Tanzania and The Millennium Development Goals

AFRODAD

African Forum and Network on Debt and Development

A Critical Appraisal of the Global Partnership for Development (Goal 8)

About AFRODAD

AFRODAD Vision

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.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

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.

A Critical Appraisal of the MDGs

The Case of Tanzania

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Preface

Some five years from the Millennium Declaration we are faced with the inevitable need to reassess the current levels of poverty, the instruments that are in place for tackling poverty and indeed the constraints that must be resolved. The fact that the Millennium Development Goals (MDGs) represent an unprecedented commitment by all nations and institutions, including the International monetary Fund (IMF) and the World Bank, to implement and realize the MDG goals and targets needs to continue to be emphasized at all stages. Part of the global ability to realize the MDGs is dependent on financing of such development. Aside being affirmed as part of Goal Eight in the MDGs such understanding has also been reaffirmed in the 2002 Monterrey consensus on enhancing financing for development.

MDGs are unique in that they represent the first global compact between the heads of state of developed and developing countries, together with the UN system, the World Bank and the IMF.[1] The Goals have clear targets and achievable time-bound indicators of success, which can galvanize support among citizens and governments alike. Throughout 2005, civil society organizations, governments and multilateral institutions will be focused on progress in meeting the Millennium Development Goals (MDGs), with ten years remaining until the target year of 2015. Tanzania is not an exception to this.

The MDGs include a 50% reduction in poverty and hunger, universal primary education, reduction of child mortality by two-thirds, cutbacks in maternal mortality by three-quarters, promotion of gender equality, and reversal of the spread of HIV/AIDS, malaria and other diseases. A Millennium Summit of 189 world leaders in September 2000 pledged to meet all of these goals by 2015. A summit later this year will review progress towards the goals and set the development agenda for the next decade.

Of particular importance to this research report is Goal Eight outlining Northern governments' commitment to a global partnership for development - a late addition to the MDGs. Goal Eight relates to issues of – debt cancellation, trade justice, equitable governance in global institutions, and political, social and economic rights for the poor – as an indispensable foundation for a politics that will enable sustained progress to end poverty in the South. It is an important goal for holding developed countries accountable in advancing the MDGs. This goal is particularly significant as it requires richer countries to reform their policies and actions to contribute to the fight against poverty.

Developing countries such as Tanzania will not be able to mobilize enough resources to attain the MDGs by 2015 unless there are radical changes in terms of aid administration, international trade and the resolution of the burgeoning debt crisis. One big problem is the conditionality aspects embedded in the country's Poverty Reduction Strategy Paper (PRSP), the centre and key to the much needed development aid. The PRSP itself is not an adequate funding criteria; neither is it an important tool in MDG attainment[2]; it is dependent on a country having a PRGF programme and meeting all the conditions and benchmarks in the PRGF which are not contained in the PRSP but are hiding in the Letter of Intent between the government and the IMF. Thus the content of the Letter of Intent is also crucial to attainment of the MDGs. Unless the MDG targets are also included in the IMF and World Bank instruments, the attainment of MDGs will remain a dream.

After several United Nations (UN) Conferences, in 1996 donors, acting on their own, agreed on a plan of action in a document called *Shaping the 21st Century* in which they laid the foundations for seven of the MDGs. Notably absent were any time-bound targets or policy commitments to take action on enabling policies with respect to debt, trade, reconsideration of donor-imposed structural adjustment or ODA financing, which were very important to developing countries.

1 Salil Shetty in Centre for Human Rights and Global Justice, "Human Rights Perspectives on the MDGs, Conference Report", November 11, 2003, pp. 17-18 accessed at http://www.nyuhr.org/images/NYUCHRGJMDGREPORT2003.pdf
2 See n from the examination of all the letters of Intent with the IMF

In fact, developing countries had no role in setting the goals in *Shaping the 21st Century*, and subsequently in assessing progress. Between 1996 and 2000, *Shaping the 21st Century* was strongly criticized by civil society. It was seen to be a deliberate attempt by developed country governments to avoid the more difficult structural issues of more equitable economic relationships and the urgent need for reform of global governance. The Millennium Declaration represents a ratification of the donors' thinking by including developing countries and the global partnership goal (Goal Eight).

It is important to note that the global structures that maintain poverty and marginalise the rights of the poorest clearly need reform, but there is little attention to these major framework issues in Northern governments' approaches to the MDGs. The UN should play a strong role in regular monitoring of the Donor countries' progress on Goal Eight and the framework for their reporting on MDG Eight should be revised to include indicators on global governance and participation.

While a more equitable trade system is vital, donor Official Development Assistance (ODA), along with substantial debt cancellation, provides the essential additional financing capacities, particularly for the poorest countries' progress in reducing and eliminating poverty. Now is the time for the North to honour mutual commitments and obligations in a sprit of genuine solidarity. Such commitments are encapsulated in the Millennium Development Goals - in particular Goal Eight.

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Research & Policy Analysis

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This piece of work benefited greatly from discussions with and documents produced by officials from the Ministry of Finance, Bank of Tanzania, the IMF and World Bank. AFRODAD is proud to have associated with many colleagues and friends in the civil society working around the Millennium Development Goals paying particular attention to Goal Eight's issues of aid, trade and Debt.

The production of this research paper could not have been possible without the continued financial support from the United Church of Canada and the United Methodist Women (USA). AFRODAD is highly honoured to continue to secure their confidence in our ability to research and produce a document of such international importance. Needless to mention, AFRODAD assumes full responsibility of the contents of this report.

TABLE OF CONTENTS

List of Tables

List of Acronyms

CBF	Common Basket Fund
CSOs	Civil Society Organisations
DAC	Development Assistance Committee
ESAF	Enhanced Structural Adjustment Facility
FAO	Food and Agricultural Organisation
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Country Initiatives
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
LGRP	Local Government Reform Programme
MDF	Multilateral Debt Relief Fund
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Programme
NDF	Net Domestic Financing
NGOs	Non Governmental Organisations
NPES	National Poverty Eradication Plan
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PER	Public Expenditure Review
PRGF	Poverty Reduction Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SWAP	Sector Wide Approaches
TACAIDS	Tanzania Committee on AIDS
TAS	Tanzania Assistance Strategy
UN	United Nations
UNDP	United Nations Development Programme
URT	United Republic of Tanzania
VAT	Value Added Tax

Executive Summary

In 2005 the United Nations takes stock of the implementation status of the Millennium Development Goals (MDGs) around the world. The MDGs are the first universal time-bound benchmarks to which to hold governments accountable. For many of the world's poorest countries, including Tanzania, the picture is bleak and 2015 is beginning to look more and more like a mirage. Achieving MDGs in Tanzania could bring about dramatic changes to the lives of millions of people now living below the poverty line and would be a big step in the country's strategy for total poverty eradication as envisioned in its Vision 2025.

Purpose of Study

The purpose of the study was to asses the progress Tanzania has made on the implementation of programs and projects aimed at the attainment of the Millennium Development Goals, with special**focus on the attainment of MDG Goal Number 8** (eight) which is - **Development of a global partnership for development,** with specific bias on three areas **DEBT, AID** and **TRADE.**

Goal Number 8 targets that are of interest to this research and AFRODAD are:

- Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. Includes a commitment to good governance, development and poverty reduction - nationally and internationally
- Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous Official Development Assistance for countries committed to poverty reduction
- Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term.

The Specific Terms of Reference constitute the following:

1. Critical discussion on the present and anticipated role of various stakeholders in Tanzania in ensuring the achievement of better and effective aid delivery, fair trade and sustainable Debt levels

   (i) The role of Government, especially Parliament

   (ii) The role of the Private Sector

   (iii) The role of Civil Society

2. Critical discussion on Tanzania's situation and the possible international assistance in achieving better and effective aid delivery, fair trade and sustainable Debt levels

Aid

(i) Conditionalities and their impact on Tanzania's potential to attain the MDGs

(ii) The nature, type and main mode of aid allocation to various sectors of the economy

Debt

(i) The size of the country domestic and external debt burden vis-a-vis the ability of its general revenue to repay the debt and finance socio-economic development

(ii) Debt management and resource mechanisms

Trade

i) The position of balance of payment

ii) International trade system and regulations

iii) Assessment of Tanzania's trade relations with the international community paying attention to tariff regimes and access to markets; its role in regional trade, progress in the negotiations on Economic Partnership Agreements (EPAs) with the European Union and the likely impacts of such regimes on the economy.

3. Concrete and implemental recommendations aimed at ensuring that Tanzania attains the Millennium Development Goals by 2015 through achieving better and effective aid delivery, fair trade and sustainable Debt levels.

