TANZANIA: A SUCCESS STORY?

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Bibliography

I.- 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 GNP per capita was barely 100 US dollars; the only country with a lower income per capita was Mozambique, with 80 US dollars per year.

The fact that Tanzania was very poor was not in itself surprising. What was startling, however, was that in 1976, merely 15 years earlier, 24 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 180 to 100 US dollars. 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 GDP per capita fell by 15 percent, or almost 1 percent per year. [1]

Since 1991, however, Tanzania has gone through a major comeback. According to data from the *Penn Tables*, between 1990 and 2007 real (PPP adjusted) income *per capita* increased by 59 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 19 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 IMF, GDP growth slowed down to 5% in 2008; it then increased to 5.5% in 2009, it is estimated to have been 6.2% in 2010, and is projected to be 6.7% in 2011 (see IMF, 2010). 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 both to Sub Saharan Africa and to the rest of the world. In 1995 Tanzania's composite HDI was barely 90% that of the rest of the Sub Saharan nations; by 2010, Tanzania had surpassed the African region, and its HDI was almost 3% *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.

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[1] 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. In 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. Although this was not a major conflict, it did have significant negative effects on the Tanzanian economy. This was, to a large extent, a reflection of how fragile the economy had become after almost 20 years of socialist experiments. See the discussion below.

[2] An important question is when the growth "breakpoint" actually took place. In a recent innovative paper Robinson et al (2010) 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.

[3] Wangwe (1999). See also the data and discussion below.

The multilateral institutions, and in particular the World Bank, also contributed significant volumes of funds to the country's early development effort.

Massive foreign assistance was largely used to finance President Julius *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 *TANU*) in February, 1967.[4] By 1973 net official development assistance (ODA) to Tanzania was already 18% 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%, 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 with inefficiencies. Worse yet, in the mid 1970s significant shortages of all sort 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.

However, this is not yet another story of foreign aid running (completely) amok. Starting in the early 1980s, the same donor community that had financed Nyerere's experiments, required – demanded may be a more appropriate term -- 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 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%.

In 1986, and after Nyerere decided not to run for reelection, the government of Tanzania and the IMF reached an agreement, and a Stand-by Program was put into place. The Shilling was devalued by 135%, and fiscal adjustment policies were undertaken. 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

[4] The TANU became the only legal political party in January 1963. Tanzania reversed to a multi-party political system in July 1992.

[5] See the data and references in Section II.2 of this paper.

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

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% higher than in 1985.

The reforms were gradual, and at times they stalled; some of them even backtracked. Gradually, and after significant internal strife inside 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 welcome, the black market for foreign currency was reduced in size and eventually eliminated, the exchange rate was unified, 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 guide policy and induce change. When 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. At the time of this writing (mid 2011) the relationship between the international community and the government is constructive, and 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.

The purpose of this paper is to analyze some of the most important aspects of Tanzania's economic development since independence in 1961. Although I touch on many issues, I do not attempt to provide an exhaustive account of every aspect of the country's economic and political development. Such an effort is beyond the scope of a single paper, even if it is a long one.[7] The discussion emphasizes the role of foreign assistance throughout the last half century, and focuses on macroeconomic policies and overall economic performance. In particular, I am interested in analyzing the role played by foreign donors -- and by foreign advisors, for that matter – both in the collapse of the economy in the early 1980s, as well as during its subsequent recovery. In doing this I emphasize both technical as well as political economy issues related to imbalances, disequilibria, adjustment, and reform.

Because of its emphasis on foreign aid and macroeconomics, the paper plays especial attention to three important episodes: (a) the exchange rate crisis of the late 1970's and early 1980s that culminated with the IMF Stand-by Program and the maxi-devaluation of 1986. (b) The serious impasse between donors and the Tanzanian authorities in the mid 1990s. And, (c) the reform program implemented during the second half of the 1990s and during the first decade of the 2000s.

The rest of the paper is organized as follows: In Section II I cover two main issues: (a) the current "official" narrative regarding Tanzania's reforms and economic performance. And (b) the evolution of foreign aid since independence. In Section III I provide some historical background, including an analysis of the vision of the Arusha Declaration of 1967. I discuss the role of foreign assistance, and the way in which the aid agencies supported the policies of

[7] Also, there are a number of comprehensive analyses of the overall developments of the Tanzanian economy. For a review and summary see Section II of this paper.

African Socialism. In Section IV I analyze the events that eventually led to the acceptance of an IMF program, and to the maxi devaluation of 1986. I provide an analysis of the magnitude of disequilibria, and I discuss the reasons behind President Nyerere's refusal to devalue the Shilling. The discussion deals with the role of advisors and with clash of different economic conceptions at the time. In Section V I focus on the first years after the maxi devaluation of 1986. Here I document the extent of policy changes and I investigate the causes behind the slow progress in the reform process. An important episode I discuss in this Section refers to the serious disagreements that developed in 1994-96 between the government and the donor community. Section VI concentrates on the period beginning in 1996, and deals with the deepening of the reforms during President Benjamin Mkapa's administration (1995-2005). Here I analyze the evolution of Tanzania's external accounts, and I argue that the absence of major currency crises goes a long way toward explaining the positive performance of the economy during the last 15 years. In Section VII I ask whether recent economic performance has indeed been as good as the data suggests. I first deal with issues of data quality and reliability, and I then discuss the recent evolution of poverty headcount, inequality and social conditions. Finally, Section VII contains the conclusions. Here I briefly deal with the future, and I ask where Tanzania is likely to be during the next few years.

The paper also has two appendixes that, I believe, will be useful to researchers, analysts and commentators. Appendix A contains econometric results from a model on the cost of external crises in Africa. These estimates are used in Section V to argue that macroeconomic stability – including the absence of crises -- has been one of the most important achievements of the last decade and a half. Finally, Appendix B (available on request) is a detailed timeline of Tanzania's political and economic developments since the late 1950s – that is, since before independence and the union between Tanganyika and Zanzibar. In particular, this appendix provides important information on the relationship between the Tanzanian government and the World Bank and the IMF.

II. Tanzania's reforms and economic performance: The "official story"

II.1 The "official" story or where we are now

By now there are a number of works on the evolution of the Tanzanian economy during the last 15 to 20 years. The most comprehensive of these works are Mans (1994), Mutalemwa and Ndulu (2002), Utz (2008), Mwase and Ndulu (2008), Nord et. al. (2009), and Robinson et. al. (2010, 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 similar story that emphasizes the role played by the reforms in the country's economic takeoff of the last decade and a half. 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 1 I provide data on the most important economic and social indicators for 1996-2010. The most salient components of this consensus or "official" view may be described as follows:[8]

- Since the mid 1990s Tanzania has experienced high economic growth. Some authors – most notably Robinson et. al. (2010, 2011) – date the country's takeoff around 1996. Figure 1 contains the evolution of growth since 1996. The average rate of growth during the first decade of the 2000s was 6.7% per year (World Bank, 2010).

- 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. According to the World Bank the average rate of growth in Sub Saharan Africa between 2000 and 2010 was 4.5% per year, significantly lower than Tanzania's 6.7%.

- Growth has been accompanied by a major reduction of inflation and increased macroeconomic stability. Inflation, which in 1984 was a high 36.1%, averaged only 8% between 2005 and 2010. See Table 1.

- This acceleration of growth has been attributed to the economic reforms undertaken since the mid 1980s. According to Robinson et. al. (2010, p.2): "[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."

- The reforms came in two waves (See Section IV and V, Tables 7 and 9, and Appendix B of this paper for details. See, also, Nord et. al. 2009, and Robinson et al. 2010, 2011):

[8] 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.

- *Phase 1*: Between 1986 and 1995 the country went through a process 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. At the time, and as noted, 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 open further, the civil service was reformed, rules on 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.

- Although the reforms have been gradual, in most areas they have been deeper than in the rest of the Sub Saharan countries. This is captured in Figure 2, taken from Robinson et al. (2010). Other indexes, such as those put together by the Fraser Institute and other think tanks, confirm this view.

- In Tanzania the reforms impacted economic performance with a considerable lag; while the reforms were initiated in 1986 – albeit mildly and in a *stop-go-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.

- According to this "official" story, growth has been driven by domestic demand. In particular, public spending has played a key role in the expansion of aggregate demand. In per capita terms, public spending per capita almost quadrupled between 1998/99 and 2008/09: from USD 40 in 1998/99 to USD 150.

- A very high fraction of government expenditures has been financed by foreign aid. *Official assistance* was 12.1% of GDP in fiscal year 2007/08 (total foreign aid – including private aid -- in that year reached 17% of GDP).

- In recent years an increasing fraction of foreign aid has taken the form "government budget support," as opposed to "program support." Between 1996/97 and 2007/08 "government budget support" more than doubled as a fraction of GDP, from 2.5% to 6%.

- Although financial reforms have been deep, there are still a number of distortions that constraint 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% 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 a worrisome development in a country where more than 74% of the population lives in the rural area. It also raises some questions on the quality and reliability of the data – I address this issue in greater detail towards the end of the paper.

- 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 et al (2010, 2011).[9]

- According to some observers, the increase in foreign aid in the last decade has put upward pressure on the real exchange rate, and has (somewhat) reduced the international competitiveness of exports. Some analysts believe that avoiding RER misalignment is one of the most important policy challenges faced by Tanzania at the current time.[10]

- 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 % in the early 2000s to 16% 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

[9] See also Treichel (2007) and World Bank (2007).

[10] Two recent studies done at the World Bank and IMF, however, suggest that the currency is roughly in line with its long run equilibrium value.

financed through foreign aid. Currently there are a large number of tax exemptions that affect all sorts of projects, companies, and sectors. This array of tax holidays has created significant distortions and perpetuated the reliance on foreign aid to finance the budget. A rationalization of these tax incentives – including the elimination of significant loopholes – is seen by most analysts as a precondition for consolidating macroeconomic stability.

- The improved fiscal situation has allowed the government of Tanzania – as well as those of other SSA countries – to run countercyclical fiscal policy. For instance, in mid 2009, and in the midst of the global financial crisis, the rate of the value added tax in Tanzania was lowered to 16%, bringing it in line with that of the rest of the region.

- There have been improvements in social conditions. This has been captured by a number of indicators, including by the U.N.'s Human Development Index. 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 HID indicators are considered. The government has emphasized the provision of social services through the *MKUKUTA* programs (I and II), which have obtained approximately 70% of budget allocations.

- In spite of the government's efforts, progress has been slow, and in some areas – in particular in rural education. It is estimated that by 2015 one half of the Millenium Goals will be achieved (See Table 2). In many ways this situation may be characterized as the glass being half full.

- According to many observers, in order to continue to grow rapidly Tanzania will have to address three main constraints: (a) There *is a n*eed to increase capital accumulation. In particular, there is an urgent need to improve infrastructure, especially in the rural sector. (b) There is a need to improve labor skill through a major upgrade of the educational system. And (c) institutions need to be strengthened as a way of fostering entrepreneurship and generating new bursts of TFP growth. These recommendations are, of course, consistent with the modern narrative on the determinants of growth that emphasize the quality of institutions, credibility, and innovation (See Appendix A of this paper for a discussion and econometric estimates.)

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" 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 agricultural sector, 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 call the "official story"-- is not, on its own, a bad thing. Quite on the contrary, it shows that there is clarity in the facts and their interpretation.

The problem, however, is that many of these accounts – and, in particular the most recent ones –provide a very limited historical background. Indeed, after reading 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 to this paper –and, to be fair, in most of the earlier literature on Tanzania's development -- the decade that preceded the reforms was, to put it mildly, a disaster. Worse yet, and as I will argue in Section III, a disaster that was the consequence of misguided policies that were many time *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 what I have called 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 shouldn't be questioned or contested. The reality, however, is different, and as I argue below (Section VII), there are a number of indicators that suggest that official figures should be interpreted with care.

Third, many recent studies of Tanzania's economic performance don't deal in sufficient detail with the role of foreign aid in the country's economic history. To be sure, every one of them focuses on the importance of external assistance to close the budget gap and to finance investment and social programs. What they have failed to do, however, is to deal with the donors' community 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.[11] In the rest of this paper I address some of these issues, as I attempt to answer the question posed in the title of this paper: Is Tanzania, finally, a success story?

II.2 The Evolution of Foreign Aid

Before proceeding further, it is useful to discuss the evolution of foreign aid to Tanzania. Figure 3 contains data on the evolution of net official development assistance (ODA) per capita

[11] 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 (2003) and the literature cited there.

between 1960 and 2008. Figure 4, on the other hand, includes data on the evolution of aid to five countries – Ghana, Kenya, Rwanda, Tanzania and Uganda -- during the same period, measured as a percentage of total net ODA to Sub Saharan Africa. Taken together these two figures provide a wealth of information:

- The data confirm 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.

- These figures also show that ODA per capita 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.

- 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 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 the clear failure of 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. Towards 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 these conflictive years.

- *Phase VI, 1996-* : 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. Bigsten et al (1999), for example, has divided aid since 1970 in three phases: the expansion phase (1970-82), the contraction phase (1983-85), and the adjusting phase (1986-96).[12] In a more recent paper Wangwe (2003) considers the same three phases as Bigsten et al (1999). Although their analysis is less structured than that of Wangwe (2003), Mulley and Holtom (2009) also divide Tanzania's relationship with the donor community into three periods. In a paper that covers the 1970s and 1980s, Holtom (2005) analyzes two distinct phases: the final years of aid expansion in the late 1970s, and the years of conflict that preceded the 1986 program with the IMF. Wangwe (2010) discusses the evolution of the relations between the government and the aid community since the mid 1980s, and argues that it is important to distinguish between three phases, corresponding to three phases of reforms. As other authors, Wangwe (2010) considers that the Helleiner Report of 1995 marks an important inflection point in the history of Tanzania's relationship with donors.

Bilateral donors have been particularly important in Tanzania. See Table 3 for some detailed data on official development assistance by donor country. Bigsten et al (1999), Wangwe (2003), and others have pointed out that, at times, bilateral aid surpassed 80% of total aid.[13] Over the years approximately 50 bilateral sources have provided assistance to Tanzania. The most important among them have been the Nordic countries with roughly 30% of all assistance, on average. Sweden has provided about half of this amount. Germany and the Netherlands have contributed almost 23% of total aid over that past three decades. The United Kingdom, the U.S. and Canada have provided, on average, little less than 20% of aid.[14] 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, as I will show in Section 3.3 below, white elephant

[12] Presumably, if he were to extend his analysis, this adjusting phase would have been followed by an "expansive" phase.

[13] See, for example, Table 1 in Wangwe (2003)

[14] See, for instance, the Appendix to Bigsten et al (1999). Also, see, Nord et al (2009).

industrial projects. Since 1997, however, an increasing proportion of assistance has been related to programs, including reform and social programs. [15]

The information presented in Figures 3 and 4, and in Table 3 is useful for putting the analysis of the next three sections in historical context. In particular, it helps understanding how, initially, aid mostly responded to policy, and how, after 1986 policy responded to aid. In the rest of the paper I will return to these figures time and again, and I will delve in greater detail on the two-way relationship between policies and foreign aid.

[15] 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*.

III. African Socialism, the Arusha Declaration, foreign aid, and the crisis of 1979

On November 29th, 1979 President Julius Nyerere met with the IMF Mission in his Msasani residence, overseeing the Indian Ocean. Bo Karlstrom, an affable Swede economist who led the Fund's team explained to Nyere 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 strengthened management practices in the parastatal sector, including, in particular, in the National Milling Corporation. The parastatals had become increasingly inefficient and had become the most important source of the public sector deficit. Moreover, the combination of poor performance and controlled prices had generated severe shortages. 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.

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 Planning and Finance Edwin Mtei to do it in two steps. The tentative plan called for an immediate devaluation from 8.24 Tshs to 10.80 Tshs per USD. This would be followed, a few months later, by the second adjustment, to the proposed rate of 12.50 Tshs per dollar.

Minister Mtei, who was at the meeting, remembers that as Karlstrom spoke the President became increasingly agitated. When the economist was 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.[16]

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.[17] Three days after the IMF Mission was asked to depart, President Nyerere dismissed Edwin Mtei from the cabinet.[18]

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

[16] Mtei (2009).

[17] See Chapter 17 (p. 149-157) of Mtei's memoirs.

[18] As Mtei (2009) explains in his memoirs, 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.

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% (See Figure 5).

In the rest of 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. In Sub Section III.3 I analyze the doctrinal reasons behind the stalemate between the government and the IMF, including, in particular, the authorities' resistance to devaluing the currency. This discussion deals with some of the economic controversies of the time, and with the political economy of economic adjustment. In Sub Section III.4 I concentrate on the reaction of the international aid community to the impasse between the IMF and the Tanzanian government. Here I cover two important points: the attempts made by the official institutions – including by the IMF – to reestablish relations, and the increasing disappointment (and, yes, irritation) that bilateral donors felt about government actions.

