	117.0	117.3	117.5	116.8	116.2	115.2	114.3	114.4
NPV of debt-to-revenue ratio 5/	126.5	125.2	124.4	123.4	120.7	118.7	116.8	113.5	110.5	106.5	103.9
Debt-service-to-export ratio 6/	6.4	5.7	6.2	6.9	6.4	5.7	5.6	5.3	5.6	5.6	4.9
Debt-service-to-export ratio 5/	8.0	6.6	7.1	7.9	7.1	6.3	6.0	5.6	5.8	5.6	4.8
Updated debt indication 7/											
NPV of debt-to-GDP ratio	20.7	20.7	21.4	21.8	21.0	20.1	19.3	18.3	17.2	16.8	16.2
NPV of debt-to-exports ratio 3/4/	137.6	135.1	130.9	124.7	120.2	117.9	116.4	113.7	110.4	108.6	105.5
NPV of debt-to-exports ratio 5/	171.2	171.5	166.1	160.9	152.6	143.0	137.7	130.5	112.9	110.2	106.5
Debt-service-to-export ratio 6/	6.0	4.8	5.1	4.2	4.8	4.9	4.6	4.2	4.2	4.2	4.1
Debt-service-to-export ratio 5/	8.0	6.8	7.2	5.9	6.6	6.4	5.9	5.1	4.6	4.5	4.3
Memorandum items:	(in millions of U.S. dollars)										
NVP of debt after bilateral debt relief Beyond enhanced HIPC initiative e assistance	1,941	2,090	2,235	2,377	2,507	2,665	2,846	3,002	3,138	3,287	3,373
Debt service after bilateral relief beyond enhanced HIPC initiative assistance	90	83	97	88	109	120	122	118	128	135	137
GDP	9,378	10,077	10,464	1,915	11,923	13,268	14,765	16,430	18,284	19,615	20,844
Exports of goods and services	1,495	1,716	1,911	2,092	2,254	2,437	2,647	2,838	3,044	3,196	3,356
Exports of goods and services (3-year moving average)	1,411	1,547	1,707	1,906	2,085	2,261	2,446	2,641	2,843	3,026	3,198
Government revenue	1,134	1,219	1,345	1,478	1,643	1,863	2,067	2,300	2,779	2,982	3,168

Sources: Tanzanian authorities; and IMF staff estimates

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated. All years on July-June basis.

2/ Estimated in November 2001 based on end-June 2001 debt data

3/ Based on a three-year average of exports (e.g, export average over 1999.00-2001/02 for NPV of debt-toexports ratio in 2001/02)

4/ Assuming full delivery of HIPC Initiative assistance at end-June 2001

5/ Revenue is defined as central government revenue, excluding grants

6/ Based on current year exports

7/ Estimated in January 2005 based on completion point debt data, new disbursements and full delivery of enhanced HIPC Initiative assistance. Changes in NPV from last staff report are the result of updated exchange rates and discount rates

Appendix 2

Tanzania: Quantitative Performance Criteria and Benchmarks under the Poverty Reduction and Growth Facility Arrangement, March 2005 - June 2006

	2005					2006	
	March		June	Sep	Dec	March	June
	Performance Criteria	Actual	Benchmark	Performance Criteria	Indicative Targets	Indicative Targets	Indicative Targets
Net domestic financing of the government of Tanzania (ceiling) 1/ 2/	48	-81	157	-101	-144	-42	164
Accumulation of budgetary arrears (ceiling; indicative target only)	0	0	0	0	0	0	0
Net domestic assets of the Bank of Tanzania (ceiling; indicative target only) 2/	-769	-885	-776	-894	-963	-806	-641
Reserve money (ceiling)	984	977	1,028	1,133	1,235	1,250	1,302
Net international reserves of the Bank of Tanzania (floor) 3/	1,545	1,639	1,589	1,763	1,921	1,790	1,685
Accumulation of external payments arrears (ceiling) 4/	0	0	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (ceiling)	0	0	0	0	0	0	0
Memorandum item: Foreign program assistance (grants and loans) 1/	596	702	709	442	758	823	838

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum Of Understanding (TMU) attached to the government's letter of July 22, 2004.

1/ Cumulative from the beginning of the fiscal year (July 1)

2/ To be adjusted upward for the Tanzania shilling equivalent of any shortfall in foreign program assistance from the amount shown in the memorandum item. Figures are different from BoT (NDA) in the monetary authorities' accounts, as they are adjusted for the program exchange rate.

3/ To be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item.