Specific recommendations for action by:

i) Government

ii) Private Sector

iii) Civil Society

iv) The Donor community

Summary of Major Findings

Some five years into the MDGs programme, Tanzania has made little progress in meeting the goals, particularly in poverty reduction. What is particularly worrying is that even in the long term, there is little evidence that any positive changes will be made. The study focused on intermediate outcomes, i.e., the strategies and policy framework being pursued to achieve economic growth and poverty reduction and the results that have been achieved. Below is a summary of the major findings, recommendations and lessons to be drawn from them.

- Donors have not been responsive to the government's programming process. ODA disbursement is often late, coming after Tanzania's national budget process. This delays the implementation of poverty reduction programmes. Donor funding is also inadequate and does not cover recurrent costs, which comprise the bulk of government expenditure in the priority sectors. Further, Tanzania's debt burden is increasing at an alarming rate although it is on the HIPC Initiative. There is evidence that even after the HIPC relief, debt sustainability levels will not be reached.
- Donor-imposed "Washington Consensus" policies remain at the heart of Poverty Reduction Strategy Papers (PRSPs). The poorest countries are required to prepare PRSPs, under the guidance of the World Bank and the IMF, in order to qualify for loans or debt relief. PRSPs are increasingly used by donors as a guide to achieving the MDGs, under the largely rhetorical claim by donors that these strategies are "owned" by developing countries.
- Donor-imposed aid conditions affect the achievability of the MDGs in at least two respects. First, aid conditions are the tools with which the IMF and World Bank act as gatekeepers of aid channels based on their assessment of compliance to their policy prescriptions. Secondly, bilateral donors channel significant MDG aid resources into highly conditioned budget support for implementing a country's PRSP or into Sector Wide Programs in support of a line-ministry program in education, health or agriculture.[3] The HIPC study also identified some cross-cutting issues, which include HIV/AIDS, environment, gender and governance[4]. Tanzania is implementing the MDGs under its PRS priority areas framework. Some of the priority targets are more ambitious than the MDGs while others are within the MDG target framework.
- After years of implementing World Bank/IMF structural adjustment programmes, the government's role in Tanzania's economy has changed radically. From being a central player in the economy, the government has now been pushed to the sidelines where it is supposed to play the role of a facilitator and to provide only essential social services. Under the IMF's Enhanced Structural Adjustment Facility (ESAF) in early 1996 and later Poverty Reduction and Growth Facility (PRGF) in 1999 the government embarked on a wide range of parastatal and public sector reforms. As part of the parastatal reforms, the government privatized about half the country's 400 parastatals while public sector reforms resulted in the reduction of the government work force from 355 000 in 1992 to 270 000 in 1997[5].
- Tanzania is implementing its poverty reduction programme with IMF support through a three-year PRGF arrangement which extends to June 2006. Under this programme, Tanzania has received US$189 million[6] to finance economic reforms. The broad macroeconomic objectives supported under the PRGF include the improvement of tax policy and administration, financial sector reform, improvement of the investment environment and governance. The latest PRGF-supported programme has committed Tanzania to contain inflation at about 4 % and raise real GDP growth further (from the 6.2 % achieved in 2003). According to the project documents, the growth will be underpinned by substantial investments in physical infrastructure as outlined in the Poverty Reduction Strategy Paper.

3 Brian Tomlinson & Pam Foster, (2004) "At the Table or in the Kitchen? CIDA's New Aid Strategies, Developing Country Ownership and Donor Conditionality", a joint paper for CCIC and the Halifax Initiative, September 2004.

4 Millennium Project 2004 P.24

5 TAS 1999 p.6

6 PRGF loans carry an annul interest rate of 0.5 % and are repayable over 10 years with a 5 ½-year grace period on principal payments.

- Under the programme the country will be expected to: mobilize revenue to strengthen domestic savings and reduce aid dependency; further liberalize the trade regime to enhance efficiency and strengthen the tradable sector; and improve the economy's supply response by removing key impediments to growth, including measures to improve the efficiency of the financial sector and promote private sector development. In support of the programme's medium-term revenue target, the Tanzania government has taken a range of measures to bolster tax administration, including adopting a new medium-term corporate plan for the Tanzania Revenue Authority, refocusing management and administrative resources to facilitate the broadening of the tax base; revamping the administration of VAT and presumptive taxation, and broadening the tax base by reducing the number of exemptions. As a result of these measures, government revenue was consistently above estimates during the first three quarters of the fiscal year 2002/03, and grew by 18 % over the same period the previous year. The most notable features were the strong revenue performance of VAT on domestic goods and of income tax. Taxes on petroleum imports however recorded a negative growth over the previous year

- Tanzania government's expenditure in 2003 was US$2.6 billion[7], or 89 % of estimates. The underperformance was due to delays in loan disbursements, which reduced the resource envelope; slow execution of discretionary expenditure and delays in procurement (URT 2004). Notwithstanding the shortfall in foreign financing, priority sectors received their full quarterly allocations. The government's net domestic borrowing in 2003 amounted to US$284 million

- Tanzania has failed to harness the country's agricultural potential for poverty reduction because of lack of access to national and regional markets for most small scale farmers because of poor rural transport infrastructure of the inefficiencies resulting from excessive government intervention in the economy. Policy-related constraints continue to impede the development of the sector despite economic reform measures that have been underway for nearly two decades[8]

- Tanzania is one of the most donor-dependent countries in the world with between 25– 45 % of the total Government budget and 80 % of the development budget dependent on foreign aid in the form of grants, consessional loans and debt relief. Tanzania has development cooperation programmes with over 50 donors, international financial institutions and NGOs covering hundreds of projects in virtually all sectors[9]. In 2001, total ODA commitments to Tanzania were US$1,440 million. In the 2004/2005 budget, 45 % of the total financing was from donors. While it is difficult to allocate specific aid flows to specific MDGs and to identify the aid which is contributing to MDG achievement, the OECD Development Assistance Committee (DAC) has developed a methodology to allocate ODA commitments to individual MDGs. Using that methodology, the UN Millennium Project estimates that roughly 60 % of these ODA commitments were devoted to areas directly related to the MDGs

- The developed world committed themselves to the 0.7% target, (that 0.7% of its gross national income (GNI) would be spent on international development). The promise was made in 1970. Unless this target is met attaining MDGs in countries like Tanzania remains a mirage.The quality of aid continues to be affected by the tying of donor aid disbursements to donor country goods and services. Most aid flows to Tanzania were made conditional on the government privatizing the water system in towns such as Dar es Salaam. The move has increased water prices and made poor populations more vulnerable to water borne diseases like cholera. Such aid is contrary to the spirit and letter of attaining MDGs by 2015 in Africa

- The MDG approach has the potential to encourage the development of a country-owned and credible long-term strategy for growth and poverty reduction. But the policy- making process falls far short of the potential

7 Budget Digest 2004/05 p.8
8 Millenium Project p. 72
9 TAS 1999

This is partly because implementation of the MDGs is still driven by the PRGF´s macro economic framework and poverty reduction strategy, which is pegged on the HIPC initiative. There is also a lack of basic policy priorities and operational framework that should be pursued under the MDG framework to break from the poverty trap

- There was no broad participation in the policy realignment of the MDGs with other major policy documents, including Vision 2025, Tanzania Assistance Strategy (TAS) and PRSPs. Many of the stakeholders interviewed on the process said it had not been open. Lack of popular participation was also cited in the drafting of the macroeconomic framework under the PRGF. However, participatory processes were used in the formulation of the PRSP, which is the main instrument for implementing the national action plan for poverty reduction under the MDG framework
- MDGs have had a limited impact in generating meaningful discussions and participation, outside the narrow official circles. This reflects in part the continued implementation of PRGF and PRSP, which are conditional for donor support, as well as low awareness among the major stakeholder about the importance of MDGs
- Of the eight MDGs, Tanzania has adopted five as priorities in its major policy documents and national action plans. These include Education, Health, Agriculture, HIV/AIDS, Water and Infrastructure. Environment and Gender are treated as cross cutting issues
- Apart from education where tremendous strides have been made in recent years, progress on the rest of the goals has fallen behind or stagnated. Little headway has been made in poverty reduction; agricultural productivity is declining and the proportion of people under threat from hunger is on the rise. The nutritional status of children, especially those under-fives, is precarious while chronic malnutrition remains a widespread problem with 44 % of children moderately to severely stunted, suggesting problems in the general health status of children. Survival indicators of poverty are not encouraging. For instance, no substantial progress has been made in the reduction of infant and under-five mortality and maternal mortality. There are even indications of slight increases in recent years. The proportion of births that were attended by trained personnel and those that took place in health facilities have both declined and urban-rural disparities in service provision has increased in the past three years[10]
- The MDGs focus on income and human poverty. This includes addressing constraints in the broader sectors of the economy to bring about poverty reducing growth. But the primary focus of Tanzania's PRSP – the main implementing instrument - is on the composition of public expenditures, especially social sector spending. It lays less emphasis on broader strategies that would encourage poverty-reducing growth, such as land reforms. Even in the area of public expenditure, the operational value of the PRSP is limited because of the nature of costing and prioritization that is defined by the cash budget framework which only reflects the adjusted cost to meet the budget ceiling rather than the actual cost.