III.1 Background: The Pre-Arusha Declaration period

After Ghana's independence in 1948, the Colonial Office developed a plan for granting self-rule to British colonies in Africa. The plan was based on gradualism and on a strict order in which independence would be obtained. 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."[19] 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, ability and integrity to fill posts in the public service, and in commerce and industry" (quoted by Iliffe 2005, p. 189).

Things, however, did not work out in the way the British had planned. In fact, Tanganyika was the first East African country to become independent, on December 9th, 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.[20] (See Appendix B for a detailed time line of Tanzania's political, economic and social developments since 1948.)

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

[19] Iliffe (2005) ("TANU and the Colonial Office.")

[20] There is a vast literature on Tanzania's independence. See, for example, the essays in Maddox and Giblin (2005).

Development it had climbed to almost 50% of GDP.[21] In terms of employment, the agricultural sector was even more important, with an estimated 80% of total jobs.

One of the early economic challenges of the new independent government was replacing the colonial administration by African civil servants. From the early years of independence the international financial community provided significant assistance in the efforts to create a competent and professional Civil Administration. 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 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." [22]

In May 1964 the president 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 plan called for a rate of growth on national income of 6.7% per year, and a reduction in the subsistence sector. It also presented a strategy for increasing the degree of industrialization a protectionist system based on the then fashionable "infant industry" argument. As Nyerere himself put it, "[i]n future a system of industrial licensing and import quotas [will be implemented]."[23]

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;
> (3) to raise the expectation of life from the present 35 to 40 years to an expectation of 50 years."

Table 4 presents data on some important indicators for the period 1961-1968. A number of 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." And fourth, until 1966 inflation was rather low, and didn't contribute to real exchange rate appreciation. This is

[21] The "monetary sector" was defined as tat 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 on Twenty years of Independence, where an asterisk by the Agricultural et al entry in the GDP accounts, point out that the figures are "known to be understated."

[22] Mtei (2009, p. 25-26).

[23] Nyerere's speech to parliament on May 12th, 1964. Reproduced in the First Year Plan (1964).

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).

By the mid 1960s it became clear that the plan goals' were not to be achieved. In particular, some of the ambitious agricultural targets – in particular those for major increases in the production of sisal, groundnuts and cotton -- were missed by significant margins.[24] In addition, very little private sector investment was attracted. This was a hard blow for the authorities, since the first *Five-Year Plan* explicitly assumed that 47% of total investment would be provided by the private sector. Moreover, and as was shown in Figure 3, during those years per capita overseas assistance declined significantly. It is not an overstatement to say that during 1965-66 President Nyerere was becoming increasingly frustrated with the country's economic performance.[25]

III.2 The Arusha Declaration and the economic consequences of African Socialism

According to the legend, President Nyere 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 party TANU on February 3d, and was approved without much discussion. Nyerere promulgated it officially on February 5th, during the closing ceremony of the NEC meeting. Of course, Nyerere's conviction that Tanzania had to follow a socialist path didn't come out of the blue in 1967. Since his student days he had been an admirer and follower of the Fabian Socialists, and had repeatedly argued – both in speeches and written documents and pamphlets – that Africa's future had to be forged within a socialist system. [26]

Whether Nyerere was the sole author of the Declaration is still a subject of debate. According to Edwin Mtei, who met with Nyerere around that time, the president finished drafting the Declaration on February 3d. An interesting question is what prompted Nyerere to draft the Arusha Declaration 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 explanation has to do with the President's realization that 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. An important episode that may have 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 National Service. On this incident see, for example, Lonsdale (1968). See, also, Mtei (2009) and Minogue and Molloy (1974)..

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[24] Other crops surpassed their targets. See Table 1 in the second Five Year Plan (1969).

[25] As pointed out above, and as I discuss in great detail in Section VI, 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%), and an astounding 9.5% in 1966.

[26] See Nyerere's address to the TANU National Conference on October 16th, 1967. See, also, Lonsdale (African Affairs, 1968).

Immediately after the Declaration was promulgated a number of laws nationalizing the banking, insurance and international trade sector were passed by parliament.[27] Also laws that expropriated 60% of a number of key industries were approved.[28] Some of the specific pieces of legislation included *Parliament's Act No.1* of February 15th, 1967, which nationalized all 9 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 16th, 1967 nationalized 9 milling and import-export companies, and amended the National Agricultural Products Board Act of 1964. *Act No.4*, nationalized the insurance industry, and *Act No. 5*, passed on February 15th, allowed the Minister of Industries, Natural Resources and Power to expropriate up to 60% 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.[29]

An important aspect of the Arusha Declaration is that it set very high standards for party leaders. They were not allowed to own shares in private businesses or have any relationships with the private sector. In addition, they could not own rental properties. These requirements were not always followed, and many party members found ways of maintaining their ties to business sector.

In drafting the Arusha Declaration and in forging the path to African Socialism, Nyerere was strongly influenced by China's experience. He had 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 Chou En-lai's visit to Dar es Salaam.[30] Indeed, in the 1964 speech to Parliament presenting the first *Five-Year Plan for Economic and Social Development* the term "self reliance" is not mentioned at all; he did, however, refer to "African Socialism" once, towards 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: "The second thing which encourages me

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[27] Of course, Nyerere's conviction that Tanzania had to follow a socialist path didn't come out of the blue in 1967. Since his student days Nyerere had been an admirer and follower of the Fabian Socialists. 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 Basic of African Socialism."

[28] 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.

[29] http://www.saflii.org/tz/legis/num_act/toc-1967.html.

[30] Baily (1975). Interestingly the first Five Year Plan mentions "self sufficiency" as a one of the plan's goals.

[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".[31]

To be sure, China was not the only influence in Nyerere's and his advisors' thinking on economic development and policies. As Ndulu (2008) has pointed out, during the late 1960s and 1970s policy making in Tanzania was greatly influenced by a number of development economists that and argued that small and poor countries could not rely on market forces to allocate resources. Reflecting the times, Tanzanian economists and politicians emphasized questions 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.[32]

In spite of the influence of Neo Marxist intellectuals, such as Amin, Wallerstein and Frank, and in spite of its unmistakable quest for building a socialist society, Nyerere's thinking was non-Marxist. As Linton (1968) pointed out, "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…"[33] In fact, and as I argue below, Nyerere's decision to follow a "humanistic" path to socialism, and his insistence of forging a national identity that went beyond tribal and ethnic origin, made Tanzania very attractive to Western donors, including, in particular, to the Nordic aid agencies.

III.2.1 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.* This important document opens with an effort to explain the mediocre results of the first five year effort, and goes on to greatly detail – as plans did at the time – the economic and social goals of the nation, as well as what was required – in terms of manpower, investment, transportation, logistics, and infrastructure – for those goals to be achieved.

At the aggregate level, the main objective of the plan was a rate of growth of GDP of 6.5% 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" (p. 2).

The plan also called for a significant increase in the rate of industrialization, with a yearly rate of growth of 11% 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 parastatal. Investment was to increase from 22% to 25% of (monetary) GDP, and the annual trade deficit was to average 4% of GDP. A fascinating aspect

[31] Quoted by Baily (1975).

[32] Interestingly, Latin American thinkers, such as Fernando Henrique Cardoso and Enzo Faletto, authors of the well know "*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.

[33] Linton (1968, p.2).

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.[34] This was to happen in a country that was supposed to experience anm increase in real income of almost 50% in five years!

According to the Second Plan, 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."[35]

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. In that regard it is worth quoting the Second Plan extensively:[36]

> "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:[37]

> "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, in fact, 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 program became, in a few years, a forced and obligatory one --, it is surprising that initially there was no voice in the aid

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[34] Second Five Year Plan, (p. 215, Table 7).

[35] 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." Second Five Year Plan (p. 63).

[36] Second Five Year Plan (p. 26)

[37] Roe (1970, p. 397).

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 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.[38] By 1975 the NPC controlled more than 3,000 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.[39]

The effort to extract an increasing surplus from the rural sector is illustrated in Figure 6 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 prices declined significantly, as a fraction of export prices, between 1970 and 1977: for coffee producer prices went from 57% to 28%, for cotton they declined from 27% to 20%, and for tobacco from 66% to 50%.[40]

As the years progressed it became abundantly clear that the government's rural development policies were not working. Agricultural production was stagnant or declining– this was, in part, the consequence of a very severe drought in 1973-74 --, 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.[41] At the same time, large and grandiose industrial and infrastructure projects were being implemented with funding from the international aid agencies. As Boesen et al (1986, p.22) have pointed out, many of these projects "were later criticized as contributors to the crisis."

In spite of the increasing volume of aid, productivity in the parastatal sector began to decline rapidly, as output either stagnated or barely increased, and employment continued to grow at a very rapid clip. It has been estimated that value added per worker declined at the incredible rate of 6.2% per year in the 1973-81 period.[42]

With agricultural stagnating and manufacturing barely growing, the overall economy also did poorly. As may be seen from Table 5, where a set of indicators is presented, GDP growth per

[38] 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).
[39] Whitworth (1982, p. 478)
[40] 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), p. 20.
[41] Ironically, the idea of replacing of cooperatives with "crop authorities" was the brainchild of the consultancy firm McKinsey.
[42] Skarstein (1986), p. 85-89.

capita in 1969-1974 averaged only 0.66%. This was significantly below the 3.7% average projected in the Second Five Year Plan.

By 1974 the country faced a serious balance of payments crisis – See Table 5 for figures on imports and exports as percentages of GDP. That year net international reserves declined to the equivalent of 6.2 months 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 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.[43]

III 2.2 Foreign aid and the policies of African Socialism

Without the flows of international aid provided by the international community, the Arusha Declaration would have been just another Third World manifesto. Instead, it became one of the most ambitious political, social and economic experiments in Africa; also, one of the most costly. (Recall the data on Figure 3, on how foreign aid skyrocketed after 1968).

The Nordic countries' involvement with Tanzania was the result of a combination of factors, including the lobbying by missionaries that had worked in the region for many years, and that were committed to that part of the world. Nyerere's personal charm and charisma, and the fact that his African Socialism had an unmistakable humanistic flavor, also contributed to the Nordic politicians decision to direct very large proportions of aid to Tanzania.[44]

In 1967 Swedish academic Goran Hydén referred to Tanzania as the "shining star" of Africa.[45] According to Simensen, in countries with no colonial experience and little international business, such as Norway and Sweden, in the 1960s and 1970s "there was a fascination with Africa". He argued that the main building blocks of the Arusha declaration struck a chord with Nordic people and politicians: "egalitarianism, respect for practical work and physical labor, the importance of peasant culture in national life and the family and village images in the creation of a modern social ideology."[46]

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.[47] A few years later, however, the

[43] In 1974 and 1975 Tanzania withdraw 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.

[44] According to Simensen (2010) the Nordic aid agencies went through a process of elimination, until they came to the conclusion that Tanganyika was the best place for them to concentrate their assistance.

[45] Simensen (2010), p. 68.

[46] Simensen (2010), p. 67.

[47] World Bank (1968), p. 10.

Bank had also fallen under Tanzania's and Nyerere's spell. According to a 1973 Country Program Note:[48]

> "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, p. 713) argue that even those Bank officials that had doubts regarding the radicalization of policies during the mid 1970s, set their "reservations aside and emerged as… enthusiastic supporter 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 Bank publications and official releases.[49] This deep admiration for Nyerere and his policies, quite irrespectively of whether they worked and improved the wellbeing of the Tanzanian citizens, became so generalized that it even received a name: "the cult of Tanzaphilia."[50]

After the Arusha Declaration, Nordic bilateral aid increased markedly (See Table 3). But that was not all, it 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 large industrial 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.[51] Projects were mostly selected in the Nordic countries by aid experts, and were later discussed with the Tanzanian authorities in Dar es Salaam. The relationship between donors and recipients was, on the surface, a partnership. But as 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 to have invented it".[52]

During 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 and economic, social and humane perspective -- moving 13 million people from their ancestral homesteads to planned villages. Most of the industrial projects were over-dimensioned and capital intensive "white elephants" that relied on the wrong technology. An additional problem referred to Tanzania's absorption capacity and (in)ability to

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[48] Cited in Holtom (2005).
[49] See Kapur et al (1997).
[50] See, for example, Mazrui (1967) and Kapur et. al. (1997).
[51] Adam et al (1994, p. 28) (Evaluation of Swedish Cooperation)
[52] Bagachwa, Mbelle and Van Arkadie (1992, p. 6).

properly manage complex projects. When it became evident that local technicians could not run the highly automated plants, the Nordic authorities decided to take over their operation, further weakening the local ability to manage complex undertakings.[53] Simensen (2010) has argued that in many cases technical reports questioning the desirability of certain projects were plainly ignored, as for those officials involved in them their desirability was a matter of faith.

III.2.3 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 creeping up, shortages were developing at every level, there were daily blackouts in every region of the country; a pervasive black market for foreign exchange and consumer goods had emerged, and a very large trade deficit had developed. See Table 5 for the evolution of the most important economic variables for the 1969-1979 period.[54]

In addition, most of the grandiose industrial projects were facing difficulties, and the majority of state owned factories were running at a very low rate of capacity utilization. It is interesting to quote Nyerere at length on this issue. In an allocution marking the tenth anniversary of the Arusha Declaration he said:[55]

> "Almost all our industrial plants are running below capacity, sometimes less than 50% of what could be produced… Even Tanzania Breweries was using 68% of its capacity… Tegry Plastics ran at 46 % capacity; and the Mara Milk plant at less than 30% capacity. Further, the Wazo Hills cement works is certainly not producing anything like the amount of cement it could do if it were working properly… Bora Shoes were not only producing a much lower quantity than their machinery justified, but were also producing shoes of low quality…"

But this was not all: the villagization program, which was the ideological backbone of the country's movement towards 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 they had to travel – on foot – many kilometers from the village to their plots, and because often the newly assigned land was as fertile as the traditional plots.

In 1973 only 2 million people out of a potential of almost 13 million were living in villages. Instead of adjusting the policy in light of peasants' resistance to it, the government decided to force them into their new homes. At the same time, in 1975 the *Villages Act* established the way in which villages would organize and govern themselves. In this structure the TANU and, in particular its "Ten-House" cell system, played a fundamental role. As a result of the new policy of forced villagization, by 1975 the number of people living in villages was 9 million, and by early 1977 it was over 13 million.

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[53] Simensen (2010), p. 64.

[54] The trade deficit was 17% of GDP in 1974, and 14.3% in 1975. According to the plan the trade deficit should have averaged only 4% of GDP.

[55] Nyerere (1977), p. 33.

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 to a number of problems that, in retrospect, should have been evident from early on. For instance, the new social arrangement resulted in reduced time available for cultivation. Also, large firewood requirements at the villages encouraged deforestation, and the incentives for adopting improved technology were greatly reduced.[56]

The third *Five Year Plan for Social and Economic Development* was launched on July 1st, 1976.[57] 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 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% of Tanzania's development budget was financed with foreign aid.

As a result of poor export performance, general macroeconomic mismanagement, an acutely overvalued exchange rate, and out of control public deficits, international reserves declined rapidly. By 1978 total (net) international reserves were equivalent to only 3.5 weeks of imports, down from more than 30 weeks of imports in 1969. This was the result[58]

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

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

[57] 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." Third Five Year Plan (1976), p. 4.

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

IV. Crisis and the IMF Stand-by 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.[59]

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. On this subject it is useful to quote Helleiner at length:[60]

> "Our failure to persuade the Tanzanians that a significant degree of currency devaluation was required was especially disappointing. I came to the conclusion that neither the President nor anyone in his office *truly understood exchange rate issues*; and this was not so surprising since they can be complex."

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.

IV.1 The resistance to devaluation: ideology and believes

An important question is, why did the authorities reject the idea of a large devaluation with such vehemence? Why did they rule out exchange rate adjustments even in light of the clear imbalances? In that regard, it is important to recall that while the second plan called for a reasonable trade deficit – at an average of 4.4% of GDP --, this got rapidly out of control. In fact, in 1974 it was as high as 17% of GDP. Moreover, in 1979, when the IMF Mission was unceremoniously asked to leave the country, Tanzania was in the brink of bankruptcy. According to Edwin Mtei, the minister of planning and finance at the time, Tanzania was "unable to make the necessary foreign exchange available" to pay its foreign debt.[61]

Interestingly, 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 the USD came to an end, and the local currency was instead pegged to the SDR. Starting in 1974 several small adjustments (depreciations) to the parity were made. It is also important to note that until that time Tanzania had had a fairly good relation with the IMF. Indeed, during 1974-75 it used the

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[59] See Kapur, Lewis and Webb (1997, p. 712-715)

[60] Helleiner's unpublished memoirs (2010), emphasis added.

