The IMF in Tanzania: Implications for Health and Development

Summary

This brief argues that macroeconomic policies and targets laid out in Tanzania’s IMF program — the Policy Support Instrument (PSI) — are overly restrictive, with implications for the government’s ability to fight HIV/AIDS and tuberculosis, address the health worker shortage, and respond to the economic crisis. In May 2009, the IMF agreed to lend Tanzania roughly U.S.$328 million through its Exogenous Shocks Facility (ESF) to help plug holes in the budget that opened as a consequence of the global financial crisis and soaring food and fuel prices. This ESF loan includes no new conditions, but an examination of the PSI and past program policies shows:

- Official Development Assistance (ODA) has been used to accumulate foreign reserves to meet PSI targets. Researchers have found that the equivalent of 100% of ODA has been diverted into foreign reserves in recent years.
- The retrenchment of the civil service required in past IMF programs contributed to massive health worker shortages, while current fiscal policies will prevent Tanzania from training, hiring, and keeping the health workers it needs to meet the country’s health needs, in spite of a slight increase in the wage bill projected for the next fiscal year, from 5.6% to 6.0% of GDP.
- The PSI restricts the government of Tanzania from accessing domestic sources of financing for fear of “crowding out” the private sector, but the private sector has not made full use of such resources.
- Tanzanians have little say in these critical policies, as the policymaking process between the IMF and the government (Ministry of Finance) excludes input from other ministries such as health and education, parliamentarians, civil society, and other stakeholders.

The brief concludes with recommendations to allow for a range of feasible, alternative policy options to be considered through a more participatory, transparent, and accountable process.

While confronted with the enormous task of overcoming poverty and pursuing development, over the past two decades the government of Tanzania’s (GoT) macroeconomic policies have been shaped by programs with the International Monetary Fund and World Bank. Tanzania and other low-income countries are required to implement an IMF program in order to access development funding, such as World Bank loans or bilateral ODA from donor governments. The IMF therefore has considerable influence in shaping economic policies in low-income countries.

IMF programs include conditions, such as targets for inflation rates, deficit spending, accumulation of foreign currency reserves, and restrictions on public sector access to domestic credit, which collectively impact the size of the national budget. By impacting the size of the national budget, IMF programs have an indirect impact on the size of sectoral budgets, including health, education, and other areas necessary for people to meet their basic needs. The amount of resources available for these areas impacts progress made toward development targets, such as the Millennium Development Goals (MDGs) and Tanzania’s national development plan (MKUKUTA). IMF representatives are present at the earliest stages of the budget process, which set limits on total public spending in a given fiscal year.

By promoting policies that are unnecessarily restrictive, the IMF can prevent Tanzania from being able to generate the level of resources needed to pursue the robust development agenda demanded by the MKUKUTA and the MDGs. Furthermore, the process by which IMF programs are designed and implemented leaves out the views and inputs of a range of stakeholders, including parliamentarians, line ministries, academics, the media, and civil society.
By pursuing more flexible (i.e., “expansionary”) macroeconomic policies, Tanzania could potentially generate greater resources for development. By making the process by which IMF programs are negotiated and implemented more participatory and transparent, a wider range of policies could be considered, along with their anticipated benefits and trade-offs. Such change is needed to promote shared growth, overcome poverty, and meet a range of pressing development priorities. In the face of a global financial crisis, many governments are pursuing expansionary macroeconomic policies designed to stimulate economic activity and fight off recession. Tanzania, however, along with other developing country governments, continue to follow more restrictive policies mandated by IMF programs.

**IMF Involvement in a Closed Budget Process**

The size of the national budget is set by budget guidelines, determined in part by fiscal and monetary targets in the PSI. Targets for reducing or maintaining low inflation, low fiscal deficits, restrictions on access to domestic sources of financing, and other targets are factored into the design of the PSI. The Planning Commission of Tanzania, which develops the guidelines, then provides them to all government Ministries, Departments, and Agencies (MDAs). Budget ceilings for each of the MDAs are developed in line with the budget guidelines and government’s spending priorities.

