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# Is Tanzania a Success Story? A Long-Term Analysis

Sebastian Edwards

## 10.1 Introduction

In 1991, three decades after obtaining independence from Great Britain, Tanzania was the second poorest country in the world. According to the World Bank's *World Development Report*, its gross national product (GNP)

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per capita was barely USD 100; the only country with a lower income per person was Mozambique, with USD 80 per year.

The fact that Tanzania was very poor was not in itself surprising. What was startling, however, was that in 1976, merely fifteen years earlier, twenty-four countries were poorer than Tanzania. According to the World Bank, between 1976 and 1991 Tanzania's nominal GNP per capita *declined* by 45 percent—from USD 180 to USD 100. When data adjusted for purchasing power parity (PPP) are used, the results are less dramatic, but still show a very impressive reduction in the standard of living: between 1976 and 1991 real income per capita fell by 15 percent, or almost 1 percent per year. The collapse of the Tanzanian economy between the mid-1970s and the early 1990s represents one of the most spectacular economic disintegrations ever experienced in a country not affected by a major war or natural disaster.[1]

Since 1991, however, Tanzania has gone through a major comeback. According to data from the Penn World Tables, between 1990 and 2008 real (PPP-adjusted) gross domestic product (GDP) *per capita* increased by 64 percent, or at a rapid 2.8 percent per year. In the year 2000, the country had reached its previous peak GDP per capita (achieved in 1976).[2] During the last two decades there has also been a marked improvement from a comparative point of view: although Tanzania continues to be very poor, it is not any longer at the very bottom of the income per capita tables. According to the World Bank, in 2009 nineteen nations had a GDP per capita lower than Tanzania—sixteen of which are in Africa. Moreover, the country has been able to weather the recent global financial crisis without suffering major setbacks. According to the International Monetary Fund (IMF), GDP growth slowed down to 5 percent in 2008; it then increased to 5.5 percent in 2009 and to 6.2 percent in 2010; it is projected to be 6.7 percent in 2011. There has also been important progress in terms of social indicators. According to the United Nations' Human Development Index (HDI), Tanzania has made significant improvements when compared to both sub-Saharan Africa and to the rest of the world. In 1995 Tanzania's composite HDI was barely 90 percent that of the rest of the sub-Saharan nations; by 2010, Tanzania

1. In October 1978, Tanzania was invaded by Idi Amin's Ugandan forces. This was a short war that ended with Tanzania's victory and with the fall of Amin in April 1979. Although this was not a protracted or major conflict, it did have significant negative effects on the Tanzanian economy, as did other external events, such as the drought of 1974–1975 and the oil price shocks of 1973 and 1979. As I will argue in sections 10.3 and 10.4, the fact that these shocks were amplified significantly and contributed to topple the economy was, to a large extent, a reflection of how fragile the economy had become after almost twenty years of socialist experiments (see the discussion below). For an early comprehensive study of the political economy of Tanzania, see Coulson (1982). For more recent analyses see, for example, Mwase and Ndulu (2008). See, also, the bibliography to section 10.2 of this chapter.

2. An important question is when the growth "breakpoint" actually took place. In a recent innovative paper, Robinson, Gaertner, and Papageorgiou (2011) use time series techniques to investigate whether there has indeed been a structural break in Tanzania's growth process. Their analysis indicates that such a breakpoint took place in 1996.

had surpassed the African region, and its HDI was almost 3 percent *above* that of sub-Saharan Africa as a group.

What makes Tanzania's story fascinating is that foreign assistance has been at the center of the country's economic failures and successes. After independence in 1961, the country became one of the "darlings" of the international aid community; between 1962 and 1983 Tanzania was one of the highest recipients of foreign aid in the world.[3] A high proportion of this aid was bilateral and came from the European nations—especially from the Nordic countries. The multilateral institutions, and in particular the World Bank, also contributed significant volumes of funds to the country's early development effort.

Massive foreign aid was largely used to finance President Julius Nyerere's African Socialism vision. In particular, international donors helped fund the initiatives contained in the Arusha Declaration, a broad political manifesto presented by Nyerere to the official party (the Tanganyika African National Union [TANU]) in February 1967.[4] By 1973, net official development assistance (ODA) per capita to Tanzania was already 18 percent higher than net foreign aid received, on average, by sub-Saharan African (SSA) countries. By 1975, net per capita ODA to Tanzania had surpassed the SSA average by 75 percent, and by 1981 it was almost twice as much as the average for SSA.[5]

Nyerere's socialist policies, however, did not work. The collectivization of agriculture backfired, the villagization process that forced peasants to move to villages designed by planners was strongly resisted by the population, the parastatal sector became a huge financial burden and a source of corruption, and grandiose industrial projects became mired in inefficiencies. In the mid-1970s, significant shortages of all sorts of goods developed, and black market activities became rampant.[6] The collapse of the Tanzanian economy in the late 1970s and early 1980s happened in spite of the involvement of donor countries—in fact, it is possible to argue that this disintegration happened *because* aid agencies were heavily involved in supporting (and even helping design) Nyerere's *ujamaa* socialism economic policies. In many ways, the Tanzanian experience between 1968 and the mid-1980s provides a stark example of the excesses of foreign assistance. During that period the international aid community supported policies—including the taxation of peasants and agriculture—that weakened the economy, encouraged corrup-

3. Bigsten et al. (1999, 2001). See also the data and discussion below.

4. The TANU became the only legal political party in Tanganyika in January 1963. Zanzibar, which formed a union with Tanganyika in April 1964, had its own official party, the Afro-Shirazi Party (ASP). In 1977 the TANU and the ASP merged to form the Chama Cha Mapinduzi (CCM), the official and only party for the whole country. Tanzania adopted a multiparty political system in July 1992.

5. See the data and references in Edwards (2011).

6. See Mtei (2009) for an insider's personal account of this period. Edwin Mtei was the first governor of the Bank of Tanzania, and an actor in many of the country's early economic dilemmas.

tion, and generated economic dependency. Indeed, it may be argued that Tanzania provides the typical case of "deadly aid" described by critics such as W. Easterly (Easterly 2007) and D. Moyo (Moyo 2009).

However, the story of the relationship between Tanzania and the aid community is much more complex than what it appears at first. Indeed, there were many excesses until the mid-1980s, and many wasteful projects were financed with aid monies. A questionable development strategy was encouraged, and policies that reduced the well-being of millions of people were supported. However, in the early 1980s the same donor community that had financed Nyerere's experiments demanded significant policy rectification. Already in 1979, immediately after the war with Uganda and the collapse of the East African Community, the IMF requested major changes in economic policy. These included significant fiscal adjustment, a reduction in parastatals' deficits, and a major devaluation of the Tanzanian shilling. The government, however, resisted these recommendations, arguing that they would work against the nation's overall socialist strategy. In the years that followed, the crisis deepened and social conditions worsened significantly.

Starting in 1982, and as a way to induce adjustment and policy changes, the international community began to curtail foreign aid flows. In the four years between 1981 and 1985, net official assistance, in per capita terms, declined by a remarkable 40 percent.

In 1986, and after President Nyerere decided not to run for reelection, the government of Tanzania and the IMF reached an agreement, and a Standby program was put into place. The shilling was devalued by 57 percent, and fiscal adjustment policies were undertaken.[7] In the years that followed, and with the assistance of the World Bank and other donor agencies, a process of reform aimed at dismantling controls, reducing inflation, and (eventually) eliminating the black market for foreign exchange was launched. Starting in 1986, and as a way to reward the change in policies, net aid once again increased. In 1988, and in per capita terms, it was 92 percent higher than in 1985.

The reforms were gradual, and at times they stalled; some of them even backtracked. Slowly, and after significant strife within the government, the reform agenda gained some momentum and the economy began to recover: fiscal imbalances were reduced, the external sector was liberalized, foreign direct investment was welcomed, the exchange rate was unified, the black market for foreign currency was reduced in size and eventually eliminated, and a series of social programs aimed at assisting the poor and reducing poverty were put in place.

Throughout this period the international community continued to use development assistance as a tool to induce change and guide policy. When

7. If the devaluation is measured as the percentage change in the official price of one USD in terms of shillings, its magnitude would be 135 percent.

the reforms stalled, the donors would withhold aid flows. A particularly serious impasse between the government and the aid community erupted in 1993–94, and was only solved in 1995 when a high-level committee chaired by Gerry Helleiner—a University of Toronto professor, and a Tanzania old hand—mediated between the parties and devised a new approach to coordinate aid. At the time of this writing (late 2011) the relationship between the international community and the government is largely based on credibility and trust. So much so, that an increasing fraction of assistance is provided as general budget support, as opposed to project financing.

During the last few years Tanzania has become an often-discussed example of "African successes".[8] Officials in the multilateral organizations—the World Bank and the International Monetary Fund (IMF)—and in bilateral aid agencies repeatedly refer to Tanzania's performance as a sign that, if properly provided, foreign assistance can be extremely useful and can help a country grow rapidly while reducing poverty. In advertising Tanzania's "success" they mention its rapid rate of growth, the improvement in social conditions as reflected in the Human Development Index, low inflation, and macroeconomic stability. There are, however, a number of skeptics, mostly from nongovernmental organizations (NGOs). They argue that growth is overestimated, that corruption is generalized, that the government is authoritarian, and that poverty has not declined sufficiently.

A serious shortcoming of much of the current discussion on Tanzania's reforms and economic performance is that it lacks a historical perspective. Most recent studies by economists do not provide an appropriate background for understanding economic policy, the relation between the government and the aid community (both multilateral and bilateral), and the prospects of growth. Indeed, the years of Nyerere and African Socialism are mentioned on passing, but are not analyzed in details; there is no inkling on how devastating that period was for the population, or on the ferocious political battles that were waged in the years leading to the reforms.

The purpose of this chapter is to provide a historical perspective on the reform process initiated in 1986 and deepened in 1996. In order to do this I concentrate mostly on the period spanning from 1967, when the Arusha Declaration was adopted by the official political party the TANU, and 1996, when a new approach toward foreign aid was implemented. I am particularly interested in investigating how external aid affected Tanzania during the early years, and how it contributed to the demise of the economy in the 1970s and 1980s. In doing this I emphasize both technical as well as political economy issues related to imbalances, disequilibria, devaluation, black markets, adjustment, and reform. Although I touch on many issues, I do not attempt to provide an exhaustive account of every aspect of the country's

8. Nord et al. (2009); Robinson, Gaertner, and Papageorgiou (2011). For a more nuanced view see Lofchie (2011).

economic and political developments. Such an effort is beyond the scope of a single chapter, even if it is a long one. In discussing these issues I focus on macroeconomic policies and overall economic performance. Because of its emphasis on foreign aid and macroeconomics, the chapter pays special attention to three important episodes in Tanzania's economic history: (a) the exchange rate crisis of the late 1970s and early 1980s; (b) the IMF Standby program and the maxi-devaluation of 1986; and (c) the serious impasse between donors and the Tanzanian authorities in the mid-1990s. My analysis of the peculiarities of the reform process after 1996 is brief and somewhat sketchy. This is deliberate, since there are a number of recent works that cover this period. However, I do provide an evaluation—from a historical perspective—of these reforms.

Before proceeding, a word on methodology: In order to deal with the issues at hand from a historical perspective I follow the methodology of *analytical narratives*, an approach that I have used in my previous work and that I believe is best suited for addressing the intricacies of a complex and long saga that has gone from hope and enthusiasm in the 1960s, to collapse in the late 1970s and 1980s, and back to hope starting in the late 1990s.[9] Although this is not a chapter on the politics of Tanzania—there are many books on the subject, and some of them are very good—I do emphasize, time and again, political economy angles.

The rest of the chapter is organized as follows: In section 10.2 I deal with the current (that is, 2011–2012) "official" narrative regarding Tanzania's reforms and economic performance. This narrative talks about a major success, and has its origins in the multilaterals institutions; not surprisingly, it has been enthusiastically embraced by the Tanzanian authorities. In section 10.3 I put things in historical context by discussing the main views on economic development that dominated thinking in the 1950s and 1960s. I then provide an analysis on the evolution of foreign aid since independence. Section 10.4 covers the period 1961 (when the country became independent) through 1980. The section opens with the expulsion of the IMF mission from Tanzania in November 1979. In section 10.5 I analyze the events that eventually led to the acceptance of an IMF program, and to the maxi-devaluation of 1986. Section 10.6 concentrates on the "war of ideas" and the role of academic and technocrats in forging the reforms. In section 10.7 I focus on the first years after the maxi-devaluation of 1986, and on the first round of reforms. Here I document the extent of policy changes and I investigate the causes behind the slow progress in the reform process. I argue that this had largely to do with the fact that—as has historically been the case in many reform episodes—reform opponents were able to regroup and regain a foothold in the power structure. In section 10.8 I (very briefly) provide some information on the second round of reforms. This is a

9. On "analytical narratives," see the introductory chapter of Bates et al. (1998).

deliberately short section and is included here for the sake of completeness; as noted, the main objective of the chapter is to provide a detailed analysis of the historical background to these reforms. In the final section (10.9) I briefly deal with the reforms since 1996, and I ask whether recent economic performance has indeed been as good as the multilateral institutions, and the official data for that matter, have suggested.

## 10.2 Tanzania's Market-Oriented Reforms and Economic Performance: The "Official Story"

There are a number of works on the evolution of the Tanzanian economy during the last fifteen to twenty years. The most comprehensive of these are Mans (1994), Mutalemwa and Ndulu (2002), Utz (2008), Mwase and Ndulu (2008), Nord et al. (2009), and Robinson, Gaertner, and Papageorgiou (2011). Many (but not all) of these wide-ranging analyses have been undertaken by economists at the International Financial Institutions (IFIs). All of these studies tell, with some variations, a story that emphasizes the role played by the market-oriented reforms in the country's economic takeoff the mid-1990s. In many ways these analyses have contributed to the creation of a generally accepted or "official story" about Tanzania's recent economic accomplishments. (In table 10.1 I provide data on the most important economic and social indicators for 1996–2010.)[10]

The most salient components of this consensus or "official" view may be described as follows:[11]

- Since the mid-1990s, Tanzania has experienced high economic growth. Some authors—most notably Robinson, Gaertner, and Papageorgiou (2011)—date the country's takeoff around 1996.
- From a comparative perspective, and since 1996, Tanzania has done much better, in terms of economic growth and macroeconomic stability, than the average sub-Saharan country.
- Growth has been accompanied by increased macroeconomic stability, including a major reduction of inflation, which in 1984 was a high 36.1 percent, and averaged only 8 percent between 2005 and 2010. (See table 10.1.)
- This acceleration of growth has been attributed to the market-oriented economic reforms undertaken since the mid-1980s. According to Robinson, Gaertner, and Papageorgiou (2011, 22): "[The] key factors behind the takeoff in growth include the significant structural changes that occurred as the basic institutions of a market economy were introduced."

10. See Edwards (2014) for details.

11. The data presented in the bullets that follow come from the papers cited above and/or from the Bank of Tanzania, the IMF, and the World Bank.

**Table 10.1** **Tanzania: Economic and social indicators, 1996–2010**

| | Source | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Economic indicators | | | | | | | | | | | | | | | | |
| Real GDP growth (%) | (1) | 4.5 | 3.5 | 3.7 | 4.8 | 4.9 | 6.0 | 7.2 | 6.9 | 7.8 | 7.4 | 6.7 | 7.1 | 7.4 | 6.0 | 7.0(*) |
| Per capita GDP growth (%) | (2) | 1.7 | 0.9 | 1.2 | 2.3 | 2.4 | 3.4 | 4.5 | 4.2 | 5.1 | 4.6 | 3.9 | 4.3 | 4.5 | 3.1 | 4.1(*) |
| Gross fixed capital formation (% of GDP) | (3) | 16.5 | 14.7 | 19.6 | 17.1 | 16.4 | 17.0 | 18.7 | 20.0 | 21.2 | 22.5 | 23.8 | 25.0 | 26.3 | 29.3 | |
| External debt (total, long-term, % of GDP) | (4) | 94.7 | 78.1 | 67.5 | 65.5 | 58.6 | 53.2 | 55.4 | 51.4 | 54.7 | 49.5 | 21.2 | 23.3 | 22.2 | 24.6 | 27.1(*) |
| Revenue, cash (budgetary central gov't., after grants) (% of GDP) | (5) | 13.2 | 13.9 | 13.3 | 13.4 | 14.6 | 14.7 | 14.9 | 15.9 | 17.4 | 19.3 | 22.9 | 22.8 | 21.3 | 20.4 | |
| Expense, cash (budgetary central gov't.) (% of GDP) | (6) | 17.5 | 11.0 | 13.1 | 12.7 | 16.1 | 15.9 | 15.3 | 17.3 | 20.4 | 23.1 | 28.2 | 22.8 | 26.1 | 27.4 | |
| Cash surplus/deficit, cash (budgetary cen. gov't.) (% of GDP) | (7) | –4.3 | 2.9 | 0.1 | 0.7 | –1.5 | –1.2 | –0.4 | –1.4 | –3.0 | –3.8 | –5.3 | 0.0 | –4.8 | –7.0 | |
| Total international reserves (excluding gold, % of GDP) | (8) | 6.8 | 8.1 | 6.4 | 8.0 | 9.6 | 11.1 | 14.1 | 17.5 | 17.9 | 14.5 | 15.8 | 17.2 | 13.8 | 16.2 | |
| Current account balance (excluding exceptional financing, % of GDP) | (9) | –6.4 | –5.7 | –7.5 | –8.0 | –4.2 | –3.8 | –0.4 | –1.5 | –3.8 | –7.9 | –7.7 | –10.8 | –13.0 | –8.5 | |
| Net official development assistance received (% of GDP) | (10) | 13.4 | 12.3 | 10.7 | 10.2 | 10.4 | 12.3 | 11.7 | 14.8 | 13.8 | 10.6 | 12.8 | 16.8 | 11.3 | 13.7 | |
| Per capita net official development assistance received (constant 2008 US$) | (11) | 38.7 | 44.8 | 46.1 | 45.0 | 46.9 | 56.6 | 56.0 | 62.2 | 56.5 | 45.3 | 52.5 | 72.9 | 54.9 | 69.7 | |
| Inflation, consumer prices (annual %) | (12) | 21.0 | 16.1 | 12.8 | 7.9 | 5.9 | 5.1 | 5.3 | 5.3 | 4.7 | 5.0 | 7.3 | 7.0 | 10.3 | 12.1 | 5.4 |
| Money and quasi-money (M2) growth (%) | (27) | 8.4 | 12.9 | 10.8 | 18.6 | 14.8 | 34.2 | 25.6 | 18.0 | 13.5 | 34.8 | 21.5 | 20.5 | 19.8 | 17.7 | |
| Official exchange rate (TSh/US$, period average) | (28) | 580 | 612 | 664 | 744 | 800 | 876 | 966 | 1038 | 1089 | 1128 | 1251 | 1245 | 1196 | 1320 | 1409 |
| Real effective exchange rate (CPI based, 2005 = 100) | (14) | 122.2 | 136.0 | 144.0 | 139.8 | 141.1 | 143.4 | 133.3 | 113.1 | 102.7 | 100.0 | 93.9 | 93.3 | 97.5 | 99.4 | 90.6 |
| Exports (% of GDP) | (15) | 19.9 | 16.2 | 12.4 | 12.5 | 13.4 | 17.0 | 17.6 | 18.6 | 19.7 | 20.8 | 22.6 | 24.3 | 22.6 | 23.2 | |
| Imports (% of GDP) | (16) | 31.9 | 25.7 | 25.0 | 22.9 | 20.1 | 21.3 | 19.8 | 22.8 | 26.1 | 29.7 | 35.7 | 37.1 | 39.1 | 35.2 | |
| Volume indices of exports (2000 = 100) | (17) | 117.1 | 75.7 | 72.2 | 75.8 | 100.0 | 125.9 | 139.0 | 154.7 | 166.7 | 174.9 | 166.7 | 173.1 | 205.9 | 182.9 | |
| Volume indices of imports (2000 = 100) | (18) | 86.0 | 57.7 | 76.3 | 93.7 | 100.0 | 116.2 | 111.3 | 131.6 | 152.9 | 161.1 | 193.5 | 220.6 | 249.2 | 256.3 | |
| Terms of trade (merchandise, 2000 = 100) | (19) | 95.3 | 98.7 | 98.4 | 99.1 | 100.0 | 95.2 | 98.3 | 101.7 | 103.0 | 98.0 | 109.0 | 110.0 | 107.9 | 121.1 | |
| Social indicators | | | | | | | | | | | | | | | | |
| Population (millions) | (21) | 30.8 | 31.6 | 32.5 | 33.3 | 34.1 | 35.0 | 36.0 | 36.9 | 37.9 | 39.0 | 40.1 | 41.3 | 42.5 | 43.7 | |
| Population growth (%) | (22) | 2.8 | 2.7 | 2.6 | 2.5 | 2.6 | 2.6 | 2.7 | 2.7 | 2.8 | 2.8 | 2.8 | 2.9 | 2.9 | 3.0 | |
| Urban population (% of total) | (23) | 20.9 | 21.2 | 21.6 | 21.9 | 22.3 | 22.7 | 23.1 | 23.4 | 23.8 | 24.2 | 24.6 | 25.1 | 25.5 | 26.0 | |
| School enrollment, primary (% gross) | (24) | 67.4 | 67.7 | 65.8 | 66.6 | 68.1 | 74.2 | 88.9 | 95.5 | 100.7 | 104.7 | 107.7 | 109.6 | 110.5 | 104.9 | |
| School enrollment, secondary (% gross) | (25) | 5.2 | 5.6 | | 6.1 | 6.3 | 6.8 | 7.4 | 7.6 | 9.3 | 11.0 | 13.6 | 20.0 | 25.2 | 27.4 | |
| Life expectancy at birth | (26) | 49.9 | 49.9 | 50.1 | 50.3 | 50.7 | 51.1 | 51.7 | 52.3 | 52.9 | 53.6 | 54.3 | 55.0 | 55.6 | 56.3 | |

*Sources:* (1), (2), (3), (4), (8), (9), (10), (11), (12), (15), (16), (21), (22), (23), (24), (25), (26), (27), (28): WDI; (5), (6), (7): IFS and IMF reports; (14): Author's calculation. Data source: UNCTADstat and WDI; (17), (18), (19): UNCTADstat (only merchandise).

*Estimates.

- The reforms came in two waves (see Nord et al. 2009; Robinson, Gaertner, and Papageorgiou 2011):
  - *Phase 1*: Between 1986 and 1995 the country went through a process of partial liberalization and reforms. Major distortions were addressed, an effort was made to reduce the black market for foreign exchange, and imports of some goods were allowed as long as buyers used their own funds. This initial phase of the reform effort stalled around 1992–93, when a major spat developed between the aid agencies and the government.
  - *Phase 2*: Since 1996 (and until the present time) deeper reforms have been put in place, and a serious effort at stabilizing the economy has been made. The reform effort took off after an agreement was reached between the aid community and the government—the seeds for the agreement were detailed in the so-called Helleiner Report. Starting in 1996 the economy was opened further, the civil service was reformed, rules on foreign direct investment (FDI) were relaxed and streamlined, privatization was implemented, banking reform was put in place, and massive programs aimed at improving education and health services were implemented (Nord et al. 2009; Robinson, Gaertner, and Papageorgiou 2011; Edwards 2011).
- Although the reforms have been gradual, in most areas they have been deeper than in the rest of the sub-Saharan countries. This has been documented by Robinson, Gaertner, and Papageorgiou (2011), and is captured by "policy indexes," such as those put together by the Fraser Institute and other think tanks.
- In Tanzania the reforms impacted economic performance with a considerable lag; while the reforms were initiated in 1986—albeit mildly and in a *go-stop-backtrack-go* fashion—the inflection point in economic performance did not occur until a decade later, in 1996.
- Macroeconomic stability, including the reduction of very large fiscal imbalances, has played an important role in the positive performance of the Tanzanian economy. By avoiding outbursts of inflation, the private sector has been able to concentrate on expanding output and improving efficiency.
- A very high fraction of government expenditures has been financed by foreign aid. Official assistance was 12.1 percent of GDP in fiscal year 2008/09 (total foreign aid—including private aid—in that year reached 17 percent of GDP). In recent years an increasing fraction of foreign aid has taken the form of "government budget support," as opposed to "program support." Between 1996/97 and 2008/09 government budget support more than doubled as a fraction of GDP, from 2.5 percent to 6 percent.
- Although financial reforms have been deep, there are still a number of distortions that constrain the economy. In particular, the banking sector

continues to be dominated by a small number of banks, and credit to the agricultural sector (the most important sector in the economy) continues to be relatively scarce.