[61] Mtei (2009, p. 154).

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, the so-called "effective" – or "official" – exchange rate was 8.24 Shillings per USD. The black market premium stood at 43.6%, a figure that at the time was considered to be extremely high. In December of that year, and after Mtei's resignation and the breakdown of negotiations with the Fund were announced, the black market premium jumped to 64.3%.

According to Edwin Mtei, opposing the (large) devaluation suggested by the IMF in 1979 was not Nyerere's own idea. Mtei writes:[62]

> "[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:[63]

> "When did the IMF become an international Ministry of Finance? ... It has an ideology of economic and social development which it is trying to impose on poor countries… And when we reject IMF conditions we hear the threatening whisper: 'Without accepting our conditions you will not get our money, and you will not get other money.'"

Reginald H. 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 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.[64]

One of the main intellectual forces behind Tanzania's opposition to devaluation was Kighoman 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 responsive to the type of price incentives that a (large) devaluation would have produced. Malima finished his Ph.D. 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

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[62] Mtei (2009, p. 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."

[63] Boughton (2001), p. 598.

[64] Green (1995), Mtei (2009). See, also, Holtom (2005).

expected 'normal' cotton price."[65] More specifically, his econometric work suggested that that the price elasticity of total output in Tanzania was a very high 2.44.[66]

With time, Malima grew increasingly skeptical about the effectiveness of price incentives, and he became convinced that changes in the exchange rate were counterproductive. His position was affected by structuralist views that at the time 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.[67]

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 1972/73, and the deterioration of the terms of trade. Second, and more importantly, according to Singh, devaluation would not work for a number of political and structural 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.[68]

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.[69] 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 didn't seem to concern him.

Skepticism about (nominal) exchange rate adjustments was also related to possible "contractionary" effect of devaluations, a subject first brought up in a systematic way by Albert Hirschman in 1949, and later developed by Diaz Alejandro (1963). The idea behind this view was simple: in contrast to traditional models (i.e. the simple Mundell-Fleming model), which posits that devaluation is always expansionary, there are a number of channels through which exchange rate adjustment may generate recessionary forces. The most important of these are a wealth effect – similar, in fact, to the "balance sheet effect" emphasized in the early 2000s in the "fear of floating" literature --, and to an income distribution effect. According to this latter channel, a devaluation redistributes income from households with a low marginal propensity to save to households with a high propensity to save, and thus generates a decline in aggregate demand. Contractionary devaluations have, of course, political implications and may even

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[65] Malima (1971, p. 189).
[66] Malima (1971, p. 126).
[67] See Edwards (2010).
[68] This latter point was related to the "elasticities pessimism" view prevalent in some quarters at that time.
[69] Malima (1986, p. 132), Singh (1986).

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."[70]

At the end, whether devaluation is contractionary or expansionary is an empirical issue. Research undertaken since the mid 1980s suggests that, at least in the medium turn, the expansionary forces dominate and that, when supported by the appropriate macroeconomic policies, a nominal devaluation is very likely to improve relative prices of non tradables, improve the current account, and provide a boost to exports and aggregate demand.

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, liberalizing imports, removing price controls, reducing government expenditures, and reforming parastatals.[71]

In his 1985 paper – delivered months before the government agreed to a Stand-by 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?" Around that time a number of academic researchers were addressing that question. For instance, in a paper published in 1989 – and partially motivated by the economic conditions of Tanzania in the first half of the 1980s -- Edwards and Montiel (1989) analyzed the consequences of delayed exchange rate adjustment. They found that it almost never paid to delay. The actual consequences of postponing adjustment depended on the source of the disequilibrium: if this was fiscal in nature, delaying adjustment greatly increased the costs of the crisis; if, on the other hand, the causes of the initial imbalances were related to terms of trade deterioration, postponing the adjustment magnified instability.[72]

Some authors have argued that the IMF was partially responsible for the balance of payment crisis of 1979-1980. According to this view, during 1978, and in light of the improved international reserves position of the country – which, in turn, was largely the result of the coffee boom --, the IMF urged the government to liberalize the external sector.[73] This, the story goes, resulted in a steep increase in imports, a rapid erosion of the country's reserve position, and an unsustainable balance of payments deficit.

When things are put in historical perspective, however, they look significantly more nuanced than a simple interpretation of the data would suggest. Indeed, a careful analysis of the IMF's Article XIV Consultation Report of April 1978 shows that, contrary to what the critics have argued, the Fund was not overly aggressive in pushing for a relaxation in trade barriers, and that the Tanzanian authorities, led by Minister of Finance Edwin Mtei, were eager to reduce import controls and licensing to the levels of 1973-74. The reason for this was that during those

[70] Singh (1986), p. 429.
[71] Malima (1986). For a strong criticism of the IMF position on Tanzania see Green (1983). See also Bierman and Wagao (199x).
[72] Edwards and Montiel (1989).
[73] Malima (1986), Singh (1986).

years, and partially as a result of the drought, severe import restrictions had been imposed. Moreover, the Fund correctly argued that by allowing the importation of spare parts and key inputs there was likely to be a boost in GDP growth. A condition for this to happen, however, was that the relaxation of imports was to be accompanied by consistent monetary and fiscal policies. The following quote from the conclusions of the IMF's Report make things quite clear:[74]

> "The policy of import liberalization adopted for 1978 is essential for balanced economic growth and should be pursued, although this may entail an *appreciable drawdown* of international reserves from their historically high end-1977 level. *For the longer term, a substantially strengthened export base is needed* to pay for higher levels of imports, and firm control over fiscal and monetary policies will be required…"

Interestingly, this 1978 IMF Report barely mentions the exchange rate, and when it does, it concludes that in the medium term the "appropriateness" of the exchange rate should be kept under review. [75] This rather light treatment of the exchange rate issues is somewhat puzzling given three facts: first, at the time the Report was discussed at the IMF board the black market premium for foreign exchange was a very high 70%; second, the Fund itself recognized that the strengthening of the balance of payments position was temporary, and that the combination of lower coffee prices and increased imports would result in a large deficit; and third, after years of high inflation (19.2%, 26.5%, and 6.9% in 1974, 1975 and 1976) and a fixed nominal exchange rate, there was no doubt that the real effective exchange rate had suffered significant appreciation.

All of this suggests that if the Fund position in 1978 is to be faulted, it is not for suggesting a relaxation in the draconian import controls imposed a few years earlier, but for not being aggressive enough in advocating early action in the exchange rate front. Along those lines, the Fund should have made clear that "a substantially strengthened export base" required a major improvement in competitiveness. Moreover, it is surprising that the report doesn't address forcefully the issue of incentives to agricultural producers – at the time, as noted, 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 29th, 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 deficit had increased for a number of reasons, including the need to finance the war with Uganda and the increasingly large deficit of the parastatal corporations. The tone of this report is very 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

[74] IMF (1978), p. 10. Emphasis added.
[75] IMF (1978), p. 7.

"implement on a sustained basis comprehensive policies to eliminate the structural distortions which have hampered Tanzania's balanced economic growth."[76]

In April 1980, merely 5 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, which included fiscal adjustment but not devaluation as a condition, was arrived at. Reaching 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 rollover some loans. The government, however, was unable to meet any of the IMF conditions, and only SDR40 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.

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.[77] As time passed and economic conditions worsened, a small group of political dissenters -- mostly technocrats and producers of cash crops -- began to emerge.[78]

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. Some of them included small and timid devaluations (in 1982, 1983 and 1984) and producer price adjustments, but none of these efforts addressed 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 the economy, and punishing (through the *Economics Saboteurs Act*) those individuals deemed to oppose the path chosen by the authorities.

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[76] IMF (1979), p. 5.
[77] Hyden and Karlstrom (1993).
[78] Holtom (2005).

Some authors have argued that these "homegrown" programs failed because there was no financial support for them. Although it is true that neither the IMF nor the World Bank were willing to provide funds, bilateral donors – and, in particular, the Nordic countries – were still fully engaged with Tanzania. My conjecture is that, had a domestically designed program contained a consistent set of policies that had squarely addressed the sources of the crisis, there would have been financial support for it; it could even had succeeded.[79]

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. Even the CCM leadership began to question the wisdom of stubbornly holding on to the failed policies of the past.[80] At the same time, and from a doctrinal point of view, the fall of the Berlin Wall generated a soul searching process and a series of questions regarding socialism and the way it was to be constructed.

Table 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 Stand-by agreement. These figures portray a very negative picture: per capita growth was negative in 1980, 1981, 1982 1nd 1983, it was barely positive (0.2%) in 1979 and 1984, and only grew at 1.4% in 1985. By that year investment had collapsed by two thirds, and stood at 11.5% of GDP. Inflation hovered around 30% per year, and the black market premium for foreign exchange was almost 300%. Reality, however, was much worse than what the bleak figures in Table 6 are able to convey. It is not an exaggeration to say that economic relations had completely broke 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.[81]

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

The Nordic decision to withhold aid was the result of a number of factors, including the growing perception among their voters that aid was being wasted, and that their altruistic goals were not being attained. Moreover, a number of media exposés suggested thet the Nyerere government was quite authoritarian, and thet its record in terms of respecting civil liberties was not particularly good. Boesen et al (1986, p. 12) point out that after realizing what was really happening in Tanzania the Nordic public and voters began to question the wisdom of providing so much aid. They also demanded that the aid agencies "sided with the demands of the IMF." And, in an independent evaluation of the Swedish assistance program Adam et al (1994, p. 2) wrote that "eventually it became clear that the policies pursued [by Nyerere] were not successful…"

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[79] Santaella and Edwards (1994) compared IMF and non-IMF adjustment program that included large devaluations during the 1970s. They found that IMF-supported programs were slightly more successful. However, they also found that, when accompanied with the right type of macroeconomic policies; non IMF programs were also successful in the sense of affecting relative prices and improving the current account.

[80] See Mtei (2009) for a personal account of this period.

[81] Mtei (2009) candidly conveys the sense of desperation during this period.

Also, in a number of donor countries technical evaluations of "aid effectiveness" were implemented. The results of these exercises showed that in spite of very significant flows the wellbeing of the recipient countries' population was not improving. Not surprisingly, the supporters of the assistant programs pointed out that it was very difficult to define the appropriate counterfactual. Of course, they agreed that things didn't look well in Tanzania (and in the rest of Sub Saharan Africa, for that matter), but they argued that in the absence of the aid flows, economic conditions would be even worse. At the end of the day, those that criticized the path taken by Tanzania prevailed, and in the early 1980s assistance was reduced drastically.

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 unique official party. On the other hand, he would try to pave the way to improved relations with the Bretton Woods institutions.

VI.2 The IMF Stand-by program of 1986

In 1984 the government decided to open a small window towards 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.[82] 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 success 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 group that from inside the government resisted any change in policy direction, and strengthened the position of the reformers.

In 1985 the World Bank published a report on the role of exchange rates in the adjustment process in Sub Saharan Africa. The point of departure of this work was acknowledging that in most countries in the region there was strong resistance to devaluation. It then listed the arguments against adjusting the parity, and with great clarity and pedagogy debunked each and every one of them.[83] Although not openly critical of the Tanzanian government – the sheer fact that it was a multi country study softened its edges --, this study unmistakably put the World Bank on the side of the IMF with respect to exchange rate policy.

On August 28th, 1986, almost seven years after the mission led by Bo Karlstrom had been thrown out of Dar es Salaam by president Nyerere, Tanzania's made an official request for an IMF Stand-by Arrangement. The report prepared by the IMF staff for Board consideration is a rather simple document that opens like this:[84]

> "Protracted, and at time difficult, negotiations have been held between the Tanzanian authorities and the Fund staff during most of the 1980s… In early

[82] IMF (1986), p. 7.
[83] Gulhati et al (1985)
[84] IMF (1986), p. 1.

> 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 program – which in Tanzania was called the Economic Recovery Program (ERP) -- was quite standard. Disbursements were divided into tranches, with most funds available towards the end of the agreement (March 1988). The program called for a gradual improvement in the balance of payments position. It mentioned that it expected 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% of Tanzania's quota at the IMF. From today's perspective this is a very modest effort: indeed, it is not unusual for the Fund to provide support equivalent to several times a country's quota. 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 didn't want to commit a large amount of money to a country that had antagonized it for so long. 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 center piece 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 pre-condition for the program. On June 19, 1986 the currency was depreciated to TSh 40 to the USD. This represented a devaluation of the official rate of 135%. 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% 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 on the currency, and that it would be 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% of GDP, a rate of inflation of 30% for 1987, an increase in domestic investment to 23% of GDP (from 16% in the previous year), a modest increase in the holdings of international reserves, and an acceleration GDP growth to 3.5% in 1986/87 -- which implied an increase in GDP per capita of barely 0.5%. 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 included in the program may be summarized as follows:[85]

- Reducing drastically the number of goods affected by price controls. A list of 12 categories of goods considered to be "basic necessities" would continue to have controlled prices. These included cement, cooking oils, farm implements, corrugated iron sheets, fertilizer, milk, petroleum products, safety matches, soap, sugar and tires.
- The cash central government deficit was to be reduced by 5 to 6 percentage points of GDP, to 11% of GDP.[86]
- New fiscal revenue measures were to be implemented, including a new tax on petroleum goods, and the transformation of specific taxes into ad valorem taxes.
- Broadly defined money would expand at 11% in 1986/1987. This was significantly below the rate of growth of the previous year (21.5%) and of the projected growth of nominal GDP (32%).
- There would be a gradual reduction in external arrears.
- 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.
- The adoption of a crawling peg exchange rate system geared at generating a real devaluation of 1% per year was to be adopted.
- There would be an elimination of multiple exchange rate practices.
- There would be an expansion and liberalization of the export earnings retention scheme that allowed exporters to keep some of the hard currency, and to use it for purchasing intermediate and capital goods. Retention rates were to be increased to 50% of foreign exchange earnings. Also, retentions would be transferable.
- There would be no imposition of trade or exchange restrictions beyond those approved by the Fund through Article XIV Consultations.
- There would be a generalized increase in producer prices in the agricultural sector to an average of no less than 60% of export prices.
- Consumer subsidies on petroleum products would be eliminated
- There would be a strict ceiling on external indebtness by the Bank of Tanzania, the government, and public enterprises.
- There would be a major reform of parastatals and marketing boards operating procedures, in order to increase their efficiency, and reducing their losses.[87]

[85] See pages 30-31, Annex I (p. 42), and Table 9 in IMF (1986).

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

IV.3 The war of ideas, reform, technocrats and politics

The timing of the IMF program is 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 "an incipient or actual balance of payments crisis that necessitates a reduction in the level of current expenditures."[88] 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*..."[89] 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 had all but disappeared. 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 various parts: first, the absence of democratic channels for expressing dissent greatly reduced at every level. The fact that the CMM (and before it the TANU) where official and only political parties goes a long way towards explaining the absence of (effective) dissenting voices. 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 individuals in the donor countries, this was a "justifiable" crisis. 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 highly interventionist, command-type programs. And fourth, changing course would have meant that party officials that had made a career supporting ujamaa and African Socialism would have lost their power and privileges.

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. All of a sudden, the incoming technopols' ideas -- usually based on the Anglo-Saxon economic tradition -- become highly influential. Domínguez (1997, p. 7) defines *technopols* as follows: [90]

> "Technopols are a variant of technocrats. In addition to being technocrats... technopols are political leaders (1) at or near the top of their country's government and political life (including opposition political parties) who (2) go beyond their specialized expertise to draw on various different streams of knowledge and who (3) vigorously participate in the nation's political life (4) for the purpose of affecting politics well beyond the economic realm and who may, at

[87] Notice that the program does not mention privatization.
[88] Lal (1987, p 274, emphasis added),
[89] Bates and Krueger (1993, p. 454 emphasis added), Rodrik (1994, p. 63, emphasis added).
[90] Domínguez (1997), p. 7.

> times, be associated with an effort to "remake" their country's politics, economics, and society. Technopols so defined may operate in either authoritarian or democratic regimes."

Of course, technopols don't 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.[91] At one time or another, they held key cabinet positions, including the Ministry of Finance, Planning, Mining, Labor, Economics, as well as the governorship of the central bank. But, of course, the Chicago Boys were not the only technopols that had powerful cabinet positions during the Latin American reforms. 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.[92] 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, 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, 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 senior or cabinet positions.

Bigsten et al (1999, p. 25) have argued that during the late 1970s and early 1980s "the University of Dar es Salaam had generally 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 argue, "contributed to the lack of consolidation of intellectual policy groups within the Government or around it." This view is endorsed by Holtom (2005, p. 558) who argues that for all practical purpose the overwhelming dominance of Nyerere and the party "helped block meaningful debate."

