Fiscal Adjustment in IMF-supported Adjustment Programmes: The Tanzanian Experience

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*Abstract:*Fiscal adjustment is an essential element of macro-economic stability and economic growth. Given that economic growth is the most powerful weapon in the fight for higher living standards, poor growth performance in African countries, has been a challenge to economists, policy makers and international development institutions.

Sub-Saharan Africa's performance in the 1980s and 1990s was disappointing with much of the region unable to break away from paths of negative or low per capita income growth, high inflation and fiscal deficits, and balance of payments difficulties. In the face of excessive fiscal deficits, balance of payment crises, rapid monetary expansion, high inflation and lack of credit to the private sector, the imperative was to embark on adjustment programmes supported by the World Bank and IMF with fiscal reforms aimed at achieving sustainable external balance and macroeconomic stability through restraining aggregate demand, promoting supply and improving economic efficiency. Some countries were able to make progress as fiscal reforms gained ground, liberalization efforts marked progress, and numerous countries took steps to eliminate credit controls, and to adopt indirect instruments of monetary policy.

Fiscal adjustments have however become the subject of criticism in recent years, especially in low income countries, because they involves trade-offs between stability and growth, or stability and social expenditures, which are often not adequately articulated or quantified and involve distributional issues that are politically sensitive.

The key issues raised are: (1) To what extent have the W.B./IMF-supported programmes helped in achieving a more sustainable fiscal adjustment? (2) How did the negotiations of adjustment take account of constraints on implementation, explore alternatives and assess the social impacts of key measures? (3) to what extent have the adjustment programmes contributed to building institutional capacity and fostering ownership? (4) how were trade-offs considered i.e. how important were efforts to sharply reallocate the budget toward protecting the most vulnerable groups? (5) how effective has Bank-Fund collaboration been in addressing public expenditure policy and management and social safety net issues? (6) Do Fund-supported programmes show improvements overtime to take account of lessons learnt?

1.0: INTRODUCTION

The primary preoccupation of reform programmes has often been coined in two broad phrases: Unleashing markets and reforming the public sector. Unleashing markets has centered on domestic and foreign trade reforms, private sector promotion and labour market reforms. Trade reforms have covered liberalisation of imports, (through elimination of foreign exchange rationing, elimination of non-tariff barriers, reforming tariffs and reducing regulatory barriers), promoting exports (through maintaining realistic exchange rates, reducing bureaucracy and regulations on licensing, clearing and forwarding, expanding export processing zones (EPZs), relaxation of foreign investment codes, reducing taxes and promoting private operators in the foreign trade) and liberalisation of domestic retail and wholesale trade (in final, intermediate and capital goods).

As part of the reform programmes, public sector reforms have covered a range of initiatives that seek to achieve four main objectives: Fiscal stability; management efficiency; state capacity and public accountability. Reforms dealing with fiscal stability apply to all states, although there may be variations in policies adopted to achieve the results. In general fiscal reforms have been the most consistently pursued and far-reaching of the public sector management reforms with direct implications for the well being of public employees, state capacity, and social development. They deal with issues of downsizing or public expenditure reductions, privatisation and tax reforms.

Reforms that seek to promote managerial efficiency have focused mainly on organizational restructuring and introduction of market or quasi-market principles in the delivery of public services.

They address three main issues, decentralized management and creation of executive agencies out of monolithic bureaucracies, performance contracts for employees, and contracting out of services of the private sector.

Of the four broad reforms the international financial institutions have attached primary importance to fiscal stability followed in descending order by managerial efficiency, capacity building reforms and accountability. Capacity building reforms tend to be restricted mainly in developing countries most of which are in sub Saharan Africa. They address issues relating to the technical capacities of civil servants mainly policy analysis and monitoring, management of public recurrent expenditure costs to ensure sustainability of projects, public investment and pay reforms.

FISCAL ADJUSTMENT IN DEVELOPING COUNTRIES

There have been concerted efforts by adjusting governments and international financial institutions to reduce the size of the state and restructure the various components of the governments spending. The aim of these measures has been to achieve fiscal sustainability and therefore macroeconomic stability. Fiscal sustainability in this case has been defmed as achieving a level of fiscal deficits after grants that is low and which will not induce the government to use inflationary commercial bank borrowing as means of fiscal finance. Lessons learnt in the crisis period revealed that besides being inflationary, domestic bank borrowing leads to the depreciation of local currency and therefore aggravates the balance of payment crises; leads to crowding out of private investment as interest rates are forced up and therefore compromises economic growth.

Parastatal reforms and privatisation have also been used as instruments to support the goals of fiscal stability and state contraction. How have governments gone about pursuing these objectives? What results have they achieved? Has fiscal sustainability been achieved? What are the social implications of these fiscal reforms?

Public Expenditure Reforms

During the 1980s average government expenditure as a percentage of GDP varied between 25% in southern Asia and 39% in the Middle East and Africa, with an average of 27% for sub Saharan Africa. East Asia and pacific (25.5%) and Latin America (26.5%) the figure for the industrialized countries was 35% (World Bank 1997a). All regions arrived at these high levels from relatively low figures of less than 20% during the 1960s.

In the design of fiscal adjustments, public expenditure cutbacks were therefore suggested as measures to be used by adjusting countries in stabilising their fiscal balances. Public expenditure reforms have focused mainly on cutbacks in capital expenditures, the wage bill, employment and administration. The IMF and the World Bank have played major roles in influencing the size and component of expenditures in these countries. The IMF has tried to achieve this through its Extended Fund Facility (EFF), Enhanced Structural Adjustment Facility (ESAF) established in 1987 and is targeted at low-income countries and later on through its Poverty Reduction and Growth Facility that started in 1999. By 1997 about 80 countries were eligible for ESAF (Tanzania inclusive) and 35 ESAF arrangements were in operation. The World Bank work in public expenditure reforms is carried through its Structural Adjustment Loans (SALs) and Sectoral Adjustment Loans (SECALs). Between 1979 and 1994, about 250 of these loans in 86 countries addressed fiscal reforms. A total of 51 % of these loans went to Africa and 23% to Latin America. The reforms dealing with the direct expenditure reduction objective accounted for more than half of total activities (126), while the single largest number of reform activities, (52%) was in capital expenditure reduction (UNRISD, 2000).

Revenue Side Reforms

Another measure of fiscal reforms has been revenue side reforms. These comprise of tax reforms aimed at improving taxpayers' compliance and operations of tax departments (i.e. increase efficiency and accountability, and rationalisation of taxes to achieve flexibility,equity and fairness). It is documented that the World Banks advice on tax reforms has generally been consistent with best practices as set out in the Bank's lessons of tax reform (1991). Where technical capacity limitations were noted, the international fmancial institutions provided technical support to governments in pursuing the reforms.