10 Tanzania PRSII 2004

1.0 Introduction

Tanzania is one of the world's poorest countries with an annual per capita income of about US$250. The country has a population of 33 million, which is growing at about 2.8 per cent per year. Tanzania's economy is heavily dependent on agriculture which accounts for 50 per cent of GDP and 85 % of exports. The country's heavy dependence on agriculture makes it vulnerable to climatic changes, notably floods and droughts, with some regions being particularly drought prone. Industry accounts for 15 per cent of GDP, while the tourism sector has recorded significant growth in recent years. The mining sector has good potential but is still under-exploited.

Poverty in Tanzania is characterised by low income and expenditure, high mortality and morbidity, poor nutritional status, low educational attainment, vulnerability to external shocks and exclusion from economic, social and political processes. The most at risk are young children and youths, the very old, women, large house holds and those involved in subsistence agriculture, livestock production and small scale fishing.

Tanzania's main development challenge is to tackle the widespread and persistent poverty. Some 48 % of the population lives below the basic poverty line. Income poverty in Tanzania is severe and is rising. The number of people below the national basic needs poverty line increased from 9.5 million in 1991/92 to 11.4 million in 2001/2002. Over the same period the number of people below the food poverty line rose from 5.4 million to 6.0 million (URT 1993, 2003a). Poverty in Tanzania is concentrated in the rural areas.

Based on a projected economic growth rate of 8 %, Tanzania's Vision 2025 predicts that the country will graduate from least developed country to a middle income country by 2025. The government has targeted 50 per cent reduction in the proportion of people living in poverty by 2010 and eliminating poverty by 2025[11] .

The Millennium Declaration calls on governments "to spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty". The MDGs' Goal Eight, while a late addition to the MDGs, responds to this obligation. Goal Eight has a number of related targets and indicators for measuring progress:

Aid Flows:

1. Net ODA and ODA to the least developed countries (total and share of GNI);
2. Proportion of bilateral, sector-allocable ODA of OECD/DAC donors for basic social services (basic education, primary health care, nutrition, safe water, and sanitation);
3. Proportion of Untied ODA.

Market Access:

1. Proportion of developed country imports (by value and excluding arms) from developing countries and from least developed countries, admitted free of duty;
2. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries;
3. Agricultural support for OECD countries as a %age of their GDP; and
4. Proportion of ODA for building trade capacity;

11 TAS 1999 p.4

<u>Debt Sustainability</u>:

1. Total number of countries that have reached their HIPC Decision Points and that have reached their HIPC Completion Points (cumulative);
2. Debt relief committed under HIPC Initiative; and
3. Debt service as a %age of exports of goods and services.

These targets and indicators largely fail to take into account the need for deep reform in the relationships between developed and developing countries that might form the basis for an authentic development partnership. With respect to trade and market access indicators, CSOs have been critical of their narrow focus on market access as the sole measure of the contribution of trade policy to reducing poverty.

2.0 Macro Economic Framework

Tanzania has recorded positive economic growth in recent years. From 2000-2004, real GDP growth averaged 5.6 % a year compared to a mere 2.7 % during 1990-95. Over the period, inflation has fallen to below 5 % from about 30 %. Fiscal imbalances have been reduced, expenditures reoriented to the social sectors and the external position substantially strengthened. Based on a projected economic growth of 8%, the Vision 2025 predicts that Tanzania will graduate from least developed country to a middle income country by 2025. Tanzania government has targeted a 50 % reduction in the proportion of people living in poverty by 2010 and eliminating poverty by 2025[12] .

But these economic achievements have been at a high price. Budget deficit reduction has been largely achieved through expenditure cuts while the implementation of a cash budget has curtailed the government's capacity to deliver adequate quality services in the basic social services and infrastructure. Structural reforms to address the economic weaknesses have been weak and inadequate.

Table 1 Selected Economic Indicator

Years	2000	2001	2002	2003	2004
GDP Growth	4,90	5,70	5,90	6,20	6,30
GDP Per capita	2,20	3,40	4,20	3,50	4,00
Consumer Prices	5,90	5,20	4,6	5,00	5,00

2.1 Tanzania's MDG Strategy

The approach the Tanzanian government took in the implementation of the MDGs begun with the localisation of MDGs into various national policy documents. This was prompted by the government's desire to fight poverty, meet its international obligations and to realize the goals given the resource constraints it is facing. Documents outlining various components of the MDG plans include the Tanzania Assistance Strategy (TAS), the National Poverty Eradication Strategy (NPES); and the Poverty Reduction Strategy Paper (PRSP).

2.1.2 Poverty Reduction Strategy Paper

Donor-imposed "Washington Consensus" policies remain at the heart of Poverty Reduction Strategy Papers (PRSPs). The poorest countries are required to prepare PRSPs, under the guidance of the World Bank and the IMF, in order to qualify for loans or debt relief. PRSPs are increasingly used by donors as a guide to achieving the MDGs, under the largely rhetorical claim by donors that these strategies are "owned" by developing countries.

Tanzania developed its PRSP in 2000 after it had qualified for the HIPC Initiative debt relief programme. The PRSP acts as the national action plan for the implementation of the Vision 2025 and the NPES. It is also the main reference point for anti poverty initiatives and an instrument to build consensus on national priorities for poverty reduction and its development agenda. The PRSP identifies major priority areas which are key to achieving the MDGs. These include agriculture, primary education, rural roads, water and sanitation, and health.

In the analysis of the relationship between the PRSPs and the MDGs therefore, it is important to bear in mind the following:

12 TAS 1999 p.4

- The PRSPs are yet to become really country owned because they remain a prescription of the IFIs. If they are not a prescription, they are a tool of micro-managing the countries[13] on implementation of stabilization and structural adjustment policies; through letters of Intent and their Memoranda of Economic and Financial policies;
- PRGF policies are not any different from the largely discredited SAP policies and their negative impact on people's lives. An ongoing analysis of the actual policy benchmarks and how they affect the attainment of MDGs is going to be increasingly important.
- The fact that HIPC triggers allude to education and health could be because the International Financial Institutions (IFIs) have come under increasing pressure to let go their policies of user and school fees that are known to have reversed people's access to these basic human needs in the past.

Donor-imposed aid conditions affect the achievability of the MDGs in at least two respects. First, aid conditions are the tools with which the IMF and World Bank act as gatekeepers of aid channels based on their assessment of compliance to their policy prescriptions. Secondly, bilateral donors channel significant MDG aid resources into highly conditioned budget support for implementing a country's PRSP or into Sector Wide Programs in support of a line-ministry program in education, health or agriculture.[14] The HIPC also identified some cross-cutting issues, which include HIV/AIDS, environment, gender and governance[15]. Tanzania is implementing the MDGs under its PRS priority areas framework. Some of the priority targets are more ambitious than the MDGs while others are within the MDG target framework.

Rather than strengthen citizens' engagement in the determination of political choices favouring poor and marginalized communities, donors depoliticize development options by engaging in largely technocratic discussions with specialized government officials. Currently donors are constructing a "globalized" aid regime with global conditionalities for which no one donor accepts responsibility. [16] These conditions relate more closely to donor pre-occupations with improving government's fiduciary accountability and policy compliance than with effective engagement of local populations for improved poverty outcomes.

The several donors supporting the Tanzania General Budget Support Program, for example, have imposed 50 prior actions, which require progress before the release of donor funds, and 60 additional results related to Tanzania's PRSP that are systematically reviewed by the Tanzanian government. Externally set conditions are increasingly penetrating deep into all levels of government processes, while largely excluding citizens from influencing the directions of their own government.