- Until recently, exports have played a (very) minor role in growth. In the last few years, however, investment in the mineral sector—most notably in gold mining—has increased significantly. Much of this investment has been from multinational companies. The boom in commodity (and especially metal) prices has also contributed to this surge in investment. There has also been increased foreign investment in the tourism sector. Foreign direct investment has reached 3 percent of GDP in recent years. Recent legal reforms—and, in particular, the Mining Act of 2010—are expected to further bolster investment in the sector.
- From a sectoral point of view, the agricultural sector has lagged behind throughout the high growth period. This is important in a country where more than 74 percent of the population lives in the rural area.
- In terms of sources of growth, most authors have estimated that since 1996 total factor productivity (TFP) growth has been the most important driver of economic expansion. According to Nord et al. (2009), during 1996–2000 TFP growth contributed 2.3 percentage points to growth; according to these authors, during 2001–2008 TFP's contribution to growth had climbed to 3.5 percentage points. Mwase and Ndulu (2008) used the Collins-Bosworth model to estimate TFP growth for Tanzania and sub-Saharan Africa for the period 1960–1997. Their results largely correspond to those in Nord et al. (2009) and Robinson, Gaertner, and Papageorgiou (2011).[12]
- During the last few years there has been a marked improvement in tax collection. As a percentage of GDP, tax revenues have increased from less than 10 percent early in the twenty-first century to 16 percent in 2009/10. In spite of this improvement, there is still a large gap between government revenues and expenditures. As noted earlier, this gap is financed through foreign aid.
- The improved fiscal situation has allowed the government of Tanzania—as well as those of other SSA countries—to run countercyclical fiscal policy.
- What I have called the "official story" emphasized the improvements in social conditions. For example, in 1995 life expectancy at birth was slightly lower in Tanzania than in SSA; by 2010, however, life expectancy at birth was 2.5 years higher in Tanzania. The results are similar when other HDI indicators are considered. The government has emphasized the provision of social services through the MKUKUTA programs (I and II), which have obtained approximately 70 percent of budget allocations.

12. See also Treichel (2005) and World Bank (2007).

- In spite of the government's efforts, in some areas progress has been slow—this has been particularly the case in rural education. It is estimated that by 2015 one-half of the Millennium Goals will be achieved (see table 10.2). In many ways this situation may be characterized as the glass being half full.

To summarize, the official story of Tanzania's recent developments is one of success. To be sure, every one of the authors cited above recognizes that the country continues to be very poor and that it faces major challenges if it is to maintain the growth momentum. These challenges are, largely, of the "garden variety," and are faced by every SSA country—or by every emerging and poor country in the world, for that matter. They include issues related to: (a) capital (physical and human) accumulation, (b) deepening the extent of competition, (c) improving infrastructure and the quality of education, (d) streamlining regulation, (e) encouraging entrepreneurship, (f) strengthening institutions, and (g) improving governance. In terms of sectors, Tanzania's main economic challenges are related to improving productivity in the agriculture, improving the provision of public services, and avoiding the overvaluation of the currency.

The fact that there is some type of agreement on how to interpret the country's recent history—what I have called the "official story"—is not, on its own, a bad thing. Quite the contrary, it shows that there is clarity in the facts and their interpretation. The problem, as noted, is that many of these ac-counts—and, in particular the most recent ones—provide a very limited historical background. Indeed, after going through these works some readers may conclude that before the reforms launched in the mid-1980s Tanzania was just another third world country with poor to mediocre performance. This, of course, is not the case. As pointed out in the introduction—and, to be fair, in many earlier works on Tanzania's development—the decade that preceded the reforms was, to put it mildly, a disaster. Worse yet, this disaster was the consequence of misguided policies that were often *encouraged by foreign donors*. In that regard, it is not possible to understand Tanzania's recent growth takeoff without some detailed reference to the policies that followed the Arusha Declaration of 1967. That is, it is important to put statements such as "Tanzania has emerged as one of the most rapidly growing economies in south-Saharan Africa," in context, and to explicitly address the calamitous collapse of the Tanzanian economy during Nyerere's long rule.

A second limitation of the official narrative is that very few studies penned at the international financial institutions address the issue of the quality of data. In fact, most of the accounts discussed above proceed as if the official figures are fully reliable and should not be questioned or contested. The reality, however, is different, and as I have argued in Edwards (2011), there are a number of indicators that suggest that official figures should be interpreted with care.

**Table 10.2** **Tanzania (mainland): Millennium Development Goals, midway evaluation**

| Millennium Development Goal | 1990 | 2000 | 2008 Actual | 2008 Expected | 2015 | Glance |
|---|---|---|---|---|---|---|
| Proportion of population below basic needs poverty line | 39.0 | 36.0 | 33.6 | 25.0 | 19.5 | Unlikely to achieve |
| Under 5 underweight (%) | 28.8 | 29.5 | 22.0 | 18.4 | 14.4 | Unlikely to achieve |
| Under 5 stunted (%) | 46.6 | 44.4 | 38.0 | 29.8 | 23.3 | Unlikely to achieve |
| Primary school net enrollment rate | 54.2 | 58.7 | 97.2 | 87.2 | 100 | Achievable |
| Under 5 mortality rate (per 1,000 live births) | 191 | 153 | 112 | 99.6 | 64 | Likely to achieve |
| Infant mortality rate (per 1,000 live births) | 115 | 99 | 68 | 59.6 | 38 | Likely to achieve |
| Maternal mortality rate (per 100,000 live births) | 529 | — | 578 | 244 | 133 | Unlikely to achieve |
| Births attended by skilled health personnel (%) | 43.9 | 35.8 | 63 | 77.1 | 90 | Unlikely to achieve |
| HIV prevalence, 15–24 years (%) | 6.0 | — | 2.5 | <6 | <6 | Achievable |
| Access to potable water (% of rural population) | 51 | 42 | 57.1 | 67.6 | 74 | Unlikely to achieve |
| Access to potable water (% of urban population) | 68 | 85 | 83 | 79.5 | 84 | Achievable |

*Source:* United Republic of Tanzania (2009).

Third, many recent studies of Tanzania's economic performance do not deal in sufficient detail with the role of foreign aid in the country's economic history. Of course, every one of them focuses on the importance of external assistance to close the budget gap and to finance investment and social programs. What recent studies have failed to do, however, is to deal with the donors' role in the economy's collapse in the mid-1970s and first half of the 1980s, and with the role it has played in supporting the recovery since 1986.[13] In some ways this is surprising: after all, debates on the role of aid in economic development in general, and in Africa in particular, continue to be very central. Indeed, it may be argued that Tanzania provides the typical case of "deadly aid" described by critics such as W. Easterly (Easterly 2007) and D. Moyo (Moyo 2009).

## 10.3 Ideas and the Evolution of Foreign Aid to Tanzania

In order to comprehend fully the evolution of Tanzania's economic policies since independence in 1961, it is necessary to place them in the proper historical context. In particular, it is important to understand that during the 1950s, 1960s, and 1970s there were competing views on economic development. On the one hand, a large group of economists did not trust markets, believed that in poor countries planning had to guide resource allocation, and that protectionist policies provided the most effective way of encouraging industrialization. Most economists that supported this "planning perspective" believed that the state should own large firms, banks, and trading companies. Key representatives of this view included Ragnar Nurske, Paul Rosenstein-Rodan, and Albert Hirschman. On the other hand, a smaller group of thinkers, including Hungarian-born Peter Bauer and T.W. Schultz from the University of Chicago, believed that market forces and competition provided the best institutional arrangement for developing countries, and that openness and export growth were essential for achieving rapid and sustained growth. While the "planning approach" emphasized the role of capital accumulation as the main source of growth, the "market approach" focused on productivity improvements and human capital.[14]

Many of Africa's independence leaders were educated in the United Kingdom, and were highly influenced by Fabian socialist ideas. Julius Nyerere attended the University of Edinburgh, Jomo Kenyatta and Seewoosagur Ramgoolam went to University College and the London School of Economics, and Kwame Nkrumah was enrolled in the London School of Economics.

13. There is, however, a very extensive literature, mostly by political scientists, on the relationship between the IFIs and Tanzania. Also, a number of works have dealt with the rocky relationship between bilateral donors and the Tanzanian government. See, for example, Wangwe (2002) and the literature cited there.

14. In terms of economic models, this is one of the key differences between the Harrod-Domar and Solow models. See the discussion below.

All of them, and to different degrees, believed in the planning approach and, when in power, followed its policies. However, not all Fabian socialists in Africa were exactly alike; in each country different policies were implemented at different times. In Kenya and Zambia, for example, planning was light, and, at least until the late 1970s, market signals were allowed to operate in most sectors. At the same time, and as Mwase and Ndulu (2008) have pointed out, these countries aggressively pushed nationalistic and indigenization policies, where most businesses had to be owned by Africans. In contrast, Tanzania, Mozambique, and Ethiopia, followed, from early on, a more intense form of planning, where markets were repressed significantly and the state played a growing role in the productive, investment, and distribution spheres. In these countries most large firms, banks, and insurance companies were nationalized. In Tanzania this approach reached its zenith during the villagization process, when more that 12 million peasants were forced to abandon their *shambas* and move into planned villages.[15]

At the core of the planning view of development was the idea that the accumulation of physical capital was the main source of economic growth, and that the availability of labor was not a constraint to economic expansion. These beliefs were based on two theoretical frameworks that had become popular in the 1950s: the Harrod-Domar model that emphasized the roles of the capital-output ratio and the savings rate in determining long-term growth, and Arthur W. Lewis's (Lewis 1954) unlimited supplies of labor model that assumed that enormous quantities of labor were available at very low (almost zero) wages. A corollary of these beliefs was that policies aimed at raising aggregate savings and investment ratios were fundamental components of any successful development strategy. In countries where domestic savings were very low, these would be supplemented by foreign savings in the form of foreign aid. At the same time, the government would make efforts to generate (or "mobilize") additional resources to finance capital accumulation. These resources, in turn, would come from surplus generated by the primary sectors—that is, agricultural, timber, and mining.

During the 1960s and the first half of the 1970s the planning approach was ahead in this "war of ideas." Things, however, began to change in the late 1970s as more developing countries in Africa, Latin America, and parts of Asia experienced (very) low growth and deteriorating social conditions. The war of ideas reached an inflection point in the early 1980s when a growing number of academics used data-based analyses to question the dominant planning paradigm. In Africa the early signs that views on development strategies were changing came with the release of the "Berg Report" by the World Bank and the publication of Robert Bates's book *Markets and States*

15. As Mwase and Ndulu (2008) point out, Mauritius's Ramgoolam followed a pragmatic path, and never succumbed to the promises of full-fledged planning. During the 1950s and 1960s the planning approach was also popular in other parts of the world, including India and Latin America.

*in Tropical Africa* in 1981. In Latin America the inflection point came with the Mexican crisis of 1982 and the realization that every country in the region had become extremely vulnerable to external shocks. Political developments in the advanced nations, and in particular the elections of Ronald Reagan in the United States and Margaret Thatcher in the United Kingdom, also affected the thinking about development.

The shifting views on economic development also affected donors' perspectives on foreign assistance. In a number of advanced countries these changes took time to gel, as many aid agencies were dominated by individuals that were inclined toward the planning approach, and believed that some form of socialism was the best way for poor countries to defeat poverty. Slowly, however, (almost) every Western donor changed the way in which it dealt with recipient countries. This was particularly so in sub-Saharan Africa, where starting in the early 1980s aid was first reduced, and then conditioned on certain policies and reforms being undertaken. (See figures 10.1 and 10.2.)

In figure 10.1 I present data on the evolution of net official development assistance (ODA) per capita to Tanzania between 1960 and 2008. Figure 10.2, on the other hand, includes data on the evolution of aid to five countries—Ghana, Kenya, Rwanda, Tanzania, and Uganda—during the same

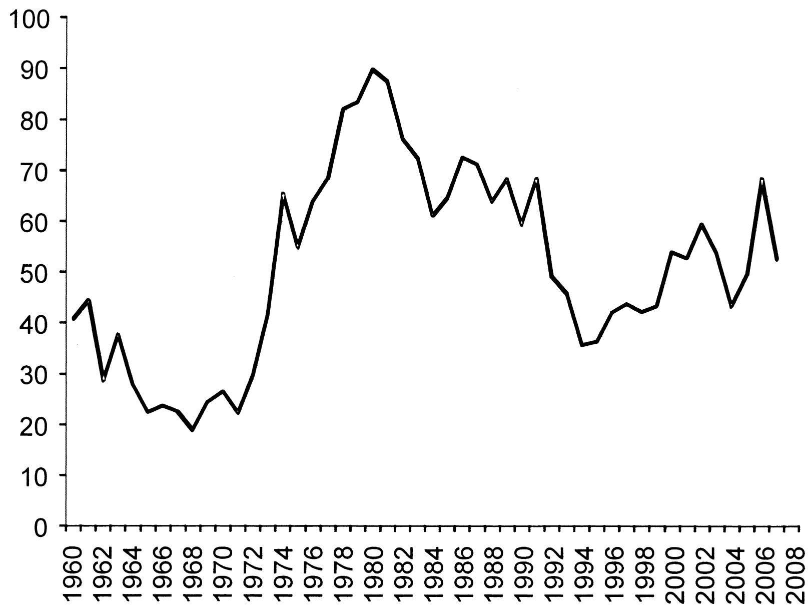


**Fig. 10.1 Tanzania: Per capita net official development assistance (constant 2007 US$)**
*Source:* WDI.

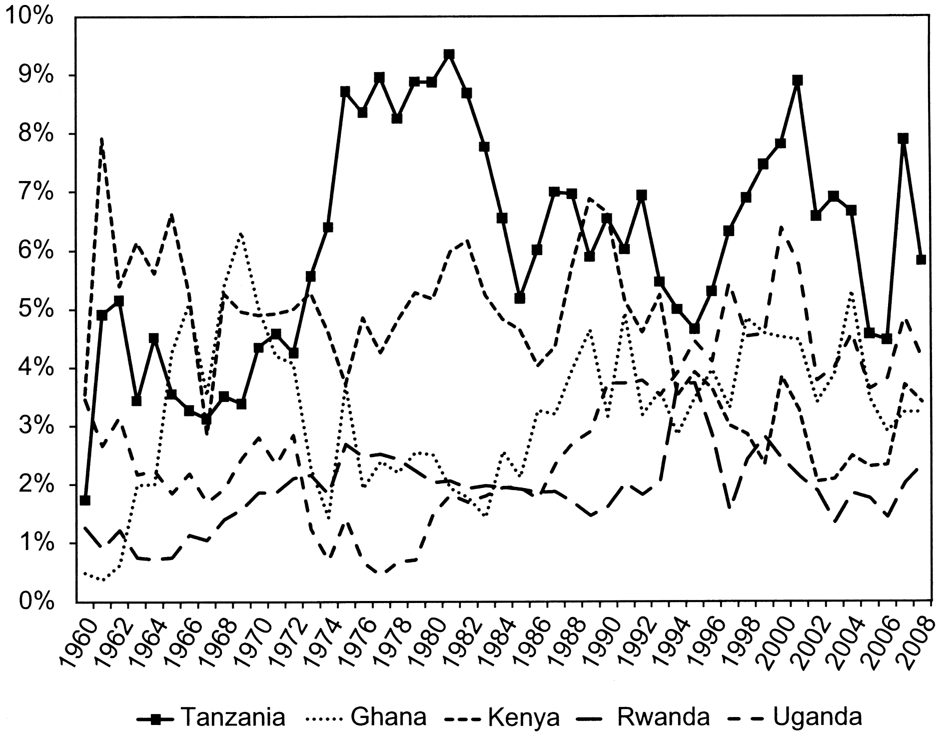


**Fig. 10.2 Tanzania: Net official development assistance (% of SSA)**
*Source:* WDI.

period, measured as a percentage of total net ODA to sub-Saharan Africa. Taken together these two figures provide a wealth of information: (a) They show that Tanzania has been, overall, the biggest recipient of assistance in the region. Indeed, starting in 1973, and with the sole exception of two years (1989 and 1990), Tanzania received the highest percentage of aid of any sub-Sahara African country; (b) these figures also show that ODA per capita to Tanzania, measured in constant 2007 US dollars, has fluctuated significantly during this period. It was at a minimum in 1968 (at USD 18.8) and reached a maximum in 1980, at almost USD 90 per capita; (c) further, these data show that it is possible to distinguish *six phases* in the evolution of assistance during this period (as I will argue below, there is a complex and two-way relationship between the volume of aid and economic policies):

- *Phase I, 1961–1967*: From independence to the Arusha Declaration. During this first period there was a substantial decline in per capita assistance from almost USD 44 per capita during the year prior to independence, to less than USD 20 per person.

- *Phase II, 1968–1980*: This period goes from the adoption of the Arusha Declaration to the major impasse with the IMF in late 1979. During these years foreign assistance increased at a vertiginous pace; it *more than quadrupled* in per capita terms. This was the result of the aid community falling in love with Nyerere's program. The abundance of funds allowed the government to push forward with the policies of African Socialism. As I argue below, it is surprising that, even in light of obvious problems with these policies, aid continued to pour in until so late in time.
- *Phase III, 1981–1985*: During these years there was a precipitous decline in foreign assistance. These were the years of heightened confrontation with the IMF. Toward the latter part of this phase bilateral donors, and in particular the Nordic countries, also withdrew their assistance in light of the government's unwillingness to change its policies. In 1984 official net aid per capita stood at USD 61, down from USD 90 in 1980.
- *Phase IV, 1986–1991*: During this period the flow of aid remained approximately constant (although it did exhibit some ups and downs). These are the first years of the Mwinyi administration, and correspond to the initial years of the (until then elusive) IMF agreement. During these years the initial round of reforms was undertaken.
- *Phase V, 1991–1995*: This period corresponds to the final years of the Mwinyi administration, and was characterized by a stalling of the reform process and a major impasse between the donor community and the government. Per capita net ODA *declined by one-half* during this conflictive time.
- *Phase VI, 1996* to the present: This phase marks the reviving of aid after the Helleiner Commission patched the relations between the government and the donor community. The beginning of this expansive phase corresponds to the change of administration from President Mwinyi to President Benjamin Mkapa, and to the deepening of the reform process. It also includes the first term of President Jakaya Kikwete.

This classification of financial assistance into six distinct phases is somewhat different from what other authors have considered. For somewhat alternative views see Bigsten et al. (1999), Wangwe (2002, 2010), Harrison, Mulley, and Holtom (2009), and Holtom (2005).

Bilateral donors have been particularly important in Tanzania. (See tables 10.3A, 10.3B and 10.3C for some detailed data on ODA by donor country.) A. Bigsten et al. (1999), S. Wangwe (2002), and others have pointed out that, at times, bilateral aid surpassed 80 percent of total aid.[16] Over the years approximately fifty bilateral sources have provided assistance to Tanzania. The most important have been the Nordic countries with roughly 30 percent

16. See, for example, table 1 in Wangwe (2002).

**Table 10.3A** **Tanzania: Net bilateral aid flows from Development Assistance Committee (DAC) donors, 1960–1980 (current, million US$)**

| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | | | | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.8 | 2.3 | 0.8 | 1.6 | 2.8 | 2.2 | 5.6 |
| Austria | | | | | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.4 | 2.9 |
| Belgium | | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 1.7 | 0.2 | 4.8 | 5.3 | 2.5 |
| Canada | | | 0.1 | 0.2 | 0.6 | 0.9 | 1.4 | 2.5 | 2.8 | 1.9 | 2.7 | 5.1 | 6.1 | 11.1 | 31.6 | 32.0 | 20.3 | 9.7 | 29.0 | 28.6 | 19.4 |
| Switzerland | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.4 | 0.2 | 0.2 | 0.5 | 0.3 | 0.4 | 0.6 | 0.7 | 2.0 | 3.1 | 14.0 |
| Germany | | | 0.1 | 2.8 | 9.1 | 4.2 | 6.2 | 3.7 | 3.4 | 3.1 | 3.9 | 6.0 | 6.2 | 9.0 | 12.9 | 28.6 | 20.4 | 29.6 | 55.4 | 79.9 | 74.5 |
| Denmark | | | 0.0 | 0.0 | 0.0 | 0.5 | 0.7 | 0.8 | 1.3 | 2.5 | 3.2 | 4.2 | 4.6 | 7.4 | 18.2 | 23.7 | 19.6 | 35.0 | 37.6 | 39.7 | 32.2 |
| Spain | | | | | | | | | | | | | | | | | | | | | |
| Finland | | | | | | | | | | | | 1.0 | 2.6 | 3.8 | 6.3 | 12.0 | 12.3 | 8.9 | 9.9 | 13.2 | 17.7 |
| France | | | | | | | | | | | | | | | | | | | | | 7.0 |
| United Kingdom | 9.8 | 33.7 | 37.7 | 23.2 | 24.7 | 17.8 | 11.8 | 2.8 | 3.7 | 1.6 | 3.0 | 3.9 | 2.8 | 2.1 | 2.0 | 7.2 | 6.6 | 10.4 | 18.6 | 45.1 | 73.2 |
| Greece | | | | | | | | | | | | | | | | | | | | | |
| Ireland | | | | | | | | | | | | | | | | | 0.2 | 0.1 | 0.4 | 0.7 | 0.6 |
| Italy | | | | | | | | 9.0 | 6.2 | –0.2 | 5.0 | 3.4 | –1.1 | –1.4 | –1.5 | –0.3 | 0.0 | –0.4 | –0.2 | –0.4 | 0.5 |
| Japan | | | | | | | | 0.2 | 0.9 | 1.5 | 0.8 | 1.0 | 1.1 | 2.7 | 3.4 | 2.9 | 2.6 | 2.4 | 10.0 | 23.6 | 39.3 |
| Korea | | | | | | | | | | | | | | | | | | | | | |
| Luxembourg | | | | | | | | | | | | | | | | | | | | | |
| Netherlands | | | | | | 0.3 | | | | 0.1 | 1.3 | 1.5 | 3.7 | 7.2 | 10.8 | 19.0 | 27.6 | 45.6 | 50.9 | 77.5 | 83.2 |
| Norway | | | | 0.1 | 0.1 | 0.3 | 0.4 | 0.4 | 0.4 | 0.8 | 1.4 | 2.9 | 3.5 | 6.9 | 10.8 | 17.2 | 14.5 | 25.7 | 30.7 | 35.1 | 44.2 |
| New Zealand | | | | | | | | | | | | | | | | 1.1 | 0.4 | 0.4 | 0.7 | 0.7 | 1.1 |
| Portugal | | | | | | | | | | | | | | | | | | | | | |
| Sweden | | | | 0.2 | 1.1 | 1.6 | | 2.2 | 3.3 | 8.3 | 7.0 | 10.7 | 16.5 | 32.2 | 34.7 | 55.1 | 51.6 | 57.4 | 64.2 | 93.4 | 78.1 |
| United States | 0.3 | 5.0 | 9.0 | 4.0 | 6.0 | 9.2 | 9.2 | 10.6 | 11.4 | 8.0 | 9.0 | 10.0 | 7.0 | 9.0 | 10.0 | 33.0 | 33.0 | 30.0 | 16.0 | 10.0 | 28.0 |
| European Union institutions | | | | | | | | | | | | | | | | 15.1 | 5.7 | 10.6 | 19.9 | 29.2 | 25.1 |
| **Total** | **10.1** | **38.8** | **47.0** | **30.5** | **41.8** | **34.9** | **29.8** | **32.3** | **33.7** | **27.8** | **37.9** | **49.8** | **53.4** | **90.5** | **140.2** | **249.7** | **218.0** | **268.0** | **352.7** | **487.3** | **548.8** |

*Source:* WDI.