Some problems, however still remain with respect to tax reforms. Weaknesses in tax administration appear to at least partly explain why revenues have often fallen short of target in many countries, and why revenue increases where they occurred (for example in Uganda, Pakistan and Bangladesh) were not able to produce the desired effects. In many low-income crisis driven countries, governments' efforts to increase domestic revenue collections, most of the times fell short of targets and were inadequate to finance basic needs of the budget. These Governments have, thus, continued to depend heavily on assistance in the form of grants and concessionalloans from international development partners.

Outcomes of Fiscal Reforms in Developing Countries

Management of official deficits requires sustained adjustment efforts. Deficits of adjusting countries actually rose in the medium term following the release of first adjustment loans: only in the long term 5-10 years were there substantial signs of budgetary improvement. For instance reductions in overall fiscal deficits became visible for most regions only during the 1993-1997 period from 6.3% to 2.9% in Africa; 2.9% to 2.4% for Asia; and .8% to 3.6% for Middle East and Europe. Only Latin America was able to achieve fiscal stability by 1990 (0.2%); but fiscal deficits rose again to 0.9% in 1993 and 1.9% in 1994 before declining again to 1.7% in 1996 and 1997 (IMF, 1998a). Data for Africa from the World Bank's African Development Indicators (1998/99) suggest that public expenditure as a percentage of GDP fell consistently from30.8% in 1992 to 21.8% in 1996, even though it rose again to 22.3% in 1997.

Table 1: *Trends in public expenditures for various regions* (as % of GDP)

	'80	'90	'93	'94	'95	'96	'97
SSA	25.5	26.3	27.0	26.8	23.5	21.8	22.3
N. Africa	39.0	29.4	34.4	32.5	30.7	28.9	30.4
L. America	--	24.5	21.7	--	23.6	23.4	23.6

Source: World Bank (1999); ECLAC (1997)

Though deficits were lower in most countries starting 1995, it is noted that in Sub-Sahara African countries as a whole, deficits continued well above 3% of GDP and there were significant reversals in deficit reduction particularly in Africa among low income and severely indebted adjusters and primary exporters. It is also noted that even though foreign interest burden did not constrain adjustment in many adjusting countries, the growing ratio of public debt (both domestic and external debt) to GDP across most regions indicates that the improvement in fiscal management was not strong enough to sustain solvency. Furthermore, fiscal adjustment on both expenditure and revenue sides of the equation has been particularly difficult for low income highly indebted and primary commodity exporting countries despite each being a recipient of more than three adjustment loan programmes and intense fiscal surveillance from the IMF and World Bank (world Bank, 1997b; IMF,1998c).

There is a close association between improvement in fiscal deficits and current account deficits. Deficit reduction leads to improvement in external balances and stimulates growth. Both

World Bank and IMF reports that in countries where sustained fiscal adjustments were achieved adjustment took place largely on the revenue side of the fiscal equation and to a lesser extent through expenditure reductions. Targeted expenditure reductions proved to be more elusive so that fiscal adjustments were not sustained in countries that reduced their deficits through short run shifts in expenditures (IMF, 1988a). Furthermore, countries that experienced worsening fiscal balances generally increased current expenditures without increasing primary revenues.

Despite compliance with Bank conditions being excellent, Bank-supported adjustment lending led to limited fiscal success in many adjusting countries because fiscal issues were treated in a fragmented manner and conditionality was vague. Rhoe and Griggs (1990) argue further that structural adjustments acted as exogenous shocks that in turn complicated the whole exercise of fiscal management. The poor quality of fiscal data also undoubtedly contributed to the difficulties of identifying the components of fiscal accounts and the budgetary implications of changes in fiscal and macro-economic policies. Most operations paid only little attention to coverage, measurement or sustainability of the deficit or the role of the public sector (the key determinant of the level of public finances requirement). Furthermore even though fiscal policy is only one aspect of a large adjustment programme of interdependent policy reforms, few operations discussed the relationship between fiscal deficits (and the instruments of reducing them) and other macro-economic variables and structural measures underway or planned. The complex issues connected with budgetary reforms (budgetary discipline, identification of strategic priorities, technical efficacy, accountability, information systems) were also not adequately considered and it is further noted that conditionality on the budget deficit or public savings was too general, inconsistent between loans for the same country, or subject to different interpretations (World Bank, 1997).

Problems of expenditure restructuring in low-income countries encouraged development of three major reform instrument: public expenditure reviews; device of cash budgeting and Medium Term Expenditure Frameworks (MTEF). Public expenditure reviews examine all aspects of a loan recipient's public expenditure- including sectoral allocations, investment programmes and budget policies. They are seen as a way of checking expenditures that are likely to escape verification of public investment programmes. The number of reviews grew considerably in the 1990s and between 1997 and 1998 more than 200 reviews were carried out in loan recipient countries. However, it has been found that most public expenditure reviews are prepared by Bank staff or foreign consultants and lack national participation (IMF, 1998c); and that impacts have been modest or negligible. Critics, including independent Bank-sponsored evaluation teams- maintain that reviews are often delayed and hardly match country's budget cycle; their recommendations are highly unprioritised and sometimes even duplicate the failed policies of governments in several contexts (Berg, 1999; World Bank, 1998).

Medium Tem Expenditure Frameworks are seen as means of ensuring public sector accountability in the management of public resources through ensuring that expenditures are allocated according to strategic priorities in a transparent manner while at the same time making sure that aggregate fiscal discipline is not compromised. MTEF involves a top-down resource envelope and a bottom up estimation of the current and medium tem (3 to 5 years) costs of existing policy, and ultimately the matching of these costs with the available resources in the context of the annual budget process. The top-down resource envelope is fundamentally a macro-economic model that indicates fiscal targets and estimates revenues and expenditures, including government financial obligations and high cost government-wide programmes such as civil service refom. The bottom up reviews scrutinise sector policies with a view to optimising

intra-sectoral allocations. Currently there are about 25 MTEF refoms supported by the World Bank, 13 of which are in Africa at various stages of implementation.

Cash budgeting acts as an agent of fiscal restraint on the spending habits of ministries and bureaucrats. It aims at stopping government treasuries from printing money or borrowing from the central bank to meet their obligations. Cash budgeting creates new rules and procedures on fiscal management - finance and line ministries can only spend what they have in the bank; overdrafts are not allowed. Variants of the cash budget rule include proposals for balanced budgets, which most countries in the Unite States have adopted. A growing number of fiscally distressed economies are currently implementing the cash budgets, e.g. Tanzania, Uganda, Malawi, Zambia, Peru and Bosnia-Herzegovina. Cash budgetting has contributed to reduction in fiscal deficits in countries that have used it. In Zambia, for instance, during the first year of the policy, the government was able to turn a deficit of 69 billion Kwacha into a surplus of 24 billion.