2.1.3 The Tanzania Assistance Strategy

The TAS is a national development framework to manage national resources to achieve the development strategies stated in the Vision 2025, through the National Poverty Eradication Strategy (NPES) and the PRSP[17]. The TAS aims to promote good governance, transparency, capacity building and effectiveness in aid delivery. It was created to harmonise donor procurement procedures and systems, coordinate project support from donors, manage the disbursement of resources outside the exchequer and synchronise the country assistance strategy. The TAS' objective is to ensure that donor support is directed towards budget support and to reduce the number of donors the government has to deal with in a given priority sector. TAS provides a framework from which all donors funding a given priority area can negotiate with the government on the modalities.

13 In the Letter of Intent between Cameroon and the IMF, Cameroon is expected to Report to the IMF on a monthly and quarterly basis on some of the issues agreed on. It may not be unlikely that the Cameroonian government reports more to the IMF than to its own Parliament.

14 Brian Tomlinson & Pam Foster, (2004) "At the Table or in the Kitchen? CIDA's New Aid Strategies, Developing Country Ownership and Donor Conditionality", a joint paper for CCIC and the Halifax Initiative, September 2004.

15 Millennium Project 2004 P.24

16 Hall, D and de la Motte, R, (2004) "Dogmatic Development: Privatization and Conditionality in Six Countries" a Public Service Research Unit Report for War on Want, February 2004,

17 URT 1999

Table 2: A Comparison of Tanzania's PRSPs and MDGs

MDG	MDG Target	Tanzania's PRSP Goal
1. Eradicate extreme poverty and hunger	Reduce by half the proportion of people living on less than a dollar a day Reduce by half the proportion of people who suffer from hunger	a. Reduce proportion of population below the poverty line by half from 35.7% in 2000/01 to 17.8%by 2010 b. Reduce the proportion of food poor by half from 18.7% in 2000/01 to 9.3% by 2010 c. Reduce the prevalence of stunting from 43.4% in 1999 to 20% by 2010 d. Reduce the prevalence of wasting from 7.2% in 1999 to 2% by 2010
2. Achieve Universal Primary Education	a. Ensure that all boys and girls complete a full course of primary schooling	a. Increase primary net enrolment from 85% in 2002 to 90% by 2005 b. Reduce illiteracy **by 100%** by 2010
3. Promote gender equality and empower women	a. Achieve gender equality in primary, secondary and tertiary education, preferably by 2005 and no later than 2015.	a. Achieve gender equality in primary and secondary education by 2005
4. Reduce Child Mortality	a. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	a. Reduce infant mortality from 99 per 1000 in 1997 to 50 per 1000 by 2010 and 20 per 1000 by 2025
5. Improve Maternal Health	a. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	a. Reduce maternal mortality by half from 529 per 100,000 in 1994 to 265 per 100,000 by 2010 b. Increase births attended by a skilled health worker from 36% in1999 to 80% by 2010
6. Combat HIV/AIDS, malaria, and other diseases	a. Have halted by 2015 and begun to reverse the spread of HIV/AIDS b. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	No clear target a. Decrease the rate of malaria in patient fatality rate from 12.8% in 1999 to 8% in 2010.

7. Ensure Environmental Sustainability	a. Integrate the principles of sustainable development into country policies and programme and reverse the loss of environmental resources b. Halve, by 2015, the proportion of people without sustainable access to safe drinking water c. Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers	Increase the provision of clean water access in rural areas from 48.5% in 2000 to 85% of the population by 2010

3.0 Economic Policy Response

After years of implementing World Bank/IMF structural adjustment programmes, the government's role in Tanzania's economy has changed radically. From being a central player in the economy, the government has now been pushed to the sidelines where it is supposed to play the role of a facilitator and to provide only essential social services.

Under the IMF's Enhanced Structural Adjustment Facility (ESAF) in early 1996 and later Poverty Reduction and Growth Facility (PRGF) in 1999 the government embarked on a wide range of parastatal and public sector reforms. As part of the parastatal reforms, the government privatized about half the country's 400 parastatals while public sector reforms resulted in the reduction of the government work force from 355 000 in 1992 to 270 000 in 1997[18].

Tanzania is implementing its poverty reduction programme with IMF support through a three-year PRGF arrangement which extends to June 2006. Under this programme, Tanzania has received US$189 million[19] to finance economic reforms. The broad macroeconomic objectives supported under the PRGF include the improvement of tax policy and administration, financial sector reform, improvement of the investment environment and governance. The latest PRGF-supported programme has committed Tanzania to contain inflation at about 4 % and raise real GDP growth further (from the 6.2 % achieved in 2003). According to the project documents, the growth will be underpinned by substantial investments in physical infrastructure as outlined in the Poverty Reduction Strategy Paper. Under the programme the country will be expected to:

Mobilize revenue to strengthen domestic savings and reduce aid dependency:

- further liberalize the trade regime to enhance efficiency and strengthen the tradable sector; and
- Improve the economy's supply response by removing key impediments to growth, including measures to improve the efficiency of the financial sector and promote private sector development.

In support of the programme's medium-term revenue target, the authorities have taken a range of measures to bolster tax administration, including adopting a new medium-term corporate plan for the Tanzania Revenue Authority, refocusing management and administrative resources to facilitate the broadening of the tax base; revamping the administration of VAT and presumptive taxation, and broadening the tax base by reducing the number of exemptions. As a result of these measures, government revenue was consistently above estimates during the first three quarters of the fiscal year 2002/03, and grew by 18 % over the same period the previous year. The most notable features were the strong revenue performance of VAT on domestic goods and of income tax. Taxes on petroleum imports however recorded a negative growth over the previous year.

Total government expenditure in 2003 was US$2.6 billion[20], or 89 % of estimates. The underperformance was due to delays in loan disbursements, which reduced the resource envelope; slow execution of discretionary expenditure and delays in procurement (URT 2004). Notwithstanding the shortfall in foreign financing, priority sectors received their full quarterly allocations. The government's net domestic borrowing in 2003 amounted to US$284 million.

3.1.1 Agriculture

Agriculture is the backbone of Tanzania's economy contributing about 70 per cent of the country's export and providing a livelihood for about 80 % of the population. Agriculture has high linkages with the non-farm sector through forward linkages to agro-processing, consumption and exports. However the performance of this sector has not been impressive in recent years. Agriculture's contribution GDP has grown at 3.3 % per year since 1985. Considering that the overall GDP growth target for halving abject poverty by 2010 is in the range of 6-7 %, the agriculture sector is under-performing[21].

18 TAS 1999 p.6
19 PRGF loans carry an annul interest rate of 0.5 % and are repayable over 10 years with a 5 ½-year grace period on principal payments.
20 Budget Digest 2004/05 p.8
21 TAS 2002 P.13

The majority of Tanzania's small-scale farmers rely on rain-fed agriculture with only 3.3 % of total cropland under irrigation (FAO 2003a). As a result, annual agricultural output is highly variable with an average variation from the mean of over 9 % during 1992-2001, compared to a world average variation of only 3.5 % (FAO 2003a). Given the low levels of food production, this high variability leads to severe periodical food shortages in parts of the country.

Tanzania, has failed to harness the country's agricultural potential for poverty reduction largely because of the inefficiencies resulting from excessive government intervention in the economy. Policy-related constraints continue to impede the development of the sector despite economic reform measures that have been underway for nearly two decades.

Other factors responsible for the sector's poor performance include the lack of access to national and regional markets for most small scale farmers because of poor rural transport infrastructure.[22]

Appropriate agriculture policies will be a key determinant of progress for the hunger/poverty Goal. There is general consensus that halving the number of hungry persons by 2015 (not just the proportion) is entirely achievable.[23] But the approaches to agricultural development in both developed and developing countries and the emphasis on expanding export-oriented and corporate models of agriculture in the South will not be the basis for achieving this Goal. Trade and investment agreements must provide policy space for communities and governments to enact their own food security frameworks in support of small scale producers.

3.1.2 Official Development Assistance (ODA)

Tanzania is one of the most donor-dependent countries in the world with between 25– 45 % of the total Government budget and 80 % of the development budget dependent on foreign aid in the form of grants, consessional loans and debt relief. Tanzania has development cooperation programmes with over 50 donors, international financial institutions and NGOs covering hundreds of projects in virtually all sectors[24].

In 2001, total ODA commitments to Tanzania were US$1,440 million. In the 2004/2005 budget, 45 % of the total financing was from donors. While it is difficult to allocate specific aid flows to specific MDGs and to identify the aid which is contributing to MDG achievement, the OECD Development Assistance Committee (DAC) has developed a methodology to allocate ODA commitments to individual MDGs. Using that methodology, the UN millennium project estimates that roughly 60 % of these ODA commitments were devoted to areas directly related to the MDGs.