In 1984, 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

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[91] Edwards and Edwards (1991).

[92] 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).

options. They provided intellectual support to the very small group of party and government officials that promoted reforms and an improvement of the relations with the IMF and the World Bank. These officials incuded Cleopa Msuya, who was the Minister of Finance at the time the Stand By arrangement was signed, the Permanent Secretary of Finance Rutihinda, and Edwin Mtei, who was Tanzania's representative at the IMF. 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.

In the mid 1980s a number of meetings and seminars were held, where the benefits of a coherent and concerted liberalization program were discussed. Participant in these meetings included technical staff from some of the ministries and the Bank of Tanzania. As Hyden and Karlstrom (1993), Lofchie (1994), Holtom (2005), and Bigsten et al (1999) have pointed out, these debates were cast as being a "war" between reds and experts, ideologues and pragmatists, and pro- and anti-reformers. There is no doubt that these debates helped develop a nascent perspective on the urgent need for changing course. In retrospect it is interesting to note that the original goals of the reformers were rater timid. They urged some fiscal control, a minimal liberalization of imports, greater efficiency in the parastatals and a reasonable devaluation. At the time they did not dream – nor did they desire – seeing a transformation of Tanzania into a market economy.

V. The wheels of aid and the first round of reforms, 1986-1995.

In late 1986, and as a result of the signing of the Stand-by 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 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 where, 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 20 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 task. As a number of 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.*"[93]

V.1 The reforms: partial and incomplete

A number of works have been written on the first phase of reforms, including Utz (2008), Nord (2010), Robinson et al (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". In Table 7 I present a very detailed list and discussion of the reforms undertaken during these initial years.

Initially, progress on most fronts was slow. Already in 1987 the government was having difficulties meeting its fiscal targets. According to the October 1987 review of the Stand-by agreement, 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 140%.

Mans (1994) has argued that from early on there were problems of both speed and sequencing. In particular, the open general license import program – which was geared at

[93] See, for example, Nord (2009) and Mans (1994) and the references cited therein.

relieving the foreign exchange constraint -- got overwhelmed, and lacked a serious accounting system. Funds available (and 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 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."[94]

By early 1988 the authorities had abandoned the crawling peg regime, and allowed the real exchange rate to appreciate significantly. During the first 6 months of 1988 real appreciation amounted to 14%, and by December 1988 the black market premium stood at an extraordinarily high 152%.

In a 1990 report the IMF, once again, pointed out that the Tanzanian 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."[95]

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 5).

Although this was an important measure, it was an isolated one that was not accompanied by pro-competition 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 – see Table 7 for details --, there were still significant distortions, pervasive controls and mismanagement of the parastatal sector. In particular, the sole emphasis on stabilization and imports' recovery was considered by the Bank staff to be insufficient.

[94] IMF (1988, p. 26).
[95] IMF (1990, p. 27).

By 1993 a large number of parastatals continued to post very large losses. In an effort to survive, they run large debts with other parastatals, and didn't contribute counterpart funds to the import financing that they received from bilateral donors. This not only contributed to the stubborn fiscal deficit, but it also strained the government relations with the aid community. In spite of these very serious problems, and to the distress of the multilateral organization and bilateral donors, the authorities continued to argue that there was no need for a generalized privatization program, or for closing down the most inefficient parastatals. 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%).[96]

Table 8 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 through 1990 were years of recovery, as production was able to resume and the most extreme economic bottlenecks were addressed. During that period average GDP per capita grew, on average, at 2.2%. As it turned out, and as some donor agencies had feared, as the reforms stalled, economic growth began to falter. GDP per capita growth was negative in every year between 1991 and 1993: -0.3% in 1991, -1.3% in 1992, and -4.1% in 1993 (See Table 7). At that point it became clear that something had gone terribly wrong.

Table 8 also shows that inflation remained stubbornly high, and that the current account deficit didn't budge. Also, 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% and in 1993 it stood at 26.7%, up from 18.7% in 1985. The efficiency of investment, however, was very low. Indeed, according to Nord et al (2009), during 1991-1005 total factor productivity growth was negative, on average: -2.0%.[97]

V.2 Some political economy angles

The slow pace of progress in the reform front, and the precipitous fall in growth economic growth in the second half of the 1990s, was the result of a combination of factors, including the fact that anti-reformers 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 argued that efforts should be made to achieve self reliance and to move towards African Socialism. For him and his supporters having given-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 IFIs (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

[96] Mans (1994), Bingsten and Danielson (2001).

[97] The figures on investment and GDP have to be interpreted with caution. As argued in Section VI of this paper, official statistics in Tanzania have traditionally have gaps and are not overly reliable. See Bingsten and Andesen (2001) for a discussion on the revision of the national accounts.

the Arusha Declaration, while correcting the excesses of the 1970s. In 1992 Kighoman 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 view, 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 paper, 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[98]. Moreover, by the early 1990s the Nordic development agencies continued to be dominated by officials that had long supported the tenants of African Socialism.

The emphasis on market policies by the Reagan and Thatcher administration did have an important effect on aid policies by both the U.S and the U.K. Both of these nations began to request, with mounting urgency, that the reforms were accelerated and stepped up. But more important than this was that 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 began 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 Kighoman 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.[99] In particular, the country's foreign aid policy was thoroughly analyzed, and the new government stated that from that point onwards one of the goals of its assistance program was to help recipient adopt a market economy system.

By late 1992 it had become apparent that the reform process had stalled and that, in some areas it was even backtracking. As a result, the donor community -- including the Nordic donors -- grew impatient and dissatisfied with their relationship with the government. From the donors' perspective were three main problems: (1) there were suspicions of increased corruption at every level (including, in particular, in the parastatals): (2) controls were being relaxed too slowly; and (3) the government was unable (or unwilling) to provide the local counterpart funds to help

[98] This contrasts deeply with the experience of, say, Nicaragua.

[99] 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.

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 1994 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 reduced inflation (which in 1993/94 had reached 30% -- see Table 8 for details).

In 1993 the Swedish government appointed a high level committee – the *Secretariat for Analysis of Swedish Development Assistance* – to evaluate the results and effectiveness of their aid program to Tanzania. The report reached a number of conclusions, and made a number of suggestions, including that 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."[100]

[100] Adam et al (1994), p. 155.

VI. Taking-off: Major reforms and the absence of external crises after 1995

In early 1994, and after a disappointing overall economic performance – including negative per capita growth and a rate of inflation that was approaching 30% --, there was a tense meeting between donors and the authorities, where accusations flew back and forth. As Helleiner (2001, p. 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.

In late 1994 a 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 non-project finance (Helleiner 2001, p. 4). The consequences of these measures had enormous significance: expected aid for 1995 declined from 227,000 million Shillings to 151,000 million Shillings

In 1995 bilateral net aid from Denmark had declined to USD59.5 million, from USD94.8 million in 1992; bilateral aid from Finland was USD 9.4, down from USD34.9 in 1992; in Norway it was USD 54.4 million, while in 1993 it had been USD82.1 million; and in 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.

VI.1 A turning point: The Helleiner Report

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 member of the Tanzania Advisory Group. The other members were Professors Benno Ndulu and Samuel Wangwe from Tanzania, Professor Tony Killick from the U.K. 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 (1967) 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. According to Hirschman, when Kemmerer arrived into a country, so many proposals for monetary reform had been discussed that the politicians and the public had become utterly confused: "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*…"[101] Of course, Hirschman's view

[101] Hirschman (1967, p. 176-77, emphasis added).

is not restricted to the design of monetary policy. It equally applies to crises situations, including the design of stabilization plans or a 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.[102]

In the "umpire" or "honest broker" model, advisors don't have superior knowledge or expertise. All the foreign experts do is evaluate available information in a dispassionate way and, after doing it, 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 towards 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.[103]

In both the "umpire" model and the "informed expert" model, the foreign advisor deals with groups of nationals that disagree on which course of action to take.[104] 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.[105]

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 didn't understand or didn't agree with. This problem has come to be known in the literature on foreign aid as the "ownership problem": if aid recipients feel that they don't "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."[106]

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

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[102] There are, of course, other type of advisors that provide technical assistance within a well defined and often not question) 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.

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

[104] 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.

[105] This was not only true for the Helleiner Commission of 1994-95, but also for the earlier Tanzania Advisory Group.

[106] Helleiner (1995, as reproduced in Wangwe, 2002), p. 12.

- The government should prepare the first drafts of all important policy papers, including the Policy Framework Papers, Letters of Intent, and other. Donors should support this procedure. (Recommendation 2).
- Tanzania needs to improve greatly the capabilities of its public sector. This is needed in order to improve the efficiency in project and program implementation. 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 proliferation 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. The leading role in this process should be taken by the Planning Commission and the Treasury. (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. For this reason the incoming (Mkapa) government should increase budget transparency, pay all outstanding counterpart funds associated with the import support program, audit the tax exemptions program of the Investment Promotion Center, and remove this body's authority to grant further exemptions. (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 non-project support. (Recommendation 21).

The new government of President Benjamin Mkapa made it clear, from the beginning, that restoring good relations with the donor community was one of its fundamental short term goals. In order to help achieve this goal 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 government -- there was a meeting between the new authorities and the Nordic donors to discuss the 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 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 16 specific points for evaluating whether progress was being attained. Helleiner (2001) has summarized the fundamental principles of this new agreement by two basic principles: (1) "Tanzania takes the lead"; and (2) "Tanzania fully owns the development cooperation programs in terms of planning, design, implementation, monitoring and evaluation."[107] 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 evaluation reports written in 1997, 1999, and 200 done 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 are a number of problematic areas. First, there were serious problems with "technical assistance," one of the areas that had been identified as challenging in the Dar es Salaam workshop. Skills were not being transferred to Tanzanians, and in many cases donors continued to operate with a short-term perspective. 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."

According to simple theoretical models of international aid, donors provide assistance – and allocate it across alternative uses – in a way that maximizes their own (altruistic) utility function. This requires that, at the aggregate level, aid is provided to the point where its marginal

[107] Helleiner (2001, p. 3). See, also, Wangwe (2002).

benefit (including non-pecuniary effects and possible externalities), as defined by the donor, equals marginal costs.[108] At the same time, the marginal benefit to marginal cost ratio should be equated across alternative uses of the aid funds. Donors' utility functions are highly complex, and include the wellbeing of the population in the recipient country, as well as the level of activities in specific areas supported by the donors themselves (i.e. literacy, women's health, protecting the environment, improving governance and so on). These utility functions also include distributional weights and political considerations, both in the donor and recipient countries. A direct way to incorporate into the analysis the "ownership" issue is by assuming that the "productivity" of aid depends on the level of "effort" exerted by the local community. "Effort," in turn, will depend on a number of factors, including how well the donors' intentions and goals are understood, on the beliefs of the recipient community, and the degree of participation of the local population in the design and formulation of programs. Greater "ownership" may reduce the volume of resources devoted to some of the donors' pet projects, but it is very likely to increase "effort." When every effect is taken into account it is likely that greater "ownership" generates a Pareto superior outcome, where there is the potential for every group involved to be better off. The principles of true "partnership" and "ownership" developed in the Helleiner Report have become the centerpiece of many donors' relationship 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.

VI.2. The second wave of reforms: vision, policies and outcomes

In 1997, and after a process of (partial) consultation with stakeholders, including the civil society organizations, the government finalized a broad strategic document titled "*Tanzania National Development Vision, 2025*." In its introduction the document states:[109]

> "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… These objectives not only deal with economic issues, but also include social issues such as education, health, the environment and increasing involvement of the people in working for their own development. The thrust of these objectives is to attain a sustainable development of the people."

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

> "[Th]e 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 strategy was based overly on state-control of the major means of production, exchange and

[108] Bates (1981) provides a classical and early analysis of the economics of foreign aid. For a more recent discussion motivated by the Tanzanian experience see Adam and O'Connell (1999).

[109] http://www.tanzania.go.tz/vision.htm. The document was made public and widely circulated in 1999.

> distribution and on the prospect of a growing and viable public sector (through public investment), as the principal engine of economic growth and development."

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 many development documents from the late 1990s and early 2000s the Vision referred to the importance of competition, markets, institutions, good governance, transparency and the rule of law, and listed six broadly defined goals for economic and social policies for the first quarter of the 21st century:

- Development oriented culture of hard work and creativity.
- Develop a culture of saving and investment.
- Encourage a developmental community spirit.
- Developing a broad human development strategy.
- Create a learning society.
- Put in place an incentive system to reward such attributes as excellence, creativity, innovation.
- Use education as a strategic change agent.

Although the Vision 2025 document has not had the influence of the Arusha Declaration, it has provided overall guidance for the second wave of policy reforms launched in 1996.

VI.2.1 Policies and (some) outcomes of the second wave of reform

In Table 9 I present a detailed discussion of the reforms put in place since 1996. As may be seen, the dominant areas are 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 Poverty Reduction*, or *MKUKUTA*. This is a comprehensive five year program that is put together after consulting with the donor community and, to some extent, with civil society. The first *MKUKUTA I* covered 2005 through 2010, and was organized around three major themes or "clusters":

- Growth and poverty reduction;
- Improvement of quality of life and social well-being;
- Governance and accountability.

MKUKUTA II was launched in mid 2010, and considered the same three clusters. 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% and 10% on average for the period 2010-2015.

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 center of the reform 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;[110] fourth, external crises (including currency crises) were avoided. As I argue in Sub Section VI.3, the benefits of avoiding currency upheavals should not be underestimated. Currency crises have been extremely costly in Sub Saharan Africa, and the sheer fact that Tanzania has not have any of them since the mid 1990s has contributed significantly to the good performance of the economy. Fiscal consolidation was aided by significant debt relief provided by donors.[111] 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.[112]

As pointed out in the preceding Section, the first (and quite significant) steps towards 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 re-launching, in July of 2000, of the East African Community. In 2005 the East African customs union was established, with a common external tariff that will eventually have three tariff categories: 0% (most raw materials), 10% (intermediate products), and 25% for consumer goods. In July 2007 Burundi and Rwanda joined the customs union. At the current time there are discussions regarding achieving a greater degree of coordination of monetary policy and, eventually, adopting a common framework and even a common currency.

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 the early 2000s no effort has been made to avoid depreciation, or to defend a particular parity. Quite on the contrary, in the mid 2000s 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.

[110] However, corruption continues to be one of the sticking points in the relationship between donors and the government.
[111] Nord et al (2009).
[112] IMF (2010), World Bank (2010).

As a comparison of Tables 7 and 9 shows, one of the most important differences, in terms of policies, between the two phases of reform has to do with parastatals. In the late 1980s, immediately after the first IMF Stand-by program, there were more than 450 parastatals that accounted for approximately 20% of GDP. Until the mid 1990s, and in spite of efforts made by the donor community, the parastal sector continued to incur in significant losses and was a source of the public sector deficit. The reluctance to truly reform and privatize these companies was part of the ideological tug of war that continued within the government until the 1992-93 crisis. In late 1992 Parliament passed the *Public Corporations Act* that set the legal framework for privatization. In1993 the *Parastatal Sector Reform Commission* was set up in order to handle privatization and liquidation of state owned companies.[113] By 2005 most manufacturing and agricultural related parastatals had been either privatized or liquidated. Although, generally speaking, the privatization process has worked well, it has faced some glitches. There have been accusations of corruption, some utilities were privatized before the proper regulatory framework had been put in place, and some firms had to be renationalized; these included Air Tanzania and Tanesco. See Table 9.5 for details.

An important lesson from privatization processes in other parts of the world – in Latin America and Eastern Europe – is that in order these programs to succeed (and to reduce corruption) it is necessary to put in place an appropriate regulatory framework that ensures competition, transparency and facilitates new investments in the recently privatized sectors. A particularly important issue – and one that became apparent in places such as Mexico – is to avoid the replacement of government-run monopolies for private sector monopolies. With the assistance of the World Bank, two institutions geared at promoting investment and encouraging competition were created: the Tanzania Investment Center and the Tanzania National Business Council.[114] One of the goals of both of these agencies has been to improve the business climate – including corporate governance – in Tanzania. These efforts, however, have had mixed results. For instance, in the most recent World Bank's Doing Business study, Tanzania is ranked in the 128th position, out of 183 countries. On the positive side, the country's is ranked higher than its GDP per capita would suggest. However, in the last few years Tanzania has slightly retrogressed in this ranking. Between20011 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. As may be seen from Tables 9.5, and 9.9, 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 road has been less than one third of what was budgeted, and

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

[113] The latter was to be done through the Loans and Assets Realization Trust. For details on the privatization process see Nord et al (2009).

[114] The Investment Center was created in 1990, but its functions were redefined in 1999. See table 7 for details.