The sustainability of the policy is, however open to serious doubt. First, governments have found it very difficult to stick to cash budget rules all year round because of their negative implications for service provision. Studies on Zambia's cash budget have revealed wild fluctuations in expenditures, with cash outflows outpacing cash inflows during some months of the budget cycle. Further more political leaders have sometimes intervened at critical periods to request central banks to lend money to ministries in order to prevent cash problems turning into political crises (Chiwele *et al.*, 1999; Bolnick, 1997). Second, Bonlick (1997), and Stasavage and Moyo (1999) have shown that cash budgets can distort the composition of expenditures. Faced with a cash constraint, ministries are likely to spend money on non essentials - there may be money for foreign travel instead of rural extension work; workers may not be paid but officials may still receive their perks and have their offices refurbished, etc. Stasavage and Moyo demonstrate that cash budgets may punish social ministries and reward offices associated with the presidency. In Zambia, the presidency had expenditure overruns equivalent to 1% of total expenditures in 1994. This was roughly the same as the 12% shortfall experienced by the ministry of health in the same period. In Uganda, expenditure overruns In the president's office was almost equal to the combined shortfalls of the ministries of agriculture (-51%) and Education (-29%). Third, cash budgets may make it difficult for line ministries to plan properly. They may undermine efforts to introduce performance targets for employees as well as social pacts to minimise industrial conflicts.

Limitations of the Reforms

All reforms - fiscal, managerial and political -face capacity problems. Change is disruptive; those who stand to benefit may be weakly organised or not strategically located to defend the reforms; doubts may exist about the commitment of the reforming governments, losers may fight back or withdraw support; the reform programme may be poorly conceived and infrastructure may not be in place to endure smooth transition to success. The capacity to manage change may be limited even in countries with the most advanced public administration systems. In cases where reforms are broadly accepted, old bureaucratic work methods and traditional forms of behaviour may still influence those entrusted to implement them. Capacity problems are, however, more serious in low income crisis ridden countries where state systems are either in disarray or have suffered serious erosion following long-run recessions, globalisation pressures and poorly thought out structural adjustment policies.

To take care of the capacity constraints, donor supported adjustment programmes usually include technical assistance to the recipient countries. However critics of the adjustment programmes have often pointed out the fact that technical

assistance has not been well utilised to improve local capacity in public policy management, and therefore reliance on technical assistance has increased rather than decreased with adjustment programmes.

A World Bank (1997b) review of public expenditure reforms in low-income countries found that least developed highly indebted, and primary commodity exporting countries had great problems meeting their expenditure targets. Key features of these countries are lack of capacity in fiscal management; very low GDP per capita; poor growth records; high levels of aid dependency; intense exposure to exogenous shocks in commodities markets; high debt and capital flights, weak formal state structures; entrenched and widespread patronage networks; increasing informalisation of economies and societies; and collapsing incomes for public servants. A majority of these countries are multi-ethnic and currently account for most of the civil wars, collapsed states, refugees and displaced people of the world. Many of those that have tried to transit from authoritarian to democratic rule have faced very serious setbacks.

The issue of state capacity is therefore central to the success of any reforms or development programmes that a country seek to advance. The institutional reforms are so complex and demanding that it is doubtful whether low-income crisis ridden states would be able to implement them without major improvements in capacities. As many scholars have pointed out, low income crisis ridden states face a dilemma- they are being asked to undertake complex institutional tasks at a time when their capacity to do so is not only limited but is also being undennined by programmes of downsizing (Mkandawire, 1994; Mkandawire and Soludo, 1999; Olukoshi, 1 999b; Hutchful, 1996; 1999)

The development of institutional capacity is tied to issues of training and retraining, and funding of universities and public administration institutes. During the 1980s, the tertiary institutions of crisis states experienced profound crises as salaries slumped, facilities for teaching and research became scarce, infrastructure were left unrepaired and teachers left in droves to join the private sector or tap into overseas opportunities. The problem was compounded by the refonn policies of the leading financial institutions involved in adjustment and institutional refonns. These placed less attention on universities in low-income countries, which were believed to be inequitable and to offer low rates of return and which subordinated the needs of education in general to the requirements of market oriented adjustment based on the misguided belief that adjustment would be temporary. A case in point was the World Bank's (1998) policy document - Education in Sub Saharan Africa. An independent Bank review found that the Bank strategies "seldom attempt to link and integrate educational and national development plans; it almost seems at times that they run parallel, but independent tracks." The World Bank (1994:46) further points out that it was very critical of the tendency to make "across-the-board recommendations without adequate country specific justifications" such as the near universal recommendation to reallocate within the education budget from higher to primary education and the strong tendency to recommend increased user charges." The report concluded, "Such recommendations are always unlikely to be correct."[1]

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1 This evaluation report also found that the Banks recommendation in Tanzania and Zaire to increase the burden of education costs borne by parents and local communities did not take into account the fact that parents were already contributing large shares (more than 60% in Zaire and between 30% to 35% in Tanzania) and that children were being withdrawn from schools because of these costs. The equity argument against university funding was also questioned on the following grounds: there are large differentials in unit costs among the three tiers of education "not only because of the differences in student subsidies but also because of differences in student-teacher ratios and teacher salaries, which arise from differentials in educational goals, teacher qualification and labour market conditions, plus the relative absence of economies of scale at the tertiary level (World Bank, 1994:53). The inequity argument would be more compelling if different social groups had unequal

Closely linked to the issue of capacity constraint in programme implementation is the problem that has risen in most crisis-ridden states about recurrent costs. Foreign aid often involves the development of new physical and social infrastructure, which can generate high level of recurrent funding requirements for the aid recipient governments. It has been estimated that recurrent costs in poor countries can be up to 70 percent of the initial investment. The policy refonns in the 1980s did not focus on this issue as the main concern was with macroeconomic stability. As budgets dried up or got squeezed by stabilization programmes the physical damage on infrastructure became glaring- roads in many countries and public utilities were in despair; schools lacked teachers, books, pens or other supplies; salaries were unpaid or delayed; vehicles for health or agricultural extension were without fuel or spare parts; and government offices were without paper, typewriters etc.

Most donors have failed to recognise this problem and continue to insist that governments pay counterpart and recurrent costs even when adequate measures have not been taken to facilitate this at the inception of the project, and recipients have demonstrated poor record of compliance. In order not to harm the survival of their projects, donors are forced to set up parallel structures in the bureaucracy- such as supporting local salaries, creating special project management units, and providing equipment as well as other facilities necessary for the functioning of their projects. This practice may in turn distort the incentive structure of local bureaucracies. Saasa and Carlson (1996) demonstrate this problem in a case study of Zambia's Educational Material Project (ZEMP). ZEMP was largely run by a group foreign experts as an enclave within Zambia's educational system. The government, was unfortunately, unable to mobilise the level of resources necessary to ensure full participation in the project: local staff were poorly paid, lacked transport facilities and opted instead to allow the foreign experts to run the show project even when it was clear to them that this was unsustainable.