22 Millenium Project p. 72

23 Millennium Project Taskforce on Hunger, *Halving Hunger: It Can be Done*, London: Earthscan, 2005, http://unmp.forumone.com/eng_task_force/HungerEbook.pdf and the International Food Policy Research Institute at http://www.ifpri.org/

24 TAS 1999

4.0 Impact of Aid on Tanzania

Increased aid levels have been touted as critical elements for the achievement of MDGs. Equally impor tant, though, is the aid efficiency, which measures the quality of the aid, what it is used for and how it is used. In the case of Tanzania, questions have been raised about the effectiveness of aid, given the country's long association with donors and the high aid levels it has received over time.

Although Tanzania remains one of the poorest countries in the world, since independence it has received the highest levels of aid on the continent. For instance, while ODA accounted for 10.1 per cent of Tanzania's GNP in 1985 the proportion of aid in its GNP had shot up to 69.3 % by 1989/90. By comparison, the figure for sub-Saharan Africa as a whole was 5%. [25]

For aid to be considered effective, it should make a positive impact on income levels and on poverty reduction. But in the case of Tanzania, despite the country's heavy reliance on aid, per capita income has shrunk. In 1976, the country had a per capita income of US$180, which rose to US$250 in 1986 before dropping drastically to US$90 in 1993, making Tanzania the second poorest country in the world at the time. In 1996, with a per capita income of US$170, Tanzania still had not regained its income level of 20 years earlier.[26]

Between 1988 and 1997, Tanzania received a net ODA total of US$10 billion, which was more than any other country in the region received.[27] But the aid did not improve people's lives. According to the World Bank, between 1977 and 1996, Tanzania's life expectancy declined from 51 to 50 years while, per capita consumption dropped annually by 0.8 per cent between 1990 and 1996.[28]

Aid critics point out that high levels of donor assistance "suffocated" and overwhelmed the self-help efforts of the Tanzanian people making them aid dependent and unable to work for themselves. They say the high volume of assistance from international finance institutions and the poor return on capital deployed have resulted in Tanzania being regarded as a highly indebted country while the repayment of loans granted in the context of structural adjustment programmes have become the country's greatest financial burden. [29]

But on the other hand, one may also want to look at whether aid has been used in the most effective way or whether donors have worked in a coordinated manner to ensure poverty reducing outcomes. Evidence on the ground shows that this has not been the case as donors continue to work separately, creating huge problems of harmonization and coordination. According to the 2004 World Development Report, Tanzania is in active dialogue with more than 50 aid organizations that send more than 1000 delegations and ask for more than 2000 reports each year. This is costly and time consuming, using resources that would be better spent on poverty reduction.[30]

Efforts at donor coordination and harmonization have been going on for some time but have gathered momentum in recent years. The Tanzania Assistance Strategy (TAS) sets out the framework for strengthening aid/donor co-ordination, harmonization of processes, increased national ownership of the development process and enhancing the effectiveness of aid. Other efforts at aid coordination and harmonization include the setting up of the High Level Forum on Harmonization (2003) and the OECD DAC Task Force on Donor Practices (2003). [31]

The government of Tanzania argues that rather than the current plethora of donors and projects across the country, it would be more efficient for donors to provide general budget support. Many donors, including the World Bank, DFID and the EU are now moving from basket funding to budget support, while other donors – Canada, Denmark, Ireland, Sweden, Netherlands, Norway and Switzerland – also support Poverty Reduction Budgetary Support (PRBS), which is combined with the World Bank PRSC credit.

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25 Langerbein H (2000) Does Aid do Harm, D+C Development and Cooperation, No 3, May/June 2000, pg 25 & 26
26,26,27,28,29 Ibid
30 Aarnes D ( ) Bubdget Support and Aid Coordination in Tanzania, R eport presented to the Norwegian Embassy in Dar es Salaam
31 AFRODAD (2004 Reality of Aid, Africa Edition 2003/4, AFRODAD

From the government of Tanzania's perspective, budget support has three main advantages over other forms of aid:

- Tanzania is extremely aid-dependent. Around 25-30 % of the total Government budget and 80 % of the development budget are dependent on foreign aid/finances. This means that predictability and flexibility becomes crucially important to get the overall budget process, including resource allocation and macroeconomic management, to function.
- Tanzania has development co-operation programs with over 50 aid agencies covering hundreds of projects virtually in all sectors (TAS, 2002, p6). In this situation, fragmented and uncoordinated project aid reduces efficiency and effectiveness of assistance.

On the other hand, over reliance on donors for budget support means that in the event that donors pull out the government will not be able to finance its programes, which will have potential damaging effects on the country's overall development planning and implementation. (ibid).

4.1 Using Aid to meet the MDGs

The developed world has a responsibility to fund international development programmes. The United Kingdom for example previously committed itself to the 0.7% target. (that 0.7% of its gross national income (GNI) would be spent on international development). The promise was made in 1970. Some 35 years later, we are still waiting for the promise to be kept. Unless this is done, attaining MDGs in countries like Tanzania remains a mirage.

The quality of aid continues to be affected by the tying of donor aid disbursements to donor country goods and services. It is estimated that aid tying devalues aid for recipients by up to 30%.[32] Aid tying continues to be high for a number of donors, despite a recent DAC agreement to untie aid to the least developed countries. For example, most aid flows to Tanzania were made conditional on the government privatizing the water system in towns such as Dar es Salaam. The move has increased water prices and made poor populations more vulnerable to water borne diseases like cholera. Such aid is contrary to the spirit and letter of attaining MDGs by 2015 in Africa.

In fact the portion of ODA that can actually be accessed in any form by developing country partners is relatively small. The Reality of Aid CSO project calculated in 1999 that only 37% of bilateral aid was available for developing country partners' own spending. The remaining amount was made up of donor-controlled technical assistance (34%), support to refugees in the donor country (2%), imputed student costs for studying in the donor country (1%), debt forgiveness grants by donors (6%), the added cost associated with tied aid (1%), emergency relief (10%), and interest received (9%).[33] The Millennium Project reached a similar conclusion with their estimate that only 24% of bilateral aid is actually available to finance real MDG-based development investments on the ground.[34]

It is important to note that fifty years of development practice by outside actors suggests that sustained and equitable reductions in poverty cannot be "bought" by larger amounts of external resources, nor can it be achieved by setting stand-alone targets. National and international economic policies must be put in place that enhances the capacities of the poor to gain sustainable livelihoods.

32 See Tony German, Judith Randel (editors), *Reality of Aid 2002 Report*, Manila: IBON Foundation, page 15, accessible at www.realityofaid.org.

33 Reality of Aid 2002, op.cit, p.157

34 The Millennium Project, *Investing in Development*, op. cit., January 2005, pages 197-98.

5.0 Debt and the MDGs

Tanzania is a beneficiary of the HIPC Initiative. After receiving HIPC debt relief, Tanzania's external debt fell from $3.8 billion in mid-1999 to $2.6 billion in 2000. However, the relief was only temporary as the savings will be spread out over 20 years and Tanzania is continuing to borrow to finance its reform programme. Estimates are that Tanzania's debt could increase to US$6 billion by 2015. By then it will be paying US$260 million in debt service a year compared with $193 million prior to HIPC.[35]

Using the World Bank's sustainability criteria of debt to export ratio, Tanzania's debt will not be sustainable until at least 2007. But even then, the sustainability is based on assumptions of future GDP growth averaging 6 % from 2002. But looking at past trends, the projection for GDP growth seems overly optimistic: average annual GDP growth was 3% from 1989-99, 4% in 1998 and 4.7% in 1999.

Debt sustainability is also on the assumption of growth in traditional export volumes to average 4-6 % a year and while non traditional exports and tourism are projected to grow faster than GDP. Government revenues (excluding grants) are projected to increase from 11.2% of GDP in 1999/00 to 20.7% on average from 2009/10-2017/18. However, going by the current progress, this is highly unlikely. Revenue collection remains very poor in Tanzania and has been described by some economists as the 'Achilles heel' in the country's bid to reduce donor dependency and make its debt sustainable.

The enhanced HIPC initiative provided a reduction of 52 % of the Net Present Value of Tanzania's debt at completion point in 2002. But by 2009/10-2017/18, the level of debt is expected to be only 25 % less than it would have been without HIPC. While there was a substantial reduction in debt service initially, in the longer term the reduction will be minimal in comparison to the pre-HIPC levels largely because of the accumulation of new debt.[36] Thus debt service on new debt is expected to rise from US$21.2 million in 2003/04 to US$52.5 million in 2006/7 and to more than double to US$134.6 million by 2009/10 - 2017/18.[37]

Although debt relief has been inadequate, in the context of the MDGs, it has had a positive impact on fighting poverty by, for instance, enabling the Government to make primary education free with the consequent sharp rise in primary school enrolment.