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 Table 7.7 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 – See Table 9.11 for details on the different initiatives put in place. In a number of ways these efforts have been highly successful. For example, between 2001 and 2008 enrollment in primary education increased from 59% to 85%. This means that the number of 7 through 13 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% and 38% between 2001 and 2007; enrollment in the poorest quintile increased by a still very respectable32% . On the other hand, the expansion of secondary education enrollment – which has gone from 7% in 2001 to 20% in 2008 – has mostly benefitted the poorest quintile: while in 2001 barely 2% of children in this group were enrolled in secondary education, in 2007 13% were enrolled.[115] In spite of this progress educational reform in Tanzania faces two important challenges: first, educational expenditure

VI.2.2 Growth results

As a large body of research has shown, over long periods of time, economic growth is the result of the combination of three fundamental factors: the accumulation of both physical and human capital, improvements in the utilization of the labor force, and total factor productivity (TFP) growth. As argued by Acemoglu et al (2005) and Weil (2008), among others, TFP growth and the efficiency of capital accumulation depend on institutional variables, including the protection of property rights, the independence of the judiciary, and the level of corruption. A society where property rights are protected for the population at large will generally devote more time and effort to innovating, accumulating capital, improving efficiency and increasing productivity.[116] In this institutional framework it is important that property rights are protected for *all citizens*, and not only for the elite. In that regard, a greater degree of democracy will tend to encourage efficiency and productivity growth (Acemoglu et al 2005). In the same vein, a society with an independent and efficient judiciary system will be able to solve conflicts among parties in an efficient way, without negatively affecting the innovative process. In countries where corruption is low, the private sector will be able to devote more time and effort to

[115] World Bank (2010).

[116] However, if property rights protection is limited to the elite, innovation and productivity growth will not be encouraged.

activities that generate greater efficiency and innovation. On the contrary, in nations where the degree of corruption is high, private sector representatives will tend to devote a significant amount of time to bribing public sector officials and to finding ways of getting around regulations and restrictions. Research on growth has also shown that *policies matter*. In particular, policies that foster competition, efficiency and productivity improvements will, by and large and with other things given, promote growth.

A number of authors have shown that among policies that promote competition, economic openness plays a very important role. Countries with more open, competitive, export-oriented economies have tended to grow faster than countries with trade barriers and impediments.[117] The fourth ingredient behind historical episodes of high and sustained growth – besides strong institutions, good governance, and pro-competition policies -- is macroeconomic stability and, more specifically, the absence of currency and balance of payments crises like the ones experienced by Tanzania in the late 1970s-early 1980s and during the mid 1990s.

In Appendix A of this paper I present the results from an empirical investigation on the dynamics of growth that support the idea that policies, institutions, governance and macroeconomic stability play a fundamentally important role in explaining differences across countries in economic performance.

Empirical academic research on the long run determinants of growth has become immensely influential in policy circles, and has prompted the multilateral institutions to emphasize – through reports, conditionality and technical assistance – the role of competition, openness, good governance and institutional strength in programs for emerging economies. Since the mid 1990s this framework has guided, in a general way, the reform program in Tanzania, including the policies in both *MKUKUTA I* and *MKUKUTA II*.

In Table 1 I presented the evolution of the key macro and social variables for the 1996-2010 period. The data on GDP growth (both in total and per capita terms) are derived from official sources and are consistent with those used routinely by the international institutions. As may be seen, these figures show high and persistent growth that has been sustained for over a decade. But rapid growth was not the only achievement. As may be seen, rapid growth is not the only achievement. In addition, there has been a marked improvement in the investment ratio, a sharp decline in external indebtness (in part a consequence of debt relief), and throughout most of the period inflation has been in check. In Table 11 I present data on total factor productivity growth from three sources: Mwase and Ndulu (2008), Nord et al (2009), and my own calculations. The results are similar across computations and show that in the recent years, the main driver of Tanzania's impressive (official) growth record has been a major surge in productivity. All in all the data in this table provides a positive picture, so positive, in fact, that

[117] Some authors – Dani Rodrik, being the most prominent -- have argued that the evidence on the relationship between openness and economic performance is, at best, weak. Careful work by dozens of researchers, however, has tilted the balance of evidence in favor of the notion that openness (tends to result in higher productivity. An important caveat is that the opening up process has to be implemented carefully, at the right speed and in the proper sequence. In particular, it is essential to avoid unsustainably large current account deficits. These are likely to generate very costly currency crises that are likely to offset the effects of trade openness.

they have fueled the notion that Tanzania has finally become a success story (Robinson et al. 2010, 2011).

Of course, success is not measured exclusively – and not even mainly -- by growth results. In modern economics different metrics are combined to determine how well a particular country has fared. These measurements include social policies, poverty, income distribution and the evolution of social conditions. As Table 9 shows, during the last 15 years Tanzania has invested heavily Table 10 contains data on the summary index of the United Nations Human development Index for 1990 through 2010 for Tanzania, Sub Saharan Africa and the world. A higher value of this index means better social conditions. As may be seen, Tanzania has made significant improvements when compared both to Sub Saharan Africa and to the rest of the world. In 1995 Tanzania's composite HDI was barely 90% that of the rest of the Sub Saharan nations; by 2010, Tanzania had surpassed the African region, and its HDI was almost 3% *above* that of Sub Saharan Africa as a group. All of this suggests that, when it comes to social policies and conditions the country has done quite well. As I argue in Section VII, however, things are more complex than what a simple reading of the HID summary index suggests. In fact, one of the remaining puzzles in Tanzania is why has poverty incidence declined is slowly – by less than 3 percentage points in almost 30 years – if growth has been so fast.

VI.3 On the absence of external crises after 2000

For many years in most of the African countries large external deficits were financed by foreign assistance. This, however, came to an end in the early 1990s. In 1992 net official assistance to Sub Saharan nations reached a historical peak at USD 35.4 per capita. During the next few years aid declined significantly, reaching USD 19.2 per capita in 2000. Of course, individual countries had individual stories, but what was common to (most of the) region was that throughout the 1980s and 1990s African nations experienced recurrent episodes of very large "reversals" in their current account deficits.[118] Although current account reversals are not the only manifestation of external crises – other include large nominal devaluations, precipitous losses in reserves, sudden stops of capital inflows, or a combination of these --, they are probably the most costly and significant. [119] External crises were common in Sub Saharan Africa at the time: indeed, most countries in the region ran unsustainable current account deficits, and experienced very large real exchange overvaluations. As a result, and in futile efforts to eliminate balance of payment pressures, imports were restricted through prohibitive tariffs, quotas, licenses and outright prohibitions.

Table 12 contains data on the incidence of current account reversals in different regions of the world in the 1970-2005 period. A "reversal" is defined as a reduction in the deficit of at least 4% of GDP in one year. As may be seen, the global historical incidence of reversals has been 10.4%. Different countries, however, have experienced very different realities, with the incidence being highest in Sub Saharan Africa (17%) and lowest in the industrial nations (2.4%). The figures are quite startling, indicating that, on average, in any given year almost two out of ten African countries experienced very large external adjustments. Tanzania went through a

[118] For a general discussion on reversals and an empirical analysis of 40 years of data for the world economy, see Edwards (2004).
[119] Gulhati (1985)

major reversal in the first half of the 1980s. As Mans (1994) has pointed out, the current account deficit was 10.1% of GDP, on average, during 1970-1980, and only 5.6% of GDP in 1981-85. After signing the IMF Stand-By agreement of 1986, the deficit once again increased, reaching, on average, 8.5% in 1986-91. In 1994 and 1996 Tanzania experienced new current account "reversals". In each of these years the deficit declined by 6.9% of GDP and 4.8% of GDP, respectively.

Since the second half of the 1990s, and thanks to prudent macro policies and a rather flexible approach to exchange rate management, Tanzania has avoided external crises. The current account deficit has hovered around 6% of GDP. This "absence of crises" is an important achievement and should not be underestimated. In Appendix A of this paper I present the results from an empirical investigation of the costs of external crises in Sub Saharan Africa. The analysis indicates that in the African Region, and with other things given, current account reversals have historically resulted in a short run (one year) reduction of growth of 3.8 percentage points, relative to trend.

A revealing exercise – and one that sheds light on the importance of the "absence of crises" in Tanzania during the last decade and a half --, is to compute by how much would GDP per capita would differ over the longer run in a Sub Saharan African country with an average incidence of crises (that is 17%) of the time, and a crisis-free country. In this analysis I assumed that otherwise the two countries were identical. The results from this simulation exercise indicate that after one generation (25 years) in the crisis-free country GDP per capita would be 18% higher than in the "average crisis" nation. These results indicate clearly that the benefits of having achieved macroeconomic stability are very high, and as pointed out earlier, should not be underestimated.

VII. Are things as good as they look? Data consistency, poverty and social conditions

An important question, and one that will affect the answer to the question posed in the title of this paper (is Tanzania a success story?), is whether aggregate data, and in particular data on economic growth, are reliable. In 1994 Srinivasan wrote: "Researchers are not aware of or, worse still, have chosen to ignore the fact that the published data [in developing nations]… suffer from serious measurement biases and errors."[120] Data quality problems are very severe in Sub Saharan Africa in general, and in Tanzania in particular.

A decade ago Bigsten and Danielson (2001) wrote that "the quality of macroeconomic data [in Tanzania] has for a long time been a problem for researchers attempting to analyze economic performance."[121] And yet, most recent studies on growth and economic performance proceed as if either these data problems didn't exist, were a minimal, or only a minor annoyance. However, there are a number of reasons to suspect that, even today, data quality is an important issue. In this Section I discuss this problem from a historical perspective, and I argue that the evidence indicates that recent performance may not be as stellar as the official and international statistics suggest. Before proceeding, it is important to notice that lack of reliable aggregate data is not only an African problem; there are equally serious problems in Asia and Latin America.[122]

In a recent paper, Jerven (2011) analyzed in great detail the quality of aggregate data in Tanzania – including data on GDP and its components -- during the forty years spanning from 1961 through 2001. He showed that there are very significant discrepancies, in terms of the growth record, across different and popular data sources. For example, the simple correlation coefficient between the growth series provided by the government (for 1961-2001), and those in the Penn World Tables is only 0.23. In turn, the correlation coefficient between the Penn World Tables growth series and those from Angus Maddison is merely 0.26. What makes these differences particularly interesting is that all three series have a common source: the basic data compiled by the Tanzanian Central Bureau of Statistics.[123] From his analysis, Jerven concluded that, "there is considerable uncertainty and room for interpretation regarding the Tanzanian growth record…[C]laims of causal relationships between the policy variables and periods of economic growth should be treated with caution."[124]

An early, and very serious, data problem referred to the importance of the "subsistence" sector, or that part of the economy that was not integrated to monetary exchange. For example, according the Bank of Tanzania, in 1964 the subsistence sector GDP was estimated to be 33% of total GDP. In 1980 subsistence value added was still estimated to be 30% of total GDP. Economic activity in this sector was performed by very poor peasants that lived in remote and

[120] Srinivasan, (1994, p.4).
[121] Bingsten and Danielson (2001), p. 29.
[122] Two Latin American countries, where I have recently worked that have serious aggregate data problems are Guatemala and the Dominican Republic. Data deficiency has become an important topic of discussion in development economics. See, for example, the papers by Deaton and Heston (2010) and Simon Johnson et al (2009).
[123] The World Bank recognizes the fragility of the historical data, and doesn't provide growth figures prior to 1987.
[124] Jerven (2011, p. 16).

rather isolated parts of the country. Most (80% in 1980) subsistence production was concentrated in the area of "agriculture, hunting, forestry and fishing"; in addition, there was some "construction" and a small amount imputed to "owner occupied dwellings" In the non-monetary sector. In an important report that analyzed economic policy and achievements during the first twenty years of independence, the Bank of Tanzania acknowledged that GDP in the monetary sector was "understated" due to the difficulties of dealing with subsistence.[125]

Throughout the years there have been several revisions to Tanzania's aggregate data. The first comprehensive revision was undertaken by the Central Bureau of Statistics, with assistance from the United Nations, in 1968. This effort focused on obtaining better information on the agricultural, hunting forestry and fishing sector. However, and as pointed out above, the existence of a large proportion of the population that barely participated in monetary exchange made the exercise very difficult. During the first half of the 1980s a new effort at revising the national accounts was undertaken. The base year was changed to 1976, and data obtained from marketing boards and parastatals were used to determine sectoral weights. However, due to existing distortions – both in prices and other variables – this attempt was not successful: the new series were not comparable with the old ones and there were a number of sectors that continued to be underreported. Worse yet, during the years that followed, the importance of the "informal" and "parallel" economies became increasingly important, making the collection of official statistics a fantasy.

In the 1990s, and after relative prices had been realigned and the economy had returned to "normality" the Central Bureau of Statistics made a new attempt at revising the national Accounts from 1985 onward (using 1992 as the base year). Efforts to splice the different growth series were not easy, and resulted in non-credible results. These difficulties led the World Bank not to report in its World Development Indicators, and other data sets, growth data prior to 1988. Some authors that have become aware of these problems, such as Mwase and Ndulu (2008), have decided to exclude 1988 from their empirical analyses. Attempts at reconciling the "old" and "new" series by the Penn World Tables resulted (in its version 6.1) in absurd results, such as a rate of GDP growth in 1987 of 20%, followed by negative growth of 33% in 1988![126] In subsequent versions the Penn World Tables team has tried to deal with this problem by using "chain series" computations, and has concluded that GDP growth was 7.6% in 1987 and 4.6% in 1988.

Of course, data quality problems go beyond GDP, and throughout Tanzania's history have affected other key variables. For example, there is no doubt that during the height of the crisis (1977-1986) exports were badly underestimated due to the smuggling. National accounts data on gross investment (and thus on consumption) are also plagued with errors, since throughout most of the country's history they have been computed on the bases of imports of capital goods (subject to generalized over invoicing during 1976-1992) and local cement production. Likewise, official data on inflation are suspect, especially during the crisis years, when controlled (as opposed to black market) prices were used to calculate the CPI.

[125] Bank of Tanzania (1984, Table 3).
[126] See Table 3 in Jerven (2011).

In 2007 the National Accounts were once again revised. The new series largely confirmed, for the recent years, the picture of the old series. However, some analysts have argued that there are some serious puzzles in the data, and that even these new series are suspects. An important source of skepticism is that in a country that is predominantly agricultural, with 97% of the planted surface in rain fed areas, the official rate of overall growth is barely affected by climatic conditions.[127] For example, in late 2005 most of Tanzania was hit by the worst drought in over 20 years. This greatly affected crops in 2006. So much so, that the authorities decided to distribute over 110,000 tons of maize from the National Grain Reserve. It has estimated that, in volume terms, in 2006 there were major declines in most export crops output: coffee (-31.7%), cotton (-95.1%), sisal (-34.4%), tobacco (-19.6%), and cloves (-20%). It has also been estimated that during that year, and mostly as the result of the drought, production of food crops (maize, beans, rice, finer millet, potatoes, and sorghum) declined in the 10% to 15% range. In spite of this major climatic shock, and the contraction these crops' output, the official statistics showed that agricultural GDP *increased* by 4.1% during 2006. A number of experts have argued that a more realistic and credible growth rate for the agricultural and fishing GDP is a contraction between 10% and 15%.[128] If this is the case, it is likely that during 2006 real GD grew between 3.5% and 4.5%, instead of the official rate of 6.7%.

Recent skepticism on the reliability of aggregate data – and in particular of growth figures -- goes beyond the behavior of the agricultural sector. In a 2008 paper, the *Poverty Monitoring Group* reported that, on the bases of a wide Household Budget Survey, there a number of contradictions between micro and macro data. In particular:

- Household consumption had increased at a rate of only 0.8% per year, on average, between 2001 a 2007. However, according to official figures during that same period income per capita grew at an average annual rate of 4%; data from the Penn World Tables indicate that average GDP per capita was 3.6% during 2001-2007. In both cases, there are large differences between the household survey data on consumption and the national accounts data on GD growth.
- The poverty headcount ratio – defined as the percentage of the population that lives below the poverty line -- barely declined 2.4% points between 1991 and 2007. And yet, official data show that during this period real GDP per capita experienced an accumulated growth in excess of 30%. Moreover, between 2001 and 2007 inequality barely changed; the Gini coefficient went from 0.36 to 0.37. These figures show, again, a certain degree of inconsistency and suggest that aggregate data may overestimate the extent of economic growth.