**Table 10.3B** **Tanzania: Net bilateral aid flows from Development Assistance Committee (DAC) donors (current, million US$)**

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 7.3 | 9.6 | 10.5 | 7.0 | 4.1 | 3.0 | 2.0 | 3.0 | 4.2 | 8.0 | 1.7 | 2.3 | 1.7 | 2.0 | 1.2 |
| Austria | 4.0 | 2.3 | 1.2 | 1.2 | 0.4 | 0.7 | 2.7 | 1.8 | 1.0 | 3.1 | 6.3 | 3.8 | 11.0 | 6.4 | 8.5 |
| Belgium | 7.3 | 1.5 | 4.5 | 4.7 | 3.6 | 3.2 | 2.1 | 6.8 | 4.3 | 14.3 | 11.9 | 18.3 | 21.2 | 8.2 | 11.9 |
| Canada | 27.2 | 35.2 | 33.9 | 24.7 | 30.4 | 27.2 | 36.0 | 30.4 | 37.1 | 34.7 | 29.1 | 31.7 | 20.2 | 10.7 | 25.4 |
| Switzerland | 5.5 | 5.2 | 5.8 | 6.1 | 6.1 | 19.2 | 17.0 | 14.5 | 23.5 | 19.0 | 13.9 | 29.2 | 11.9 | 20.0 | 19.0 |
| Germany | 54.8 | 58.8 | 36.3 | 49.9 | 32.9 | 45.0 | 60.2 | 68.1 | 51.8 | 61.4 | 74.8 | 68.5 | 72.0 | 64.4 | 67.2 |
| Denmark | 32.8 | 39.8 | 40.4 | 31.6 | 37.0 | 54.9 | 49.2 | 77.8 | 78.7 | 78.6 | 89.1 | 94.8 | 80.9 | 76.6 | 59.6 |
| Spain | | | | | | | | 0.5 | 4.6 | 6.6 | 1.8 | 1.6 | 0.4 | 0.4 | 1.3 |
| Finland | 16.0 | 14.8 | 18.8 | 21.1 | 16.6 | 28.9 | 34.2 | 67.2 | 55.4 | 51.0 | 40.6 | 34.9 | 15.7 | 22.5 | 9.4 |
| France | 9.2 | 6.2 | 5.0 | 5.6 | 1.5 | 2.0 | 5.2 | 2.6 | 18.3 | 4.5 | 11.1 | 28.7 | 20.4 | 10.0 | 20.2 |
| United Kingdom | 54.8 | 40.6 | 43.5 | 29.2 | 22.6 | 16.9 | 38.9 | 59.1 | 60.8 | 26.7 | 65.0 | 105.0 | 39.6 | 43.8 | 31.2 |
| Greece | | | | | | | | | | | | | | | |
| Ireland | 0.9 | 1.5 | 2.1 | 2.2 | 2.8 | 2.8 | 3.1 | 3.7 | 3.4 | 3.9 | 4.0 | 5.0 | 5.3 | 6.3 | 8.1 |
| Italy | 10.5 | 13.6 | 18.7 | 36.4 | 34.8 | 28.1 | 195.8 | 76.9 | 61.1 | 105.7 | 37.7 | 66.2 | 22.2 | 10.6 | 6.3 |
| Japan | 38.4 | 50.0 | 30.0 | 26.1 | 28.5 | 35.0 | 46.1 | 96.7 | 62.6 | 40.7 | 56.9 | 73.2 | 88.8 | 104.8 | 124.3 |
| Korea | | | | | | | | | | | | 0.4 | 0.3 | 0.3 | 0.3 |
| Luxembourg | | | | | | | | | | | | 0.2 | 0.0 | 0.0 | 0.1 |
| Netherlands | 69.7 | 56.3 | 34.5 | 40.6 | 36.9 | 60.7 | 74.1 | 78.9 | 71.4 | 94.5 | 56.4 | 50.5 | 55.1 | 57.8 | 77.4 |
| Norway | 40.1 | 51.9 | 54.9 | 46.4 | 45.4 | 71.8 | 75.2 | 79.1 | 57.5 | 102.9 | 85.6 | 82.1 | 68.6 | 50.3 | 52.2 |
| New Zealand | 0.7 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 | 0.1 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.4 |
| Portugal | | | | | | | | | | | | | | | |
| Sweden | 76.5 | 73.8 | 69.3 | 55.1 | 49.0 | 106.4 | 76.5 | 103.6 | 90.4 | 149.6 | 143.0 | 93.1 | 91.0 | 51.3 | 45.3 |
| United States | 30.0 | 24.0 | 20.0 | 22.0 | 20.0 | 8.0 | 1.0 | 15.0 | 6.0 | 39.0 | 35.0 | 27.0 | 24.0 | 24.0 | 18.0 |
| European Union institutions | 40.6 | 30.0 | 27.1 | 31.9 | 29.9 | 37.4 | 32.9 | 34.7 | 51.5 | 41.9 | 40.7 | 111.5 | 69.5 | 87.3 | 63.8 |
| **Total** | **526.2** | **515.2** | **456.5** | **441.7** | **402.5** | **551.3** | **752.3** | **820.8** | **743.7** | **886.0** | **804.4** | **928.1** | **719.9** | **657.9** | **650.8** |

*Source:* WDI.

**Table 10.3C** **Tanzania: Net bilateral aid flows from Development Assistance Committee (DAC) donors (current, million US$)**

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 1.6 | 1.6 | 0.7 | 1.0 | 2.0 | 1.9 | 1.0 | 0.5 | 1.2 | 1.0 | 1.3 | 2.6 | 1.9 | 1.4 |
| Austria | 8.8 | 5.6 | 8.7 | 6.0 | 5.7 | 4.8 | 30.3 | 1.7 | 3.2 | 2.4 | 1.7 | 1.5 | 1.7 | 13.0 |
| Belgium | 10.2 | 7.3 | 61.0 | 18.7 | 7.4 | 16.1 | 70.6 | 8.8 | 17.6 | 6.3 | 14.7 | 13.8 | 18.5 | 21.2 |
| Canada | 9.2 | 7.8 | 7.0 | 13.3 | 11.6 | 8.4 | 8.3 | 34.3 | 32.7 | 33.0 | 41.7 | 56.7 | 44.7 | 94.0 |
| Switzerland | 15.6 | 24.3 | 14.0 | 21.4 | 12.7 | 17.0 | 19.3 | 25.6 | 26.0 | 23.6 | 26.4 | 24.0 | 27.7 | 27.0 |
| Germany | 58.7 | 59.3 | 109.9 | 66.6 | 34.8 | 48.2 | 23.2 | 98.5 | 56.4 | 49.9 | 49.3 | 65.0 | 87.4 | 87.1 |
| Denmark | 91.2 | 64.0 | 69.6 | 80.9 | 68.8 | 66.6 | 69.9 | 85.5 | 93.9 | 84.7 | 95.3 | 90.1 | 119.2 | 106.9 |
| Spain | 3.9 | 5.1 | 2.9 | 1.4 | 0.3 | 1.9 | 0.3 | 2.5 | 5.8 | 4.1 | 3.9 | 8.0 | 3.4 | 25.1 |
| Finland | 9.0 | 10.0 | 11.9 | 10.6 | 12.4 | 12.9 | 12.6 | 13.2 | 14.8 | 17.2 | 30.7 | 36.7 | 42.8 | 55.7 |
| France | 3.5 | 79.6 | 7.5 | 4.9 | 15.8 | 13.1 | 16.0 | 1.6 | 120.0 | 2.5 | 2.0 | 3.0 | 4.8 | 7.9 |
| United Kingdom | 67.3 | 67.6 | 158.6 | 88.6 | 152.7 | 285.4 | 109.3 | 285.5 | 215.6 | 220.4 | 218.9 | 230.7 | 254.2 | 216.7 |
| Greece | | | | | | | | | 0.2 | 0.1 | 0.0 | 0.7 | 0.2 | 0.1 |
| Ireland | 9.7 | 12.5 | 15.7 | 13.0 | 15.9 | 16.4 | 24.8 | 26.5 | 32.2 | 35.1 | 39.2 | 52.1 | 65.5 | 55.0 |
| Italy | 3.2 | 3.9 | 3.4 | 33.9 | 0.7 | 1.5 | 132.3 | 1.3 | 5.1 | 4.7 | 2.2 | 4.3 | 6.0 | 6.7 |
| Japan | 105.7 | 55.4 | 83.4 | 74.8 | 217.1 | 260.4 | 58.2 | 74.5 | 52.5 | 36.1 | 39.4 | 721.7 | 71.0 | 120.5 |
| Korea | 0.5 | 0.5 | 0.5 | 0.2 | 0.3 | 0.3 | 0.6 | 0.8 | 1.2 | 2.4 | 3.8 | 9.4 | 7.2 | 9.2 |
| Luxembourg | 0.2 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | 0.5 | 0.1 | 0.2 | 0.2 | 0.1 | 0.7 | 0.5 | 0.6 |
| Netherlands | 74.9 | 52.4 | 80.3 | 55.2 | 97.3 | 75.1 | 138.3 | 95.8 | 117.6 | 90.2 | 114.6 | 128.2 | 114.9 | 62.6 |
| Norway | 54.4 | 50.9 | 44.6 | 49.7 | 35.2 | 34.9 | 46.7 | 67.4 | 59.6 | 60.3 | 75.4 | 114.3 | 127.7 | 116.4 |
| New Zealand | 0.2 | 0.5 | 0.6 | 0.5 | 0.3 | 1.0 | 0.6 | 1.1 | 1.0 | 1.2 | 1.6 | 1.1 | 1.2 | 1.2 |
| Portugal | | | | | | | | | | | | | | |
| Sweden | 65.2 | 48.2 | 59.8 | 46.2 | 63.5 | 47.3 | 61.4 | 66.2 | 83.6 | 91.8 | 111.7 | 107.8 | 125.5 | 97.1 |
| United States | 13.0 | 13.0 | 29.4 | 26.5 | 24.5 | 25.9 | 85.4 | 75.2 | 89.5 | 93.7 | 121.6 | 166.9 | 247.0 | 283.7 |
| European Union institutions | 44.3 | 63.9 | 43.2 | 71.0 | 32.4 | 96.7 | 70.2 | 185.1 | 161.9 | 155.8 | 188.8 | 187.1 | 184.8 | 138.4 |
| **Total** | **650.2** | **633.5** | **812.8** | **684.5** | **811.4** | **1,036.0** | **979.6** | **1,151.5** | **1,191.8** | **1,016.4** | **1,184.3** | **2,026.1** | **1,557.7** | **1,547.2** |

*Source:* WDI.

of all assistance, on average. Sweden has provided about half of this amount. Germany and the Netherlands have contributed almost 23 percent of total aid over the past three decades. In terms of modality, starting in the late 1960s and until 1985 or so, much of the assistance was for financing very large investment projects—many of them white elephant industrial projects. Since 1997, however, an increasing proportion of assistance has been related to programs, including reform and social programs.[17]

The information presented in figures 10.1 and 10.2 and in tables 10.3A, 10.3B, and 10.3C is useful for putting the analysis of the next three sections in historical context. In particular, it helps to understand the fact that initially aid mostly responded to policy; after 1986, however, policy responded to aid. In the rest of the chapter I will delve in greater detail on the two-way relationship between policies and foreign aid.

## 10.4 African Socialism, the Arusha Declaration, Foreign Aid, and the Crisis of 1979

On November 29, 1979, President Julius Nyerere met with the IMF Mission in his Msasani residence, overlooking the Indian Ocean. Bo Karlstrom, an affable Swede economist who led the Fund's team, explained to Nyerere that his institution was prepared to provide substantial assistance to Tanzania. These funds, he said, would help the economy recover from the war with Uganda and from the effects of the recent drought. He added that an IMF program would result in the release of additional funds by the international aid community, including by the World Bank. However, Karlstrom added, before the agreement could be finalized the Government of Tanzania had to make a commitment to undertake two important measures. First, it had to strengthen management practices in the parastatal sector, including, in particular, the National Milling Corporation. Second, and most important, there was a need to deal with the large "overvaluation" of the Tanzanian shilling. This, Karlstrom said, was creating all sorts of problems: exports were discouraged, smuggling was rampant, a black market for foreign exchange (and goods) had developed, and price signals were highly distorted.[18]

The Swede then explained that according to the Fund's calculations the shilling had to be devalued from its "effective" parity of 8.24 Tshs to the US dollar to 12.50 Tshs per USD. He added that the adjustment did not have to take place at once. In fact, he had preliminarily agreed with Minister of Finance Edwin Mtei to do it in two steps.

Minister Mtei, who was at the meeting, remembers that as Karlstrom spoke the president became increasingly agitated. When the economist was

17. In recent years an effort has been made to plan and coordinate foreign assistance. This is done through the discussion and elaboration of the so-called Joint Assistance Strategy for Tanzania.

18. Mtei (2009).

done, Nyerere thanked him and said that he would certainly welcome an improvement in the parastatals management style. He then stood up and left the room without commenting on the proposed devaluation of the shilling.[19]

In his memoirs, Mtei says that the president went for a walk on the beach. When the minister caught up with him, he noticed that Nyerere was furious. He told Mtei that "he would never allow his country to be run from Washington." He added: "I will devalue the shilling over my dead body." After a few seconds he said that the IMF Mission was not welcomed in Tanzania any longer, and that the team had to leave the country immediately.[20] Three days later the IMF Mission was asked to depart, and President Nyerere dismissed Edwin Mtei from the cabinet.[21]

The years that followed were years of crisis and sorrow: the government continued to push the policies of African Socialism while shortages became generalized, mismanagement and corruption took over the parastatal sector, the black market became widespread, businessmen were treated as criminals or "economic saboteurs," and real incomes declined precipitously. As time passed, economic conditions worsened and imbalances became more pronounced. Attempts by the international community to convince the government to change course and address some of the most egregious disequilibria were not heeded. The extent of the ensuing crisis is starkly illustrated by the evolution of the black market premium for foreign exchange, which in October of 1982 reached the remarkable level of 368 percent (see figure 10.3).

In this section I discuss Tanzania's economic crisis of 1986 from a historical perspective. I begin by providing a brief background on economic conditions and developments during the early years of independence, 1961–1967. I then deal with the Arusha Declaration and the policies and consequences of African Socialism. Here I discuss the role played by foreign aid in supporting Nyerere's policies.

### 10.4.1 Background: The Pre-Arusha Declaration Period

After Ghana's independence in 1957, the Colonial Office developed a plan for granting self-rule to British colonies in Africa. Within this framework, it was decided that Tanganyika would become self-governed very late in the process. The alleged reason was that Tanganyika did not have the "civil servants, legislators and economic capacity to run its affairs."[22] Sir Richard Turnbull, then governor, argued in 1959 that it would take about *twenty years* for the country to have a "sufficient number of Africans of experience,

19. Mtei (2009).
20. See Mtei's memoirs (Mtei 2009, ch. 17, 149–57).
21. As E. Mtei explains in his memoirs (Mtei 2009), immediately after the IMF Mission was thrown out of the country he drafted a letter of resignation. A day later, when Nyerere dismissed him, the president claimed that he had never received it.
22. Iliffe (2005) "TANU and the Colonial Office."

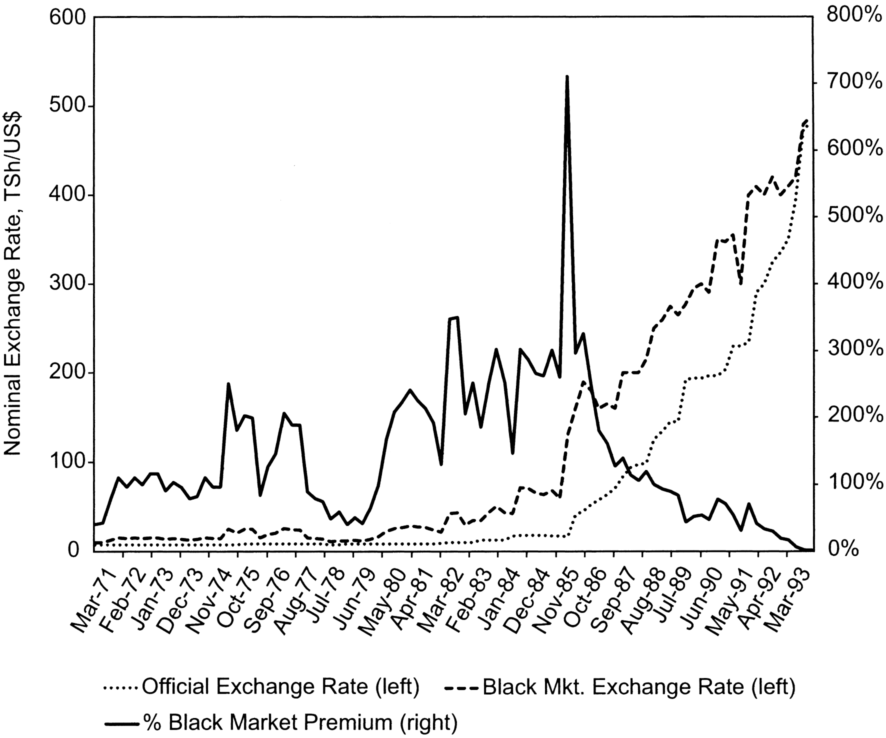


**Fig. 10.3 Tanzania: Black market exchange rate premium**
*Source:* Author's calculations based on World Currency Yearbook (various issues) and IFS.

ability and integrity to fill posts in the public service, and in commerce and industry" (quoted by Iliffe [2005], 189).

Things, however, did not work out in the way the British had planned, and Tanganyika was the first East African country to become independent, on December 9, 1961. This rapid achievement of self-rule was the result of unexpected political dynamics, where an innovative voting scheme that granted every eligible voter three votes was used to its advantage by Julius Nyerere's TANU.[23]

At independence, Tanganyika was a very poor agricultural economy. In 1961, for example, the category "agriculture, hunting, forestry, and fishing" represented, *at least*, 40 percent of monetary GDP, and in 1964, the year of the first "Five-Year Plan for Economic and Social Development," it had

23. There is a vast literature on Tanzania's independence. See, for example, the essays in Maddox and Giblin (2005). For a detailed timeline of economic and political events, see Edwards (2014).

climbed to almost 50 percent of GDP.[24] In terms of employment, the agricultural sector was even more important, with an estimated 80 percent of total jobs.

One of the early economic challenges of the new independent government was replacing the colonial administration by African civil servants. This process of "Africanization" was particularly difficult given the limited number of Tanganyikans with college degrees. From today's perspective it is difficult to grasp fully the depth of this skills shortage. According to former Governor of the Bank of Tanzania, Edwin Mtei, in the late 1950s, "there were only ten Government secondary schools in the whole of Tanganyika. Tanganyikans that had gone to university and obtained degrees could be counted with on your finger nails: they were not more than ten, and we knew them all."[25]

In May 1964, President Nyerere presented to parliament the first Five-Year Plan for Economic and Social Development. In the president's own words, the purpose of this plan was "the creation—through African Socialism—of a country in which we can live proudly as brothers." The first Five-Year Plan covered only Tanganyika, as the union with Zanzibar that formed what we know today as Tanzania was only announced in late April 1964, when work on the plan was almost completed. Moreover, unification was negotiated in secret by presidents Nyerere and Karume during the first few weeks of April, only four months after the Zanzibar Revolution.[26]

The first Five-Year Plan called for a rate of growth on national income of 6.7 percent per year, and a reduction in the subsistence sector. It also presented a protectionism-based strategy for increasing the degree of industrialization. As Nyerere himself put it, "[i]n future a system of industrial licensing and import quotas [will be implemented]."[27]

Although the first Five-Year Plan covered only the period 1964–1969, it took a long-term perspective, and presented three main goals to be achieved by 1980:

1. to raise our per capita income from the present £19 6s. to £45;
2. to be fully self-sufficient in manpower requirements; and
3. to raise the expectation of life from the present thirty-five to forty years to an expectation of fifty years.

24. The "monetary sector" was defined as that part of the economy that was subject to market (or monetary) transactions. The rest of the economy, estimated to comprise about one-third of total output, corresponded to the "subsistence" sector. The "at least" qualification is taken from the Bank of Tanzania's report *Twenty Years of Independence* (Bank of Tanzania 1982), where an asterisk by the Agricultural et al. entry in the GDP accounts point out that the figures are "known to be understated."

25. Mtei (2009, 25–26).

26. On the Zanzibar Revolution, see the classic books by M. Lofchie (Lofchie 1965) and D. Petterson (Petterson 2002).

27. Nyerere's speech to parliament on May 12, 1964. Reproduced in the first Five-Year Plan (Government of Tanganyika 1964).

Table 10.4 presents data on some important economic indicators for the period 1961–1968. Three points deserve attention. First, during this early period, data are only available for a handful of variables. Second, many of these figures, including the numbers for population growth, are, at best, broad estimates. Third, the figures on GDP growth are particularly questionable, as a large proportion of the economy (about one-third) was not integrated into the monetary circuit, and took place in remote rural areas; this was the so-called "subsistence sector."

The data in table 10.4 also show that until 1966 inflation was rather low, and did not contribute to real exchange rate appreciation. This is partially explained by the fact that until 1967, when the Bank of Tanzania was created, the country did not have an independent monetary policy. Tanzania was a member of the East African Currency Board, which administered the East African shilling. The other members of the monetary union were Kenya, Uganda, Zambia, and the Aden Protectorate (South Yemen). For most of its existence this currency board followed strict rules, and only created liquidity if this was backed by foreign currency reserves—mostly sterling.[28]

By 1966 it became clear that the first Five-Year Plan goals were not to be achieved. In particular, some of the ambitious agricultural targets—especially those for major increases in the production of sisal, groundnuts, and cotton—were missed by significant margins.[29] In addition, very little private sector investment was attracted. This was a hard blow for the authorities, since the first Plan explicitly assumed that almost one-half of total investment would be provided by the private sector. Moreover, and as was shown in figure 10.1, during those years per capita net overseas assistance experienced an important decline. It is not an overstatement to say that during 1965–66 President Nyerere was becoming increasingly frustrated with the country's economic performance and future.[30]

### 10.4.2 The Arusha Declaration and the Economic Consequences of African Socialism

According to the legend, President Nyerere drafted the Arusha Declaration, the document that was to guide the country's life for at least the next two decades, with little help from senior advisors. The Declaration was presented to the National Executive Commission (NEC) of the official political party TANU on February 3, 1967, and was approved without much discussion.[31]

28. After 1964 these rules were relaxed somewhat, but the overall stance of East African monetary policy until 1967 was conservative.

29. Other crops surpassed their targets. See table 1 in the second Five-Year Plan (Government of Tanzania 1969).

30. As pointed out above, the quality of aggregate data in Tanzania is poor. This is particularly the case for the early years. According to official statistics, GDP per capita growth was negative in 1965 (–0.3 percent), and an astounding 9.5 percent in 1966.