As Tanzania is on track with its reform programme, it has been able to access resources from the IMF and the World Bank to finance the reforms and the MDGs. This new lending is creating a new debt burden that will shackle the country in the near future. Experience from "successful" reform countries such as Ghana and Uganda show that their foreign debt has ballooned rapidly as the IFIs financed their reforms with new loans. Tanzania is already getting drawn into the same predicament.

- Current figures show that Tanzania's debt will not reach sustainability levels despite HIPC. To propel growth and achieve the MDGs therefore, there is need for Tanzania to be granted total debt cancellation.
- In the event that total debt cancellation is not possible, Tanzania should add its voice to the calls by other African debtor countries for creditors to consider other options to lighten the continent's debt burden including debt swaps built around a fair and transparent arbitration process.

35 Mutume G (2000) African countries still struggle with heavy debt payments, Africa Recovery, UN
36 Jubilee 2000 UK (2000) 'Flogging a Dead Process: The need for a new independent and just debt work-out for the poorest countries.' http://www.jubileeplus.org/analysis/reports/deadHIPC.pdf
37 Ibid

- Even with debt cancellation, there is still need for Tanzania to find other sources of financing for its poverty reduction programmes and to achieve the MDGs. Greater effort should be put into broadening the domestic revenue base through taxes by fostering domestic savings. Effort should also go into negotiating for grants with donors rather than loans to finance its development.
- There is need to assess the implications of the higher aggregate spending on the priority areas and the recurrent cost implications of such spending on the national debt.

Table 3: Tanzania's Debt Situation

	2003/04	**2004/05 (projected)**
Gross borrowing	927.4	1,056.8
Domestic	459.1	497.6
T-Bills	323.1	296.0
T-Bonds	136.0	201.6
Foreign	468.3	559
Project	303.0	390.9
Programme	165.2	168.3
Key sustainability Indicators	**Jun 2003**	**Jun 2004**
Domestic Debt/total debt	17.1%	19.6%
External debt/total debt	82.9%	80.4%
Total public debt/ GDP	74.5%	79.2%
Total Public debt/domestic revenue	822.4%	524.9%
National external debt/ exports	412.7%	557.7%
Annualised public debt service/domestic revenue	60.9%	37.9%
Debt Interest	9.4%	9.7%
Redemptions	51.5%	28.2%

Source: Adapted from Ministry of Finance 2004/05 Budget Digest

6.0 Trade

Tanzania's economic take off is premised on its ability to take advantage of the opportunities of trade liberalization and globalization. Although exports have risen substantially over the past few years, the import bill has been rising even faster creating a huge balance of trade deficit. The structure and level of domestic demand remains weak and inadequate to stimulate poverty reducing growth. (URT 2003). Between 1979 and 1995, export earnings were barely adequate to meet a third of imports (URT 2003). Merchandise exports declined from US$764 million in 1996 to US$542.9 million in 1999.

Table 4: Tanzania's Foreign Trade

Foreign Trade by Value (US$m)	1999	2000	2001	2002	2003
Total exports	542.9	663.2	776.4	902.5	1 129.6
Total imports	1 572.6	1536.7	1 714.8	1 661.4	2 145.3

Source: Bank of Tanzania, Economic Bulletin

But since then there has been a steady increase in the value of exports rising by 48 % from US$542.9 million in 1999 to US$1 129.6 million in 2003. Mining was the biggest contributor to the increased export value, rising from a mere US$73.3 million in 1999 to US$540.2 million in 2003 an increase of more than 395 %, followed by manufacturing whose contribution rose by 331 % from US$30.1 million in 1999 to US$99.9 million in 2003.

In 2003 exports increased by 26.5 % from US$826.28 million in 2002 to US$1,046 million due to improvement both in traditional and non traditional exports. The increase in traditional exports was attributed to both volume and price. Agricultural commodities accounted for more than 70 % of merchandise exports while manufactured products contributed only about 15 % of exports.

On the other hand the country's major agricultural exports did not fare well at all during the period, particularly cashew nuts and coffee whose export value declined by more than 256 % and 65 % respectively from US$100.9 million in 1999 to US$39.4 million in 2003 for cashew nuts and from US$77 million to US$49.9 million for coffee.

An encouraging trend in Tanzania's export performance is the growing contribution of minerals to exports. Until recently when the country opened up its economy, minerals did not feature at all on the country's export profile. Also encouraging is the steady rise in the export of manufactured goods, in a country whose export base is considered relatively unsophisticated and until recently, inefficient.

But a worrying factor is the huge shortfall of US$1 015.7 million between the value of export and the value of imports, which has to be financed either from borrowing as balance of payment support from the IMF or from commercial lines of credit or from invisible exports. There is also scope for increasing invisible exports such as tourism, whose growth has averaged 29 % a year in recent years and its contribution to revenue has risen from a mere US$65 million in 1989 to US$730 million in 1999. However, meeting the resource gap through borrowing will not only increase the country's reliance on donors, but will push up the country's foreign debt to unsustainable levels quickly despite HIPC relief.

Although Tanzania's export earnings are rising rapidly, they are not increasing fast enough to match the rising import bill, hence there is a deficit on the trade account. And although revenue collection is also increasing, the rate is not sufficient to enable the country to finance its own development and hence there is a budget deficit.

The only lasting solution to Tanzania's problems is to grow its own economy to the point where it can finance development from its own resources. The current trend where the country relies on donors for more than 45 % of the national budget is unhealthy and unsustainable in the long term.

However, Tanzania has made tremendous progress in recent years to put its economy on a growth path that will facilitate the achievement of the MDGs. The years of economic decline mean that the country is starting from a very low base. For instance, while exports have more than trebled in the last four years alone, imports have been rising faster, putting pressure on Balance of Payments.

Despite measures to grant tax and quota-free access to European and American markets exports from developing countries like Tanzania continue to face trade barriers because of subsidies exercised by developed countries and other non-tariff barriers such as use of environmental issues by the same. Subsidies for agricultural products pose an impossible challenge to Tanzania's effort to export farm produce to European markets. It is in this area, however, where Tanzania has comparative advantage that would enable it to attain MDGs if given an opportunity for fair competition. Consequently, although Tanzania is benefiting from debt relief under HIPC, it is accumulating debt at a faster rate than it is being forgiven, which is creating fresh problems of debt sustainability.

Tanzania's recovery is fragile and is underpinned by an over-reliance on primary commodities over whose prices the country has little control. At the moment, the biggest driver of export recovery is mining, in particular gold exports. But earnings from mining could be fall sharply if the price of gold collapses, as it has done in the past. Already the prices of agricultural exports have fallen, in particular cashew nuts and coffee.

A scenario in which developing countries are required to open up their markets without meaningful access opportunities into the markets of developed countries inevitably leads to de-industrialization in developing countries. This has debilitating consequences in terms of growth, employment and the whole fight against poverty to attain the MDGs.

As long as developing countries such as Tanzania do not have a say in the pricing of primary commodities, they will not be able to determine how much they can get from their exports but will remain at the mercy of international global markets. This coupled with the inverse relationship exports have on imports means that countries like Tanzania will find it difficult to achieve debt sustainability even if they increase their level of production for primary commodities.

6.1 MDGs Costing

Tanzania is one of the six countries for which the UNDP and the World Bank has done the Millennium Development Goals costing. The targets for achieving the goals have been set in the PRS. The government has not done any MDG costing but uses the financial estimates for the PRSP as the basis for costing the priority sectors. The approach followed to derive financing estimates of PRSP was to estimate the budgetary requirements of priority sectors and priority activities within them. The priority sectors are Education, Health, Water, Agriculture, Roads and Judiciary, plus HIV/AIDS as a crosscutting issue.

The costing of priority interventions was based partly on the analysis of recurrent cost implications of sector programmes and inputs from the PER and MTEF. The cost of health, education, water and roads was based on an estimate of the basic unit of service. Estimates of the remainder of the sectors were based on PER/MTEF estimates. From these estimates financing requirements were derived for the medium term subject to the availability of resources.

The financing strategy under PRSP centred on government budgetary allocations to priority sectors and activities. This was complemented by donor support through basket financing, direct project funds, as wells as contributions by private sector, communities, NGOs and other stakeholders.

Poverty-reducing interventions outside the priority sectors were financed through allocations to “other priorities” (e.g., energy) in the general government budget. The government is implementing policies that enhance domestic resource mobilization and gives priority to funding poverty reduction programmes that currently consume 46 % of the total expenditure.