There are a number of possible explanations for the puzzle of "rapid GDP growth, little growth in consumption." At the simplest level, it is possible that households are increasing consumption in goods that are not classified as "consumer goods" in the national accounts. In fact, there is significant evidence that suggests that consumption in durables has increased significantly during the 2000s. For example, according to the Household Budget Survey,

[127] The points that follow were made to the author by a number of independent analysts, as well as by staff of a number of multilateral organizations, in a series of face-to-face, E-mail, Skype, and phone interviews.
[128] In field interviews conducted in Dar es Salaam in October 2010.

between 2007 and 2001 the ownership of radios increased by 27%, ownership of cell phones by almost 2,000%, TV sets by 220%, mosquito nets by 84%, and bicycle by 12%.[129] A second possible explanation has to do with prices, and with the differences between nominal and real consumption growth. According to the Household Budget Survey, between 2007 and 2001 nominal consumption increased by 103%; national accounts, on the other hand, show that accumulated growth in nominal consumption was "only" 82%. Consumer goods' inflation shows an even larger divergence between the two sources: according to the Household Budget Survey, between 2007 and 2001consumer prices increased by 93%, while according to the national accounts they increased by only 45%.

Comparative analyses indicate that, in spite of having posted fast (official) rates of growth, Tanzania has reduced poverty at a significantly slower pace than Uganda and Ghana. As pointed out, 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% and 51.7%, versus 38.6%), in 2007 they had a lower incidence of poverty than Tanzania (31% and 28.5%, versus 38.6%).[130] 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 paper, 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 II I called the "official story" should be tempered.

[129] Poverty Monitoring Group (2008).

[130] The data for Uganda are for 1991 and 2006, while that for Ghana are for 1992 and 2005. See Poverty Monitoring Group (2008).

VIII. Concluding remarks (preliminary; to be completed)

In a few months (I write in July 2001) Tanzania will celebrate 50 years of independence. There is little doubt that the nation, its people and leadership have gone through a remarkable trip. In the short time of five decades they have gone through a veritable rollercoaster and have experienced a succession of situations that many nations have never faced, or have never faced jointly and during such a short period of time. The country has been through ups and downs, severe crises and miraculous recovery, broad nationalizations and socialist policies, and broad market oriented reforms.

At the same time as going through the incredible 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 counter coups. This, indeed, sets the country apart from its Sun 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 these questions are not straightforward, and depend on how one looks at the issue. From a medium term perspective – ant 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 60% (which is significantly faster that 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 what has prompted authos such as Robinson et al (2010) to talk about success. Within this perspective, where the world (or, at least, Tanzania's world) begins in 1995, the aid organizations can rightly claim to have played a very constructive role in this story.

However, as one takes a long view, as I have done in this paper, 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 15 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 this paper 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 paper shows clearly that the international aid organizations were accomplices in generating the collapse of the Tanzanian economy.

A simple way of illustrating this point is by performing very simple counterfactual exercises that compare the actual 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 non-crises counterfactual scenarios the boom of the last 15 years would not have taken place. I consider

three such counterfactual scenarios; all of them, of course, assume changes in policies that would have implied an early abandonment of the princliples of the Arusha Declaration. (a) *Counterfactual 1*: Starting in 1970, that is three years after the Arusha Declaration, GDP per capita growth is 1.3% per year. This lukewarm rate continues until 2010. (b) *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% per capita. (c) *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% per year. 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 7. 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 doesn't look quite like a successful story. It rather looks like a case of a remarkable recovery. [To be expanded]

[On poverty, social conditions and inequality]

[On lessons learnt on the role of foreign aid: ownership, partnership, credibility, time inconsistency, tying the government hands, and all of that]

Appendix A:
The Dynamics of Growth and the Costs of External Crises in Africa

As pointed out in Section V.3 of this paper, one of the important accomplishments in Tanzania since 1996 has been the achievement of macroeconomic stability. More specifically, the absence of external crises – and in particular, the absence of current account reversal crises – has contributed to the country's positive performance. This is particularly clear when contrasting this "absence of crises" with the dramatic 1978-1986 period, and when the mid 1980s. The purpose of this Appendix is to estimate a growth dynamics model to analyze the costs of current costs reversal countries, both in the world as in Africa.

A.1 The Empirical Model

The point of departure of the empirical analysis is a two-equation formulation of the *dynamics* of real GDP per capita growth of country *j* in period *t*. Equation (1) is a long run GDP growth equation, similar to those estimated in the new growth empirical literature; equation (2) captures the growth dynamics process. [131]

$$(1) \qquad g_j^* = \alpha x_j + \beta z_j + \gamma s_j + \varepsilon_j$$

$$(2) \qquad \Delta g_{jt} = \lambda(g_j^* - g_{jt-1}) + \varphi v_{jt} + \gamma u_{jt} + \xi_{jt}$$

Equation (1) relates long term per capita GDP growth to structural variables (x_j), policy variables (z_j), and institutional variables (s_j). The error term is assumed to be heteroskedastic. In equation (2), g_{jt} is the rate of growth of per capita GDP in country *j* in period *t*. The terms v_{jt} and u_{jt} are shocks, assumed to have zero mean, finite variance and to be uncorrelated between themselves. More specifically, v_{jt} is assumed to be an external *terms of trade shock*, while u_{jt} captures other shocks, including *current account reversals*. ξ_{tj} is an error term, which is assumed to be heteroskedastic. λ , φ , and γ are parameters that determine the particular characteristics of the growth process. Equation (2), which has the form of an equilibrium correction model (ECM), states that the actual rate of growth in period *t* will deviate from the long run rate of growth due to the existence of three types of shocks. Over time, however, the actual rate of growth will tend to converge towards its long run value, with the rate of convergence given by λ . The main interest from the perspective of the current paper is the effect of *current account reversals* (or oher indicators of external crises, for that matter) on growth; that

[131] This formulation is based on Edwards and Levy Yeyati (2005).

is, whether coefficient γ is significantly negative. In the estimation of equation (2), I used a dummy variables for reversals.

The system (1) - (2) was estimated using a two step procedure. In the first step I estimate the long run growth equation (1) using a cross-country data set. These first stage estimates are then used to generate long-run predicted growth rates to replace g_j^*, in the equilibrium error correction model (2), with the predicted value of long term growth. In the second step, I estimated equation (2) using a GLS random effects procedure for unbalanced panels.[132] The data set used covers 113 countries, for the 1970-2004 period; not every country has data for every year, however. The data come from the World Development Indicators, the International Financial Statistics, and some national sources.

A.2 The Long Term Growth Equation

In estimating equation (1) for long run per capita growth, I follow the by now standard literature on growth, as summarized by Durlauf et al (2005) and Weil (2005), among others. The data set covers 103 countries and most variables are defined as averages for 1970-2004. For some covariates, however, data are only available for a shorter period. See the Data Appendix for details.

Over long periods of time, economic growth is the result of the combination of three fundamental factors: the accumulation of both physical capital and human capital, improvements in the utilization of the labor force, and total factor productivity (TFP) growth. As argued by Acemoglu et al (2005), among others, TFP growth and the efficiency of capital accumulation depend on institutional variables, including the protection of property rights, the independence of the judiciary, and the level of corruption.

In the specification of the long run growth equation (1), the following *traditional covariates*, which have been used in the standard growth literature, were included:[133] (1) the log of initial (1974) GDP per capita. (2) The ratio of gross investment to GDP, as a proxy for the accumulation of physical capital. (3) The coverage of secondary education, as a proxy for human capital accumulation. (4) The degree of openness of the economy to international trade. This variable is measured as the fitted value from a gravity model of bilateral trade.[134] (5) The ratio of government consumption to GDP, as a proxy for the size of the public sector. In addition to these standard variables, the following covariates that reflect a country's *macroeconomic policy* stance and *economic structure* were included: (6) Average rate of inflation over the period under study. (7) The volatility of inflation, measured as the standard deviation of the rate of change of

[132] When fixed effects were used the results were very similar.

[133] See, for example, Durlauf et al (2005) and Weil (2005).

[134] As Aizenman and Noy (2006) have shown, there is a strong empirical connection between trade openness and the degree of capital mobility. The use of gravity trade equations to generate instruments in panel estimation has been pioneered by Jeff Frankel. See, for example, Frankel and Cavallo (2004).

the CPI. (8) The volatility of the (logarithm of the) terms of trade. Also, (9) the volatility of the (bilateral) real exchange rate index (RER).[135]

Finally, a set of covariates that capture the strength of a country's *institutions* was included in the estimation of equation (1) (since these variables are highly collinear, they were introduced into the analysis one at a time): (10) An index that measures the degree of protection of property rights. The higher the value of this index, the stronger is the protection of property rights. (11) An index that measures the "rule of law" in each country. A higher value of the index reflects a greater respect for the rule of law. A limitation of this index is that it is only available since 1996. (12) An index that measures the extent to which a country is able to "control corruption." The source is the ICRG; a higher value of the index means a stricter control of corrupted practices and, thus, a lower level of corruption. (13) An index that measures the degree of "law and order" in each country. A higher value of the index reflects a greater respect for law and order. (14) An index that measures the degree of independence of the judiciary in each country. As before, a higher value of the index reflects a greater degree of independence. Finally, (15) an index that measures the strength of democratic institutions in each country (see the Data Appendix for details).

The basic regressions results are in Table A.1, where the z-statistics were obtained using robust standard errors (in all of the equations regional dummy variables were also included, but not reported). [136] All of the coefficients have the expected signs and the vast majority of them are significant at conventional levels. Moreover, the regressions in Table B.1 explain approximately two thirds of the long run cross country variability in growth. These results support the main implications of the new theories of growth, and confirm previous findings by a large number of authors. The estimated coefficients of the institutional variables in Table B.1 tell a robust story. A story, in fact, that has been at the center of policy advice by the multilateral institutions, around the world, in the last twenty years or so. In many ways, the policy principles encapsulated in Tanzania's *Development Vision 2025* are related to these results.

In order to assess the relative importance of the different variables in these regressions I computed standardized beta coefficients that measure by how much the dependent variable changes if the independent variables increase by one standard deviation.[137] The results obtained are quite revealing: in every regression the institutional variables have the highest standardized betas, confirming that the story of long term growth differentials across countries is fundamentally – although not exclusively – a story of weak institutions.

A.3 The Growth Dynamics Equation

Table A.2 presents the results from the second step estimation of the growth dynamics equation (2), for two samples: an all countries sample and a Sub Saharan countries sample. I use the fitted values from the estimates for long run GDP per capita growth reported in equation (7)

[135] A bilateral RER rate index was used because it is available for a larger number of countries. When a multilateral RER index was used the results were very similar to those reported in this Section.

[136] In some regressions, not reported here due to space considerations, I computed the standard errors by clustering observations by region; the results were similar to those reported here.

[137] These coefficients are not reported here due to space considerations.

in Table B.1 to construct a proxy for the trend rate of growth g_j^*. When alternative specifications for computing the long run growth equation were used, the results were very similar to those reported in Table B.2.[138] In addition to the error correcting term I included the following covariates: (a) terms of trade shock; (b) a dummy variable for a current account reversal (a decline in the deficit of at least 4% of GDP in one year); (c) a measure of global financial shocks (deviations of US interest rates from trend); and (d) a dummy for wars (both civil wars as well as international conflicts (Source: UCDP/PRIO Armed Conflicts Dataset).

The estimated coefficient of $(g_j^* - g_{jt})$ is, as expected, positive, significant, and smaller than one. The point estimates are on the high side -- between 0.63 and 0.76 --, indicating that, on average, deviations between long run trend growth and actual growth get eliminated rather quickly. For instance, according to equation (2.1), after 3 years approximately 86% of a unitary shock to real GDP growth per capita will be eliminated. As expected, in both samples the estimated coefficients of the terms of trade shock are always positive and statistically significant, indicating that an improvement (deterioration) in the terms of trade results in a short run acceleration (de-acceleration) in the rate of growth of real per capita GDP. As may be seen from equations (2.1) and (2.2), the coefficient of the current account reversals variable is significantly negative, indicating that reversals result in a deceleration of growth. In equation (2.1) the point estimate is -1.99; with other things given, a current account reversal has resulted in almost a 2% reduction in short term growth, on average. The results in equation (2.3) refer to the Sub Saharan countries. They show that the estimated coefficient of the reversal indicator is also negative, with a point estimate –3.80. This suggests that reversals have been significantly more costly in Sub Saharan Africa than in other regions. It is precisely this latter coefficient that suggests that, after one generation, the difference in GDP per capita between a "crisis free" and an "average crisis" African country is approximately 18%.

As may be seen, the coefficients of the global financial shocks and war dummy are negative as expected, and statistically significant. While the point estimate for the interest rate shock is smaller (in absolute terms) for the African sample, the coefficient for the war variable is larger (also in absolute terms).The estimates in Table B.2 were obtained when the current account reversal variable were introduced contemporaneously into the growth dynamics regressions. When lagged values of these indicators were added to these regressions their coefficients were not significantly different from zero.

I performed standard robustness tests. These included estimating the equations for alternative time periods and alternative data sets. I also considered alternative specifications and included additional variables which (potentially) capture other external shocks. In order to deal with possible endogeneity problems I estimated the dynamic of growth equation using a two-step procedure suggested by Maddala (1983) and Keshk (2003) for systems where one of the endogenous variables is dichotomous. [139] The results obtained, tended to confirm those reported in Table B.2.

[138] They are available on request.

[139] See also Heckman (1978) and Amemiya (1978).

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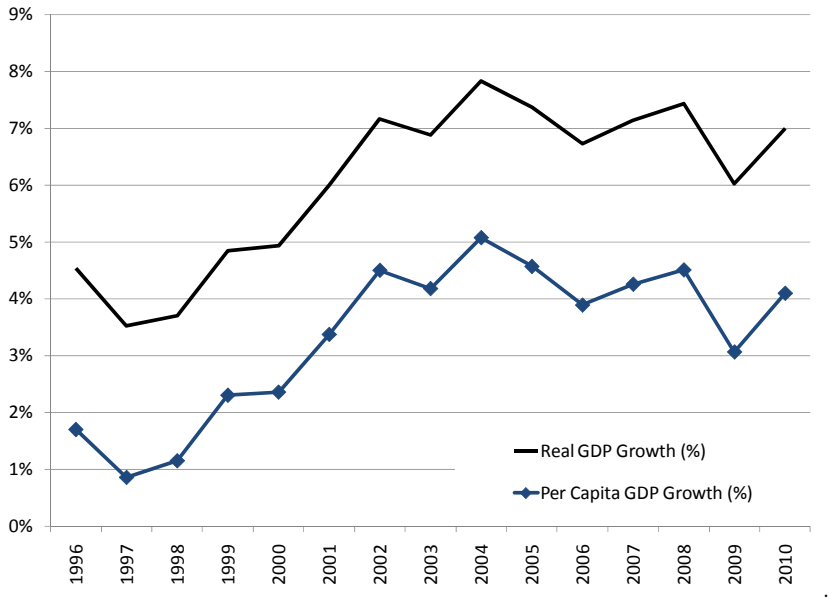
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Figures