Another case in point is the SAL II to Nepal. Having succeeded in implementing structural adjustments under SAL I between 1986-1989, the Bank followed up with SAL II, even though at the time, Nepal did not face a balance of payments crisis. The loan was designed to consolidate and reinforce the earlier operation: to revamp the tax system, rationalise the management of development spending, restructure two large state-owned banks and open up the financial sector, improve the distribution of fertilizers, and make irrigation more effective. The design of SAL II had several problems. The credit was approved before the preparation of important irrigation and financial sector components was complete. As a result, it was necessary to rely on technical assistance before firming up action plans, which led to vague conditionality. Although the credit addressed important problems, line ministries and agencies whose support was essential for successful implementation were not involved in designing the loan and hence felt little ownership of the program.

While the foreign trade component was well thought out, measures to strengthen the tax system and to eliminate waste and inefficiency in the management of public resources were not. The action program in the fmancial sector consisted largely of studies, because of inadequate knowledge of the measures needed there. And some potentially effective conditions (affecting fertilizers, irrigation, and banking) were formulated in vague terms (World Bank-Operations Evaluation Department, 2001). The Bank actually called for reform without good knowledge of the measures needed. If the SALs had been more thoroughly prepared, conditionality might have been better defined, calling for more

access to higher education, but the bank does not provide evidence in this area. A large number of graduates, perhaps the majority, still come from humble backgrounds in the in most countries.

specific measures such as a new value-added tax, reduced subsidies, or specific banking reforms, rather than studies. Conditionality was ambiguous because reforms were called for before problems in the financial and irrigation sectors were fully understood. Given the well-known difficulty of implementing projects, the Bank should have called for actions that were feasible despite the country's institutional weakness and the limited political support for measures that affect vested interests.

Issues of this nature have plagued the adjustment programmes and the donor community has therefore been forced to rethink its adjustment measures. The international financial institutions have therefore been trying to suggest fiscal reforms and conduct negotiations in such a way that a consensus is reached between the donor and the recipient on the kind of reform measures to be adopted that do not compromise macro-economic stability but at the same time reflect priorities and aspirations of the implementing countries. These measures have proven beneficial in mobilising local political commitment in implementation of reform conditionalities.

Capacity Building Reforms

The capacity of the government in terms of human and financial resources, institutions, systems and processes is critical to the implementation of a country's development strategy. However, over the years particularly up to the1980s, even though the technical assistance component of aid to LDCs was high, there was erosion of discipline, and ethics, low technical and managerial skills, obsolete administrative technologies, deteriorating government physical facilities, and corruption attest to the inadequate capacity of the government, particularly since the 1970s and Tanzania is not immune to the phenomena. Institutional capacity in terms of the efficiency with which ministries, departments and agencies perform also diminished. Thus it seems that even though the technical assistance component of aid was supposed to address the capacity building issue, the objective were not achieved. The problems that led to the situation include the fact that technical assistance has mainly been provided as part of particular projects or programmes. In that form it could not address the wider objective of institutional capacity building. Projects have been usually approved by donors on conditions that they will be executed by special project implementation units, often staffed by highly paid expatriates and selected local experts. This has been usually driven by the urge to speed up implementation even though in the end it frequently results in setting up parallel management units, which duplicate the functions that can be performed by existing local institutions. In fact donors go as far as managing the funds themselves. The behaviour of multilaterals differ little from that of bilaterals in their attitude of doubting the efficiency of local capacities. The difference is that multilaterals are bound by stricter rules regarding procurement that ensure that the government manages the funds and selection of the consultants and experts.

The heavy reliance on expatriates to formulate, write and monitor adjustment programmes in crisis ridden countries undermines national ownership of such programmes and further weakens state capacities. The World Bank has estimated that about 100,000 resident foreign advisors were employed in the public sectors of Africa in the 1980s at a yearly cost of more than $4 billion representing about 35% of official development assistance to the region (Jaycox, 1993). In a well-publicised speech in 1993, the former vice-president of the World Bank's Africa region, Edward Jaycox, denounced expatriate technical assistance as a "systematic destructive force, which is undennining the development of capacity in Africa." A similar assessment was made in the same year by UNDP (1993) in an influential and highly critical publication "Rethinking Technical Co-operation"

On the part of governments, however, the fundamental problem is that there has been lack of a clear policy on the role or limits of technical

assistance. For instance, in Tanzania the government policy has been so undefmed that the responsibility has been scattered among five ministries with un-coordinated procedures for detennining priority needs, recruiting expatriates, issuing immigration visas and work permits, extending contracts, training of local counterpart/ replacement personnel negotiating donor funding, and evaluating expatriate performance.

Another constraint, has been lack of conducive working conditions, including the unrealistically low levels of pay packages for public servants. This point had been recognised by Helleiner *et al.*, (1995) and is consistent with the findings of other recent aid evaluation reports. Unfavorable working conditions strangle civil service refonn efforts and make it difficult for both staff and institutions to give adequate attention to the longer-term demands of economic management. As an alternative policy, the World Bank and UNDP sought in the 1990s to reduce their dependence on technical experts and "projectising" civil service reforms. They also suggested compensatory reform schemes for top-level civil servants as well as support for training and equipment. However, despite the efforts to rectify the dependency problem in the field of technical capacity, the new emphasis on national ownership and local capacity building and utilisation has not yielded much output because of the continued need for quick results in adjustment programmes. There is much talk on rebuilding African universities and institutes and using national researchers and consultants in externally funded development programmes, but not much in the way of comprehensive strategies and actions.

The progress that has been made in recent years towards improving the institutional setting of policy and capacity building efforts are still at the beginning of a long process. There is still a need to build and make competent and impartial institutions the backbone of our societies while both our own and the donors reliance on them and trust in them becomes a part of our nature.

Protection of the Most Vulnerable Groups

Structural adjustment measures entail significant social costs, at least in the short run, which have their severest impact on the poorest sectors of the society. Because adjustment measures are meant to change the structure of the economy, they necessarily have distributional effects and thus, by definition, create losers and winners. Early adjustment models were able to predict social impacts but did not foresee how socially and politically disruptive "the human face" dimensions of adjustment were to be. The decline in real per capita household income especially in Africa and Latin America, as well as the increased incidence of poverty, was both striking and well documented in the 1980s. Although the argument was made that in the absence of robust counterfactuals such changes could not be attributed to adjustment measures-they could also be linked to the economic crisis that necessitated adjustment, and might have been worse without adjustment-by the late 1980s the lending institutions had to acknowledge the fact that early adjustment packages had paid insufficient attention to the social dimensions of adjustment. Concern with the social costs of adjustment increased in the 1980s, with the publication of empirical studies documenting the impact of adjustment measures (notably Cornia *et al.*, 1987), as well as with the increased popular opposition to key adjustment-related policies such as devaluation and reduction in consumer subsidies.