7.0 Mobilising Resources for the MDGs

The deadline for the achievement of MDGs is fast approaching. Given the urgent need for additional resources to fund the MDGs, various financing options have to be explored soon if Tanzania is to make any headway.

- ODA should be more predictable to allow better planning. To date, the domestic resource base has proved more reliable and more predictable than external resources
- The Implementation of fiscal reforms has resulted in government revenue outturns above targeted levels. In fiscal year 2003/04, domestic resources reached $1.4 billion, about 70 % of the minimum requirements for the priority sectors identified in the Medium Term Expenditure Framework (MTEF) for 2003
- Tanzania has gone out of its way to attract external resources to finance its development programmes. The results have however not matched the efforts. Major expectations out of global conferences such as the 20/20 Initiative, UN LDC III (2001) and Monterey are yet to be translated into cash
- HIPC relief is small and inadequate.

The UN estimates that Tanzania will require about US$2.6bn by the end of 2005 in domestic revenue, debt relief, and ODA to make progress on the MDGs. The government on the other hand has budgeted US$3.3 billion during fiscal year 2004/05. Although it can only raise US$1.7 billion from internal revenues, including taxes and US$101 million from the sale of treasury bills leaving a financing gap of over US$1.5 billion. The greater part of the financing gap was expected to be financed by bilateral donors, the European Union, concessional loans from the International Financial Institutions, specifically the World Bank and the African development fund. Without these resources Tanzania's efforts to meet the MDGs are likely to be severely compromised as 35 % of the budget allocations were for social services as Table 6 below shows.

Table 5: Budget Frame for 2001/2 – 2004/5 in US$ Millions

	2001/02 Actual	**2002/03 Budget**	**2003/04 Projection**	**2004/05 Projection**
Domestic revenue	1,191	1,338	1,479	1,661
Budget support loans and grants	247	330	350	367
Project loans and grants	336	713	606	515
HIPC relief (ADB, IMF, WB)	69	91	89	99
Total Resources	1,857	2,533	2,524	2,642

7.1 Stakeholders' role in the implementation and attainment of MDGs

Implementing and achieving MDGs is a big challenge for the government. The need to build partnerships to plan, design, finance and implement MDG-related programmes is crucial. At present few people outside the government and donors know anything about the MDGs. Social commitment and popular participation by the Tanzanian people has therefore been lacking. The duties and obligations of the different stakeholders under the MDGs are not clear. The government views other stakeholders merely as consultative partners rather than implementers, advocators and service providers. Apart from some private sector players who have secured tenders to provide services to the government, grassroots and civil society organisations have been left out and have to get funding from outside the country to implement MDG-related programmes.

7.1.1 The Role of Civil Society Organisations

The process of streamlining MDGs into Tanzania's national policy documents was not made clear to CSOs. The result is that some NGOs think that the MDG targets were agreed on outside Tanzania's Development agenda without their participation. The government and the UNDP country office have since organised an awareness workshop to bring the CSOs on board after which the organisations that attended formed a group to campaign on the MDGs. Other NGOs are involved in direct implementation of the MDGs at grassroots level as well as in the sprawling urban centres. Some CSOs have undertaken to monitor the implementation of the MDGs under the PRS programme.

NGO activities on the MDGs cover certain regions of the country and certain priority areas in food and nutrition, health (impact of cost sharing), education (access) and agriculture. However their efforts to scale up have been greatly hampered by lack of financial support from the government as well as donor community. Most of their activities are funded by small short-term budgets provided by northern CSOs. Furthermore a few high-profile CSOs in the capital city attract more donor funding than the rural-based CSOs despite their massive contribution to the achievement of MDGs. Another challenge is the lack of clearly defined roles for CSOs on MDGs and clear reporting mechanisms on the progress.

7.1.2 The Role of Private Sector

The private sector has not participated directly in the implementation of the MDGs. Its role has been limited to macro economic policy formulation under the PRGF programme. Local private investors point out that the macro economic environment is not conducive to their effective participation in the achievement of the MDGs. Reasons cited include the high cost of business, highly centralised tax collection system, policies hindering the growth of small scale and medium enterprises, insensitive financial sector, poor linkages between the agricultural and the industrial and trade sectors, low institutional capacity, low product outreach and the encroachment of foreign investors in areas of domestic investors' comparative advantage.

7.1.3 The Role of United Nations Development Programme

The UNDP is the campaign manager for the MDGs in Tanzania. It facilitated the incorporation of MDGs into Tanzania's main national policy – the Tanzania Assistance Strategy, the national Poverty Reduction Strategy, the PRSP and the NEP. At the policy and monitoring level, the UNDP has been key in monitoring the expenditure programme for the MDGs. It has also facilitated the creation of Tanzania's socio-economic database – which provides socio economic indicators on Tanzania. UNDP has also carried out research on HIV/AIDS and on agricultural development to strengthen the strategies to achieve these targets.

The UNDP also promotes dialogue between and among stakeholders, provides technical assistance and resources to stakeholders who align their programmes with the MDGs.

According to a UNDP official in Tanzania, the country's high economic growth will create more resources from the increased government revenue to fund the priority sectors. The challenge for Tanzania and its development partners, he said, was to solve the policy incoherence (contradiction) between some of the PRGF economic reform programmes and achieving the MDGs through poverty reduction. He argued that the economic reforms were not as transparent or as participatory as the poverty reduction programmes. The main concern was when and how to introduce the programmes to limit their negative impact on poverty reduction programmes. There was therefore a need for broader consultation of all the stakeholders, he said.

8.0 Specific Implementable Recommendations

8.1 Recommendations for Government

- Strong commitments are required from government to increase domestic resource mobilization, uphold the principle of rule of law and good governance, intensify the fight against corruption and put in place conducive environment to improve effectiveness of aid and attract investments
- Establish a strong macro-economic linkage through better translation of economic benefits to poverty reducing outcomes
- Maintain support to the priority sectors by increasing their budgetary allocations
- Take the lead in the implementation of the MDGs and create a conducive environment for the participation of other stakeholders in all policy areas, especially in the macro economic sectors
- Initiate policies and programmes that encourage the implementation of MDG priority areas through divestures, and tendering
- Consider financing NGOs at the grassroots level that have programmes on MDGs
- Renegotiate with the IMF on programmes that have a negative impact on MDG implementation. This has to be done in a transparent and participatory manner to eliminate suspicion from the currently non participating members. The government could use the PRS process model to facilitate the process
- Promote public-private partnerships in service delivery, employment creation, and MDG outcome reviews. This is especially important in achieving the MDGs without over reliance on foreign assistance
- Economic growth must focus on creating livelihoods for the poor based on improving their capacities and assets as well as their access to local finance and markets. This growth must also produce jobs in both the formal and informal economies that respect the basic labour rights of the working population
- ·Economic reforms must be supportive of the PRS framework. The PRGF must be more participatory and should be adapted to the country's needs
- Tanzania needs more financial support to achieve its MDGs, therefore policies that discourage financial assistance are not a true reflection of the situation in the country. The Tanzania government should broaden its macro economic policy discussions beyond the official and private sectors and bring on board other stakeholders especially the civil society organisations
- There is need to build the country's capacity to collect socio economic data, that can be used to improve the policy-making process instead of relying on external policy advisers. In the second phase of the implementation of the MDGs, the IFIs, specialized UN agencies and the government should work closely together to assess development needs and support a macroeconomic framework that will realistically achieve the MDGs. An explicit MDG-focused macroeconomic planning framework should be the guiding principle
- The trade policy should have strong links with other government policy documents on poverty reduction and economic growth. Specifically it needs to adopt appropriate measures to safeguard domestic industry and protect investors who are threatened by market liberalisation. There is need to protect economic activities that serve household demand to reduce reliance on imports for basic commodities

- Improve the quality and quantity of exports. To achieve this there is need to build the capacity of domestic investors to facilitate better product quality and quantity. Foreign Direct Investment (FDI) should be encouraged in areas requiring high capital outlay rather than in low capital sectors which are more appropriate for local investors
- Improve the operating environment for investors, paying attention to infrastructure provision, including roads. There is also need to speed up tax and financial reforms to ensure the protection of small scale enterprises and lessen their difficulties of acquiring capital
- Align trade policy with regional trade policies to maximise the benefits of participation in regional arrangements and strengthen Africa's voice as a trading block in the WTO.