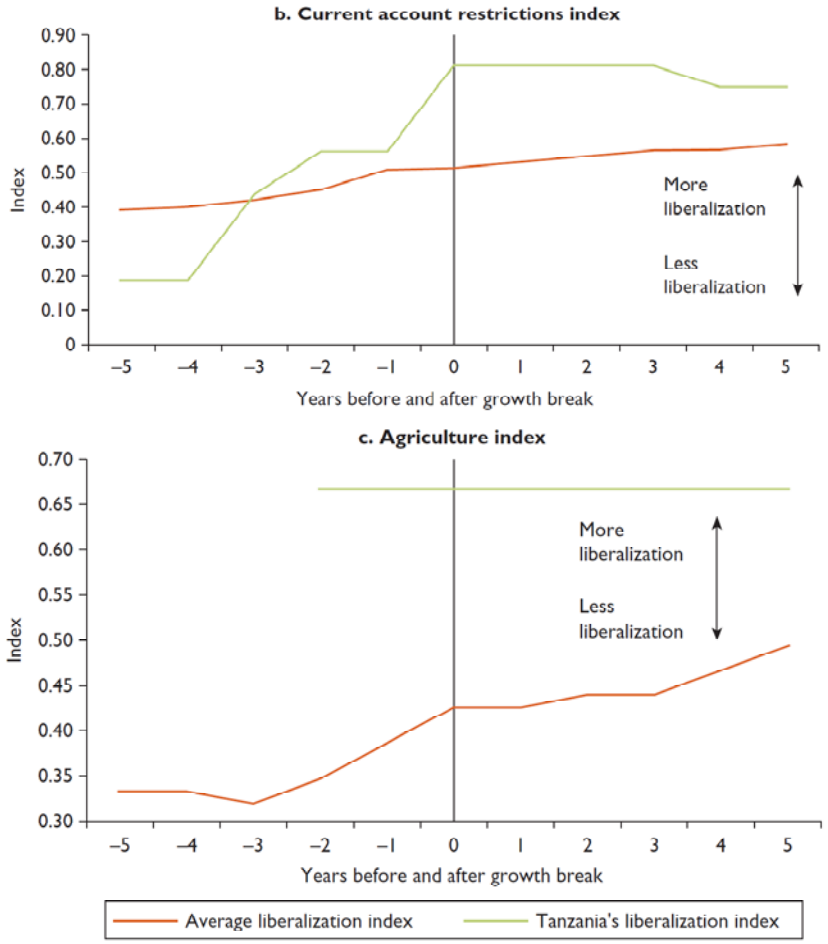
Figure 1 - **Tanzania: GDP Growth**



Source: WDI. 2010 figures are estimated

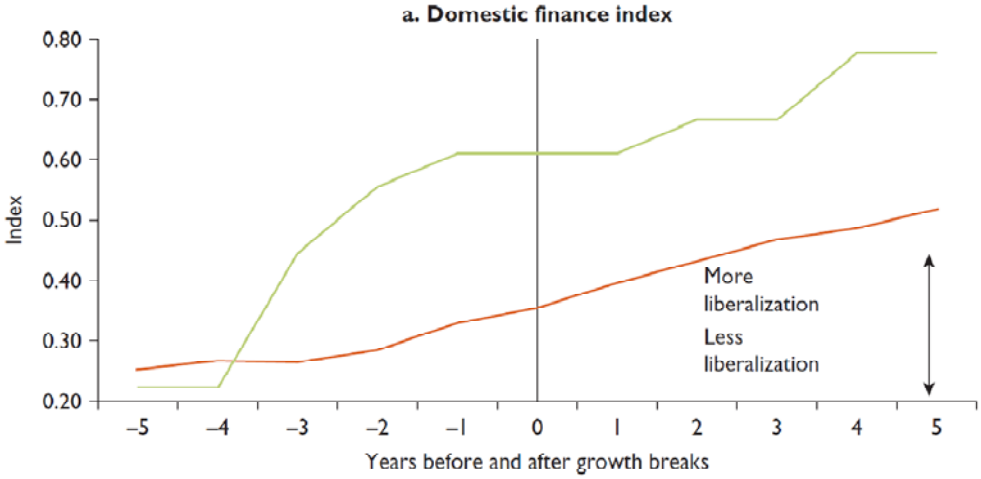
Figure 2a - **Indexes of Real Sector Reform in Tanzania and Other Countries Experiencing Growth Acceleration**

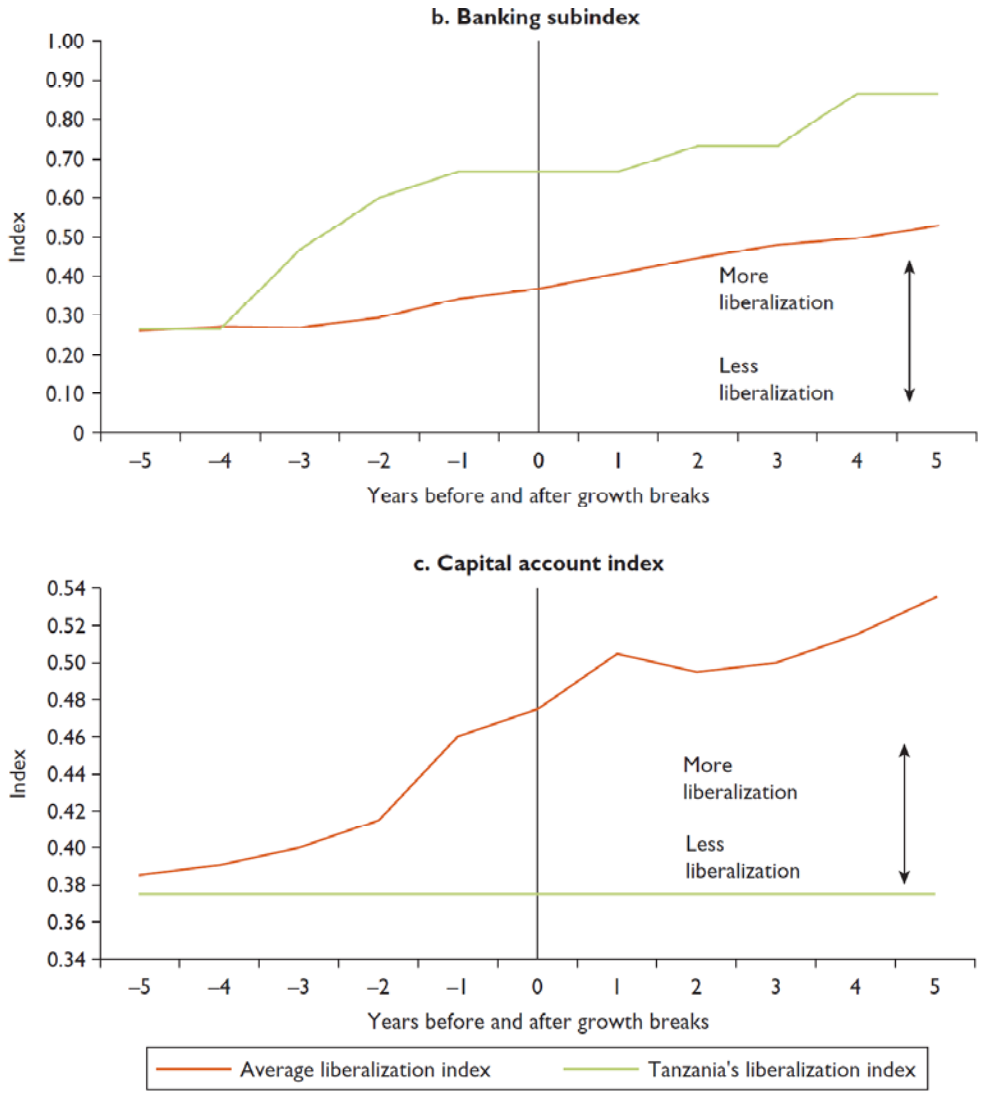




Source: (Robinson, Gaertner, & Papageorgiou, Tanzania: Growth Acceleration and Increased Public Spending with Macroeconomic Stability, 2011)

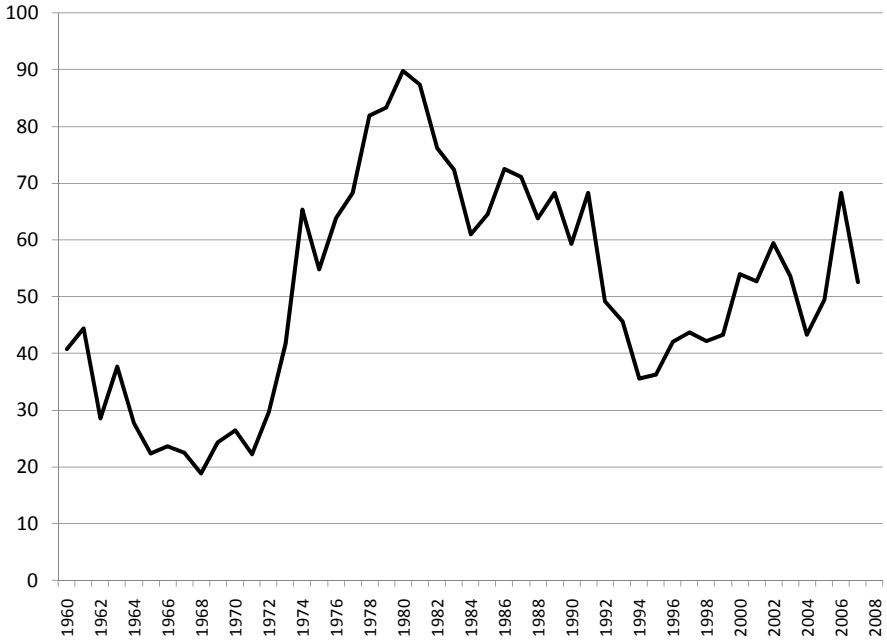
Figure 2b - **Indexes of Financial Sector Reforms in Tanzania and Other Countries Experiencing Growth Acceleration**





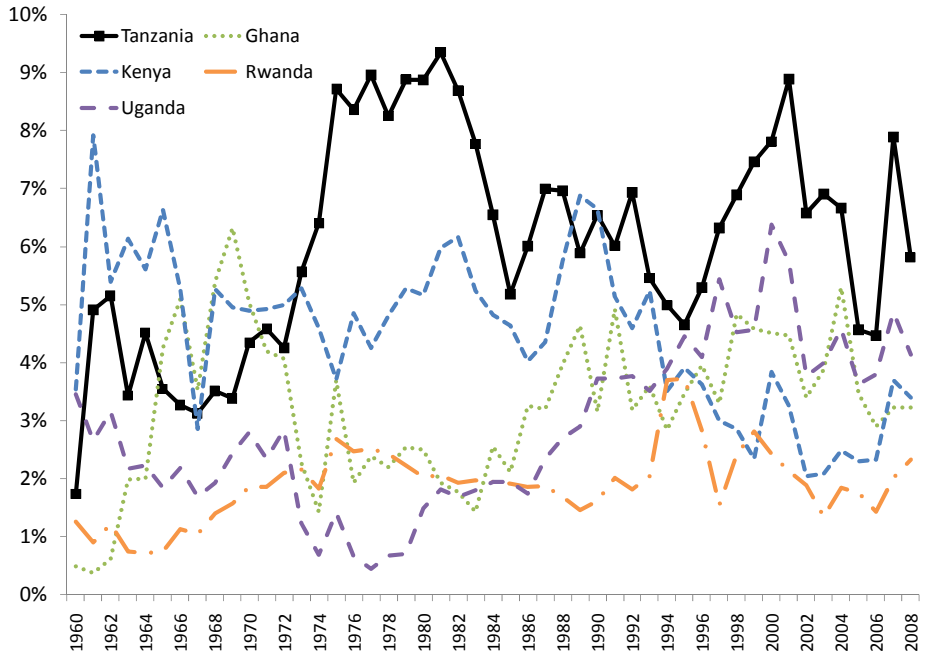
Source: (Robinson, Gaertner, & Papageorgiou, Tanzania: Growth Acceleration and Increased Public Spending with Macroeconomic Stability, 2011)

Figure 3 – **Tanzania: Per Capita Net Official Development Assistance (Constant 2007 US$)**



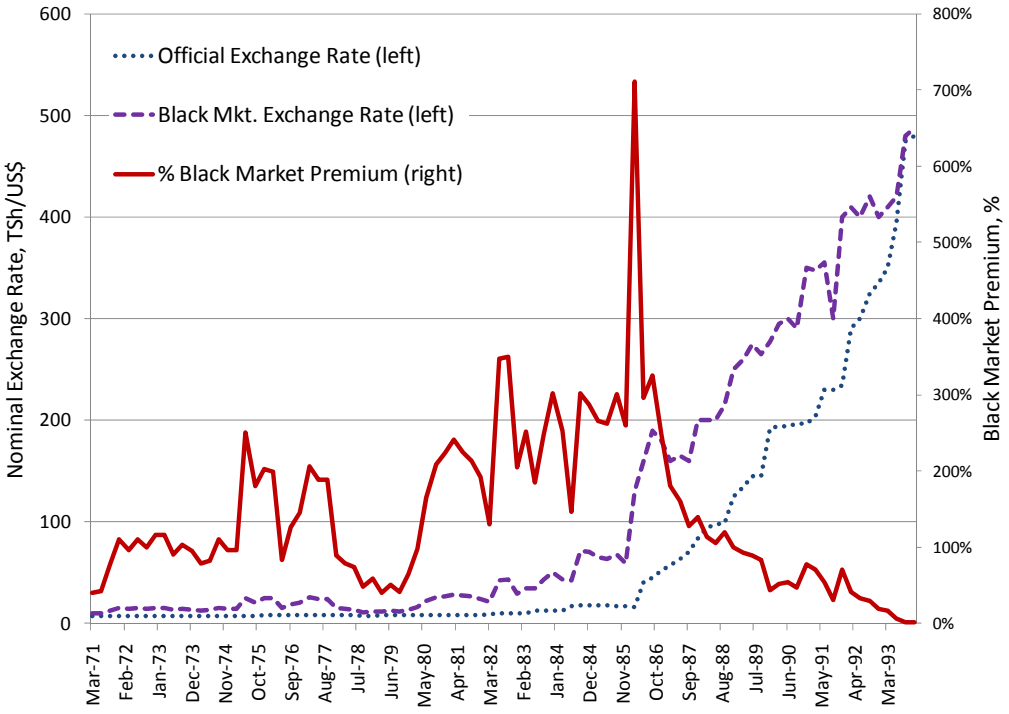
Source: WDI

Figure 4 – **Tanzania: Net Official Development Assistance (% of SSA)**



Source: WDI

Figure 5 – **Tanzania: Black-Market Exchange Rate Premium**



Source: Author's calculations based on World Currency Yearbook (various issues) and IFS

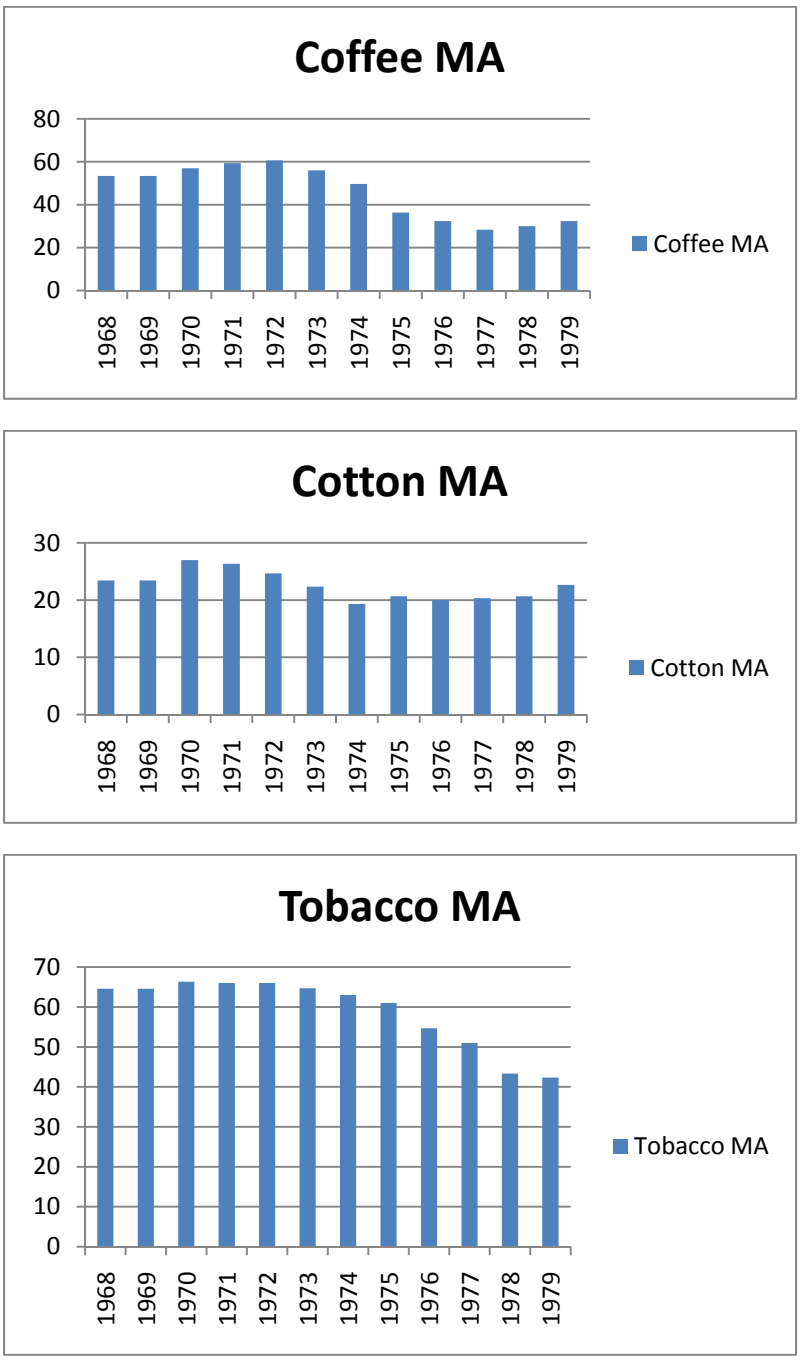


FIGURE 6: Moving averages of producer prices in three agricultural crops, relative to export prices. Source: Bank of Tanzania, 1984.