31. Tanganyika had become a one-party country in 1962. See the "Timeline Appendix" in (Edwards 2012) and the works cited there.

**Table 10.4 Tanzania: Economic and social indicators, 1960–1968**

| Economic indicators | Source | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP growth (%) | (1) | | 4.2 | 7.1 | 4.1 | 6.5 | 2.7 | 12.8 | 4.8 | 5.1 |
| Per capita GDP growth (%) | (2) | | 1.3 | 4.1 | 1.1 | 3.5 | –0.3 | 9.8 | 1.7 | 2.0 |
| Gross fixed capital formation (% of GDP) | (3) | 16.1 | 13.7 | 11.6 | 10.7 | 12.0 | 13.9 | 15.1 | 18.9 | 18.4 |
| Revenue, cash (budgetary central gov't., after grants) (% of GDP) | (5) | | | | | | | | | 14.5 |
| Expense, cash (budgetary central gov't.) (% of GDP) | (6) | | | | | | | | | 18.3 |
| Cash surplus/deficit, cash (budgetary cen. gov't.) (% of GDP) | (7) | | | | | | | | | –3.9 |
| Total international reserves (excluding gold, % of GDP) | (8) | | | | | | | 6.7 | 6.5 | 7.7 |
| Net official development assistance received (% of GDP) | (10) | 2.0 | 7.2 | 8.0 | 4.9 | 5.8 | 4.9 | 3.8 | 4.3 | 4.0 |
| Per capita net official development assistance received (constant 2008 US$) | (11) | 11.2 | 38.3 | 41.8 | 27.2 | 36.8 | 27.2 | 22.4 | 24.8 | 23.5 |
| Inflation, consumer prices (annual %) | (12) | | 7.8 | 0.6 | 4.9 | 2.8 | –2.4 | 9.8 | 12.2 | 15.6 |
| Money and quasi-money (M2) growth (%) | (27) | | | 21.7 | 25.6 | –15.2 | 31.8 | 476.7 | 13.7 | 17.3 |
| Official exchange rate (TSh/US$, period average) | (28) | 7.14 | 7.14 | 7.14 | 7.14 | 7.14 | 7.14 | 7.14 | 7.14 | 7.14 |
| Exports (% of GDP) | (15) | 32.1 | 27.5 | 27.0 | 30.0 | 27.8 | 26.1 | 28.6 | 26.5 | 24.2 |
| Imports (% of GDP) | (16) | 29.8 | 29.8 | 27.3 | 26.6 | 23.2 | 25.1 | 27.0 | 26.2 | 26.7 |
| Terms of trade (1987 = 100) | (20) | | 130 | 124 | 137 | 142 | 137 | 137 | 126 | 126 |
| Social indicators | Source | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
| Population (millions) | (21) | 10.1 | 10.4 | 10.7 | 11.0 | 11.3 | 11.7 | 12.0 | 12.4 | 12.8 |
| Population growth (%) | (22) | | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.1 |
| Urban population (% of total) | (23) | 5.2 | 5.4 | 5.5 | 5.7 | 5.8 | 6.0 | 6.4 | 6.8 | 7.1 |
| Life expectancy at birth | (26) | 43.6 | 43.9 | 44.1 | 44.4 | 44.7 | 45.0 | 45.3 | 45.6 | 45.9 |
| Physicians (per 1,000,000 people) | (29) | 54.9 | 39.5 | | | | 45.3 | | | |

*Sources:* (1), (2), (3), (20): Bigsten and Danielson (2001); (5), (6), (7): IFS; (8): IFS and Bigsten and Danielson (2001); (10), (12): WDI and Bigsten and Danielson (2001); (11), (21), (22), (23), (26), (27), (28), (29): WDI; (15), (16): IFS and WDI.

Nyerere promulgated it officially on February 5, during the closing ceremony of the NEC meeting.

Whether Nyerere was the sole author of the Declaration is still a subject of debate. According to Edwin Mtei, who met with the president around that time, Nyerere finished drafting the Declaration on February 3. An interesting question is what prompted him to pen this document and to urge TANU to approve it precisely at that time. Some possible explanations include the poor performance of the economy—and in particular of private investment—relative to the goals set in the first Five-Year Plan. Another possible reason has to do with the president's realization that, in spite of his views and efforts, a class-based society had been developing in the countryside since independence—this phenomenon has sometimes been referred to as the creation of a "kulak" class among Tanzania's farmers.[32] An important episode that may have also contributed to the writing of the Declaration was the demonstration, in October 1966, by University of Dar es Salaam students against the obligatory six months of National Service. On this incident, see, for example, Lonsdale (1968), Mtei (2009), and Minogue and Molloy (1974).

Today, almost forty years after it was passed by the TANU, the Declaration continues to be a captivating document, and one can almost sense the excitement with which it was received by Tanzanians, by citizens of other African nations, and by those interested in economic development. Of course, some observers—in particular, those that favored the market-based approach discussed in section 10.3—reacted with concern, but at the time they were a clear minority.[33]

The Arusha Declaration is part manifest, part vision statement, and part policy blueprint. It is a short document, divided into five parts. It opens as follows: "The policy of the TANU is to build a socialist state."[34] The first part is titled "The TANU Creed" and is a declaration of principles that states the official party's main beliefs and goals. It reiterates Nyerere's early call for a war on "poverty, ignorance, and disease," and states that the government will fight to eradicate all types of exploitation, discrimination, bribery, and corruption. From a historical perspective, it is interesting that it vows to "actively assist in the formation and maintenance of co-operative organizations." In 1976, less than ten years after the Declaration was launched, agriculture cooperatives were prohibited.

Part Two of the Declaration deals with "The Policy of Socialism," and

32. An early and very influential writing where Nyerere exposed his socialism views was published in 1962, when Tanganyika had been independent for less than a year, as "Ujamaa: The Basis of African Socialism." Also, see Nyerere's address to the TANU National Conference on October 16, 1967. See, also, Lonsdale (1968).

33. Thousands of pages have been written about this document by political scientists and economists that have spent decades deconstructing it in an effort to interpret Nyerere's ultimate goals. Readers interested in details are referred to Lofchie's (2011) illuminating analysis and to the works cited in the bibliography.

34. The Arusha Declaration was originally in Swahili. The English version of the Arusha Declaration that I use in this book comes from: http://www.marxists.org/subject/africa/nyerere/1967/arusha-declaration.htm.

asserts that a requirement for building a socialist society is that most "means of production" should be owned by the state. It then provides a long list of affected means of production that includes land, forests, minerals, water, oil and electricity, news media, communications, banks, insurance, import and export trade, wholesale trade, iron and steel, machine tools, arms, motor cars, cement, fertilizers textiles, large plantations, and "any big factory . . . which provides essential components to other industries."[35]

Part Three is the lengthiest one and deals with "The Policy of Self-Reliance." It opens with a long and highly pedagogical explanation of how the low level of funding—the document refers to it as "money"—restricts development options. It then points out that relying on foreign aid is not the solution:

> It is stupid to rely on money as the major instrument of development when we know only too well that our country is poor. It is equally stupid, indeed it is even more stupid, for us to imagine that we shall rid ourselves of our poverty through foreign assistance rather than through our own financial resources.

It then argues at length that relying on gifts and loans endangers the country's independence and its ability to choose its own policies. The document then provides a drawn-out discussion on the perils of putting too much emphasis on industries, of thinking that development begins with industrialization. The next section of Part Three is suggestively titled "Let Us Pray and Heed to the Peasant," and explains with great clarity that the main problem with "import substitution" industrialization is that those that benefit from it (urban dwellers and industrial workers) are not the ones that suffer the costs of the policy. Industrialization is paid for by peasants. It then says:

> [T]here are various forms of exploitation. We must not forget that people who live in towns can possibly become exploiters of those who live in rural areas. . . . There are two possible ways of dividing the people in our country. We can put the capitalists and feudalists on one side, and the farmers and workers on the other. But we can also divide the people into urban dwellers on one side and those who live in the rural areas on the other. If we are not careful we might get to the position where the real exploitation in Tanzania is that of the town dwellers exploiting the peasants.

What is remarkable about this extract is that it did not take too long for policies to evolve exactly in the direction Nyerere deplored with such vehemence. As a number of economists that were engaged in policy formulation have recognized years later, the main problem with the country's economic policy after 1968 was that it taxed the agricultural sector in order to finance

35. In including this latter point, Nyerere appears to have been influenced by Hirschman's theories of backward and forward linkages.

huge industrial projects. For example, Brian Van Arkadie, who was deeply involved in preparing the second Five-Year Plan has argued that a number of policies implemented were inconsistent, and even contradicted, the spirit and explicit goals of the Arusha Declaration (Van Arkadie 1995).

Part Four of the Arusha Declaration is very short—it has only two paragraphs—and establishes the policies for "TANU Membership." The fifth and final part of the Declaration includes a short resolution on the principles that the country's leadership should adhere to. The document states that TANU and government leaders could *not* do the following: (a) own shares in any company, (b) be on the board of any privately owned enterprise, (c) receive two or more salaries, or (d) own a house that is rented out to others. As former Governor of the Bank of Tanzania and former Finance Minister Edwin Mtei has said in his memoirs, these requirements—and especially the prohibition of renting a house—created significant problems for many of the government senior officials.

Immediately after the Declaration was promulgated, a number of laws nationalizing the banking, insurance, and international trade were passed by parliament. Also laws that expropriated 60 percent of a number of key industries were approved.[36] Some of the specific pieces of legislation included Parliament's Act No. 1 of February 15, 1967, which nationalized all nine commercial banks. The same Act created the National Bank of Commerce, which from that point on had monopoly power with respect to banking and financial activities. Act No. 3 of February 16, 1967, nationalized nine milling and import-export companies, and amended the National Agricultural Products Board Act of 1964 in order to allow government-run marketing boards to act as sole purchasers of different crops. Act No. 4 nationalized the insurance industry, and Act No. 5, passed on February 15, allowed the Minister of Industries, Natural Resources and Power to expropriate up to 60 percent of a number of large companies, including breweries, cement companies, shoes manufacturers, mining companies, and tobacco companies.

In the months that followed, parliament passed a flourish of legislation aimed at furthering the goals of African Socialism and increasing government control over most spheres of economic activity. A particularly significant piece of legislation was the Land Acquisition Act of October 1967 that greatly reduced the protection of property rights by giving the president the power to "acquire any land . . . required for any public purpose." Owners whose properties were chosen for purchase had no legal recourse and had to sell; compensation was contemplated, but in almost every case it was merely nominal.

In drafting the Arusha Declaration and in forging the path to African

36. The different acts passed by parliament after the Arusha Declaration may be found in the following website: http://www.saflii.org/tz/legis/num_act/toc-1967.html.

Socialism, Nyerere was strongly influenced by China's experience. He traveled to China for the first time in February 1965, and was very impressed by that country's achievements, including the collectivization of the agricultural sector into communes. Even though Nyerere had thought, from very early on, about the importance of frugality and of reducing economic dependency, he did not use the term "self-reliance" until June of 1965, immediately after Zhou Enlai's visit to Dar es Salaam.[37] Indeed, in the 1964 speech to parliament presenting the first Five-Year Plan for Economic and Social Development, self-reliance is not mentioned at all; he did, however, refer to African Socialism once, toward the end of the speech.

Nyerere returned to China many times. In a 1968 visit he stated that he had "come to China to learn." And, in a 1974 visit to Beijing he said: "[What] encourages me [about the future of socialism in Africa] is China . . . China is providing an encouragement and an inspiration for younger and smaller nations which seek to build socialist societies."[38]

To be sure, China was not the only influence in Nyerere's and his advisors' thinking on economic development and policies. As discussed in some detail in section 10.3, and as emphasized by N. Mwase and B. Ndulu (Mwase and Ndulu 2008), during the late 1960s and 1970s policymaking in Tanzania was greatly influenced by a number of development economists that argued that small and poor countries had to rely on strict planning to allocate resources. Reflecting the times, Tanzanian economists and politicians emphasized questions related to colonialism and the relation between poor countries in the "periphery," and rich ones in the "center." Samir Amin, an Egyptian economist, author of "Imperialism and Unequal Development" (*Le Développement Inégal*), was particularly influential, as were Immanuel Wallerstein, and Andre Gunder Frank.[39]

In spite of the influence of neo-Marxist intellectuals in his rhetoric and vision formulations, and in spite of its unmistakable quest for building a socialist society—remember the opening of the Arusha Declaration: "The policy of the TANU is to build a socialist state." Nyerere's own thinking was, clearly, non-Marxist. Indeed, the fact that he was Catholic and a humanist, as well as his insistence of forging a national identity that went beyond tribal and ethnic origin, made him particularly attractive to Nordic donors.[40]

37. Bailey (1975). Interestingly, the first Five-Year Plan mentions "self-sufficiency" as one of the plan's goals.

38. Quoted by Bailey (1975).

39. Interestingly, Latin American thinkers such as Fernando Henrique Cardoso and Enzo Faletto, authors of the well-known *Dependency and Development*, don't seem to have affected Tanzanian views on economic strategy. Neither did more radical Latin American dependency thinkers such as Theotonio Dos Santos (who was a professor of mine, as was Gunder Frank) and Vania Bambirra appear to have influenced African thinking in a significant way.

40. N. Linton (1968, 2) pointed out that "Nyerere the Catholic, the liberal humanist, the gradualist . . . [was] not likely to use the methods of Mao. . . . The rejection of Marxism-Leninism sharply distinguishe[d] Nyerere from other leading African socialists."

*The Second Five-Year Plan for Economic and Social Development*

The specific policies for implementing the Arusha Declaration were summarized in the second Five-Year Plan for Economic and Social Development, 1969–1974. At the aggregate level, the main objective of the plan was a rate of growth of GDP of 6.5 percent per annum. The document recognized that this was an ambitious objective, but one that, according to Nyerere, could be achieved "through a maximum effort by the Government, the parastatal organizations and the rural masses" (2). The plan also called for a significant increase in the rate of industrialization, with a yearly rate of growth of 11 percent for the manufacturing sector. According to the Plan, the goal of expanding the industrial sector was almost exclusively the responsibility of the National Development Corporation, the most important of the parastatals. Investment was to increase from 22 percent to 25 percent of (monetary) GDP, and the annual trade deficit was to average 4 percent of GDP. A fascinating aspect of the plan was that, in line with the ideas of self-sacrifice and self-reliance, it called for *zero growth* of imports of consumer goods during the five-year period.[41] This was to happen in a country that was supposed to experience an increase in real income of almost 50 percent in five years!

According to the Second Plan, and in line with the principles set out in the Arusha Declaration, the core of Tanzania's economic and social strategy was rural development, including a major effort to increase agriculture's production. Indeed, according to African Socialism strategists the agricultural sector would become so dynamic that it would generate the "surplus" required to finance major investments in the manufacturing sector and, thus, achieve one of the most ambitious goals of the Plan: "the contribution of industry to gross domestic product . . . [will] increase seven-fold in the period 1968/69 to 1985, more than doubling the ratio of industrial output to gross domestic product."[42]

But increasing agricultural output was not the only goal of the rural development strategy. As important, if not more important, was villagization or the agglomeration of peasants in planned communities or ujamaa villages. Indeed, villagization was seen as a policy that would help achieve the ambitious agricultural growth targets. In that regard it is worth quoting the Second Plan extensively:[43]

41. Second Five-Year Plan (Government of Tanzania 1969, table 7, 215).

42. In the speech presenting the second Five-Year Plan to the TANU, Nyerere said: "The decision to give top priority to rural development . . . has implications for every other aspect of the Development Plan . . . [I]t means that there is less money and less manpower which can be devoted to improving conditions in the urban areas" (Government of Tanzania 1969, 63).

43. The guidelines for villagization were given by Nyerere in September 1967, in a document titled "Socialism and Rural Development." For some details on how this policy fitted within the overall economic conception and strategy, see second Five-Year Plan (Government of Tanzania, 26).

> The objective [of ujamaa villages] is to farm the village land collectively with modern techniques of production. . . . The equality of farmers in ujamaa communities, with no divisive class distinctions, creates a healthy and stable social system where exploitation and inequality can be eliminated. . . . Until recently the trend has been in the opposite direction . . . towards the development of a class system in the rural area.

This is how A. R. Roe, an outside observer and a supporter of the Tanzanian experiment with African Socialism, commented on the villagization effort:[44]

> This self-help, labor-intensive program having many parallels with Chinese agricultural organization is the latest feature to be built into Tanzania's personalized version of African Socialism, but it is also the most unique and exciting feature. The contrast with the capital intensive "village settlement" scheme of the previous plan could not be greater, but there is little doubt that the change is *potentially a change in the right direction*.

Roe's enthusiasm for villagization was, by no means, unique; it was shared by many analysts and development experts. More importantly, the plan was praised by aid agencies, which during the early years provided substantial resources for its implementation. Indeed, in light of the program's failure—what was to be a voluntary reallocation became, in a few years, a forced and obligatory one—it is surprising that initially there was no voice in the aid community (or, at least not a prominent voice) that expressed doubts or skepticism about it. Several World Bank documents, and in particular those related to loans, mentioned the fact that villagization was running into some technical difficulties due to its ambitiousness, but no real criticism—and, of course, no indictment—of the program can be found in documents or reports from those years.

In 1972 the government launched the Basic Industrial Strategy, aimed at accelerating the creation of an industrial base that, within the context of the overall import substitution industrialization approach, would satisfy domestic demand for consumption goods and provide the bases for a heavy industrial sector. At the same time the Small Industries Development Organization was created to encourage, through a number of subsidies, small-size industrial firms that would produce a variety of light manufactured goods. In determining which specific industries to promote, protect, and subsidize, the Ministry of Economic Development and Planning performed a number of exercises using an input-output table that had been constructed in 1970.

In 1973, and in an effort to curb rapidly increasing inflation, the National Price Commission (NPC) was created with the goal of controlling prices at every level of the economy.[45] By 1975 the NPC controlled more than 3,000

44. Roe (1970, 397).

45. According to the Act that created the NPC, "no decision of the Price Commission . . . shall be subject to review by any court on any ground whatsoever" (The Act, 1973, section 15).

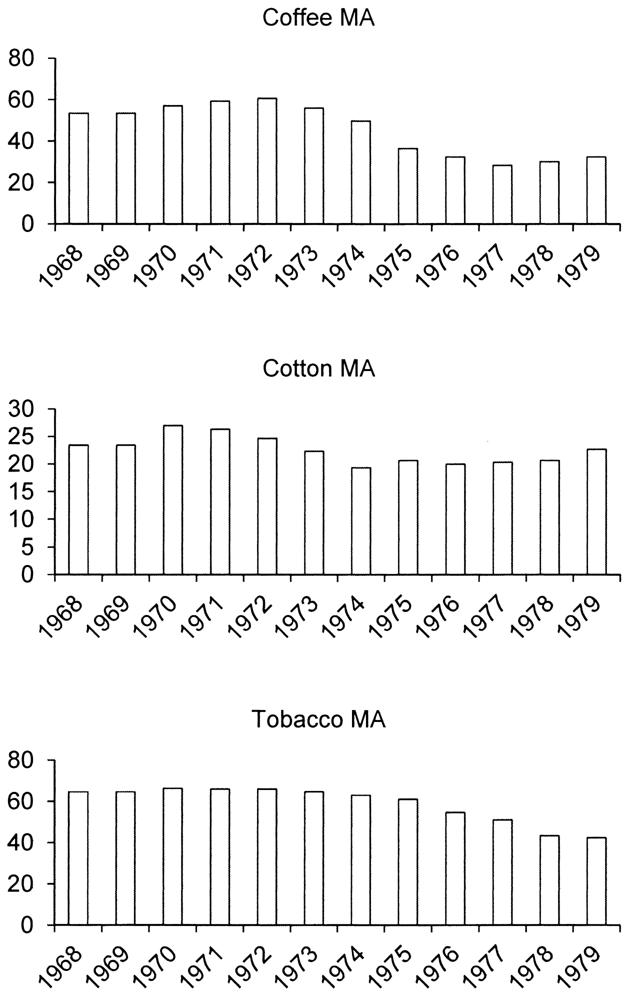


**Fig. 10.4 Moving averages of producer prices in three agricultural crops, relative to export prices**
*Source:* Bank of Tanzania (1984).

prices, both at the retail and wholesale levels. What is remarkable is that it did this without having the appropriate personnel. Indeed, in over seven years of operation the NPC was only able to hire two qualified cost accountants.[46]

The effort to extract an increasing surplus from the rural sector is illustrated in figure 10.4 that shows the evolution of the three-year moving average of domestic producer prices, as a proportion of export prices, for coffee, cotton, and tobacco. As may be seen, in all three crops producer

46. Whitworth (1982, 478).

prices declined significantly, as a fraction of export prices: for coffee producers prices went from 57 percent to 28 percent, for cotton they declined from 27 percent to 20 percent, and for tobacco from 66 percent to 50 percent.[47]

The agricultural sector was not only affected by a decline in relative prices, but also by a severe reduction in capital accumulation: between 1976 and 1981 real investment in the agricultural sector declined by 37 percent. In addition, the collapse of transport infrastructure—mostly due to lack of maintenance—hampered distribution. During the late 1970s and early 1980s it was common for crops to not reach markets because of the inadequacy of transport. As a result of this some peasants withdraw partially from the monetized economy, moving toward subsistence production-cum-barter; the majority of farmers, however, resorted to using unofficial or black markets. By the late 1980s the spread between official and unofficial (or black market) prices had widened significantly, reaching in some cases (cassava) almost 300 percent (Ndulu and Hyuha 1984; Raikes 1986).

As the years progressed it became abundantly clear that the government's rural development policies were not working. Agricultural production was stagnant or declining—a severe drought in 1973–74 contributed to the sector's dismal performance—and a large number of peasants were resisting the villagization program. The government's reaction was to implement a forced villagization process in 1974–75, and prohibiting agricultural cooperatives in 1976—these were replaced by national "crop authorities," or marketing boards that became increasingly inefficient and corrupt.[48] At the same time, large and grandiose industrial and infrastructure projects were being implemented with funding from the international aid agencies. As J. Boesen et al. (1986, 22) have pointed out, many of these projects "were later criticized [by the aid community] as contributors to the crisis."

With agriculture stagnating and manufacturing barely growing, the overall economy also performed poorly. As may be seen from table 10.5, where a set of indicators is presented, GDP growth per capita in 1969–1974 averaged only 0.66 percent. This was significantly below the 3.7 percent average projected in the second Five-Year Plan.

By 1974 the country faced a serious balance of payments crisis (see table 10.5 for figures on imports and exports as percentages of GDP). That year net international reserves declined to the equivalent of 6.2 weeks of imports, from almost 20 weeks in 1973.In addition to the disincentives faced by local farmers, the first oil shock and a serious drought contributed to this state of affairs. In 1975, however, a spike in world coffee prices provided some

47. In his 1977 speech celebrating ten years of the Arusha declaration, Nyerere recognized that the failure in agriculture was, to a large extent, the result of eliminating most economic incentives to farmers. However, he argued that an even more important reason for the rural crisis was the lack of "political leadership" by TANU officials (Nyerere 1977, 20).

48. Ironically, the idea of replacing of cooperatives with "crop authorities" was the brainchild of the consultancy firm McKinsey.