The response among the international agencies has been, on the one hand, at least some willingness to acknowledge the possible advantages of more gradual adjustment programmes as well as professed interest in amending the standard adjustment package to match country's particular social conditions. On the other hand, in many countries a range of compensatory measures has been introduced, meant to mitigate the social costs of adjustment. These social adjustment packages - or as they are commonly called, "social safety nets" - usually

involve both targeted social services and benefits, and various types of project based "social funds".

Types of Social Safety Nets

Social safety nets have been variously conceptualised and categorised. Nevertheless, the term safety nets is currently popularly used to cover a variety of mechanisms implemented in conjunction with structural adjustment measures, and designed to address either structural or transitional poverty and unemployment, to reduce the impact of adjustment measures on certain groups, or to create or improve both social and physical infrastructure. Emergency, compensatory, unemployment funds and social investment funds, are among the various types of safety nets. Safety nets fill gaps, target the poor, directly address adjustment costs and explore and experiment with more efficient approaches to poverty alleviation. Safety nets have also been used as political instruments by the donor community to convince the public (as well as international critics) that the social costs of adjustment can be successfully managed and that governments are serious about implementing adjustment mesures.

TANZANIA'S EXPERIENCES

Tanzania was not immune to the crisis that hit most developing countries from the late 1970s. Having embarked on poor policy choices coupled by exogenous and external shocks, the economic hardships that started in 1970s culminated into a grave economic crisis in the 1980s. A chronology of events that led to the crisis is documented which include: Mini-crisis in 1971-72, the world oil price shocks in 1973-74, major drought in 1974-76, villagisation disruptions to the economy in 1974-76, the break up of the East African Community in 1977, the second oil shock in 1978-79, the war with Uganda in 1979-80, and the world recession in the early 1980s that depressed export prices for Tanzanian exports while raising the import prices. The short-lived coffee price boom in 1976-77 was not sufficient to help with any recovery. The internal imbalances were manifested in decline in GDP growth, high inflation trends and high budgetary deficits. For instance real GDP growth rate declined from an average of 5.7% between 1965-1970 to about 1.2% between 1980-1985, while the inflation rate increased from an average of 11.1 % between 1970-1976 to 30.6 % between 1980-1985 (*see* Bagachwa *et al*, 1992:23).

The government of Tanzania started efforts to reform the economy in early 1980s following the intensification of the crisis. The first local plan, the national economic survival plan (NESP) was initiated in 1981-1982. The purpose of NESP was to increase export earnings, and to eliminate food shortages through village irrigation schemes, and cultivation of drought resistant crops and to reduce public expenditure through strict control (Wagao, 1990). This depended on tightening of the state controlled system and increasing capacity in productive sectors. But with capacity utilisation already very low, this was a non-starter as trying to increase exports in a depressed world economy without incentives to offer. In retrospect NESP never offered a solution. NESP was made in haste and, with too little discussion, and therefore, its targets were neither realistic nor linked to the means of achieving them.

The Structural Adjustment Programme, (1982-1986) was a more serious attempt at reforms as it took into detail aspects of the structure of the economy and identified what needed to be adjusted. The main items in the reforms were devaluation of the currency in order to attain a more realistic exchange rate; price decontrol; achievement of appropriate fiscal and monetary policy targets; improvement of the incentive structure for agricultural production; and liberalisation of internal and external trade and improvement of capacity utilisation by targeted use of foreign exchange. Fiscal and monetary controls were also to be further tightened to reduce the inflation rate that was around 30%. These reforms, NESP and SAP, were however

efforts by the government to preserve its socialism and self-reliance policies

In 1986 the government entered into a new adjustment agreement with the IMF-World Bank support, the Economic recovery Programme (ERP I 1986-1989) and later on ERP II in 1989-1992. As a result of these reform programmes a slight improvement was recorded in macro-economic performance. For instance, having declined for most of the period from 1980 to 1985, Gross Domestic Product began to grow from the second half of 1980s and investment began to rise. The government was also able to reduce government deficits between 1986 and 1991 (see Table 2). Failure, of the government to comply with fund conditionality and the lack of political commitment in implementation of reforms geared at achieving prudence in fiscal management led to the suspension of fund supported adjustments in 1992. Between 1992 and 1995 deficits started to shoot up again and the government went back to finance it through domestic bank borrowing. The result was inflation levels reversing to the high rates experienced in the 1980s (Gibbon and Raike, 1995). In 1995 the government embarked again on efforts to reduce fiscal deficits. Overall however, government expenditure appears to have remained stable as a proportion of GDP through out the ERPs.

Since early 1990s the reform programmes under the IMF have been supported under the ESAF and its successor, Poverty Reduction and Growth Facility (PRGF). Tanzania also continued to receive assistance from the World Bank in the form of structural adjustment credits.

Fiscal Reforms

In the first half of the 1990s Tanzania recorded substantial progress with structural adjustment reforms but performance in fiscal adjustments was elusive. The external trade and payments system, monetary management, agricultural marketing arrangements and the parastatal sector were extensively liberalised. However starting in 1992 there was deterioration of macro-economic conditions, largely because of deficiencies in budgetary management, poor tax administration, weaknesses in public expenditure controls, and shortcomings in the management of the financial sector. Against this background, a fund-staff monitored programme was put in place between January and June 1996. The programme focused primarily on eliminating the impediments to sound budgetary management and on reforming the financial sector. It is documented that fiscal performance was broadly satisfactory following the adoption of this programme. Having demonstrated progress in fiscal management the donor community continued to support the government of Tanzania in its efforts toward achieving macro-economic stability through fiscal reforms. In 1997 the World Bank approved a structural adjustment credit (SAC) for a three year period starting 1997 to 2000 in conformity with the Country Assistance Strategy (CAS) while IMF support was channeled through ESAF until 1999, and later on through Poverty Reduction and Growth Facility (PRGF). The reforms have been directed at both expenditure and revenue sides of the budget equation.

Public expenditure management reforms sought to reinforce fiscal discipline by limiting aggregate expenditures to maintain fiscal stability. Before 1995 public expenditure reforms were vague and did not address the social impact of the measures adopted in reducing fiscal deficit and as a result, expenditures on social services fell significantly leading not only to deterioration of social services, but also to further deterioration in the conditions of the poor social groups in society. It is noted in a number of studies (Semboja, 1995; Kiwara, 1994) that there was deterioration in social indicators. Only after promotion of the MTEF reforms and with the government entering into stand-by arrangements with the IMF under PRGF have there been efforts to reallocate resources selectively to priority social sectors. Under ESAF, fiscal adjustments have been designed to ensure that budgeting process moves

from short-term cash flow management, which was not suitable for predictable development financing, to a medium term budget horizon, while maintaining fiscal restraint and trimming and rationalising the overextended public investment programme. The cash budget system adopted in the financial year 1995/96 formed an important element towards efficient public expenditure management. In addition to cash budgeting, the government took a number of steps which include: strengthening the sub-treasury system, institutionalisation of a comprehensive database, installation of a new payroll system, complete review of transfers to public institutions, protection of expenditure on social services in administering the cash management system (the priority sectors: education, health, water and roads are to receive their full monthly allocation), introduced an expenditure commitment monitoring system in key ministries to run in parallel with the cash management system in July 1998 and extended it to all ministries in July 1999, strengthened the system for monitoring overall public debt and embarked on conducting public expenditure reviews, and in the year 2001 a new public procurement act was established. With respect to development expenditure management, the government took measures to reallocate resources to reflect changing roles of the government in economic management and improve accounting and efficiency of public expenditures. Other areas include regularizing of financial relations between Zanzibar and mainland Tanzania and ensuring viability of local government finances.