4/ Continuous performance criterion; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Appendix 3a:

Tanzania: Structural Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, January 2005 - June 2005

Measure	Date of Implementation	Status
Tax policy and administration		
Expand the coverage of the Large Taxpayer Department to 250 taxpayers. 1/	End – June 2005	Observed
Complete the quality assurance review of the Customs and Excise Department reforms under the TRA's second corporate plan, including an updating of the action plan focusing on post-clearance auditing and compliance. 1/	End - June 2005	Observed
Submit to parliament an amendment of the Tanzania Investment Act, to limit the applicability of fiscal stability clauses to at most 5 years. 1/	End - February 2005	Observed
Financial sector reform		
Issue final bid instructions for the sale of the National Microfinance Bank (NMB). 2/	End - January 2005	Observed
Government approval and announcement of preferred bidder for National Microfinance Bank (NMB). 2/	End - June 2005	Observed
Submit to Parliament amendments to the Bank of Tanzania Act and the Banking and Financial Institutions Act. 2/	End - April 2005	Delayed. Waivers requested. Submission expected in July 2005.
Finalize and submit to government the Financial Sector Reform Implementation Action Plan. 1/	End - May 2005	Met with slight delay.
Governance		
Draft anti-corruption strategies and action plans to be completed for all Local Government Authorities and submitted for final government approval. 1/	End – June 2005	Observed
Publicizing of the list of companies, individuals, and NGO's that have received tax exemptions each quarter under the Treasury voucher scheme. 1/	Quarterly	Observed

1/ Structural benchmark.

2/ Performance criterion

Appendix 3b:

Tanzania: Structural performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, July 2005 - June 2006

Measure	Date of Implementation
Tax policy and administration	
Integrate the destination inspection program with customs procedures at all customs offices in the Dar es Salaam region as described in paragraph 27 of the MEFP. 1/	End – January 2006
Increase the number of staff in the post-clearance audit section of customs to 32 as described in paragraph 27 of the MEFP. 1/	End – March 2006
Financial sector reform	
Limit Government guarantees under the three medium-term credit facilities as described in paragraphs 42-44 of the MEFP. 2/	Continuous
Inter-agency committee on financial sector reform will submit to government a proposed unified legal and regulatory framework for all pension funds, and investment guidelines, as described in paragraph 46 of the MEFP. 1/	End - June 2006
Governance	
The government will ensure that the instruments establishing the Development Finance Guarantee Facility and Development Finance Guarantee Facility and Development Finance Institution require an annual independent operational audit to verify that the funds are being used for the purposes intended and that proper governance procedures have been followed, as indicated in paragraph 45 of the MEFP. 1/	End – March 2006
Cabinet the list of companies, individual, and NGO's that have received tax exemptions each quarter under the Treasury voucher scheme. 1/	End – April 2006
Publish the list of companies, individuals, and NGO's that have received tax exemptions each quarter under the Treasury voucher scheme. 1/	Quarterly

1/ Structural benchmark.

2/ Performance criterion

Appendix 4:

Tanzania Disbursements of Program Assistance, 2003/04 - 2005/06 1/ (Millions of US dollars)

	2004/05							2005/06				2003/04	2004/05		2005/06
	Act Sep.	Prog. Dec.	Act Dec.	Prog. Mar.	Act Mar	Prog. Jun.	Est Jun	Proj. Sep.	Proj. Dec.	Proj Mar.	Proj Jun.	Act. FY	Prog FY	Est. FY	Proj. FY
Grants	288.3	121.4	184.5	57.8	43.0	42.3	18.1	316.8	140.1	36.1	14.9	338.3	501.9	534.0	507.9
Multilateral	128.6	0.0	26.5	0.0	0.0	0.0	0.0	47.1	0.0	0.0	0.0	71.6	71.6	155.1	47.1
EU PRBS grants 2/	38.3	0.0	0.0	0.0	0.0	0.0	0.0	47.1	0.0	0.0	0.0	39.0	39.0	38.3	47.1
World Bank	90.3	0.0	26.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.6	90.3	116.8	0.0
Bilateral	159.7	121.4	158.0	57.8	43.0	42.3	18.1	269.7	140.1	36.1	14.9	266.7	373.3	378.9	460.9
PRBS 2/	122.0	70.7	72.5	38.4	14.2	0.0	11.4	215.0	57.9	6.7	0.0	192.7	231.1	220.2	279.5
Sectoral Baskets	37.7	50.8	85.5	19.4	28.8	42.3	6.7	54.8	82.2	29.4	0.0	4.4	142.2	158.7	181.3
Loans	62.0	38.0	123.0	39.0	1.4	70.0	44.0	125.6	175.0	29.1	14.9	204.4	207.2	230.4	329.7
Multilateral	62.0	38.0	123.0	39.0	1.4	70.0	44.0	125.6	175.0	29.1	0.0	204.4	207.2	230.4	329.7
World Bank 3/	62.0	38.0	123.0	39.0	1.4	70.0	44.0	50.0	175.0	29.1	14.9	145.7	207.2	230.4	254.1
World Bank Loan	62.2	21.0	0.0	21.0	0.0	0.0	44.0	0.0	175.0	0.0	0.0	143.9	102.2	104.2	175.0
World Bank Basket Loans	1.9	17.0	123.0	18.0	1.4	70.0	0.0	50.0	0.0	29.1	0.0	1.8	105.0	126.3	79.1
African Development Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	75.6	0.0	0.0	0.0	58.7	0.0	0.0	75.6
Bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Program assistance	350.4	159.4	307.5	96.8	44.4	112.3	62.1	442.4	315.1	65.2	14.9	542.8	709.0	764.4	837.7
Total including HIPC/interm assistance	365.8	178.6	320.9	118.0	58.6	131.5	81.3	460.7	329.3	83.5	29.1	614.5	788.0	826.7	902.5
Of which: HIPC	15.4	19.2	13.4	21.2	14.2	19.2	19.2	18.3	14.2	18.3	14.2	71.8	79.0	62.3	64.9
IMF	2.0	2.6	2.6	2.8	2.5	2.6	2.6	2.5	2.5	2.5	2.5	11.7	10.1	9.8	10.0
IDS	9.0	15.9	10.1	13.0	9.1	16.0	16.0	11.0	11.5	11.0	11.5	46.4	55.4	44.2	45.0
AfDB	4.4	0.2	0.2	4.4	2.1	0.1	0.1	4.8	0.1	4.8	0.1	13.5	9.5	6.8	9.9
Others	0.0	0.5	0.5	1.0	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.2	4.0	1.6	0.0