**Table 10.5** **Tanzania: Economic and social indicators, 1969–1978**

| Economic indicators | Source | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP growth (%) | (1) | 2.3 | 6.0 | 3.8 | 5.3 | 3.5 | 2.5 | 5.9 | 5.4 | 0.4 | 1.2 |
| Per capita GDP growth (%) | (2) | –0.8 | 2.8 | 0.6 | 2.0 | 0.2 | –0.8 | 2.7 | 2.2 | –2.8 | –1.9 |
| Gross fixed capital formation (% of GDP) | (3) | 16.3 | 22.9 | 26.8 | 23.6 | 22.6 | 21.6 | 20.8 | 29.0 | 29.4 | 33.8 |
| External debt (total, long-term, % of GDP) | (4) | | 16.4 | 93.8 | 93.4 | 96.7 | 87.5 | 83.3 | 80.7 | 83.2 | 79.6 |
| Revenue, cash (budgetary central gov't., after grants) (% of GDP) | (5) | 15.3 | 17.5 | 17.3 | 16.9 | 19.7 | 21.2 | 22.7 | 18.6 | 19.1 | 24.3 |
| Expense, cash (budgetary central gov't.) (% of GDP) | (6) | 20.3 | 21.5 | 24.3 | 21.9 | 22.4 | 26.6 | 32.5 | 25.9 | 22.1 | 30.3 |
| Cash surplus/deficit, cash (budgetary cen. gov't.) (% of GDP) | (7) | –5.0 | –4.0 | –7.0 | –5.0 | –2.7 | –5.3 | –9.8 | –7.4 | –3.0 | –6.0 |
| Total international reserves (excluding gold, % of GDP) | (8) | 7.7 | 5.6 | 4.9 | 8.5 | 8.8 | 2.6 | 2.8 | 4.3 | 8.9 | 2.6 |
| Current account balance (excluding exceptional financing, % of GDP) | (9) | | | | | | | | –1.0 | –2.1 | –12.1 |
| Net official development assistance received (% of GDP) | (10) | 3.7 | 4.4 | 5.0 | 4.4 | 6.1 | 8.3 | 12.7 | 10.1 | 10.7 | 10.9 |
| Per capita net official development assistance received (constant 2008 US$) | (11) | 19.7 | 25.5 | 27.7 | 23.5 | 31.4 | 44.4 | 69.0 | 57.9 | 67.6 | 72.3 |
| Inflation, consumer prices (annual %) | (12) | 16.4 | 3.5 | 4.8 | 7.6 | 10.4 | 19.6 | 26.1 | 6.9 | 11.6 | 6.6 |
| Money and quasi-money (M2) growth (%) | (27) | 9.2 | 12.0 | 18.2 | 17.7 | 18.2 | 22.1 | 24.4 | 25.1 | 20.2 | 12.6 |
| Official exchange rate (TSh/US$, period average) | (28) | 7.14 | 7.14 | 7.14 | 7.14 | 7.02 | 7.13 | 7.37 | 8.38 | 8.29 | 7.71 |
| Black market premium (end of the period, %) | (13) | | | 110.0 | 115.6 | 94.9 | 96.0 | 202.5 | 145.1 | 89.1 | 58.5 |
| Real effective exchange rate (CPI based, 2005 = 100) | (14) | | 238.1 | 209.8 | 206.6 | 205.0 | 223.1 | 230.8 | 228.9 | 247.7 | 241.1 |
| Exports (% of GDP) | (15) | 24.7 | 24.0 | 24.1 | 24.6 | 22.4 | 21.3 | 18.2 | 21.7 | 19.5 | 14.6 |
| Imports (% of GDP) | (16) | 24.4 | 28.4 | 33.0 | 29.8 | 29.3 | 34.8 | 31.0 | 23.9 | 22.8 | 29.7 |
| Terms of trade (1987 = 100) | (20) | 126 | 137 | 123 | 128 | 146 | 174 | 142 | 152 | 182 | 152 |
| Social indicators | | | | | | | | | | | |
| Population (millions) | (21) | 13.2 | 13.6 | 14.0 | 14.5 | 15.0 | 15.5 | 16.0 | 16.5 | 17.0 | 17.5 |
| Population growth (%) | (22) | 3.1 | 3.2 | 3.2 | 3.3 | 3.3 | 3.3 | 3.2 | 3.2 | 3.2 | 3.1 |
| Urban population (% of total) | (23) | 7.5 | 7.9 | 8.5 | 9.2 | 9.8 | 10.5 | 11.1 | 11.8 | 12.5 | 13.2 |
| School enrollment, primary (% gross) | (24) | | 33.8 | 35.2 | 37.5 | 40.2 | 43.5 | 53.1 | 63.1 | 71.1 | 90.7 |
| School enrollment, secondary (% gross) | (25) | | 2.7 | 2.7 | 2.7 | 2.8 | 3.0 | 3.1 | 3.2 | 3.3 | 3.3 |
| Life expectancy at birth | (26) | 46.3 | 46.7 | 47.0 | 47.4 | 47.9 | 48.3 | 48.7 | 49.0 | 49.4 | 49.7 |
| Physicians (per 1,000,000 people) | (29) | | 43.7 | | | | | 44.3 | | | |

*Sources:* (1), (2), (3), (20): Bigsten and Danielson (2001); (4): UNCTADstat and Bigsten and Danielson (2001); (5), (6), (7): IFS; (8), (9): IFS and Bigsten and Danielson (2001); (10): WDI and Bigsten and Danielson (2001); (11), (12), (21), (22), (23), (24), (25), (26), (27), (28), (29): WDI; (13), (14): Author's calculations based on World Currency Yearbook and IFS, UNCTADstat and WDI; (15), (16): IFS and WDI.

breathing room and temporary relief. By 1976 net reserves had climbed to 6.2 weeks of imports, and by 1977 they reached the equivalent of 13 weeks of imports. In 1978 Brazil's coffee production increased very significantly, and international prices were back to normal; Tanzania's penuries were once again evident.[49]

*Foreign Aid and the Early Years of African Socialism*

As noted in section 10.3, during the years that followed the Arusha Declaration, foreign aid flows skyrocketed. In inflation-adjusted per capita terms net official aid went from USD 22.6 in 1967 to USD 65.3 in 1974, and to USD 82.0 in 1982. Without the large flows of international aid the Arusha Declaration would have been just another third world manifesto. Instead, it became the basis for one of the most ambitious political, social, and economic experiments in Africa; also, one of the most costly.

As shown in section 10.3, most of the bilateral assistance came from the Nordic countries. In 1967, Swedish academic Goran Hydén referred to Tanzania as the "shining star" of Africa.[50] Lennart Klackenberg, Sweden's state secretary for development cooperation, became a strong advocate of Tanzania, as did Olaf Palme, who was prime minister from 1968 through 1976, and again from 1982 until 1986, when he was assassinated.

The World Bank's initial reaction to the Arusha Declaration was guarded and matter of fact. In a 1968 report the Bank described the change in policies in a rather cold and removed way, and indicated that although the nationalization of banks, insurance companies, and large manufacturing firms had created uncertainty, the government decision to compensate owners was seen as a positive sign by the international community.[51] A few years later, however, the Bank had also fallen under Tanzania's and Nyerere's spell. According to a 1973 Country Program Note:[52]

> From a donor's point of view Tanzania comes close to being a model development country in the sense that the government is seriously committed to develop in a climate of political and social stability. . . . Development policies and priorities are generally well thought and well conceived. . . . We are inclined to give Tanzania an excellent performance ratting.

In the World Bank semi-official history, (Kapur, Lewis, and Webb 1997, 713) argue that even those Bank officials that had doubts regarding the radicalization of policies during the mid-1970s set their "reservations aside and

49. In 1974 and 1975 Tanzania withdrew the first two tranches of its quota from the IMF. According to the rules, it was possible to do this without any conditionality. In addition it received two loans, adding 41 million SDRs, from the Fund's Oil Facility and the Compensatory Financing Facility.

50. Simensen (2010, 68).

51. World Bank (1968, 10).

52. Cited in Holtom (2005).

emerged as . . . enthusiastic supporters of Tanzania's development strategy." This was reflected both in the Bank's lending program, which jumped from USD 96 million in 1972/73 to USD 315 million in 1974/77, as well as by the Bank's publications and official releases.[53] This deep admiration for Nyerere and his policies, quite irrespectively of whether they worked and improved the well-being of the Tanzanian citizens, became so generalized that it even received a name: "the cult of Tanzaphilia."[54]

After the Arusha Declaration, Nordic bilateral aid also changed in nature, moving from the provision of experts and supporting educational programs (including the respected and well-known Kibaha Educational Center), to the project financing sphere. Most of the new aid was associated with large-scale projects in sectors such as transportation, fisheries, cement, timber, and electricity. At the same time, social programs, including those related to health and education got a very low percentage of total assistance.[55] Projects were mostly selected in the Nordic countries by aid experts, and were later discussed with the Tanzanian authorities in Dar es Salaam. The association between donors and recipients was, on the surface, a partnership. But as J. Simensen (2010) has pointed out, this was largely an illusion; it was really a paternalistic "gift relationship."

Perhaps the most succinct and powerful statement summarizing the relationship between African Socialism and Nordic aid programs has been provided by Bagachwa, Mbelle, and Van Arkadie, who in 1992 wrote: "If the Arusha experiment had not existed, the western social democrats in the 1970s would have invented it".[56]

From today's perspective it is surprising that in the 1970s the aid agencies did not question Tanzania's development strategy based on using agricultural "surplus" to finance an oversized, inefficient industrial sector, nor did they ask whether it made sense—from an economic, social, and humane perspective—moving 13 million people from their ancestral homesteads to planned villages, in order to fulfill the goals of the villagization program.

### *Stagnation and the Third Five-Year Plan for Social and Economic Development*

In 1977, ten years after the Arusha Declaration had been approved with great fanfare, Tanzania was facing a deep crisis. Agricultural production was down, inflation was significantly up, shortages were developing at every level, and there were daily blackouts in every region of the country. In addition, a pervasive black market for foreign exchange and consumer goods had emerged, and a very large trade deficit had developed (see table 10.5 for

53. See Kapur, Lewis, and Webb (1997).
54. See, for example, Mazrui (1967) and Kapur, Lewis, and Webb (1997).
55. Adam (1994, 28) (Evaluation of Swedish Cooperation).
56. Bagachwa, Mbelle, and Van Arkadie (1992, 6).

the evolution of the most important economic variables for the 1969–1978 period).[57]

Most of the grandiose industrial projects financed by the aid community were facing difficulties, and the majority of state-owned factories were running at a very low rate of capacity utilization. But this was not all: the villagization program, which was the ideological backbone of the country's movement toward self-reliance and its unique brand of socialism, had not worked as expected. Instead of voluntarily moving to the new villages, many peasants preferred to stay in their old *shambas*. This was for a number of reasons, including the fact that many of them had to travel on foot many kilometers from the village to their plots, and because often the newly assigned land was not as fertile as the traditional plots. One of the consequences of forcing peasants out of their homes was a rapid decline in agricultural production and exports. A Nordic evaluation of the impact of villagization, undertaken in the mid-1980s, points out a number of problems that, in retrospect, should have been evident from early on.[58]

During 1974–75, East Africa was affected by a severe drought that greatly impacted the agricultural sector. The situation was so serious that a number of analysts have argued that much of the population was on the brink of starvation. Maize production was particularly affected, and the National Milling Corporation was forced to greatly increase imports in order to avoid a complete collapse in supplies.

The third Five-Year Plan for Social and Economic Development was launched on July 1, 1976.[59] This document differs markedly, both in style and degree of enthusiasm, from its two predecessors. President Nyerere did not present it formally either to parliament or to the Chama Cha Mapinduzi ([CCM], which had replaced TANU as the official party).

During the late 1970s, and as profits from state-owned firms and crop authorities declined, the government ran increasingly large deficits. These were partially financed through money creation by the Bank of Tanzania, with the resulting inflationary pressures and further erosion of competitiveness. By 1977, and in spite of the goal of becoming self-reliant, almost 60 percent of Tanzania's development budget was financed with foreign aid.

As a result of an acutely overvalued exchange rate and an out-of-control public deficit, international reserves declined rapidly. By 1978, total (net) international reserves were equivalent to only 3.5 weeks of imports, down from more than thirty weeks of imports in 1969. Although, as noted, there

57. The trade deficit was 17 percent of GDP in 1974 and 14.3 percent in 1975. According to the plan, the trade deficit should have averaged only 4 percent of GDP.

58. Raikes (1986, 112). For a broad perspective on Tanzania's agricultural sector before the Arusha declaration, see Pratt (1976).

59. The years 1974–75 and 1975–76 were not covered by any plan. The official explanation was that the launching of the third plan was postponed "in view of the unfavorable economic conditions" (United Republic of Tanzania 1976, 4).

was no single explanation for these developments, there is little doubt that the government policies—policies that were supported and financed by the donor community—were at the very center of the collapse of the Tanzanian economy.[60]

When, in October of 1978, the Ugandan forces of Idi Amin invaded the Kagera region, the Tanzanian economy was weak and extremely vulnerable.

## 10.5 Crisis and the IMF Standby Program of 1986

The expulsion of the IMF Mission in November 1979 put the World Bank in a bind. In the absence of a Fund program it was difficult for the Bank to maintain its flow of aid to Tanzania. In order to deal with this situation, in 1980 Robert S. McNamara, the Bank president, decided to appoint a three-person, high-level commission—the so-called Tanzania Advisory Group (TAG)—to help improve the relationship between Nyerere's government and the IMF. The idea was to get the two sides talking again, and to see if they could come to an agreement that would result in Fund financial and technical support.[61] The TAG had a *technical secretariat* that included Brian Van Arkadie, a long-term advisor to the government, John Loxley from Canada, and Samuel Wangwe, a distinguished Tanzanian economist.

Gerry Helleiner, who had been the first director at the Economic Research Bureau at the University of Dar es Salaam between 1966 and 1968, and who was the only economist in the commission, recalls that one of the most important goals of the TAG was to convince Nyerere that the shilling had become hopelessly out of line with fundamentals, and that a substantial devaluation was required to tackle the growing trade imbalance. This, however, was easier said than done. At the end, the "wise men" commission wrapped up its work without succeeding, and the gulf between the government and the IMF was even greater.[62] This impasse continued until 1986, after Nyerere had been replaced as president by Ali Hassan Mwinyi. By then, however, the collapse of the economy was almost complete.

### 10.5.1 The Resistance to Devaluation: Ideology and Beliefs

In 1979, when the IMF Mission was unceremoniously asked to leave the country, Tanzania was on the brink of bankruptcy. Although the second Five-Year Plan called for a reasonable trade deficit—at an average of 4.4 percent of GDP per year—this got rapidly out of control. In 1974 the trade deficit was as high as 17 percent of GDP—one of the highest recorded by any country in the post–World Wars period. Why did the authorities reject

60. The breakup of the East African Community in 1977 was also a hard blow for the country. For details see, for example, Mtei (2009).

61. See Kapur, Lewis, and Webb (1997, 712–15).

62. Helleiner (2010).

the idea of a large devaluation with such vehemence? Why did they rule out exchange rate adjustments even in light of the clear imbalances?

Avoiding an exchange rate adjustment was not an issue of *absolute* principle or dogma. In fact, prior to the impasse with the IMF in late 1979 Tanzania had implemented a series of small (or mini) devaluations. In early 1973 the shilling peg to the USD came to an end, and the local currency was instead pegged to the Special Drawing Rights (SDR). Starting in 1974, several small adjustments (depreciations) to the parity were made. Also, until that time Tanzania had had a fairly good relation with the IMF. Indeed, during 1974–75 it used the first two tranches of its Fund quota, and received two loans amounting 41 million SDRs. None of these operations was subject to conditionality.

In late 1979, when the IMF Mission arrived in Dar es Salaam to discuss a possible loan and the concomitant adjustment policies, the so-called "effective"—or "official"—exchange rate was 8.24 shillings per USD. The black market premium stood at 43.6 percent, a figure that at the time was considered to be extremely high. In December of that year, and after Minister Mtei's resignation and the breakdown of negotiations with the Fund were announced, the black market premium jumped to 64.3 percent.

According to Edwin Mtei, opposing the (large) devaluation suggested by the IMF in 1979 was not Nyerere's own idea. Mtei writes:[63]

> [President Nyerere] was prepared to accept most of the [IMF] proposed financial assistance measures . . . [However] he was adamantly opposed to the devaluation of the Tanzania Shilling. It was apparent to me that *he was being advised by other persons* against doing anything affecting the exchange rate.

In a speech to the diplomatic corps on New Year's Day 1980, barely a month after he had thrown the IMF out of the country, Nyerere lashed out at the international institution, and said:[64]

> Tanzania is not prepared to devalue its currency just because this is a traditional free market solution to everything and regardless of the merits of our position. It is not prepared to surrender its right to restrict imports by measures designed to ensure that we import quinine rather than cosmetics, or buses rather than cars for the elite . . . [O]ur price controls may not be the most effective in the world, but we will not abandon price control; we will only strive to make it more efficient. And above all we shall continue with our endeavors to build a socialist society.

Reginald H. Green (Green 1995), one of Nyerere's most trusted economic advisors, has argued that the president's rejection of devaluation had much to do with dignity. According to him, Nyerere was incensed by the arrogant

63. Mtei (2009, 149), emphasis added. In the same paragraph Mtei points out that Nyerere was also opposed to "touching on publicly owned corporations [and parastatals] that were either bankrupt or loss making."

64. Boughton (2001, 598).

and coercive way in which the IMF Mission demanded policy changes. Former minister Mtei, who was at the meetings where the issues were discussed between Nyerere and the IMF staff, has strongly denied this. According to him, Bo Karlstrom, the chief of the Mission, was extremely respectful and courteous.[65]

One of the main intellectual forces behind Tanzania's opposition to devaluation was Kighoma Malima, a Princeton-trained economist that became minister of planning and finance in 1980. Malima was charismatic and articulate, and was one of the first African lecturers in economics at the University of Dar es Salaam. Interestingly his earlier research, based on econometric models, suggested that Tanzanian peasants were highly responsive to the type of price incentives that a (large) devaluation would have produced. Malima finished his PhD dissertation on the cotton industry in Tanzania in 1971, under the guidance of future Nobel Prize winner W. A. Lewis. After estimating a series of distributed lags supply response models he wrote that, "cotton farmers in Tanzania have been found to be fairly responsive to the long-run expected 'normal' cotton price."[66] More specifically, his econometric work suggested that the price elasticity of total output in Tanzania was a very high 2.44.[67]

With time, however, Malima grew increasingly skeptical about the effectiveness of price incentives, and became convinced that changes in the exchange rate were counterproductive. His position was affected by structuralist views that at the time, and as noted in section 10.3, were quite popular among development economists. This perspective was overly critical of the IMF, which was considered to have a dogmatic approach that treated all countries similarly, and ignored the social and distributional consequences of devaluation. This view gained currency around the world after the 1982 Mexican crisis and devaluation.[68]

Cambridge (UK) economist Ajit Singh, an advisor to the government, was one of the most fervent opponents to devaluing the shilling. His argument was in two parts: First, he fully attributed the crisis to external factors—the war with Uganda, which according to some estimates had a cost of USD 1.5 billion, the collapse of the East African Community, the drought of 1973–74, and the deterioration of the terms of trade. Second, and more importantly, Singh argued that devaluation would not work for a number of structural and political reasons, including the fact that under a centrally planned economy the authorities allocated foreign exchange in a direct (and often political) way, and markets were not respondent to price incentives.[69]

65. Green (1995) and Mtei (2009). See, also, Holtom (2005).
66. Malima (1971, 189).
67. Malima (1971, 126).
68. See Edwards (2010).
69. This latter point was related to the "elasticities pessimism" view prevalent in some quarters at that time.

A recurrent point made by the opponents of devaluation—including Minister Malima—was that an exchange rate adjustment would not improve Tanzania's international terms of trade.[70] Although this was correct, it was immaterial, as the key question was whether devaluation would improve *the domestic relative price of tradable goods*, and thus provide the incentives for increasing agricultural output and exports. In an article written in the early 1980s, and published in 1985, Malima argued that even if the relative prices of tradables improved (a point he was not willing to concede easily), it was not clear that farmers would react positively to such changes. This, of course, contradicted the results that he had obtained in his Princeton doctoral dissertation, but that did not seem to concern him.

Skepticism about (nominal) exchange rate adjustments was also related to a possible "contractionary" effect of devaluations, a subject first brought up in a systematic way by Albert Hirschman in 1949 (Hirschman 1949), and later developed by Diaz Alejandro (Diaz Alejandro 1963). Contractionary devaluations have, of course, political implications and may even unleash highly destabilizing forces. This political concern was, in many ways, at the core of Ajit Singh's argument for rejecting the IMF program and the devaluation of the shilling: "[A]t a low enough exchange rate . . . the current account may balance . . . [H]owever, even if this were to happen, this may generate *socially unacceptable* rates of inflation and income distribution."[71]

Opponents to devaluing the shilling also criticized the other components of the IMF and World Bank policy recommendations, including the call for liberalizing interest rates and imports, removing price controls, reducing government expenditures, and reforming parastatals.[72] In a 1985 paper—delivered a few months before the government agreed to a Standby program with the IMF—Malima argued that the timing and speed of the adjustment program was important. He asked rhetorically: "What is the appropriate dose which cures the illness without killing the patient?"

The idea that peasants did not respond significantly to price incentives was popular among a number of development economists, in spite of the fact that there was a voluminous literature that showed that this was not the case. Indeed, in his path-breaking 1953 book *Penny Capitalism*, University of Chicago anthropologist Sol Tax showed that very poor Guatemalan peasants responded to price incentives in ways similar to significantly more educated farmers in the advanced nations. Also, econometric work undertaken in the 1960s by T. W. Schultz and many of his students, showed that peasants' supply response to price changes and other monetary incentives was substantial. In spite of this evidence, during the 1970s many development experts still adhered to the traditional "low elasticities" view. The 1981

70. Malima (1986, 132) and Singh (1986).
71. Singh (1986, 429).
72. Malima (1986). For a strong criticism of the IMF position on Tanzania, see Green (1983) and Biermann and Wagao (1986).

publication of Robert Bates's book *Markets and States in Tropical Africa* was particularly influential in this regard. In the preface to a new edition Bates (Bates 2005, x) wrote: "[I] assume[d] that farmers—even peasant farmers—respond to economic incentives. I was willing to make this assumption because, having lived in village communities, I knew it to be true."

### 10.5.2 The Gathering Storm and the IMF

The IMF's Article XIV Consultation Report of April 1978 barely mentions the currency issue, and when it does, it concludes that in the medium term the "appropriateness" of the exchange rate should be kept under review.[73] In many ways this is surprising, since, as already noted, at that point the black market premium was already substantial—it hovered around 100 percent—and the exports sector was in shambles. The Fund should have made clear that attaining "a substantially strengthened export base" required a major improvement in competitiveness, and that this, in turn, could be achieved rapidly and effectively through a nominal devaluation that was accompanied by the appropriate policies. Moreover, it is surprising that the report does not address forcefully the issue of incentives to agricultural producers—at the time producer prices were at one of the lowest points relative to export prices—or the effects of forced villagization on productivity and agricultural sector performance.

In 1979 the IMF expressed renewed concern about the performance of the economy. The Article IV Consultation Report, presented to the board on August 29, 1979—that is, only a few months before the Mission was expelled from Dar es Salaam by President Nyerere—points out that the public sector deficit was dangerously out of control and was being financed with money creation. The tone of this report is quite different from that of the Article XIV consultation of 1978. There was now a clear sense of urgency, and it was argued that in order to get out of the crisis the government had to "implement on a sustained basis comprehensive policies to eliminate the structural distortions which have hampered Tanzania's balanced economic growth." No mention was made, however, of the need to devalue the currency.[74]

In April 1980, merely five months *after* the IMF's Mission had been expelled from the country, the Fund's Managing Director Jacques De Larosiere wrote a conciliatory note to Nyerere, and assured him that his institution wanted to find a way out of the impasse. In September of that year an agreement that included fiscal adjustment, but not devaluation as a condition, was reached. Arriving at this agreement was particularly important, since it allowed the World Bank and bilateral aid agencies to release funds that were in the pipeline, and permitted commercial banks to roll over some loans. The government, however, was unable to meet any of the IMF con-

73. IMF (1978, 7).
74. IMF (1979, 5).

ditions—most of them referred to fiscal adjustment—and only SDR 40 million were disbursed out of a SDR 180 million loan. Tanzania was, once again, cut off from multilateral assistance, and continued to suffer from a deep and protracted crisis.