Budget ceilings for the health sector (and subsequently for HIV/AIDS and TB) are set like ceilings for other MDAs. The stakeholders involved in setting the budget ceilings for the health sector include the Ministry of Health and Social Welfare, Tanzania Commission against AIDS (TACAIDS), the Ministry of Finance and Economic Affairs, and Development Partners. The Ministry of Health sets priorities and carries out costing for the health sector, while TACAIDS does the same for HIV/AIDS. The Ministry of Finance and Economic Affairs, together with donors, plays an important role in the analysis of the available resources for health and their allocation. The Ministry of Health and TACAIDS are not, however, involved early in the process when the budget guidelines are set. They therefore influence allocations within the budget, but do not work to expand the size of the overall budget toward generating more resources for health.

**Overly Restrictive Fiscal and Monetary Policies Included in Tanzania’s Policy Support Instrument (PSI)**

The PSI’s macroeconomic framework is primarily concerned with maintaining a narrow definition of macroeconomic “stability,” which does not allow for sufficient “scaling up” of public investment and spending in health, and is therefore at odds with established development goals. The limited room for fiscal stimulus — deficit spending up to 3% of GDP — allowed in the PSI is insufficient to make the investments needed to meet the country’s development goals.

**Unnecessarily Low Inflation Targeting:** A central requirement of the PSI is to keep overall inflation under 5%, through restrictive monetary policies such as high interest rates on lending. However, a review of the literature suggests that there is no empirical evidence as well as no consensus among economists that it is necessary or even beneficial to drive inflation to such low levels in developing countries.

Yet such low targets, when prioritized over other indicators, come with significant costs to economic growth, as spending is restricted and interest rates are increased as the main way to achieve or maintain low inflation. Such policies limit both the government’s and the private sector’s ability to borrow and invest and to build a future revenue base.

This is not to say that inflation should be left unchecked, but, as described by the U.S. Government Accountability Office, “policies that are overly concerned with macroeconomic stability may turn out to be too austere, lowering economic growth from its optimal level and impeding progress on poverty reduction.”

In the face of the economic downturn, the IMF’s March 2009 review of the PSI suggested there could be easing in Tanzania’s monetary policy sometime in the future, but no details are yet available publicly.

**Diverting Aid to Accumulate Foreign Exchange Reserves:** The PSI set a target to stockpile the equivalent of 7 months of exports in foreign exchange reserves. Researchers from the UN Development Programme have found that 100% of net aid inflows to Tanzania in recent years have amounted to an increase in reserves.

**Unnecessarily Low Deficit Targeting and Low Government Spending:** Tanzania’s PSI set targets to shrink the budget deficit from 3.7% of GDP in FY2008/09 and 3.1% of GDP in 2010/2011. Such a target is intended to maintain macroeconomic stability, debt sustainability, and low inflation. In March 2009, in the face of projected poor growth in Tanzania, the IMF agreed that the government could engage in some moderate stimulus spending equal to 3% of GDP. It made clear, however, that any fiscal stimulus implemented now cannot jeopardize the PSI’s medium-term goals of maintaining macroeconomic stability and low inflation. The May 2009 Article IV consultation concluded that the fiscal deficit in FY2009/10 would widen to 10.5% of GDP, but as a consequence of decreases in government revenues.

“The IMF’s macroeconomic policies are at odds with established development goals.”
**Strict Cash Budgeting and Restrictions on Domestic Financing of the Deficit:** Under the PSI, in order to restrict deficit spending, Tanzania has been adhering to budgeting based on cash available. The PSI also forbids the government from borrowing money from domestic banks, assuming that borrowing by the public sector will “crowd out” the private sector from accessing credit. This is despite evidence that some types of government expenditure can have a “crowding in” effect, creating new opportunities for private investment and growth. Cash-only budgeting limits flexibility to borrow resources to spur economic activity and invest in development. Though Tanzania has pursued such a policy for the last 10 years, much of the credit available within commercial banks is not being used by the private sector, instead sitting as idle deposits, contributing to the high cost of borrowing. As President Jakaya Kikwete explained, “Unfortunately, most of the credit released tends to sit in the banks as excess liquidity instead of being lent out. As a result, the cost of credit made available to the private sector has to be borne by the small part that is lent.”