Sources: Tanzania authorities; and donors.

1/ Fiscal year: July-June

2/ Poverty reduction budget support

3/ Including loan baskets

Appendix 5:

Tanzania: Central Government Expenditure on Priority Sectors, 1999/00 - 2004/05 1/ (billions of Tanzania shillings, unless otherwise indicated)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
						Budget
Total expenditure in priority sectors	418.6	499.7	761.9	973.7	1,113.5	1,486.3
In percent of GDP	6.1	6.5	8.8	9.7	11.1	14.8
In percent of total expenditure	35.8	39.3	52.1	48.9	44.6	46.3
Education	218.0	254.9	344.9	436.2	428.4	589.0
Health	81.2	100.7	142.1	186.7	216.2	290.4
Water	14.5	18.3	32.5	51.9	61.0	126.5
Agriculture(research and extension)	21.6	19.1	31.9	60.2	117.3	109.1
Lands	4.2	5.1	8.1	20.1	6.5	6.4
Roads	70.8	92.5	179.6	190.2	231.0	274.9
Judiciary	8.3	9.2	18.8	23.1	32.7	36.1
TACAIDS 2/	0.0	0.0	4.0	5.3	20.3	53.8
Recurrent expenditure in priority sectors	285.4	351.7	497.6	724.6	788.6	976.5
In percent of GDP	4.2	4.6	5.8	7.2	7.0	7.8
In percent of total recurrent expenditure	35.3	35.6	42.5	48.7	42.2	41.0
Education	158.9	189.2	282.1	422.9	397.3	509.3
Health	53.9	70.3	90.9	149.1	180.3	244.4
Water	5.4	8.1	15.5	16.5	17.9	23.7
Agriculture (research and extension)	13.7	10.3	17.2	36.0	69.1	63.6
Lands	3.4	4.2	7.4	4.8	5.8	5.7
Roads	42.2	60.7	65.7	71.9	86.6	88.5
Judiciary	7.9	8.8	14.8	18.9	24.8	28.6
TACAIDS 2/	0.0	0.0	4.0	4.5	6.8	12.7
Development expenditure in priority sectors	133.2	148.0	264.2	249.1	324.9	509.8
In percent of GDP	1.9	1.9	3.1	2.5	3.0	3.0
In percent of total development expenditure	37.0	51.7	90.7	49.7	51.0	51.8
Education	59.1	65.7	62.8	13.3	31.1	79.8
Health	27.3	30.4	51.2	37.6	35.9	45.9
Water	9.1	10.1	17.0	35.4	43.1	102.9
Agriculture (research and extension)	7.9	8.7	14.7	24.2	48.2	45.5
Lands	0.8	0.9	0.7	15.3	0.8	0.7
Roads	28.6	31.7	113.9	118.3	144.4	186.3
Judiciary	0.4	0.4	4.0	4.2	7.9	7.5
TACAIDS 2/	0.0	0.0	0.0	0.8	13.5	41.1
Memorandum Items:						
Total expenditure 3/	1,167.5	1,272.8	1,462.8	1,989.5	2,496.0	3,210.9
Recurrent expenditure	807.6	986.6	1,171.4	1,488.6	1,870.3	2,379.0
Development 0.8expenditure	359.9	286.3	291.3	500.9	625.7	831.9
HIPC Initiative debt relief	51.6	141.2	116.8	72.9	77.4	74.7
In percent of GDP	0.8	1.8	1.4	0.7	0.7	0.6
GDP (market prices)	6,850	7,727	8,627	10,069	11,257	1,245.7

Sources: Tanzania, Ministry of Finance

1/ Fiscal year runs from July to June

2/ Government agency created in 2001 to coordinate AIDS - related interventions.