In the early 1980s a generalized black market for food developed, with "unofficial" prices exceeding by a substantial margin prices set by the government. Only highly connected individuals—government authorities, parastatal managers, and high officials of the CCM—were able to purchase goods at the (significantly below market) controlled prices.

As the 1980s unfolded the opponents to a large devaluation and adjustment continued to dominate the cabinet, and no meaningful action was undertaken. Economic conditions worsened considerably, as the foreign exchange constraint became tighter and production collapsed further. Imports could not be paid and foreign suppliers refused to deliver their cargoes without prepayment. Oil tankers would stay in the Dar es Salaam harbor for weeks at a time waiting for their monies. A well-known story is that of an oil company that delivered its cargo only when it was promised that it would receive coffee as payment.

Throughout this period Nyerere dealt with the adjustment issue and the IMF demands from a purely political position. He saw the situation—and said so repeatedly—as a fight between a small developing country that sought dignity and independence, and an international bully controlled by the major capitalistic powers. In this struggle he got support from the so-called "like-minded" countries, from the International Labor Office and, for some time, from the Nordic donors and, especially, from Sweden.[75] As time passed and economic conditions worsened, a small group of political dissenters—mostly technocrats and producers of cash crops—began to emerge.[76]

After the failed efforts of the Tanzania Advisory Group to mediate between the IMF and Nyerere, a number of home-grown adjustment programs were put in place. These programs drew on some of the technical work done by the TAG Secretariat, and some included small and timid devaluations (in 1982, 1983, and 1984) and producer price adjustments, but did not address the main sources of disequilibrium. These programs had impressive names, such as the National Economic Survival Program of 1981 (NESP I), the National Economic Survival Program of 1982 (NESP II), and the Structural Adjustment Program (SAP) of 1983. None of them, however, made a true attempt at reforming the parastatals. Moreover, as time went by, the fiscal deficit continued to swell, import restrictions became asphyxiating, and the black market got out of control. The half-baked policies of these various programs were combined with new efforts at further controlling

75. Hyden and Karlstrom (1993).
76. Holtom (2005).

the economy, and punishing (through the Economics Saboteurs Act) those individuals deemed to oppose the path chosen by the authorities.

Table 10.6 presents data on key macroeconomic indicators for 1979–1985, the years between the failed IMF Mission led by Bo Karlstrom, and the implementation of the Standby agreement. These figures portray a very negative picture. Reality, however, was even worse than what the bleak figures in table 10.6 are able to convey. It is not an exaggeration to say that economic relations had completely broken down. The worst were the generalized shortages and electricity blackouts that made everyday life miserable for the average citizen, and especially for the average housewife.[77] Contrary to what Nyerere had envisaged and the TANU had approved in early 1967 when the Arusha Declaration was passed, the rural sector had completely collapsed. From a political economy perspective, the generalized shortages—shops were empty, and many people resorted to bartering—and the precipitous decline in incomes and public services greatly affected the situation. Some groups that, in theory, should have supported taxing agriculture and maintaining an overvalued currency began to question the wisdom of stubbornly holding on to the failed policies of the past.[78] These included that rank and file of the civil service that could not buy food, or other goods for that matter, at official prices.[79]

In 1984–85, and in light of the continued crisis, Norway and Finland, the staunchest Nordic backers of the government, decided to withdraw their financial support—Sweden and the Netherlands had began reducing their aid since 1980.[80]

In 1985, virtually cut off from the rest of the world, Nyerere was in a bind. He decided to follow a two-part strategy: on the one hand he announced that he would not stand for reelection as president. He would, however, remain as chairman of CCM, which, in turn, would continue to be the only allowed political party. On the other hand, he would try to pave the way to improved relations with the Bretton Woods institutions.

### 10.5.3 The Tide Turns: Changing Views Regarding Development Economics in the 1980s

In the early 1980s, and as Tanzania was grappling with the consequences of reduced foreign aid, major changes in the way economists thought about economic development were taking place. Since the mid- to late 1970s the long-held planning view began to be questioned by an increasingly larger number of experts that ventured that government failures were more pervasive, generalized, and costly than market failures. Suddenly, the market

77. Mtei (2009) candidly conveys the sense of desperation during this period. See Edwards (2014) for further details.

78. See Mtei (2009) for a personal account of this period.

79. See, for example, Lipumba (1984).

80. See Edwards (2014) for an analysis of the factors behind these decisions.

**Table 10.6** **Tanzania: Economic and social indicators, 1979–1985**

| Economic indicators | Source | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|---|---|
| Real GDP growth (%) | (1) | 3.4 | 3.0 | 0.5 | 0.6 | 2.4 | 3.4 | 4.6 |
| Per capita GDP growth (%) | (2) | 0.2 | –0.2 | –2.7 | –2.6 | –0.8 | 0.2 | 1.4 |
| Gross fixed capital formation (% of GDP) | (3) | 33.6 | 33.1 | 28.6 | 26.0 | 19.3 | 20.2 | 11.3 |
| External debt (total, long-term, % of GDP) | (4) | 66.9 | 73.8 | 66.2 | 62.5 | 72.9 | 83.1 | 48.4 |
| Revenue, cash (budgetary central gov't., after grants) (% of GDP) | (5) | 21.9 | 23.7 | 19.8 | 16.7 | 19.9 | 17.3 | 17.9 |
| Expense, cash (budgetary central gov't.) (% of GDP) | (6) | 33.3 | 33.3 | 30.1 | 28.1 | 27.7 | 23.9 | 25.4 |
| Cash surplus/deficit, cash (budgetary cen. gov't.) (% of GDP) | (7) | –11.4 | –9.6 | –10.2 | –11.3 | –7.9 | –6.6 | –7.5 |
| Total international reserves (excluding gold, % of GDP) | (8) | 1.6 | 0.4 | 0.3 | 0.1 | 0.4 | 0.6 | 0.2 |
| Current account balance (excluding exceptional financing, % of GDP) | (9) | –8.1 | –11.4 | –7.2 | –8.6 | –5.5 | –7.4 | –3.9 |
| Net official development assistance received (% of GDP) | (10) | 13.7 | 14.7 | 12.4 | 11.2 | 10.6 | 11.2 | 5.0 |
| Per capita net official development assistance received (constant 2008 US$) | (11) | 86.3 | 87.7 | 94.8 | 92.8 | 80.9 | 77.3 | 65.4 |
| Inflation, consumer prices (annual %) | (12) | 12.9 | 30.2 | 25.7 | 28.9 | 27.1 | 36.1 | 33.3 |
| Money and quasi-money (M2) growth (%) | (27) | 46.9 | 26.9 | 18.1 | 19.5 | 17.8 | 3.7 | 30.4 |
| Official exchange rate (TSh/US$, period average) | (28) | 8.22 | 8.20 | 8.28 | 9.28 | 11.1 | 15.3 | 17.5 |
| Black market premium (end of the period, %) | (13) | 64.2 | 223.9 | 192.6 | 204.7 | 301.4 | 286.6 | 259.4 |
| Real effective exchange rate (CPI based, 2005 = 100) | (14) | 220.0 | 266.1 | 342.7 | 416.5 | 462.0 | 465.7 | 533.5 |
| Exports (% of GDP) | (15) | 14.1 | 13.2 | 12.2 | 8.5 | 8.0 | 9.0 | 6.8 |
| Imports (% of GDP) | (16) | 26.9 | 26.3 | 20.7 | 17.7 | 14.1 | 16.7 | 16.8 |
| Terms of trade (1987 = 100) | (20) | 139 | 142 | 129 | 127 | 128 | 131 | 126 |
| Social indicators | | | | | | | | |
| Population (millions) | (21) | 18.1 | 18.7 | 19.3 | 19.9 | 20.5 | 21.1 | 21.8 |
| Population growth (%) | (22) | 3.1 | 3.2 | 3.2 | 3.2 | 3.2 | 3.2 | 3.1 |
| Urban population (% of total) | (23) | 13.9 | 14.6 | 15.0 | 15.5 | 15.9 | 16.4 | 16.8 |
| School enrollment, primary (% gross) | (24) | 94.2 | 95.6 | 97.2 | 93.3 | 91.5 | 86.9 | 76.4 |
| School enrollment, secondary (% gross) | (25) | 3.4 | 3.3 | 3.1 | 3.0 | 3.1 | 3.1 | 3.3 |
| Life expectancy at birth | (26) | 49.9 | 50.2 | 50.4 | 50.6 | 50.8 | 50.9 | 51.1 |
| Physicians (per 1,000,000 people) | (29) | | | | | | 38.9 | 35.4 |

*Sources:* (1), (2), (3), (20): Bigsten and Danielson (2001); (4) UNCTADstat and Bigsten and Danielson (2001); (5), (6), (7): IFS; (8), (9): IFS and Bigsten and Danielson (2001); (10): WDI and Bigsten and Danielson (2001); (11), (12), (21), (22), (23), (24), (25), (26), (27), (28), (29): WDI ; (13), (14): Author's calculations based on World Currency Yearbook and IFS, UNCTADstat, and WDI; (15), (16): IFS and WDI.

approach to economic development gained currency, and there were calls from many quarters, for trade liberalization, deregulation, and the privatization of state-owned enterprises. Of course, supporters of the planning approach defended their views energetically, and argued that the dismal performance of most economies in Africa and Latin America was not the result of misguided policies, but of a hostile external environment. Also, and as expected, those groups that had the most to lose if liberalizing reforms were implemented defended existing policies (and the rents that these policies generated) with vigor.

In 1981 two major and highly influential publications presaged the change in views regarding economic development in Africa: the World Bank's *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, universally known as "the Berg Report" after its main author, Elliot Berg, and Robert Bates's *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies*. Although very different in terms of their genesis and objectives, these two books made a simple and yet powerful point: the dismal performance of the African economies was, mostly (but not exclusively) the result of bad policies that put bureaucrats' interests ahead of those of the people, and that had stifled incentives for growth, innovation, and productivity improvements. Also, both works pointed out that African governments were far from the benign entities that tried to maximize society's welfare, as assumed in planning models. Government bureaucrats—including the managing echelons of parastatals, marketing boards, and state-owned banks—captured the state apparatus and used it for their own benefit, as well as for that of their immediate supporters, families, and friends. Both of these works were particularly critical of African policies toward the agricultural sector.

The publication of the "Berg Report" generated a strong reaction among African governments and their supporters. Its insistence that external factors were unimportant was at odds with the position espoused by the African nations in the "Lagos Plan of Action for Economic Development of Africa," a document also released in 1981 (but signed a year earlier). The Plan for Action attributed the region's penuries to the external shocks and the instability of the world economy. In addition, it stated that former colonial powers were trying to impose their own policies on the African nations. During the first half of the 1980s, these two contrasting views on economic development would coexist and battle each other. However, as economic conditions deteriorated, the support for the planning approach and the Lagos Plan of Action gradually eroded. By the mid-1980s it was clear that the war of ideas had taken a significant turn, and that the until then unpopular market approach was gaining more and more followers. Supporters of the status quo in Tanzania, and other countries, did not give up power easily, however. As will be seen below, by the early 1990s, and led by Kighoma Malima, the supporters of socialist policies regrouped and did all they could to stall the reform process.

### 10.5.4 The IMF Standby Program of 1986

In 1984 the government decided to open a small window toward the world, and unveiled a mechanism for importing some products using "own foreign exchange." The list of eligible goods included spare parts, some capital equipment, building materials, electrical appliances, shoes, textiles, pickup trucks, and buses.[81] Although small and very limited in scope, the own foreign exchange imports program was extremely successful. By relaxing a draconically severe foreign exchange constraint, it allowed some companies to resume production and some shops to have a limited number of goods for sale. This was immediately noticed by the public, and, in particular, by the middle class, including government officials. This had the important political effect of weakening the support of the orthodox camp that from inside the government resisted any change in policy direction, and strengthened the position of the reformers.

On August 28, 1986, almost seven years after the mission led by Bo Karlstrom had been thrown out of Dar es Salaam by president Nyerere, Tanzania made an official request for an IMF Standby arrangement.

The report prepared by the IMF staff for board consideration is a rather simple document that opens like this:[82]

> Protracted, and at time difficult, negotiations have been held between the Tanzanian authorities and the Fund staff during most of the 1980s. . . . In early 1986, following the election of the new President and the formation of a new Cabinet, the authorities invited the Fund to hold discussions with a view to designing a comprehensive package of economic reforms and policy measures that could lead to economic recovery and to a sustainable balance of payments in the medium term. At the same time, the authorities also began to prepare their own program of medium term recovery and rehabilitation.

In terms of its content, the proposed Standby program—which in Tanzania was called the Economic Recovery Program (ERP)—was quite standard. Disbursements were divided into tranches, with most funds available toward the end of the agreement (March 1988). The program called for a gradual improvement in the balance of payments position. It mentioned that it anticipated that donors would provide increased support, and pointed out that Tanzania was expected to sign a Structural Adjustment Loan with the World Bank in October of that year. An important feature of the program was that it was very small in terms of resources: it only provided 60 percent of Tanzania's quota at the IMF. This meager level of assistance reflected two important aspects of the operation: First, there was still a major degree of mistrust between the two parties, and the IMF did not want to commit a large amount of money to a country that had antagonized it for so long.

81. IMF (1986, 7).
82. IMF (1986, 1).

Second, from the very beginning the Fund saw its role as providing a "seal of approval" and, in that way, unlocking other sources of financing including, in particular, the monies from bilateral donors.

The centerpiece of the program was a large devaluation of the shilling. This was to be supported by appropriate fiscal and monetary policies, and was to be accompanied by structural reforms aimed at liberalizing the economy, increasing efficiency and productivity, and reigniting growth.

An initial maxi-devaluation was, in fact, a precondition for the program. On June 19, 1986, the currency was depreciated from 17 TShs per USD to TShs 40 per USD. This represented a devaluation of the official rate of 58 percent. The report presented to the IMF Board makes clear that this devaluation "would not fully correct for the substantial degree of overvaluation." Thus, the program called for the adoption of a crawling peg regime that implied further adjustments of the parity. The goal of this mini-devaluation policy was to achieve a 1 percent *real depreciation* per month. The report pointed out that the spread in the black market for foreign exchange was a good measure of the extent of overvaluation, and that it would be monitored closely as a way of assessing whether the currency was moving closer to the exchange rate levels supported by fundamentals. Reflecting the lack of confidence in the Tanzanian authorities, the program called for more frequent reviews than what was normal at the time; initial reviews were scheduled for February and June 1987.

The goals of the program included maintaining the current account deficit at not more than 22 percent of GDP, a rate of inflation of 30 percent for 1987, an increase in domestic investment to 23 percent of GDP (from 16 percent in the previous year), a modest increase in the holdings of international reserves, and an acceleration of GDP growth to 3.5 percent in 1986–87—which implied an increase in GDP per capita of barely 0.5 percent. In terms of interest rate policies, the program called for gradual increases that would result in positive real rates in two years.

As one would have expected, the 1986 IMF program was rich in conditionality. In contrast with run-of-the-mill programs, conditions (or performance criteria) went beyond pure macroeconomic variables, and included a number of measures related to the structural functioning of the economy. The most important conditions may be summarized as follows:[83] (a) reducing drastically the number of goods affected by price controls; (b) reducing the central government cash deficit by 5 to 6 percentage points of GDP to 11 percent of GDP;[84] (c) new fiscal revenue measures were to be enacted,

83. See pages 30–31, Annex I (42), and table 9 in IMF (1986).

84. One of the main points of disagreement during the discussions that preceded the adoption of the Standby program was on the effect of a large devaluation on the public deficit. Opponents to the devaluation, such as Kighoma Malima, Ajit Singh, and Reginald Green, argued that the deficit would increase, making the economic situation even worse. In an elegant paper, D. Kaufmann and S. O'Connell (Kaufmann and O'Connell 1999) showed that if the devaluation had been more aggressive and implemented earlier, there would have been a positive effect on current account and deficit improvements.

including a new tax on petroleum goods and specific taxes had to be transformed into ad valorem taxes; (d) broadly defined money would expand at 11 percent in 1986–1987; (e) there would be a gradual reduction in external arrears; (f) credit from the banking system to the seven largest marketing boards (coffee, cotton, tobacco, tea, sisal, cashew nuts, and the National Milling Corporation) was to be strictly controlled; (g) a crawling peg exchange rate system geared at generating a real devaluation of 1 percent per year was to be adopted; (h) multiple exchange rate practices were to be eliminated; (i) there would be an expansion of the export earnings retention scheme; (j) there would be no imposition of trade or exchange restrictions beyond those approved by the Fund through Article XIV consultations; (k) there would be a generalized increase in producer prices in the agricultural sector to an average of no less than 60 percent of export prices; (l) consumer subsidies on petroleum products would be eliminated; (m) there would be a strict ceiling on external indebtedness by the Bank of Tanzania, the government, and public enterprises; and (n) there would be a major reform of parastatals and marketing boards operating procedures, in order to increase their efficiency, and reducing their losses.[85]

## 10.6 The Political Economy of Reform and the Absence of "Technopols" in Tanzania

The timing of the IMF program was consistent with the so-called "crisis theory" of political reform. According to this view, major changes in policy direction are typically launched when the country is in a "crisis," usually a "balance of payments crisis that necessitates a reduction in the level of current expenditures."[86] In this regard, Bates and Krueger (1993) have argued that "[t]here is *no recorded instance* of the beginning of a reform program at a time when economic growth was satisfactory and when the price level and balance of payments situations were stable. . . . Conditions of economic stagnation . . . or continued deterioration are *evidently prerequisites* for reform effort." Along similar lines, Rodrik (1994) has pointed out that historically liberalization reforms have usually followed "prolonged macroeconomic *crisis*."[87]

Of course, what sets the experience of Tanzania apart is that in 1986 the country had gone beyond the crisis sphere, it had long entered a destruction phase where normal economic relations within the "official sector" had all but disappeared. Indeed, as the crisis deepened a number of economic actors began to operate almost exclusively in the "black" or "unofficial" markets; others, especially peasants in the most remote regions of the country, bailed out of the monetary sector and reverted to a subsistence economy.

85. Notice that the program does not mention privatization.
86. Lal (1987, 274, emphasis added).
87. Bates and Krueger (1993, 454, emphasis added) and Rodrik (1994, 63, emphasis added).

An important question, then, is why it took so long for politicians to react to this collapse and to attempt corrective measures.

The answer to this question comes in several parts: First, the fact that the CMM (and before it the TANU) was the official and only political party goes a long way toward explaining the absence of (effective) dissenting voices.[88] Second, until quite late in the game—indeed, until 1983–1984—a number of bilateral aid agencies, and in particular the Nordic countries, continued to provide substantial financial support. These agencies, in turn, had been "captured" by officials and aid workers that were convinced that the crisis was mostly the result of external forces. For these aid officials, this was a justifiable crisis, and it was the agencies' responsibility to help the country get out of it.[89] Third, in the mid-1980s the "war of ideas"—including the debates on which development model was most appropriate—had not concluded, and there were still a significant number of economists that supported interventionist, command type.

And fourth, there were strong political economic reasons for resisting change. Major economic reforms are, first and foremost, political events. When economic policies and institutions change drastically, some groups incur large losses and other experience significant gains. The groups bound to lose usually organize themselves in order to oppose modernization. In Tanzania, these groups included government officials that had command over the surplus captured from farmers, urban dwellers that worked in industrial firms, and managers of parastatals, marketing boards, and crop authorities, among others.[90] On the other side of the ledger, those that were expected to gain from a move toward liberalization and market orientation were farmers and other groups that would be positively affected by a significant devaluation of the shilling, the deregulation of (some) prices, lower inflation, and a freer access to imported goods. Potential winners and losers, however, do not act in a symmetric way. The former, including consumers that are expected to benefit from lower prices of imported goods, are usually dispersed, and many times are not fully aware of where their interests lie.[91] Potential losers, on the other hand, are connected to politicians in power, and have control over the apparatus of the state. They can use government institutions, the media, and other mechanisms to exercise coercion and resist change. Indeed, this is precisely the reason why in authoritarian countries—including in countries with a single official or semiofficial political party—those academics and intellectuals that advocate reform usually have difficulties publicizing their ideas.

As noted, after the IMF Mission was expelled from the country the economic crisis deepened significantly, and criticism of the government began

88. See Lofchie (2011) and Simensen (2010).

89. See Edwards (2014) for a discussion. See also the discussion in Boesen et al. (1986) and Havnevik and Isinika (2010).

90. R. Bates (Bates 1981, 29) identifies some of the interest groups that gained the most from traditional policies in Africa.

91. Bates and Krueger (1993) and Edwards and Steiner (2000).

to emerge. It was not widespread, nor was it directly aimed at Nyerere, who continued to be a revered figure, but it was there and it was growing. The government's reaction was a combination of sticks and carrots: First, the government stepped up the nationalistic and anti-IMF rhetoric. Second, it provided (additional) favors to key groups in order to shore up their support. Party officials were central to this strategy. In the early 1980s the CCM apparatus expanded significantly, while party dues declined in real terms.[92] Third, and as noted, a series of adjustment programs that addressed some of the causes of the crisis in a rather timid way were put in place. The most important of these was the Structural Adjustment Program (SAP), which was partially designed by a group of economists that comprised the Secretariat of the Tanzania Advisory Group in 1981. And, fourth, legislation against "economic saboteurs" was passed, and those individuals suspected of price gouging or hoarding difficult-to-obtain goods were prosecuted and severely punished. The persecution of alleged economic conspirators turned families against families and created an atmosphere of distrust and suspicion.

According to the "crisis hypothesis of reform," in the midst of an economic emergency, highly trained social scientists—the so-called "technopols"—who in normal times have little or no political influence, are called in by politicians and asked to help forge a way out of the country's predicament. As J. Domínguez has argued (Domínguez 1997, 7), all of a sudden the incoming technopols' ideas—usually based on the Anglo-Saxon economic tradition—became highly influential. Of course, technopols do not come out of the blue. They are professional economists, academics, and members of think tanks that have participated in policy discussions and wars of ideas during the crisis years. Some of them even work in international organizations until they are called back to the country by politicians in a bind or by colleagues that request their input in drafting blueprints for reform.

Possibly, the best known group of technopols are the fabled "Chicago boys" in Chile, a group of mostly (but not exclusively) University of Chicago graduates that led the design and implementation of Chile's reforms during 1975–1989.[93] Other groups included the "Club Suizo" team in Colombia, the "MIT/Stanford group" in Mexico, the "IESA boys" in Venezuela, and the "Fundación Mediterraneo" group in Argentina.[94] Although technopols were particularly prominent in Latin America, they have not been restricted to that part of the world. They have also played important roles in Asia—the "Berkeley mafia" group in Indonesia—and in Central and Eastern Europe,

92. Lipumba (1984) and Mtei (2009).
93. Edwards and Cox Edwards (1991).
94. The leader of the Chicago Boys in Chile was Sergio De Castro, the Club Suizo group in Colombia was led by Rudy Hommes, the Mexican team by Pedro Aspe, the Venezuela reformers were led by Miguel Rodriguez, and the Argentine reformers by Domingo Cavallo. All of them had PhDs in Anglo-Saxon universities, and all of them held very powerful cabinet positions during the heydays of the reforms. For a discussion of the role of ideas in the Latin American reforms see, for example, Edwards (2010).

where teams led by Leszek Balcerovic and Vaclav Klaus played key political roles in Poland and the Czech Republic.