8.2 Recommendations for Developed Countries/Donors

To make a meaningful contribution to the achievement of the MDGs therefore, donors should consider the following actions:

- Better co-ordination and harmonisation of their activities and the channelling of more resources through the budget process to ensure that money is used for programmes identified as national priorities
- Adopt the joint actions approach and harmonised rules and procedures (formulation, supervision and evaluation missions; accounting, disbursement and reporting; annual consultations, etc.) to enhance Government capacity. The initiatives on basket funds in health, education, Local Government Reform Programme (LGRP) and the PRBS provide a basis for the way forward
- Adopt the Integrated Financial Management System (IFMS) as the basis for harmonising rules and procedures on accounting, disbursement and reporting thereby enhancing transparency and accountability on aid. Currently, the Government and six donors have established a basket fund for the implementation of the Health Sector Reform Programme. Disbursements are made through the IFMS. Another basket fund involving seven donors has also been established to support implementation of the LGRP. This initiative will be consolidated and deepened, and extended to other support programmes
- Untie aid and provide technical assistance for capacity building. Some donors have completely untied aid while others are still constrained by their national policies and laws
- Adopt the Medium Term Expenditure Framework to improve the predictability of resources
- Support approaches which increase aid effectiveness. Financing plans especially from ODA, in support of the priority areas towards meeting the MDGs must include recurrent as well as capital costs
- Decentralise decision making to the country missions to expedite and deepen consultations
- Allocate additional resources to MDGs in the form of grants rather than loans. Even concessional loans should be discouraged, given the country's high debt to GDP ratio
- Reduce trade imbalances at the global level to make them more favourable to developing countries primary producers. Increase export volumes
- Increase levels of flows of Foreign Direct Investments to the developing countries. The role of Foreign Direct Investment as an important instrument for implementing the MDGs cannot be over emphasized
- Provide essential financing capacities by increasing Official Development Assistance (ODA) especially grants over concessional loans, along with 100% debt cancellation in order to meet the MDGs.

Conclusion

The implementation of MDGs will require substantial, new and additional resources from both domestic and external sources. Strong commitments are required from governments to increase domestic resource mobilization, uphold the principle of rule of law and good governance, intensify the fight against corruption and put in place conducive environment to improve effectiveness of aid and attract investments. The Tanzanian Government has put in place a conducive economic environment for the achievement of the MDGs. The macro economic indicators are positive and encouraging although the social indicators require more effort.

The economic reform programmes which underpin Tanzania's MDG are dictated by the Bretton Wood Institutions. A major weakness of the economic reform programme is its pre-occupation with budget deficit reduction, increased revenue generation and low inflation instead of expansionist pro-poor spending and more emphasis on strategies to improve incomes and livelihoods of the poor. The Macroeconomic framework under the PRGF does not take a "needs-based" approach but instead emphasizes a cash budget and maintaining budget ceilings. As a result, the high economic growth has failed to perform its "catalytic" role to spur poverty reduction and encourage the type of investment that would make a difference in reaching the MDGs in Tanzania.

Tanzania like many other countries recognizes the role and importance of trade in promoting faster economic growth and development of nations. However, in the case of Least Developed Countries, the key issue in trade development is the need to address supply side constraints. The market access opportunities for LDCs can only be effective if LDCs are assisted to build their capacities to produce tradable goods of higher value and acceptable quality at competitive cost. MDGs will be difficult to attain for a debt-sustaining Tanzania surviving on exports of raw cashew nuts, coffee, tea, cotton, while importing everything else in the form of industrial goods from abroad, using the foreign exchange earned from primary exports.

Tanzania has been receiving more aid for longer than most other African countries, but over the period poverty has instead increased as has aid dependency. Given this scenario, the question arises about the quality of the aid delivered and how it was used. Because of the lack of donor co-ordination and harmonisation over the years, the myriad of donors each carved their own territories where they worked on programmes they thought were best suited to tackle the problems facing the country. The government for its part did not have a comprehensive development policy framework with set priorities that donors could feed into. The result is that the impact of aid was dissipated across the country and across various sectors. The government has now created systems of donor co-ordination and harmonisation that allow donors to channel resources in a more systematic manner to fund activities that are national priorities.

There are also concerns over the slow speed and lack of consistency in ODA flows to Tanzania. These have created problems in the implementation of programmes in the priority sectors and generated distrust among ordinary Tanzanians on the government's commitment to fight poverty. Delays by donors to honour their pledges could undermine the institutional and economic reforms the government has put in place to facilitate the process of achieving the MDGs.

There is need for close collaboration among the different stakeholders to meet the MDGs. Key actors include the government, CSOs, the private sector and the general public. However, at the moment there is no framework for collaboration among the various players and no clarity of roles. There is therefore a need to develop a collaboration framework, which will be crucial especially for resource sharing and reviewing progress.

MDGs should be explicitly situated within a framework of existing human rights treaties and state obligations, among others the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of all forms of Discrimination against Women, and the Right to Development.

This focus on rights stresses the obligations of all states, including Northern governments, to give priority to their responsibility to make specific efforts to make progress on social and economic rights for all.

Aid can play a role, but there are other critical policies such as eliminating IMF and World Bank structural adjustment conditionalities, democratic governance, cultural factors affecting gender equality, fair trade and more equitable international institutions that set limiting parameters for this progress. Goal Eight, focusing on North South development partnership, with its weak targets, bias towards trade and investment liberalization, and lack of timelines, fails to deliver much hope in many of these important areas.

The absence of radical reforms on the part of developed countries, beyond delivering more aid, an exclusive emphasis on MDG targets potentially sets up poor people and poor countries to take the blame once again for “their failure” to achieve the unachievable. The emphasis should not be on whether a given country is failing or not to meet a given target. Rather, global action and national policy change should be based on a democratic assessment of what is required from all countries to give priority to maximum sustained progress against poverty.

Sustainable debt financing on the part of the developing countries is an important element for mobilizing resources for public and private investment. Exclusion of domestic debt and contingent liabilities in the debt sustainability analysis is a concern not only of Tanzania but of the HIPCs, because of its implications for fiscal resources available for financing poverty reduction.

The UK is currently seeking support for a proposed ‘International Finance Facility’ (IFF). Gordon Brown has said that the facility could ‘double the amount of development aid from $50-100 billion per year... double development aid to help us halve poverty’. The proposal for an IFF shows that the UK government recognizes that the MDGs are currently out of reach. This admission must lead to an immediate and major increase in the volume and efficacy of international aid, with or without international agreement on the IFF[38] .

The UK has already shown significant leadership on aid volume. It must make a firm commitment to reach the 0.7% target and to do so before 2013. It should also provide its fair share of the additional money needed now to meet the MDGs, estimated to be at least $50 billion each year. Doing these two things would put it in a prime position to persuade other countries to contribute more to international aid.

Increased aid goes hand-in-hand with fundamental reform of the aid regime in Tanzania; one without the other will not be effective in reducing poverty. More aid may not in fact be better aid. This research report argues that the call for “more and better aid” for the MDGs must be a call for donors to live up to their human rights obligations to maximize resources and make poverty reduction a priority.

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38 http://www.makepovertyhistory.org/aim3.html

Annex 1

The Millennium Development Goals and Targets

1. Eradicate extreme poverty and hunger
   - Halve between 1990 and 2015 the proportion of people whose income is less than $1 a day.
   - Halve between 1990 and 2015 the proportion of people who suffer from hunger.
2. Achieve universal primary education
   - Ensure that by 2015 all boys and girls complete a full course of primary schooling.
   - Promote gender equality and empower women
   - Eliminate gender disparity in primary and secondary education by 2015.
4. Reduce child mortality
   - Reduce by two thirds, between 1990 and 2015, the mortality rate among children under five.
5. Improve maternal health
   - Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.
6. Combat HIV/AIDS, malaria and other diseases
   - Halt and begin to reverse the spread of HIV/Aids, malaria and other major diseases by 2015.
7. Ensure environmental sustainability
   - Integrate the principles of sustainable development into country policies and programs and reverse loss of environmental resources
   - Reduce by half the proportion of people without sustainable access to safe drinking water by 2015
   - Achieve significant improvement in lives of at least 100 million slum dwellers by 2020.
8. Develop a global partnership for development
   - Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory (including a commitment to good governance, development and poverty reduction

– nationally and internationally);

- Address the least developed countries' special needs. This includes tariff and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; and more generous Official Development Assistance for countries committed to poverty reduction;
- Address the special needs of landlocked and small island developing States;
- Deal comprehensively with developing countries debt problems through national and international measures to make debt sustainable in the long term;
- In cooperation with developing countries, develop decent and productive work for youth;
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries; and
- In cooperation with the private sector, make available the benefits of new technologies – especially information and communications technologies.