3/ Excludes clearance of domestic arrears and recapitalization of banks.

Appendix 6: Tanzania's Millennium Development Goals

S/N		1990	1995	2001	2002
1	Eradicate extreme poverty and hunger Poverty	2015 target = halve 1990 \$ 1 a day poverty and malnutrition rates			
	Population below \$ 1 a day (percent)	"	19.9	"	"
	Poverty gap at \$ 1 a day (percent)	"	4.8	"	"
	Percentage share of income or consumption held by poorest 20 percent	"	6.8	"	"
	Prevalence of child malnutrition (percent of Children under 5)	28.9	30.6	29.4	"
	Population below minimum level of dietary energy consumption (percent)	35	49	43	"
2	Achieve universal primary education	2015 target = net enrollment to 1000			
	Net primary enrollment ratio (percent of relevant age group)	51.4	47.7	54.4	"
	Percentage of cohort reaching grade 5 (percent)	78.9	81.3	"	"
	Youth literacy rate (percent ages 15-24)	83.1	87.1	91.1	91.6
3	Promote gender equality	2015 target = education ratio to 100			
	Ratio of girls to boys in primary and secondary education (percent)	95.5	96.7	100.3	"
	Ratio of young literate female to males (percent ages 15-24)	86.5	90.7	94.8	95.3
	Share of women employed in the nonagricultural sector (percent)	33.1	"	"	"
4	Reduce child mortality	2015 target=reduce 1990 under 5 mortality by two-thirds			
	Under 5 mortality rate (per 1,000)	163	164	165	165
	Infant mortality rate (per 1,000 live births)	102	103	104	104
	Immunization, measles (percent of children under 12 months)	80	78	83	89
5	Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths			
	Maternal mortality ratio (modeled estimate, per 100,000 live births)	"	"	1,500	"
	Births attended by skilled health staff (percent of total)	43.9	38.2	35.8	"
6	Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS and other major diseases			
	Prevalence of HIV, female (percent ages 15-24)	"	"	8.1	"
	Contraceptive prevalence rate (percent of women ages 15-49)	9.5	18.4	25.4	"
	Number of children orphaned by HIV/AIDS (thousands)	"	"	810	"
	Incidence of tuberculosis (per 100,000 people)	"	"	344	362.7
	Tuberculosis cases detected under Direction of Trade Statistics (percent)	"	61	47	43.1
7	Ensure environmental sustainability	2015 target = various			
	Forest area (percent of total land area)	45	"	43.9	"
	Nationally protected areas (percent of total land area)	"	15.6	15.6	29.8
	GDP per unit of energy use (PPP dollars per kg oil equivalent)	1.1	1.2	1.4	"
	CO2 emissions (metric tons per capita)	0.1	0.1	0.1	"
	Access to an improved water source (percent of population)	38	"	68	"
	Access to improved sanitation (percent of population)	84	"	90	"
	Access to secure tenure (percent of population)	"	"	"	"
8	Develop a Global Partnership for Development	2015 target = various			
	Youth unemployment rate (percent of total labor force ages 15-24)	"	"	"	"
	Fixed-line and mobile telephones (per 1,000 people)	3.1	3.3	17.1	24.1
	Personal computers (per 1,000 people)	"	1.7	3.6	4.2
	General indicators				
	Population (millions)	25.5	29.6	34.5	35.2
	Gross national income (billions of U.S. dollars)	4.8	4.9	9.4	9.7
	GNI per capita (U.S. dollars)	190	160	270	290
	Adult literacy rate percent of people ages 15 and over)	62.9	69.2	76	77.1
	Total fertility rate (births per woman)	6.3	5.7	5.3	5.0
	Life expectancy at birth (years)	50.1	48.5	44.4	43.1
	Aid (percent of GNI)	28.8	17.1	13.7	13.2
	External debt percent of GNI	158.6	144.7	72.2	77.6
	Trade (percent of GDP)	50.1	59.3	39.2	40.3

Source: <http://www.developmentgoals.org>

African Forum and Network on Debt and Development

31 Atkinson Drive, Hillside,

PO Box CY1517, Causeway, Harare, Zimbabwe

Telephone 263 4 778531, 778536 Telefax 263 4 747878

E-Mail afrodad@afrodad.co.zw

Website: www.afrodad.org