Revenue side reforms were intended to broaden revenue base and improve transparency and efficiency of the tax system and reduce reliance on foreign trade taxes. A number of measures that include introduction of VAT in 1998/99 to replace sales tax, streamlining tariff exemptions for capital goods imports, rationalisation of tax rates and exemptions and improvement of tax administration were embarked upon.

The annual public expenditure review exercise which started in 1998 has been used to improve the composition and efficiency of government expenditures. This approach has provided forward-looking approach, with the full integration of donor financed government expenditures. The approach has also facilitated prioritising of development expenditure between and within sectors as well as ensuring their consistency with the medium term expenditure framework (MTEF). While in 1998 there was concern that there was lack of national ownership of the PER process which could reduce political commitment on in implementation, overtime there has been improvement in enhancing local ownership of the process.

These efforts seem to have yielded considerable results (Table 2 reveals some developments in macro-economic indicators). Furthermore, after several years of dis-saving the government savings turned positive in 1996/97 and remained at 1 % of GDP in 1997/98 (IMF, January 1999). The implementation of a cautious budgetary stance has also been helpful in releasing substantial financial resources when there are revenue shortfalls. MTEF was implemented in an effort to reinforce short-term fiscal prudence, while providing a longer-term horizon for expenditure planning. The public expenditure review and resource assessment process of the MTEF helped to strengthen expenditure prioritization and revenue predictability. Redressing the problems of low revenue and accumulation of domestic arrears is critical for relaxing the stringent cash budget system and enhancing the effectiveness of the MTEF.

Sustainability of Reforms

The government with the Bank-Fund support has made substantial progress towards achieving fiscal stability and therefore macro-economic stability through the use of both tight fiscal and monetary policies. Reliance on domestic bank borrowing

Table 2: *Macroeconomic indicators in Tanzania (% GDP) 1985-2000*

Year	Tax revenue	Current revenue	Government expenditure	Fiscal deficit	Tax:Current revenue	Inflation rate
1985/86	16.7	16.9	25.4	-7.4	98.9	33.0
1986/87	11.5	12.3	23.1	-7.1	93.4	32.5
1987/88	10.2	11.4	24.6	-4.3	89.6	30.0
1988/89	11.1	12.4	26.3	-4.3	89.6	31.3
1989/90	11.2	12.9	25.5	-4.0	86.1	25.8
1990/91	12.3	14.3	28.0	-4.9	86.3	21.7
1991/92	12.5	14.1	25.2	-5.1	88.4	21.0
1992/93	9.5	10.6	26.2	-4.7	89.2	23.0
1993/94	11.0	12.1	19.14	-3.2	90.9	26.7
1994/95	11.3	12.5	20.5	1.9	90.5	27.4
1995/96	14.2	16.6	18.3	2.1	85.6	25.0
1996/97	11.3	13.2	17.6	-.3	85.6	21.0
1997/98	11.9	13.5	15.1	-.6	89.6	16.1
1998/99	10.9	11.9	14.7	-.3	91.3	12.3
1999/00	10.1	11.3	14.7	1.4	88.5	9.0

Source: Bank of Tanzania, *Economic Bulletins*; *Economic and Operations Report*; IMF-*International Financial Statistics* and own computations based on data from BOT publications.

to finance fiscal deficits has been reduced and as a result the inflation rate has been reduced significantly from around 30% in 1995 to 4.9% in January 2002. The interest rate has also been reduced and investment in the private sector is now growing. Concern for poverty reduction has influenced expenditure on priority sectors and the government is making efforts to improve tile agricultural sector performance as the key sector for promotion of economic growth and therefore poverty reduction.

Over this period the government has been taking advantage of technical assistance where necessary in redesigning capacity constraints in areas of public policy management. Since the mid-1990s the government's political commitment in implementation of the reforms has encouraged the donor community to continue to support the country's efforts towards achieving macro-economic stability. Concern is raised however, that the reforms are heavily dependent on donor finance and that since there is a possibility of reduction in donor finance in the future, the government should enhance its local revenue generating potential. Difficulties in raising revenues from taxation raises further concern that if there are reductions in donor financial support there might be massive expenditure cutbacks but it is difficult to predict the extent to which expenditure cutbacks in the future may affect the social services and the poor. This implies that there is a possibility of a slow down in the pace of adjustment if donor support is reduced.

Capacity Building Reforms

Just as in other developing countries, the success of capacity building reforms in building local capacity in policy analysis and management has still a long way to go in Tanzania. Even though there are signs that there is now enough local capacity with respect to implementation of IMF supported programmes there are still weaknesses in capacity for implementation of various policies reform programmes that are suggested by donors in the country. This implies that technical support in policy analysis may continue to be needed by the government. In the Budget speech for the fiscal year 2002/2003, for example, the minister for finance laments about the slow pace of utilisation of funds following the application of the new public procurement regulations that were "not

easily understood and adopted by concerned government officials." He further points out that the slow pace of spending was further made worse by "government accountants failure to understanding properly the procedures for claiming refunds on VAT as approved by parliament in the last years budget" despite VAT having been implemented in the country since the 1998/99 fiscal year.

The need for a more comprehensive programme for effective and sustainable capacity building has been evident in the country since the early 1990s. Efforts geared at building local capacity had not yielded enough capacity since independence. During the implementation of Civil Service Reform Programme (1993-1999) it was recognized that there is a need to pay attention to the civil service reform components that deal with the working conditions of Civil Servants (including their remunerations) and to integrate the civil service in the broader programme of capacity building in economic management. The public service reform programme (PSRP), the successor programme to the CSRP, aims therefore at transforming the public service into a service that has capacity systems and culture for client orientation and continuous improvement of the service. The government has therefore, while continuing with the implementation of the social sector reforms, set up priority areas of action for the way forward in addressing capacity building issue under the Tanzania Assistance Strategy (TAS). The following key action points have been emphasized:

- Leadership, governance and management (especially financial management);
- Put emphasis on a holistic approach to capacity building in the core process: new and improved systems, process and practices, staffing skills and knowledge rewards, and working environment;
- Implement the pay reform
- Strive to turn more technical assistance into domestic human and institutional capacity .At the lower level, elevate human capacity of the poor social groups by providing them with elementary skills.