What is surprising in Tanzania is the (relative) absence of technopols. Of course, that does not mean that there were no academics or professional economists that advocated reforms, and participated in the war of ideas. There were, indeed, quite a few of them. However, in comparison to other countries in other regions, they were less influential and, what is more important (and surprising), once the ERP was launched in 1986 and the reforms were initiated, they did not participate in the reform process in cabinet or senior positions.

Bigsten et al. (2001, 371) have argued that during the late 1970s and early 1980s "the University of Dar es Salaam had . . . been weakened—either by the socialist ideology or by opportunists within the institution who were eager to please the party leadership." This overall picture, they point out, "contributed to the lack of consolidation of intellectual policy groups within the Government or around it." This view is endorsed by Holtom (2005, 558) who argues that for all practical purposes the overwhelming dominance of Nyerere and the party "helped block meaningful debate."

In late 1983, however, and as the crisis deepened, a small group of professional economists—most of them academics—began to play a more active role, and to consider alternative policy options. They provided intellectual support to the very few party and government officials that promoted reforms and an improvement of the relations with the IMF and the World Bank. These officials included Cleopa Msuya, who was the minister of finance at the time the Standby arrangement was signed, Rutihinda, the permanent secretary of finance, and Edwin Mtei, who was Tanzania's representative at the IMF and had been the founding governor of the Bank of Tanzania. At the same time, a crop of newly minted PhDs in economics was returning to Tanzania from the Anglo-Saxon countries and urged changes in policy directions.[95]

In late February 1984, the Economics Department and Economic Research Bureau of the University of Dar es Salaam held a three-day workshop funded by the Danish aid agency to discuss possible solutions to the economic crisis. Although the papers presented at the workshop were prepared by academics, the government was not completely absent from the event: the workshop was opened by Minister of Planning and Economic Affairs Kighoma Malima and by the governor of the Central Bank C. M. Nyirabu. In his remarks Malima used a decisively political tone and argued, as he had done many times during the previous years, that the main causes of the country's difficulties were external. In terms of solutions, he pointed out

95. As Hyden and Karlstrom (1993), Lofchie (1994), Holtom (2005), and Bigsten et al. (1999) have pointed out, economic debates were cast as being a "war" between reds and experts, ideologues and pragmatists, and pro- and antireformers.

that submissively following the IMF policies would not solve the crisis. Further, he stated that "planning, rather than leaving everything to the whims of the free market, is the only effective means of solving our economic difficulties." He then added that "the belief that our economic difficulties could be overcome by crossing over to the 'capitalistic' mode of resource allocation, as already clamored by some foreign apologists and their domestic imitators, is not only misguided, but misplaced illusion."[96]

During the workshop, and in spite of the overly political tone of Malima's opening speech, the discussion was intense and highly professional. The papers used the language of modern economics and were somewhat technical; none of them used Marxist or neo-Marxists terminology. The topics discussed included how to deal with the foreign exchange crisis, the budget imbalance, pricing policies in agriculture, the savings gap, the costs and effects of shortages and black markets, the provision of social services, and taxation. Interestingly, the published proceedings, which were made available by the University that same year, did not include all the papers. In particular, the two more controversial ones on foreign exchange shortages (by N. H. I. Lipumba and S. Bano) and the government budget (by F. Mtatifikolo), are missing.[97] In spite of these omissions, the published document provides a fascinating glimpse of the type of discussion that was taking place in Tanzania at the time. It is clear that the ten authors agreed that inadequate domestic policies were at the core of the crisis. This does not mean, of course, that the workshop participants completely dismissed the role of external shocks—indeed they explicitly mentioned them, several times—but they did not put the onus of the crisis on them. The authors also recognized that in order to solve the country's problems it was necessary to rapidly realign prices, especially in agriculture and in the foreign exchange market.

In what is undoubtedly the boldest (published) contribution to the seminar, Nguyuru Lipumba pointed out that extremely low productivity growth—and not a slow rate of capital accumulation—was behind the country's dismal performance. He argued that low productivity, in turn, was the result of inefficient parastatals and crop authorities (which were significantly less efficient than the cooperatives they replaced). He also argued that the government's efforts to imprison so-called economic saboteurs had backfired, creating even greater shortages and higher black market prices: "Scarcity of goods and price controls have made illegal trade the most profitable economic activity" (Lipumba 1984, 31). He also lashed at the CMM for not

96. Malima (1984, 6).

97. Other papers omitted are on the transport sector (by B. J. Ndulu and R. S. Kasungu), the provision of social services (by T. S. Hyuha and R. Mabele), and on the management of marketing boards (by G. F. Mbowe). In the foreword the editors point out that these four papers were excluded from publication due to "lack of space"! I have tried to find copies of the missing papers, but to no avail. There are not any old, scanned copies on the web, and researchers that either were in Dar at the time, or that visited frequently, do not seem to have them in their files.

attempting to reduce costs, ignoring the plights of the people, and supporting the creation of new parastatals (the National Urban Water Agency and the Rural Electric Supply Company) that did not contribute to economic growth.

In many ways, the workshop proceedings constituted a blueprint for reform and anticipated many of the policies that were to be undertaken in the years to come. In particular, the already mentioned contribution by Nguyuru Lipumba made broad proposals that dealt with the currency crisis, the decline in productivity, and the lack of incentives. And yet, it is still true that, in spite of this workshop and the proposals that emanated from it, Tanzania did not have a cadre of technopols that, when the reforms were finally put in place, were given political responsibility by the country's leadership. Indeed, none of the economists that presented papers at the workshop, and that defied the party and government authority by making proposals for reform, became cabinet ministers. Ironically, a few years later, and in the midst of the reform effort, Kighoma Malima, who, as we have seen, strenuously opposed any changes in policy or approach, was appointed minister of finance.

## 10.7 The Wheels of Aid and the First Round of Reforms, 1986–1995

In late 1986, and as a result of the signing of the Standby agreement with the IMF, the wheels of the aid machinery began to spin once again. The World Bank approved a major loan (the Multisector Rehabilitation Credit for USD 300 million) that included as conditions the seeds of the liberalization reforms, and the bilateral donors released the monies that had been withheld since 1985.

The tie-in of an increase in bilateral aid to the approval of the IMF program was made very clear by the aid community to the incoming government of President Ali Hassan Mwinyi. So much so that at the meeting between donors and government authorities held in Paris in June 1986—a time when, for all practical purposes, the negotiations with the IMF had successfully ended—the advanced countries promised funds for USD 3.7 billion, conditional on the IMF program staying on track and the reforms being implemented.

In contrast with the previous twenty years, however, the new funding was not concentrated on large projects; instead, its goal was to allow the economy to get back on its feet, and reigniting growth. A substantial amount of aid was to have the form of "import support" and would finance the purchase of intermediate and capital goods needed for restarting production and increasing output beyond minimal levels.

From today's perspective it is easy to underestimate the magnitude of the task of reconstructing the country. The truth of the matter is that by 1986 the Tanzanian economy was completely destroyed and barely functioning. Markets had almost disappeared, barter had become generalized both in the countryside as well as in urban areas, and most people had given up hope. Just reestablishing a basic degree of confidence and making markets function minimally was a monumental undertaking. As some authors have pointed out, it is possible to summarize the broad goal of the first round of reforms as an attempt at "getting prices right."[98]

### 10.7.1 The Reforms: Partial and Incomplete

A number of works have been written on the first phase of reforms, including Utz (2008), Nord et al. (2009), Robinson, Gaertner, and Papageorgiou (2011), Mans (1994), and Mwase and Ndulu (2008). Many of these reforms were part of the IMF conditionality package and, as pointed out, their main goal was to "get prices right."

Initially, progress on most fronts was slow. Already in mid-1987, merely a year after the signing of the agreement with the IMF, the government was having difficulties meeting its fiscal targets, as domestic credit to marketing board and parastatals continued to grow at an unsustainable rate that greatly exceeded the programs targets. In addition, and in spite of the large initial devaluation, the currency continued to be overvalued. In mid-1987 the parallel market premium was still a very high 140 percent.

From early on there were problems with both the speed and sequencing of reform (Mans 1994). In particular, the open general license import program—which was geared at relieving the foreign exchange constraint—got overwhelmed and lacked a serious accounting system. Funds provided by donors were used very fast, and there was a clear perception that corruption and favoritism dominated their distribution. Marketing boards continued to channel the vast majority of exports in an inefficient way, and parastatal losses were not reduced sufficiently or fast enough. Red tape and export licensing discouraged exports, especially for nontraditional products.

In late 1988 the IMF was already signaling an increased level of impatience. Its Article IV Consultation report stated that in spite of very good weather, the supply response in the agricultural sector was hampered by serious transportation problems and "by the Government's inability to implement its decision to reform the marketing system for foodstuff." The report also pointed out that the nation's fiscal position had deteriorated due to "the slower-than-agreed pace of exchange rate devaluation and the deterioration in tax administration."[99]

By early 1988 the authorities had abandoned the crawling peg regime, and allowed the real exchange rate to appreciate significantly. During the first six months of 1988 real appreciation amounted to 14 percent, and by December 1988 the black market premium had climbed to 152 percent.

In a 1990 report the IMF, once again, pointed out that the Tanzanian

98. See, for example, Nord et al. (2009) and Mans (1994) and the references cited therein.
99. IMF (1988, 26).

authorities "encountered serious difficulties in the implementation" of the program. Many of the problems had to do with continued inflationary pressures, a lack of reform in the centralized and government-run agricultural marketing scheme, and serious bottlenecks in the transportation system. The IMF report pointed out that politics was at the center of the problem and that "the pace of implementation has been slow, reflecting in part the complexity in the decision-making process in Tanzania."[100]

In 1992, and after years of dragging their feet, the authorities introduced a major reform to the foreign exchange market. In April of that year the Foreign Exchange Act was passed and foreign exchange bureaus were allowed to operate. The purpose of this policy was to channel black and parallel transactions through the open market and to, eventually, unify the exchange rate. Although initially the volume of transactions was small, it increased steadily until in late 1993 it had become dominant. More important, the exchange rate was unified and the black market premium declined significantly, until by mid-1993 it had virtually disappeared (see figure 10.3).

Although this was an important measure, it was an isolated one that was not accompanied by productivity enhancing reforms, or by measures aimed at increasing efficiency, privatizing parastatals, or allowing the private sector to play a leading role in the economy. As the 1990s unfolded, the World Bank also became dissatisfied by the pace, sequencing, and extent of reform. Although progress had been made in some areas, there were still significant distortions, pervasive controls, and mismanagement of the parastatal sector (see Edwards [2012] for details). In particular, the sole emphasis on stabilization and imports' recovery was considered by the Bank staff to be insufficient.

By 1993 a large number of parastatals continued to post very large losses. Banking reform was also insufficient, and the credit market continued to be controlled in a bureaucratic and arbitrary way. In 1993 interest rates continued to be negative in real terms (–11 percent).[101]

Table 10.7 contains data on the most important indicators for the first phase of reforms. As may be seen, in terms of growth there is a marked difference between the early years (1986–1990) and the latter years (1991–1995); 1986–1990 were years of recovery, as production was able to resume and the most extreme economic bottlenecks were addressed. During that period GDP per capita grew, on average, at 2.2 percent. As it turned out, and as some donor agencies had feared, as the reforms stalled economic growth began to falter. The GDP per capita growth was negative in every year between 1991 and 1993: –0.3 percent in 1991, –1.3 percent in 1992, and –4.1 percent in 1993. Table 10.7 also shows that inflation remained stubbornly high and that the current account deficit did not budge. Also,

100. IMF (1990, 27).
101. Mans (1994) and Bigsten et al. (2001).

**Table 10.7** **Tanzania: Economic and social indicators, 1986–1995**

| Economic indicators | Source | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP growth (%) | (1) | 6.6 | 5.9 | 4.4 | 3.8 | 7.0 | 2.1 | 0.6 | 1.2 | 1.6 | 3.6 |
| Per capita GDP growth (%) | (2) | 3.5 | 2.8 | 1.3 | 0.6 | 3.8 | –1.3 | –2.9 | –2.2 | –1.7 | 0.5 |
| Gross fixed capital formation (% of GDP) | (3) | 15.5 | 23.5 | 16.1 | 17.7 | 25.8 | 26.0 | 27.0 | 24.9 | 24.4 | 19.6 |
| External debt (total, long-term, % of GDP) | (4) | 63.7 | 103.0 | 103.0 | 119.5 | 135.6 | 117.1 | 127.4 | 136.8 | 136.3 | 119.1 |
| Revenue, cash (budgetary central gov't., after grants) (% of GDP) | (5) | 15.5 | 9.9 | 12.5 | 14.4 | 15.1 | 14.7 | 15.1 | 12.9 | 15.2 | 12.9 |
| Expense, cash (budgetary central gov't.) (% of GDP) | (6) | 21.4 | 14.5 | 14.9 | 16.7 | 17.0 | 19.1 | 11.8 | 15.3 | 16.3 | 13.2 |
| Cash surplus/deficit, cash (budgetary cen. gov't.) (% of GDP) | (7) | –5.8 | –4.7 | –2.4 | –2.3 | –1.8 | –4.4 | 3.3 | –2.4 | –1.1 | –0.3 |
| Total international reserves (excluding gold, % of GDP) | (8) | 0.9 | 0.7 | 1.5 | 1.2 | 4.5 | 4.1 | 7.1 | 4.8 | 7.4 | 5.1 |
| Current account balance (excluding exceptional financing, % of GDP) | (9) | –4.6 | –8.7 | –7.0 | –7.6 | –13.1 | –14.9 | –15.5 | –21.0 | –14.1 | –11.2 |
| Net official development assistance received (% of GDP) | (10) | 9.5 | 19.0 | 19.8 | 20.5 | 27.3 | 21.6 | 29.0 | 22.2 | 21.3 | 16.5 |
| Per capita net official development Assistance received (constant 2008 US$) | (11) | 69.4 | 77.9 | 76.2 | 68.2 | 73.4 | 63.4 | 72.8 | 52.8 | 48.8 | 38.2 |
| Inflation, consumer prices (annual %) | (12) | 32.4 | 29.9 | 31.2 | 25.8 | 35.8 | 28.7 | 21.8 | 25.3 | 34.1 | 27.4 |
| Money and quasi-money (M2) growth (%) | (27) | 27.7 | 32.1 | 32.8 | 32.1 | 41.9 | 30.1 | 40.6 | 39.2 | 35.3 | 33.0 |
| Official exchange rate (TSh/US$, period average) | (28) | 32.7 | 64.3 | 99.3 | 143.4 | 195.1 | 219.2 | 297.7 | 405.3 | 509.6 | 574.8 |
| Black market premium (end of the period, %) | (13) | 248.0 | 138.9 | 100.0 | 44.0 | 78.0 | 71.0 | 19.4 | 1.7 | | |
| Real effective exchange rate (CPI based, 2005 = 100) | (14) | 310.6 | 174.9 | 140.1 | 121.1 | 105.9 | 118.7 | 100.9 | 96.4 | 96.8 | 100.0 |
| Exports (% of GDP) | (15) | 9.6 | 9.0 | 9.6 | 11.3 | 12.6 | 10.3 | 12.4 | 18.0 | 20.6 | 24.1 |
| Imports (% of GDP) | (16) | 25.0 | 26.3 | 27.9 | 32.9 | 37.5 | 33.6 | 39.4 | 47.7 | 43.6 | 41.5 |
| Volume indices of exports (merchandise, 2000 = 100) | (17) | | 51.3 | 45.1 | 50.9 | 49.4 | 48.2 | 64.1 | 67.2 | 71.2 | 106.0 |
| Volume indices of imports (merchandise, 2000 = 100) | (18) | | 115.0 | 75.0 | 72.2 | 95.2 | 105.7 | 99.1 | 97.3 | 96.8 | 111.0 |
| Terms of trade (merchandise, 2000 = 100) | (19) | | 160.4 | 127.8 | 120.0 | 107.4 | 111.5 | 98.0 | 100.0 | 107.8 | 98.0 |
| Social indicators | | | | | | | | | | | |
| Population (millions) | (21) | 22.5 | 23.2 | 23.9 | 24.7 | 25.5 | 26.3 | 27.2 | 28.2 | 29.1 | 30.0 |
| Population growth (%) | (22) | 3.1 | 3.1 | 3.1 | 3.2 | 3.3 | 3.4 | 3.5 | 3.4 | 3.3 | 3.1 |
| Urban population (% of total) | (23) | 17.2 | 17.6 | 18.1 | 18.5 | 18.9 | 19.2 | 19.5 | 19.9 | 20.2 | 20.5 |
| School enrollment, primary (% gross) | (24) | 73.7 | 71.5 | 69.5 | 69.4 | 69.7 | 70.1 | 69.6 | 69.8 | 68.7 | 68.2 |
| School enrollment, secondary (% gross) | (25) | 3.5 | 3.9 | 4.3 | 4.6 | 5.0 | 5.3 | 5.3 | 5.3 | 5.3 | 5.4 |
| Life expectancy at birth | (26) | 51.2 | 51.2 | 51.1 | 51.0 | 50.8 | 50.6 | 50.4 | 50.2 | 50.0 | 49.9 |
| Physicians (per 1,000,000 people) | (29) | | 38.8 | | | | | | | 41.9 | 41.0 |

*Sources:* (1), (2), (3), (10): WDI and Bigsten and Danielson (2001); (4) UNCTADstat, Bigsten and Danielson (2001), WDI; (5), (6), (7): IFS; (8), (9): IFS, WDI, Bigsten and Danielson (2001); (11), (12), (21), (22), (23), (24), (25), (26), (27), (28), (29): WDI; (13), (14): Author's calculations based on World Currency Yearbook and IFS, UNCTADstat, and WDI; (15), (16): IFS and WDI; (17), (18), (19): UNCTADstat.

and as may be seen from the table, during the first years of the 1990s the investment-to-GDP ratio increased substantially: in 1992 it was 28.9 percent and in 1993 it stood at 26.7 percent, up from 18.7 percent in 1985. The efficiency of investment, however, was very low. Indeed, according to Nord et al. (2009), during 1991–1995 total factor productivity growth was negative, on average –2.0 percent.[102]

By 1993 many observers of the East African economic scene began to think that something had gone terribly wrong with the Tanzanian reforms.

### 10.7.2 The Elite Strikes Back: Some Political Economy Angles of the Slow Pace of Reform

The slow pace of progress in the reform front, and the precipitous fall in economic growth in the second half of the 1990s, was the result of a combination of factors, including the fact that antireformers were still entrenched in the government and had considerable power. Although Nyerere had stepped down from office in 1985, he was still chairman of the CCM, and, in that capacity, was extremely influential. He continued to criticize the IMF and to argue that efforts should be made to achieve self-reliance and to move toward African Socialism. For him and his supporters, giving in to the donors' pressures in 1985–1986 was equivalent to losing a battle; they had no intention of losing the war.

In the late 1980s and early 1990s it became increasingly clear that there was a wide cleavage between the IMF and World Bank and the (majority of the) authorities. While the former believed that Tanzania should largely abandon its socialist program, the latter were looking for something quite different: for them the goal was to maintain the overall direction of the Arusha Declaration, while correcting the excesses of the 1970s. In 1992 Kighoma Malima, who had fought so hard to keep the IMF out of Tanzania, was appointed minister of finance. Although by then Malima had tempered some of his views, his appointment signaled that the government was not going to go along easily with the donors' views.

Interestingly, the fall of the Berlin Wall in 1989 had, at least initially, a very limited effect on policy views in Tanzania. An important reason for this was that, as argued in the preceding sections of this chapter, Nyerere had long advocated for an indigenous, non-Marxist variant of socialism. Equally important, only a very small part of Tanzania's aid budget came from the Warsaw Pact nations.[103] Moreover, by the early 1990s the Nordic development agencies continued to be dominated by officials that had long supported the tenants of African Socialism.

However, the Reagan and Thatcher administrations did have an impor-

102. The figures on investment and GDP have to be interpreted with caution. Official statistics in Tanzania have traditionally had gaps and are not overly reliable. See Bigsten et al. (2001) for a discussion on the revision of the national accounts.

103. This contrasts deeply with the experience of, say, Nicaragua.

tant effect on aid policies by the United States and the United Kingdom. Both of these nations began to request, with a mounting sense of urgency, that the reforms were accelerated. But more important, at this time a new paradigm took over the World Bank. Increasingly and largely influenced by the East Asian successful experiences and by Latin America's "lost decade," the view at the Bank was that trade openness, market orientation, and good governance were required conditions for economic development and growth. Bank economists and executives began to apply this new paradigm to African countries and to turn their backs to Nyerere's cult and Tanzaphilia.

In early 1991, and with little fanfare, the CCM adopted the so-called "Zanzibar Resolution" that eased the strict restrictions imposed on party leaders to own land and shares in private companies. In many ways this marked the unofficial abandonment of the Arusha Declaration and its goals. In spite of this, however, a number of conservative and highly nationalistic politicians—including Kighoma Malima—continued to have significant influence and to resist what they considered to be the intrusive and extreme views of the donor community, and in particular, of the IMF.

In October 1991, the Social Democrats were defeated in Sweden and Prime Minister Ingvar Carlsson was replaced by Carl Bildt from the Moderate Party. During the next four years, many of Sweden's traditional welfare-state policies were altered, and the country's foreign aid policy was thoroughly analyzed. Old African hands were shocked when the new government stated that from that point onward one of the goals of its assistance program to the third world was to help the recipient nation adopt a market economy system.[104]

In 1993 the Swedish government appointed a high-level committee—the Secretariat for Analysis of Swedish Development Assistance—to analyze the results and effectiveness of their aid program to Tanzania. The report reached a number of conclusions and made a series of suggestions, including that the recipient government had to contribute to the aid effort with counterpart funds. One of the report's most important conclusions was: "Poor governance is obviously a severe problem in Tanzania today, and the poor quality of public administration must certainly have retarded economic growth."[105]

By late 1993 it had become apparent that the Tanzanian reform process had stalled and that, in some areas, it was even backtracking. As a result, the donor community—including the Nordic donors—became increasingly dissatisfied with their relationship with the government. From the donors' perspective there were three main problems: (a) there was corruption at

104. In 1976 the Social Democrats were also ousted from office. At that time, however, policy changes were limited. In particular, there were no significant changes to the country's foreign aid programs. See Adam (1994).

105. Adam (1994).

every level (including, in particular, in the parastatals); (b) controls were being relaxed too slowly; and (c) the government was unable (or unwilling) to provide the local counterpart funds to help finance the import support programs. This latter problem stemmed from the authorities' unwillingness to reform the tax system, close tax loopholes, and raise taxes. Also, by 1993 most of the Nordic countries had finished evaluations on their aid programs. Most of these—and in particular, the Swedish evaluation—were critical of what had happened since the 1990s. Simply put, they believed that the authorities were playing for time and did not have the intentions to truly implement change, control the budget, or reduce inflation (which in 1993–94 had reached 30 percent; see table 10.7 for details).[106]

### 10.7.3 A Turning Point: The Helleiner Report

In early 1994, and after a disappointing overall economic performance—including negative per capita growth and a rate of inflation that was approaching 30 percent—there was a tense meeting between donors and the authorities, where accusations flew back and forth. As Helleiner (2001, 1) has pointed out, the "somewhat prickly" personality of the minister of finance Kighoma Malima increased the degree of tension between the parties. Malima had blamed the aid community for the country's problems; according to him the reduction of aid accounted for the poor growth performance, export growth disappointment, and inflationary pressures. Not surprisingly, the donors vigorously denied the accusation. For them the main problem was mismanagement, pure and simple.