**Declining, Inadequate Health Budget Allocations:** Regardless of the macro policies laid out in the PSI, it is the GoT’s commitment and responsibility to increase health sector allocations as a percent of the total budget. The health budget in FY2007/2008 increased by 28% in real terms from the previous year, to a per capita spending level of U.S.$14. This increase is due almost entirely to increases in donor support, with domestic resources for health remaining even. However, health spending has been decreasing as a percent of the total budget. Health spending remains far short of the 15% of government expenditure targeted in the Abuja Declaration. Within the health sector, HIV/AIDS receives by far the most government and donor support and has increased at the highest rate compared to other health interventions. Much of the recent increases have come from off-budget sources, with only 23% of anticipated aid in FY2007/2008 being included in the budget. Recurrent expenditure for HIV/AIDS is falling in real terms, including a proposed reduction in the recurrent budget for the TACAIDS. From FY2002/03 to FY2005/06, despite TB’s increasing burden, TB expenditures decreased from U.S.$0.28 (2%) to U.S.$0.14 (0.55%) of total health expenditure. The real TB budget allocation for 2006/07 increased to approximately U.S.$10.6 million, mostly due to a grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria. However, there have been challenges in spending this additional funding, in part due to long-term neglect of the health sector.

**Implications for the Health Sector**

The following describes critical health and development challenges and trends, as well as impacts of restrictive fiscal and monetary policies on health and development.

**Healthcare Workforce Crisis:** The first wave of public sector reforms in the 1980s-90s saw the retrenchment of public servants and a freeze on hiring for the civil service. The longer term effects of these structural adjustment policies continue to contribute to Tanzania’s health-worker shortage. Limited capacity, particularly poor health infrastructure and inadequate human resources, has hampered the provision of basic healthcare and the absorption of resources. Even after employment freezing was lifted, however, few graduates have been employed. Meanwhile, migration poses a problem, particularly out of rural areas. Between 1995 and 2005, out of 23,474 graduates produced, the Government hired only 3,836 (16%).

According to the 2005 proposed staffing level, health facilities required 125,924 health workers, while only 35,202 (24%) were available for hire, yielding a deficit of 90,722 workers. As a result of the shortage, many people lack access to care, and high morbidity and mortality leads to loss of working-hours needed to support livelihoods, subsequently taxing the whole public.

**Gaps in Service Delivery:** These capacity constraints must be addressed if the policy to establish and maintain a health centre in every ward and a dispensary in every village is to succeed. Access to comprehensive HIV and related services, especially in rural areas, is challenged by a widespread lack of home-based care, user fees, drug stock-outs, poor nutrition (especially among infants), and other factors. Within the six months captured by a recent survey, one-third of hospitals and three-quarters of health centers that prescribe ART experienced stock-outs, compromising treatment outcomes and potentially leading to drug resistance, which is far more difficult and costly to treat. First-line medicines required to cure TB are available in only 60% of health facilities. Only half of these maintain observed client registers and treatment protocols in line with the standard TB control strategy. While Tanzania has a comparatively high TB cure rate of 79%, only 46% of estimated cases are detected nationwide.

**Recommendations to the IMF and the Government of Tanzania, particularly the Ministry of Finance:**

The PSI’s policies, especially in the context of the current global financial crisis, impact the government’s ability to borrow and spend
money, with potentially harmful consequences for social safety nets. Pursuing more expansionary policy options could generate larger national budgets, from which increased investments in health, education, and other critical social sectors (including for infrastructure and human resources) could be allocated. This would help enable the achievement of Tanzania's poverty reduction strategy. Toward this end, the IMF and MoF should:

- Fully spend and absorb ODA. This would give the government more space to spend aid to upgrade the health system's infrastructure, expand human resources, and improve service delivery and quality, thereby improving health outcomes.

- Work with other donors, banks and the International Finance Institutions to explore more flexible options for spending and borrowing on more favorable and sustainable terms, which would allow for significant increases in public investment. More affordable and sustainable borrowing arrangements from domestic sources could also enable Tanzania to better withstand the global economic recession.

- Explore more expansionary fiscal and monetary policies geared towards stimulating the economy and building the future revenue base of the country.

- Explore more flexible mechanisms to accommodate higher levels of domestic financing of the deficit, to support targeted programs to respond to the HIV/AIDS and TB crises and finance the health sector.

- Engage a wider spectrum of stakeholders in the formulation and review of IMF program policies, particularly other government ministries and departments apart from MoF, as well as parliamentary and civil society representatives. More transparent and participatory civic engagement would allow for broader input into macroeconomic policy options and should happen much earlier in the policymaking process — before macroeconomic targets are set. The policymaking process should be more transparent and better ensure accountability. The government should release Exogenous Shocks Facility loan agreement documents.

In 2005, only 24% of health workers were available for hire.”

Notes