The international community can, and must still, help in this capacity building effort through technical assistance and financial resources where necessary. Indeed, the IMF has made concerted efforts to intensify its technical assistance in the country and in Africa as a whole as is shown by the recent establishment of a joint training institute. Yet one thing that should not be ignored is the fact that technical assistance should be tailored to the specific requirements of the recipient country and should be better focused and coordinated than it has been in the past.

Fostering Ownership

Various indicators can be used to establish the ownership of a project or a programme. For instance, whose objectives does it reflect, the recipient government's or the donor's? Who initiated, designed and evaluated it? To what extent do leading members of the government support controversial policies and programmes in public speeches? And how vigorous is the government in selling them to the wider public? To what extent has the public been consulted in the preparatory stages of a project or programme in order to achieve consensus and to what extent has the responsibility for it been devolved to those it most affects? In relative terms, local ownership may be indicated by the relative absence of donor conditionality,just as heavy conditionality is a sure sign of weak national ownership.

Local ownership is thus at its greatest where aided activities reflect local goals and priorities preferably based on a genuinely consultative national consensus, where the identification of programmes and projects to be assisted rests primarily with the recipient government and where there is minimal resort by donors to policy conditionalities. None of this of course precludes extensive and early stage consultation with donor agencies in order to arrive at outcomes, which

reflect the objectives of all parties involved in the negotiations.

Helleiner *et al.*, (1995) reports that there is alleged weak Tanzanian ownership of the programmes and projects for which aid is received.

The findings of several recent aid evaluations are consistent with the observation that both donors and the government have contributed to the problem of limited local ownership of development projects or programmes. Aid conditionality was found to be a 'one way rather than a two way process. Tanzania has been on the receiving end in the conditionality relationship. Overall, conditionalities have been designed to facilitate the realisation of results from the use of the aid resources. However aid condionalities have been more donor-driven than a result of discussions and agreements by recipients and donors as partners in development. Tanzania has, therefore, sometimes implemented the conditionalities with reluctance and low level of commitment. This shortcoming has tended to limit the realisation of the objectives of aid thus limiting its effectiveness.

It has, therefore, been increasingly suggested that there is a need to shift the balance in aid relations to equal partnership and to put greater emphasis on capacity building in local human resources and institutions. If conditionalities are designed upon mutual agreement, based on the commitment of both partners, then the effectiveness of aid is likely to be enhanced. In this context it is also necessary to broaden the concepts of transparency and accountability and to clarify the roles of both donors an recipients.

The importance of national ownership of development programmes, however great their external inputs, derives from its inherent appropriateness and efficacy. This fact is emphasized by Helleiner *et al.*, (1995), as well as other donor agency evaluation reports. According to these findings, projects and programmes that are locally owned at least by those who have to implement them have proved more likely to work and to be sustained. These observations are very valid and warrant that high priority be given to enhancing local ownership of development policy and programmes

As Helleiner et al., indicated many initiatives originate from the donors with only limited policy guidance from the government of Tanzania. An example is cited of the key policy document, the Policy Framework Paper (PFP) of 1994, which the reports says appears to be a collaborative effort but whose ownership was dampened by two factors. First, the original draft was prepared in Washington, second after it was agreed the World Bank introduced new conditionalities during the negotiation a new structural credit.

A number of studies which followed concurred with the recommendations of the Helleiner *et al.*, report, that the government should insist on preparing first drafts of Policy Framework Papers and related policy documents and that final versions should be jointly agreed. It has also been suggested that initiatives to enhance local ownerships should cover all levels of development management. Local levels in particular will need to be given special attention. Strengthening the process of setting priorities on the basis of consensus through the empowerment of grassroots institutions, which will enable the communities to plan and implement their own development agenda. Efforts towards this end have included the ongoing local government reforms, which started in 1995, the PRSP as a component of the PRGF programme preprocess and the Public Expenditure Review Process.

Also there has been considerable change in donor-recipient relationship, with the recipient participating fully in the negotiations. Participation of civil society in preparation of Public Expenditure Reviews and in PRSP processes reflects improvements in enhancing local ownership. Recently there has also been an effort to improve transparency in donor-recipient relationships and transparency of the government itself in its fiscal operations to the civil society.

Social Safety Nets for the Poor

The design of social safety nets and the timing of their establishment is influenced by both social protection needs and constraints. These needs reflect the specific adverse social effects of reform measures and the characteristics of affected groups. The constraints reflect the availability of social policy instruments such as old age pensions and unemployment benefits, and administrative and financing capacity. Wherever social policy instruments are available, the foremost challenges have been are to ensure their targeting and financing.

Since its independence in 1961 the government of Tanzania has considered social services to be the right of all citizens. However, the interpretation of this defmition with respect to implication on funding responsibilities has been modified to suit ideological inclinations, political ambitions and economic realities (Munishi, 1994; Ishumi, 1994).

During the early 1980s there was strong agreement that the implementation of structural adjustment programmes affected negatively the social sectors. This, occurred because under the SAPs, public expenditure on social services was curtailed (Kiwara, 1994). Thus, the social sector coverage in ERP I document (GOT, 1986) was scanty and inconcrete. The financing of social services was made dependent on the performance of the programme, and on the capacity of local authorities to mobilise resources for the sector. "As the domestic revenue recovers...a gradual shift in the composition of the budget expenditure" will result (GOT, 1986 P .17). " The government has devolved basic social services to councils and measures to strengthen financing" ... through "local taxation"... aimed at reducing dependency on the government and increasing local contribution were being worked out. An evaluation of ERP I concluded that;

- A mix of policy measures adopted had brought about negative impact on provision of social services. In deed there was a continuous deterioration of social indicators and delivery of social services;
- Due to low level of current expenditure allocated to the social sector, the sector was yet to benefit from the recovery process; and
- An outstanding problem that was recognised was the inability to reverse the downward trend in the continued poor state of social services. ERP II therefore set out to rehabilitate the social services by identifying and designing appropriate strategies and programmes that would enhance people's participation in the operation and management of these services.

The social sector coverage in ERP II was therefore more concrete and detailed. The roles of the various actors (that is, the government, councils, communities/beneficiaries and the private sector) were more clearly defined.

Despite the clarity of the objectives under ERP II, it is noted that there was a continued decline in social indicators: standards of living continued to below with many people still living below the minimum poverty line, poverty continued to be widespread, while growth also remained fragile. Health and education indicators continued to be poor while job opportunities did not keep pace with the growth of the labour force.

In 1996, Tanzania received a three-year ESAF loan to support the government in its continued efforts towards macro-economic stabilisation. The policy instruments included strengthening government saving performance so as to reduce budgetary dependence.