Later that year, new data became available on the extent of tax evasion and the standoff between the two sides deepened. The Consultative Group meeting was cancelled, the IMF and World Bank put new programs on hold, and most bilateral donors suspended their nonproject finance (Helleiner 2001, 4). The consequences of these measures had enormous significance: expected aid for 1995 declined from 227,000 million shillings to 151,000 million shillings. From that point onward bilateral aid continued to decline. For example, in 1995 bilateral net aid from Denmark was reduced to USD 59.5 million from USD 94.8 million in 1992; bilateral aid from Finland was USD 9.4, down from USD 34.9 in 1992; from Norway it was USD 54.4 million, while in 1993 it had been USD 82.1 million; and from Sweden aid was in 1995 USD 45.3 million, down from 93.1 million in 1992. Even though Malima eventually resigned under pressure and a new minister was appointed, relations between donors and the government continued to be strained.

In mid-1994 the Danish government suggested the creation of a commission that would mediate between the two parties. The commission was chaired by Professor Gerry Helleiner, who, as mentioned, had been a mem-

106. Adam (1994).

ber of the Tanzania Advisory Group and had been the first director at the Economic Research Bureau at the University of Dar es Salaam between 1966 and 1968. The other members were Professors Benno Ndulu and Nguyuru Lipumba from Tanzania, Professor Tony Killick from the United Kingdom, and Professor Knud Erik Svendsen from Denmark. The terms of reference for the commission were broad and flexible; its fundamental goal was to find ways to improve the relationship between donors and the authorities. This, in turn, was to assure a steady and (somewhat) predictable flow of aid, going forward.

In an influential paper, Albert Hirschman (Hirschman 1963) discussed the role of foreign advisors in stabilization programs in less developed countries. According to him, external advisors usually play the role of "umpires" that help local politicians select one out of many alternatives for action. He argues that this was the role played in the 1920s by the Kemmerer Mission that helped create many of Latin America's Central Banks: "Kemmerer bills did not contain any substantial innovations with respect to the crucial topics. . . . The conclusion is therefore inescapable that the mission served principally as an *umpire*."[107] Of course, Hirschman's view is not restricted to the design of monetary policy. It equally applies to crisis situations, including the design of stabilization plans or structural reform programs. Indeed, this is precisely his interpretation of the role played by a number of advisors in Latin America during the 1950s and 1960s.[108] In the "umpire" or "honest broker" model, foreign advisors do not have superior knowledge or expertise; all they do is evaluate available information in a dispassionate way, and, after doing so, they indicate which course of action has the highest benefit-cost ratio. There is, of course, an alternative view: foreign advisors *do* have more knowledge—including on what has transpired in other countries that have faced similar situations—and better information than domestic experts. Under this model the foreign advisor shares his knowledge with the country's political leadership and decision makers, and by doing that he helps them move toward a converging position. According to this interpretation, by pointing out angles previously unseen by different domestic groups, the foreign advisor contributes to obtaining an earlier end to a "war of attrition." Players that would have refused to give up and change their position, decide, in light of this new information, to compromise earlier on.[109]

In both the umpire model and the informed expert model, the foreign

107. Hirschman (1963, 176–77, emphasis added).

108. There are, of course, other types of advisors that provide technical assistance within a well-defined (and often not questioned) view of the world. The role of these individuals is to help implement policies, rather than deciding on broadly defined courses of action. In Tanzania, as in most of the emerging countries, there have been many of these experts.

109. For a discussion of these issues within a Latin American context see, for example, Edwards (2007).

advisor deals with groups of nationals that disagree on which course of action to take.[110] What makes the case of Tanzania quite unique is that the fundamental role played by foreign advisors—in this case the Helleiner Commission—was not to mediate between different domestic groups, but between the government and external donors.[111]

The Helleiner Report, which was released in June 1995, recognized that the grievances of both the government and the donors were genuine; at the same time, it asserted that these grievances could be addressed successfully. A serious problem was that the Tanzanian authorities felt that donors were excessively intrusive, and that they tried to impose on the government projects, programs, and policies that the Tanzanians either did not understand or did not agree with. In the literature on foreign aid this problem has come to be known as the "ownership problem": if aid recipients feel that they do not "own" the policies and projects funded with the foreign assistance—that is, if they feel that they have no say in the design of the aid program—there will be no enthusiasm during the implementation and follow-up periods. The Commission stated that "the ownership situation in Tanzania is at present unsatisfactory." It also said that "ownership must mean that the final decisions rest with the recipient government."[112]

At a practical level the Report made *twenty-one* specific recommendations. The most important ones may be summarized as follows:

- The government should prepare the first drafts of all important policy papers, including the Policy Framework Papers, Letters of Intent, and other joint documents with the World Bank and International Monetary Fund (Recommendation 2).
- Tanzania needs to greatly improve the capabilities of its public sector. This requires, at the general level, a deep civil service reform and at the specific level, a strengthening of the capabilities of the ministry of finance (Recommendations 3, 15, and 17).
- Donors should be willing to withhold or delay aid until the local conditions are ready for the project to be "owned" by Tanzania (Recommendation 5).
- The incoming (Mkapa) government should formulate a "clear, practical medium- to long-term development strategy." In formulating this vision, local communities and the civil society should be consulted (Recommendation 6).
- Coordination: The government should avoid the duplication and pro-

110. Of course, the causes behind these disagreements have to do both with distributive struggles, as well as with ideological positions and different views with respect to the way in which the world works.

111. This was not only true for the Helleiner Commission of 1994–95, but also for the earlier Tanzania Advisory Group.

112. Helleiner (1995), as reproduced in Wangwe (2002, 12).

liferation of parallel projects. Centralized information on projects will greatly help the goal of avoiding duplication. There should be harmonization of projects and coordination across donors (Recommendations 7, 8, and 9).

- There is an urgent need to prioritize and coordinate assistance. This should be done by the government through the Rolling Plan and Forward Budget, as well as through extensive expenditure reviews. Donors should be consulted in defining priorities. Once these are defined, donors should adhere to them (Recommendations 11 and 18).
- The government needs to have information on the volume of funds—both donors' and counterpart funds—committed to each project and program. This is fundamental for having an effective process of expenditures' reviews (Recommendation 10).
- The calculation of "financing requirements" should be timely and accurate. This means that individual donor countries "should combine their assistance given in the form of new commitments and of debt relief" (Recommendation 13).
- Social sector projects are more likely to succeed if civil society organizations participate in their design and implementation. For this to work out there should be clear lines of responsibility for the different government units, including local governments (Recommendation 19).
- Increased government credibility is of essence. In particular, corruption should be dealt with swiftly (Recommendation 20).
- Fiscal restraint and realism should be attained; budgetary control should be implemented. In particular, realistic budgets should be presented to parliament and to donors. Once these fiscal reforms are put in place, donors should resume suspended nonproject support (Recommendation 21).

The new government of President Benjamin Mkapa made it clear from the beginning that restoring good relations with the aid community was one of its fundamental short-term goals. In order to help achieve this fiscal objective, a cash management system for the public sector was instituted during the initial months of the new administration. As a result, the government could not spend beyond its revenues. This measure was important, as it showed donors that the new authorities were committed to changing the tone of the conversation and amending relations.

In mid-1996—only a few months after the change of government—there was a meeting between the new authorities and the Nordic donors to discuss the Helleiner Report. Both sides agreed with the Commission's main conclusions and with its main recommendations. Later that year the government signed a three-year program under the IMF's Enhanced Structural Adjustment Facility (ESAF).

The new relationship between the donor community at large (including the World Bank and International Monetary Fund) and the government was cemented in January 1997, when a workshop to discuss the way forward took place in Dar es Salaam. Discussions were intense, and were summarized in an extensive report authored by Professor Samuel M. Wangwe, titled "Development Cooperation Issues between Tanzania and Its Aid Donors." In addition, the workshop produced sixteen specific points for evaluating whether progress was being attained. Gerry Helleiner (2001) has summarized the fundamental principles of this new agreement by two basic principles: (a) "Tanzania takes the lead," and (b) "Tanzania fully owns the development cooperation programs in terms of planning, design, implementation, monitoring and evaluation."[113] Further progress was made in December 1997 when the Consultative Group met in Dar es Salaam instead of Paris.

The Helleiner Report was followed-up by three evaluations written in 1997, 1999, and 2000 by Gerry Helleiner himself. These reports assessed how far the government had moved in terms of taking "ownership" of the programs. The May 2000 report points out that, although significant progress had been made, there were still two main problematic areas. First, there were serious problems with "technical assistance." Second, the main document defining how donors' activities were to be inserted in the government's strategy was considered to be extremely vague.

There is no doubt that the Helleiner Report marked a turning point in the relationship between the government and the donor community. It was an effort ahead of its time that showed that dialogue, coordination, and prior planning helped increase the effectiveness of aid. It showed that "partnership" could be more that a buzzword, and that policies and programs were well received once there was (properly understood) ownership. With time, the principles of true partnership and ownership developed in the Helleiner Report have become the centerpiece of many donors' relationships with poor countries in Africa and elsewhere. It is not an exaggeration to say that the highly consultative process currently used for writing the IMF's Poverty Reduction Strategy Papers (PRSPs) and the World Bank's Comprehensive Development Frameworks (CDFs) was influenced by the experience of Tanzania in the second half of the 1990s.

## 10.8 The Second Round of Reforms: 1996 to the Present Time

In 1997 the government finalized a broad strategic document titled "Tanzania National Development Vision, 2025." In its introduction the document states:[114]

113. Helleiner (2001). See also Wangwe (2002).

114. The United Republic of Tanzania (1997). See http://www.tanzania.go.tz/vision.htm. The document was made public and widely circulated in 1999.

> The three principal objectives of the Vision 2025 . . . are: achieving quality and good life for all; good governance and the rule of law; and building a strong and resilient economy that can effectively withstand global competition.

An important feature of this document is that it explicitly criticized the policies of the Arusha Declaration:

> [T]he strategy of the Arusha Declaration did not sufficiently address the complexity and dynamic character of policies and incentive structures which were necessary to effectively drive the development process.

The Vision did point out, however, that the policies pursued under Nyerere had resulted in the forging of a national identity and national unity, and had greatly reduced ethnic tensions. It said, "Tanzania today prides itself of and enjoys national unity, social cohesion, peace and stability largely as a result of the Declaration's core social values. These values have to be acknowledged and should form part of the underlying underpinnings of the Vision 2025."

As pointed out in sections 10.1 and 10.2 of this chapter, a number of authors have looked at the second wave of the Tanzanians' reform. Those readers interested in details are referred to those works. In this (brief) section I provide a broad commentary on the modernization process. As noted by Utz (2008), Mwase and Ndulu (2008), Nord et al. (2009), and Robinson, Gaertner, and Papageorgiou (2011), among others, the dominant areas of modernization have been civil service reform, privatization of parastatals, the implementation of a regulatory framework consistent with a market-oriented economy, an improvement in the efficiency of monetary policy, banking reform, and the deepening of trade liberalization. Starting in the year 2000 policy actions—including policies aimed at reducing policies—have been organized around the National Strategy for Growth and Reduction of Poverty (NSGRP), or MKUKUTA. This is a comprehensive five-year program that was put together after consulting with the donor community and, to some extent, with the civil society. The first MKUKUTA covered 2005 through 2010, and was organized around three major themes or "clusters": (a) growth and poverty reduction, (b) improvement of quality of life and social well-being, and (c) governance and accountability.[115] The MKUKUTA II was launched in mid-2010, and considered the same three clusters.[116] From a growth perspective, this strategy for 2010 through 2015 is very ambitious, and calls for an annual rate of growth of GDP between 8 percent and 10 percent on average for that period.

After 1996, fiscal reform—including the creation of the Tanzania Revenue Authority, and the introduction of a value-added tax in 1998—was at the

115. The United Republic of Tanzania (2005). See http://www.povertymonitoring.go.tz/.
116. The United Republic of Tanzania (2010).

center of the modernization effort. By improving government finances several objectives were achieved: first, it became possible to plan ahead for the provision of the counterpart funds required by donors; second, inflationary pressures were contained (this was helped by the reform of the Bank of Tanzania operating procedures); third, by eliminating a number of loopholes the extent of corruption was put somewhat in check;[117] fourth, external crises (including currency crises) were avoided. Fiscal consolidation was aided by significant debt relief provided by donors.[118] An important consequence of fiscal reform is that the country was able to run a countercyclical fiscal policy in the immediate aftermath of the global financial crisis of 2008.[119]

As argued in the preceding section, the first (and quite significant) steps toward trade openness and liberalization were taken during the first phase of reform. During the second phase, further measures were put in place to reduce import tariff dispersion and increase competition. However, the most important development in the international trade front was the relaunching, in July of 2000, of the East African Community. The opening of the economy has been helped by a pragmatic exchange-rate policy that has recognized the importance of a flexible approach, where the value of the currency is mostly (although not exclusively) allowed to reflect market forces. In particular, and in great contrast with the country's history during the 1970s and first half of the 1980s, since early in the twenty-first century no effort has been made to avoid currency depreciation, or to defend a particular parity. Quite the contrary, in the middle of the first decade of the twenty-first century, the Bank of Tanzania intervened in the foreign exchange market in an effort to avoid the strengthening (in real terms) of the shilling and, in that way, to maintain the degree of international competitiveness of exports. As a result of these intervention policies the Bank of Tanzania accumulated over USD 3 billion in net international reserves. A number of studies suggested that in 2010 the real exchange rate was roughly in line with the equilibrium value justified by fundamentals.

The most important differences, in terms of policies, between the two phases of reform have to do with parastatals. In the late 1980s, immediately after the first IMF Standby program, there were more than 450 parastatals that accounted for approximately 20 percent of GDP. Until the mid-1990s, and in spite of efforts made by the donor community, the parastatal sector continued to incur significant losses and was a source of the public sector deficit. Privatization took off after 1996, and by 2005 most manufacturing and agricultural-related parastatals had been either privatized or liquidated.

117. However, corruption continues to be one of the sticking points in the relationship between donors and the government. In particular, a number of NGOs continue to point out that corruption is one of the most serious problems in the country.

118. Nord et al (2009).

119. IMF (2010) and World Bank (2010).

In the World Bank's most recent Doing Business study, Tanzania is ranked in the 128th position out of 183 countries. On the positive side, the country is ranked higher than its GDP per capita would suggest. However, in the last few years Tanzania has slightly retrogressed in this ranking. Between 2010 and 2011 the country has moved down in five categories—registering property, getting credit, protecting investors, paying taxes, and closing a business—and has improved in only one of them, trading across borders. In three areas there has been no change. The lack of progress in improving the business environment has particularly affected investment in infrastructure. Investment in many areas continues to lag behind; transportation networks and ports are inefficient, reducing the degree of competitiveness of exports. Since 2005 investment in roads has been less than one-third of what was budgeted.

For decades, one of the greatest burdens in Tanzania—and in most of sub-Saharan Africa, for that matter—was a highly inefficient (and, at some levels, corrupt) civil service. Indeed, the Helleiner Report, as well as individual donor evaluations, pointed to the bloated and inefficient civil service as one of the main roots of aid ineffectiveness. Public sector reform began in 1991 with the Civil Service Reform Program, aimed at reducing in the number of central government employees. However, during its initial years there were no changes in quality of services delivered, nor was there accountability for managers (see Edwards [2012] for details). In 2000 the first phase of the Public Sector Reform Program was launched in an effort to improve the skills of public sector employees. The second phase of the program was initiated in 2008 and its goal was to improve accountability. At the same time, legislation aimed at reducing corruption and enhancing transparency was approved—the National Anticorruption Strategy and Action Plan.

One of the fundamental emphases of Tanzania's social policies, clearly captured by the priorities set up in both MKUKUTA programs, is education. In a number of ways these efforts have been highly successful. For example, between 2001 and 2008 enrollment in primary education increased from 59 percent to 85 percent. This means that the number of seven through thirteen-year-olds going to school increased by almost 2.5 million. More important, perhaps, most of the increase in enrollment has been in the rural areas (1.6 million children). In addition, the enrollment rate for girls has increased significantly; it is presently slightly higher than for boys (0.86 versus 0.82).

In terms of income levels, the expansion in primary education has especially benefited the second and third quintiles, which experienced increases in enrollment of 42 percent and 38 percent between 2001 and 2007; enrollment in the poorest quintile increased by a still very respectable 32 percent. On the other hand, the expansion of secondary education enrollment—which has gone from 7 percent in 2001 to 20 percent in 2008—has mostly benefited the poorest quintile: while in 2001 barely 2 percent of children in this group were enrolled in secondary education, in 2007 13 percent were enrolled.[120]

### 10.9 Concluding Remarks

A few weeks ago (I write in early January 2012) Tanzania celebrated fifty years of independence. There is little doubt that the nation, its people, and leadership have gone through a remarkable journey. In the short span of five decades they have been on a veritable rollercoaster and have experienced a succession of situations that many nations have never faced, or have not faced during such a short period of time. The country has been through severe crises and miraculous recovery, broad nationalizations and socialist policies, and major market-oriented reforms. At the same time as going through the experiences described above, during its life as an independent nation Tanzania has managed to avoid the scourge of tribalism and civil strife, and the horrors of coups and countercoups. This, indeed, sets the country apart from its sub-Saharan neighbors. All of this makes its story unique, and its experience worthwhile analyzing in great detail. There are important lessons here for other poor countries—African and non-African alike. Is Tanzania a success story? And, can the aid agencies—both multilateral and bilateral—claim to have played a role in this success? As it is often the case in the real world, the answers to difficult questions are not straightforward.

From a strict medium-term perspective—and this is, indeed, the perspective taken by most of the aid organizations, including the IMF and the World Bank—Tanzania looks, indeed, like a success story. Since 1995—the year president Benjamin Mkapa took power—GDP per capita has increased by almost 65 percent (which is significantly faster than the average for SSA), inflation has been kept in check, expenditure in social programs has increased markedly, macroeconomic stability has been preserved, the reforms have been furthered, and the relationship with the donor community has been constructive and cordial. It is indeed this picture that has prompted authors such as Robinson, Gaertner, and Papageorgiou (2011) to talk about success. Within this perspective, where the world (or, at least, Tanzania's world) begins around 1995, the aid organizations can claim to have played a very constructive role in this story. However, as one takes a long view, as I have done in this chapter, and considers the fifty years since independence, a more nuanced picture emerges. Of course, the fact that the economy has done very well during the last fifteen years (with the caveat of data quality) remains true. However, it is also true that the country collapsed completely in 1980–1985, and that it took many years (about a decade) for it to find its stride and begin to recover in earnest. In addition, and as the discussion in

120. World Bank (2010).

this chapter clearly shows, the disintegration of the economy was the result of misguided policies and of a remarkable inability to change directions, even in light of overwhelming evidence of failure. Also, the analysis in this chapter shows that the international aid organizations and aid agencies in the advanced nations contributed to the collapse of the Tanzanian economy. A simple way of illustrating this point is by performing very simple counterfactual exercises that compare the evolution of income per capita with alternative scenarios where the economy would have avoided the great crises of 1973–74, 1979, 1981–85, and 1991–1994 and instead would have grown at a steady and rather mediocre rate. Of course, in these noncrises counterfactual scenarios the boom of the last fifteen years would not have taken place. I consider three such counterfactuals; all of them, of course, assume changes in policies that would have implied an early abandonment of the principles of the Arusha Declaration.

- *Counterfactual 1*: Starting in 1970, that is three years after the Arusha Declaration, GDP per capita growth is 1.3 percent per year. This lukewarm rate continues until 2010.
- *Counterfactual 2*: Starting in 1975—that is after the 1973–1974 drought, and the clear signs that things were not going well, at all—growth becomes 1.3 percent per capita. Again, it assumes that after 1975 there are no crises or majors declines in GDP.
- *Counterfactual 3*: This assumes that policy rectification takes place in 1980, at the time the IMF was thrown out of the country, and that from 1981 onward GDP per capita growth was 1.3 percent per year. Again, no crises after that point.

In all three simulations the point of departure is 1965, two years prior to the Arusha Declaration. The results of this exercise are reported in figure 10.5. As may be seen, the first two counterfactuals would have resulted in a higher income per capita in 2010 than what was actually observed. Counterfactual 3, on the other hand, results in a GDP per capita level in 2010 virtually identical to actual, observed GDP.

When one takes the longer view, as I argue one should, Tanzania does not look quite like a successful story. It rather looks like a case of a remarkable recovery, but this is not the same as success. Indeed, if one takes the present value of the yearly income gap between any of the counterfactuals and the current situation, the values are enormous, indicating that the accumulated cost—in terms of losses of accumulated wealth and well-being—of the experiment was enormous. It is possible, of course, that Tanzania will continue to grow at a very fast rate—a rate similar to that of the last fifteen years—and that the "accumulated" present value of the GDP per capita gap will be, eventually, eliminated. However, until that happens it is difficult to label the experience a success; it may be a "success in the making" or a "promising" case of reform, but not a stellar success. A comparative analysis

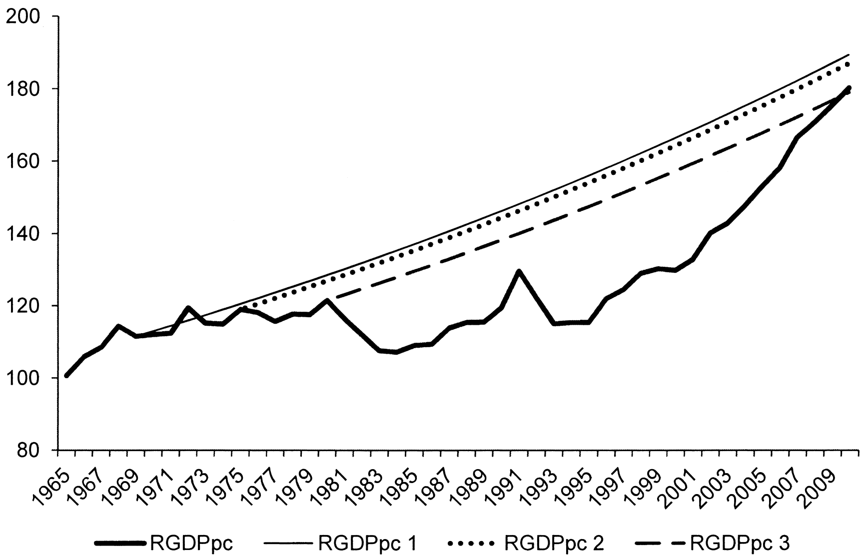


**Fig. 10.5 Counterfactual GDP per capita growth simulations**
*Source:* Author's calculations.

on the pace of poverty reduction also suggests that it may be premature to refer to Tanzania as a clear-cut success. Comparative data indicate that, in spite of having posted fast (official) rates of growth, Tanzania has reduced poverty at a slower clip than Uganda and Ghana. The poverty headcount in Tanzania declined by 2.4 percentage points between 1991 and 2007. During approximately the same period poverty headcount fell 25 percentage points in Uganda, and 23 percentage points in Ghana. Moreover, while in 1991 both Uganda and Ghana had a higher poverty headline than Tanzania (55.7 percent and 51.7 percent versus 38.6 percent), in 2007 they had a lower incidence of poverty than Tanzania (31 percent and 28.5 percent versus 38.6 percent).[121] Other poor countries that have experienced similar growth as Tanzania, but have reduced the incidence of poverty much faster, are India and Vietnam. These data suggest that either the data on growth in Tanzania has been overestimated or the development strategy followed in the last few years has not been as "pro-poor" as the government and the multilaterals (and, in particular, the World Bank) have argued, or both. Disentangling these effects is beyond the scope of this chapter, but when taken in conjunction they suggest that both the data should be interpreted with care; further they suggest that the enthusiasm emerging from what in section 10.2 I called the "official story" has to be tempered.

121. The data for Uganda are for 1991 and 2006, while that for Ghana are for 1992 and 2005. See http://www.povertymonitoring.go.tz/.

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