In 1999, ESAF was transformed into the Poverty Reduction and Growth Facility (PRGF), signifying a new approach to policy programming and poverty reduction, adopted in collaboration with the World Bank and other international creditors and donors. Under this new approach the IMF and the World Bank placed greater emphasis on poverty reduction as a central objective of economic policy in the poorest countries. Another feature of this new approach is that emphasis is placed on the recipient country's ownership of the policy programmes

supported under PRGF. The broad strategy is set out in Poverty Reduction Strategy Paper (PRSP) prepared by the borrowing country, with the participation of the Civil Society, including the poor. It is expected that the PRSP will not only promote country ownership of the programme, but also through its comprehensiveness, contribute to the coherence of policies and ensure consistency in lending practices among IMF, World Bank and other donors. The new focus on poverty reduction implies increased emphasis on policies that benefit the poor directly including expenditures on primary education, health and rural infrastructure.

LESSONS LEARNT

Since the onset of the adjustment programmes in the 1970s three phases of adjustment have been identified. Initially, before 1985, adjustment had been given a narrow definition. It meant adjustment to outside shocks such as the oil price shocks and the subsequent debt crisis. But when excessive deflation occurred in response to balance of payments deficit crises complaints were raised that adjustments should be in the context of expansion, not contraction, and growth kept creepint back.

So between 1985 and 1988 there was talk about adjustment with growth, the phase of adjustments of the so called Growth-SAPs. The emphasis here was overwhelmingly economic growth and the revival of productive activities. Poverty reduction was expected to result through the trickle down process and therefore social programmes were largely marginalised. In the case of Tanzania this coincides with the 1981-1989 adjustment period.

Cries for adjustment with a human face resulted into generation of the second phase; that of Growth with equity SAPs. The UNICEF actually put pressure on the IMF and came up with the so-called adjustment with a human face in 1987 and the World Bank added the social dimensions of adjustment. Concern for the poor was incorporated into the rhetoric of adjustment policies. For a good measure reform of public enterprises was also included. Under this phase safety nets and social programming for the poor were encouraged. Then in 1988-1992, protection of the environment took an important place in the adjustment process. The third and the most current phase is that of institutional reforms and transformation. The buzz-word here is "development with inclusion" meaning that the poor are also integrated in the socio economic mainstream. Democracy, human rights and good governance found their place in the rhetoric. Adjustment came to embrace all the objectives of what had been covered under the term development.

In many respects, sub Saharan Africa today is quite different from what it was in the lost decades of 1970s and 1980s. For the first time in the second half of 1990s there appeared a clear indication of progress in adjustment in a number of countries in the region. Since 1994, for example, there has been improvement in aggregate economic performance reflecting implementation of appropriate policies often in the context of comprehensive adjustment and reform programmes supported by the IMF and World Bank. Sound fiscal and monetary policies have enabled a substantial reduction in domestic and external imbalances. At the same time important structural reforms have contributed to alleviation of distortions and improvement of the overall economic efficiency. More and more countries in the region are also giving increasing attention to achieving high quality growth by placing higher priority on expenditure in health care, education and basic social services. Moreover, political liberalisation and movements toward participatory forms of governance that foster consensus encompassing the state and civil society have accompanied the implementation of the economic policies.

Despite the marked success of the Fund-supported reform programmes to restore macro-economic imbalances in a number of developing countries, a number of constraints in the formulation, and implementation as well as

impacts of adjustment programmes were noted since the onset of the reform programmes in 1980s.

The first and the most pronounced shortcoming of the reform programmes has been the lack of ownership of the programmes by the recipient governments, a factor that has greatly hampered aid effectiveness. A number of studies have pointed out that most low-income crisis ridden countries fell in the receiving end of the adjustment negotiations and that adjustment condidtionalities often times did not reflect the priorities of the receiving countries. This led to lack of political commitment on the part of recepient governments in implementation of Fund conditionalities. On the part of the donor community, they blamed government for corruption in the sense of their failure to account for donor finance.

The second has been lack of capacity and failure to address the capacity question. The third has been that most adjustment programmes have been embarked on without a clear understanding of the country's specific needs and priorities. Fourthly, many scholars have criticised the reforms in that they have often times embraced the rhetoric rather than the reality. And finally, adjustment programmes for most of the adjustment period did not adequately addressed protection of vulnerable groups.

Generalisation of the findings may not give a clear picture. However it suffices to say that the reform programmes have gone a long way in addressing the concerns raised above. For instance in September 1999 there was significant change in the objectives of the IMF concessional lending to low-income countries. The objectives were broadened to include an explicit focus on poverty reduction in the context of a growth-oriented strategy. Under the new approach the IMF will support, along with the World Bank, strategies elaborated by the borrowing country in Poverty Reduction Strategy Paper (PRSP). The poverty Reduction Strategy Papers are prepared by borrowing countries with the participation of civil society including the poor and other development partners, rather than through negotiations between the government and the World Bank or the IMF. The broadest and most fundamental change in the work of the IMF arises from the fact that the target and policies embodied in PRGF programmes are to emerge directly from the country's own poverty reduction strategy. Nationally owned poverty reduction strategies are at the heart of the new approach, and in this way the multilateral institutions are promoting local ownership of the programmes. The IMF reports that even though interim PRSPs have varied widely in terms of both content and progress, there has been a substantial degree of government ownership of the documents. Each of them has laid out a road map for development of PRSP in a participatory manner. Generally the process has advance quickly in countries that already had some kind of inclusive national development forum or plan such as Uganda, Ghana and Tanzania.

In order to take into account the need to enforce country ownership of the programmes, there is a change in that conditionalities are to be made to reinforce the priorities of the recipient country's strategy and are applied more sparingly on a few priorities rather than many details. The close involvement of the World Bank in the PRGF programme has necessitated that the Bank and the Fund form a division of responsibilities and conditionalities applied by each institution with each focusing on its area of expertise. The Bank has established the Poverty Reduction Support Credit (PRSC) to enable it to link its lending directly to the implementation of PRSP.

Another important aspect of the new approach is that more attention is now being given to the economic aspects of governance and the social impact of the major reform measures. Where there are expected to be major reforms the analysis on the impact on the poor is to be conducted normally by World Bank staff where governments lack capacity to do so and, where necessary, countervailing measures incorporated in the PRGF supported programmes. In this way

efforts towards proper designing and implementation social safety nets for protection of the most vulnerable groups are made.

CONCLUSION

There has been real and important changes in the IMF/World Bank supported programmes put together under the new approach which reflects that there has been lessons learnt to some degree concerning the way to implement reform programmes. For example, by drawing on participatory poverty reduction strategiesPRGF supported programmes, should be much better and able than past IMF/World Bank supported programmes to make a positive difference in the lives of the world's poorest people. The adoption of public expenditure reviews, poverty reduction strategies and medium term expenditure frameworks reflect commitment to addressing fiscal reforms in a manner that enhances local ownership of the programmes, capacity building that is consistent with poverty reduction efforts through ensuring availability of social safety nets for the poor who are disproportionately negatively affected by public expenditure cutbacks. In many countries undertaking these reforms, there is some improvement in the way the countries manage their budgets. Yet despite these significant changes, it is too early to say that the PRGF and its component PRSP process have generally had visible impacts on growth and poverty reduction.

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