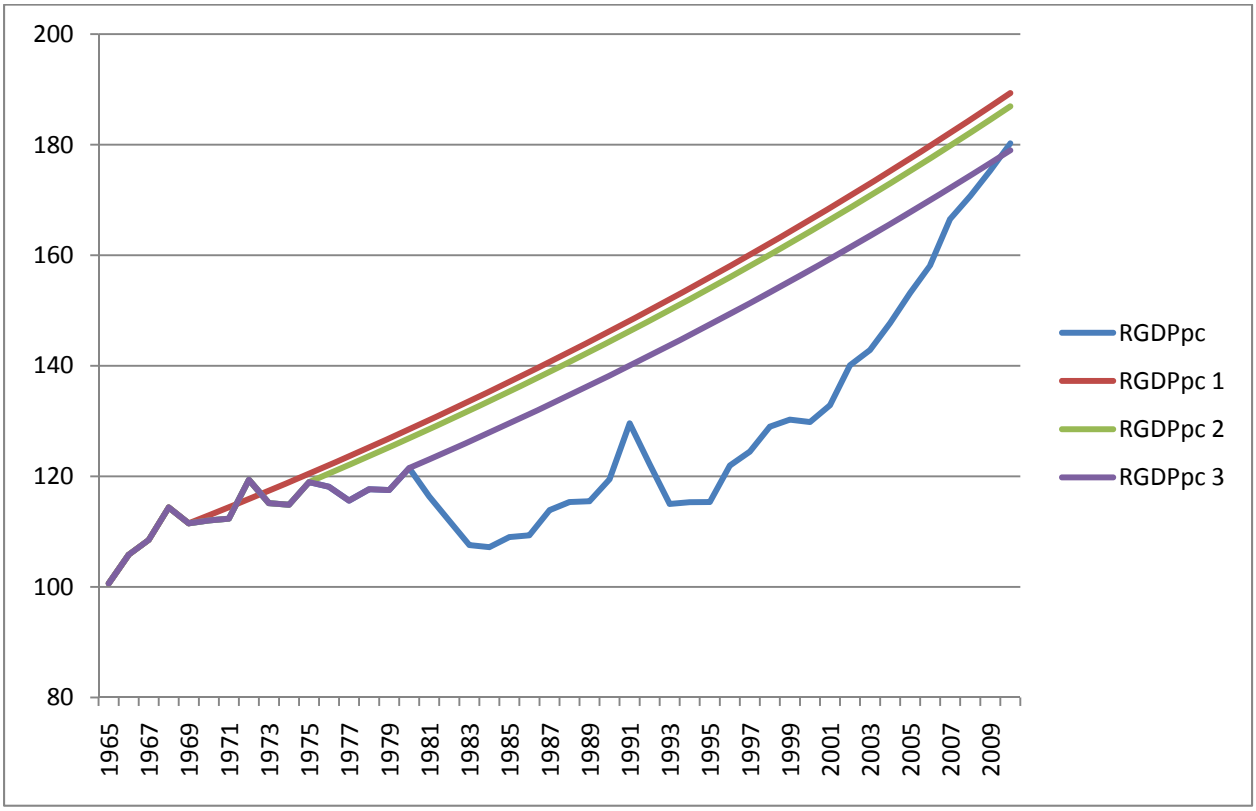


Figure 7: Counterfactual GDP per capita growth simulations

Table 1 - **Tanzania: Economic and Social Indicators, 1996-2010**

Economic Indicators	**Source**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
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 Govt., 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 Govt.) (% 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. Govt.) (% 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	**Source**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
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 & WDI.;(17), (18), (19): UNCTADstat (only merchandise). (*) Estimates.

Table 2 – **Tanzania (Mainland): Millennium Development Goals – Mid-way Evaluation**

Millennium Development Goal	1990	2000	2008		2015	Glance
			Actual	Expected		
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)

Table 3(a) – **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 3(b) – **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 3(c) – **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**	**1036.0**	**979.6**	**1151.5**	**1191.8**	**1016.4**	**1184.3**	**2026.1**	**1557.7**	**1547.2**

Source: WDI

Table 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 Govt., after grants) (% of GDP)	(5)									14.5
Expense, Cash (Budgetary Central Govt.) (% of GDP)	(6)									18.3
Cash surplus/deficit, Cash (Budgetary Cen. Govt.) (% 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 & Danielson (2001).

(5), (6), (7): IFS

(8): IFS and Bigsten & Danielson (2001)

(10), (12): WDI and Bigsten & Danielson (2001)

(11), (21), (22), (23), (26), (27), (28), (29): WDI

(15), (16): IFS and WDI

Table 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 Govt., 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 Govt.) (% 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. Govt.) (% 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	**Source**	**1969**	**1970**	**1971**	**1972**	**1973**	**1974**	**1975**	**1976**	**1977**	**1978**
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 & Danielson (2001)

(4): UNCTADstat and Bigsten & Danielson (2001)

(5), (6), (7): IFS

(8), (9): IFS and Bigsten & Danielson (2001)

(10): WDI and Bigsten & 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

Table 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 Govt., after grants) (% of GDP)	(5)	21.9	23.7	19.8	16.7	19.9	17.3	17.9
Expense, Cash (Budgetary Central Govt.) (% of GDP)	(6)	33.3	33.3	30.1	28.1	27.7	23.9	25.4
Cash surplus/deficit, Cash (Budgetary Cen. Govt.) (% 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	**Source**	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**
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 & Danielson (2001).

(4) UNCTADstat and Bigsten & Danielson (2001)

(5), (6), (7): IFS

(8), (9): IFS and Bigsten & Danielson (2001)

(10): WDI and Bigsten & 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

Table 7 – **Tanzania: First Round of Reforms, 1986-1995**

Table 7.1 - Foreign Exchange Liberalization	
Policies	**Comments**
1986. **Crawling peg** is adopted at the start of the **Economic Recovery Program (ERP)** to gradually eliminate the parallel foreign exchange premium and attain an equilibrium real exchange rate. Apr-Jun/1986. Nominal Exchange rate is devaluated from TSh 17 per US Dollar to TSh 40 per US Dollar. 1986-1988. Real exchange rate continues to be depreciated until mid-1988. 1988. The commodity import scheme is replaced by the (re-introduced) **Open General License (OGL)** scheme, under which foreign exchange allocation is more flexible	The GoT was initially very reluctant to make exchange rate adjustments
1988. Nominal depreciation continues, though significantly below the rate of inflation. 1989-1992. Exchange rate further depreciated under the **Economic and Social Action Program** (ESAP).	The original objective of ERP of eliminating exchange rate overvaluation by mid-1988 was not attained.
Mar/1992. **Foreign Exchange Act, 1992** enacted, which creates enabling environment for market determined exchange rates, eliminates most official allocation of foreign exchange for imports, and transfers responsibility for granting approval of foreign exchange for imports from the BoT to commercial banks and foreign exchange bureaus	Black-market premium still around 33% by mid-1992
Apr/1992. Inception of the foreign exchange bureaus (authorized to buy and sell foreign exchange at freely negotiated rates) as an effort towards foreign exchange liberalization Jul/1993. BOT begins auctioning of foreign exchange as a tool for liquidity management as well as for determination of market-based exchange rate Jun/1993. The Interbank Foreign Exchange Market is introduced, replacing the weekly foreign exchange auction system. August/1993: Black Market premium eliminated. The Exchange Control and Import Control Departments of the BoT were abolished in the context of restructuring the BoT	The volume of operations through the bureaus increased
1995. **Bank of Tanzania Act, 1995**: Establishes price stability as the primary responsibility of the Bank, while one of its subsidiary functions is influencing the money supply to provide the economy with sufficient, non-inflationary, liquidity	As of July/1995 the Tanzanian Shilling was effectively determined on a continuous basis by the forces of supply and demand. A small number of restrictions remained—notably the requirement to show relevant documentation (invoices or international travel documentation) to purchase large amounts of foreign exchange, and restrictions on capital account transactions. (Bigsten & Danielson, 2001)

Table 7.2 - Trade Liberalization	
Policies	**Comments**
1986-. The **"Own Funds" Import Scheme** (which allowed imports of specific goods using unofficial sources of foreign exchange) was expanded. (Though the expansion of the Own-Funds scheme was agreed with the WB, its original introduction in 1984 was independent of the WB and IMF advice.) 1986-.The **Export Retention Scheme** (which initially allowed exporters to retain 10-15% of export receipts) was gradually liberalized	Increased the availability of goods and alleviated the severe shortages that several sectors faced. The own-funds system also reduced drastically the effective protection of industry, and encouraged exports. (Mans, 1994)
1988. Introduction of the OGL system, which specified a list of goods for which import licenses were automatically granted. The list was gradually expanded based on agreements with the WB. Under the system there was a progressively dismantle of quantitative restrictions and switch to tariffs and other indirect levers to influence both the level and pattern of foreign trade. 1988-. The **Export Retention Scheme** is consolidated: 50% of retention for most non-traditional exports, and 10% for traditional ones. 1988-1990. Further simplification of tariff structure (from 20 tariff rates prior to Jun/1988 to 4 tariff rates by 1990)	Incentives for clandestine trade reduced. Reduced administrative control over allocation of foreign exchange (Bigsten & Danielson, 2001)

1989-92 Expansion of the OGL system and removal of ceiling per importer.Removal of all export retention exceptions. Full retention for exporters of non-traditional goods. Jan/1991. Under pressure of the WB, the OGL system is generalized and changed to a "negative" list of items specifically excluded. (Mans, 1994) Mar/1992 The Foreign Exchange Act, 1992 is enacted, which further liberalizes external trade Apr/1992. The OGL negative list is reduced. Apr/1992. The introduction of Bureax de Change acted as another window for import financing. (Bigsten & Danielson, 2001). Export retentions are reviewed. 1993. The Own Funds Import Scheme and the Export Retention Scheme are terminated. All trade restrictions are abolished (the import license is replace by an import declaration form) except for petroleum products, some luxury goods, and goods restricted for health and security reasons. Introduction of compulsory pre-shipment inspection for all goods valued above US$5,000.	Mainly destined to increase the share of imports under the formal system

Table 7.3 - Fiscal Policy and Public Expenditure Management	
Policies	**Comments**
1982-1985. During the **SAP**: development budget was slightly shifted toward agriculture and allocations for maintenance increased. Some taxes were raised (beer and cigarettes) and tax collection effort increased. General cutbacks in budgetary expenditure and some civil servants retrenched. (Mans, 1994) 1986-1989. Under the **ERP** the main objectives were: • Reducing substantially the fiscal deficit: Reduction of in custom duties, sales and income tax rates, off-set by increases in nontax revenue. Elimination of (explicit) subsidies to parastatals (though in some cases were replaced by credit). Increases of the wage bill were controlled and some cost-sharing measures were introduced. • Improve the quality of public expenditures (through focusing resources on rehabilitation and maintenance of physical infrastructure, and improving the quality of social services delivered by existing facilities, as opposed to expanding facilities) May/1989. Public Expenditure Review presented (prepared jointly with the WB). 1989. A Presidential Commission was appointed to review the revenue and tax system in Tanzania, with the intention of evaluating the sources and capacity for taxation as the prime source of revenue. 1989-1992. The **ESAP** (continuing with the measures of the **ERP**) intended to: Contain the budget deficit to a level compatible with a reduced monetary growth and rate of inflation (namely, below 10% by 1992). It included: (i) an improvement of the structure of the individual income tax and the sales tax; (ii) new excise taxes on domestic and imported goods; (iii) an upward adjustment in fees and user charges; and (iv) an increase in tax rates, rent fees and tolls for airport service charges, business License fees, motor vehicle licenses, land rent, and road tolls. Reorder public expenditures, both recurrent and capital, in favor of the rehabilitation and maintenance of physical infrastructure, and the rehabilitation and provision of key social services 1993-1995. Large scale tax exemptions granted by the Ministry of Finance (in charge of K. Malima, who could grant discretionary exemptions), and by the Investment Promotion Centre. Major corruption and tax evasion cases were discovered. (Bigsten & Danielson, 2001)	Revenue fell because of the recession, and development expenditures was cut due to a decline in donor financing. Inadequate expenditure control was evident. (Mans, 1994) Fiscal deficit slightly increased but remained below 10% of GDP. Inflationary financing, though reduced, persisted, and inflation averaged 31.1% during the period. The slower growth of expenditure reflected entirely lower development expenditure and was attributable to delays in project implementation and smaller disbursements of foreign loans. Fiscal deficit was greatly reduced from 9.4% of GDP in 1988/89 to 2.2% in 1991/92, mainly due to a large reduction in capital expenditure (from 7.5 to 1.9% of GDP), and in current expenditure (from 18.2 to 16%). Inflationary financing was greatly reduced and virtually eliminated by 1992, when inflation fell to 21%. As revenue deteriorated and expenditures increased, average fiscal deficit increased from 2.1% of GDP in Jul/91-Jun/93 to 10.2% in Jul/93-Jun/96. Domestic borrowing increased, and inflation reached 33% in 1994.

Table 7.4 - Agriculture	
Policies	**Comments**
Non-export Crops: 1982-1986. Monopoly of National Milling Corporation ended. Marketing of foodgrains allowed to cooperatives and individuals. Transportation restrictions removed. 1987. Regional cooperative unions and primary societies allowed to sell foodgrains directly to private traders.	During this period foodgrain production increased substantially and real prices declined. Food self-sufficiency improved. By 1994 the private sector accounted for more than 90% of trade.

Prices of non-export crops partially liberalized. 1988. Grain trade fully liberalized and input distribution formally deregulated. 1989-1992. Prices of non-export crops further liberalized 1993-1995. Prices of non-export crops fully liberalized	(Mans, 1994)
Export Crops: 1987. Only minor export crops liberalized. Internal marketing of traditional crops remained confined to cooperative societies, while external marketing almost exclusively to parastatal marketing boards. Producer prices of export crops fixed by the government (at a level below 60% of export prices) 1989. Fertilizer subsidies started to be removed. Jul/1990. Marketing is partially liberalized as Marketing Export Boards role's is limited. Non-traditional export crops (pigeon peas, green mong. yellow gram, groundnuts, simsim, fruits, flowers and spices) liberalized. 1991. Private participation allowed in the cotton market. Producer prices partially liberalized. 1992. Cashew market fully liberalized	During most of this period export crops market remained largely monopolized by cooperatives, and export marketing by parastatal marketing boards (Mans, 1994)
1993. **Crop Boards Act:** Liberalized marketing and processing of traditional agricultural exports (cotton, coffee, tea, tobacco, sisal, cashew nuts and pyrethrum). Agricultural import subsidies were phased out (Nord, 2009)	The single channel monopoly of marketing boards and cooperatives ended. Marketing and establishment of new facilities was allowed to the private sector (Nord, 2009)

Table 7.5 - Parastatals	
Policies	**Comments**
1983-1985. A government commission (the Hamad commission) indentified gross inefficiencies in the sector and recommended remedies (in 1983). As a result, the crop authorities were replaced by cooperatives and marketing boards, several parastatals were closed down or merged into other agencies, rules governing membership on boards of directors were changed, a large-scale effort to reduce public sector employment was undertaken and a series of programs initiated to reduce waste and increase cost-consciousness. Nov/1985. In a speech, President Mwinyi warned parastatals that they must get their financial affairs in order within the next two years or face serious disciplinary action Jun/1987. A WB report on industrial recovery points out that parastatal firms operated extremely unproductive activities, and that 56 percent of all parastatal activities had negative value added at the current levels of capacity utilization.	The impact of all these efforts was small, in part because they did not go far enough and in part because they failed to attack more fundamental problems such as lack of competition and inadequate managerial accountability and autonomy (World Bank, 1988)
1986-1989. The **ERP** intended to strictly limit the access of parastatals to funding through the budget and credit institution (explicit subsidies to parastatals where eliminated)	However, in some cases (particularly the Crop Boards) subsidies were replaced by (state-owned) bank credits. The first attempts of the GoT at eliminating the "soft" budget constraint were not successful (Bigsten & Danielson, 2001)
Jul/1988. A WB report on parastatals identified the problems of the sector and the shortcomings of the ERP in addressing them. A reform program is proposed. 1991. World Bank's **Structural Adjustment Credit**. Focused on parastatal restructuring and privatization, civil service reform and further restructuring of the markets for agricultural exports. (Bigsten M. T., 2001)	
1991. Creation of the **Loans and Advances Realization Trust (LART)** under the LART Act, 1991, intended to facilitate the reform process of the banking sector through the liquidation of non-performing assets (NPAs) of state-owned banks. (World Bank, 2001)	From 1986 to 1992 only about 20 parastatal divestitures took place, largely in agriculture. Additionally, about 25 privatization deals had been in prolonged negotiation due to absence of consensus about privatization and lack of proper legislation (Mans, 1994)
Jan/1992. **Public Corporation Act, 1992** (amended in 1993). Public service organizations would be declassified as parastatals and incorporated into government departments. Public utilities parastatals would be (under private management) subject to performance contracts, and entry of new service providers would be permitted in selected areas. All commercial parastatals would be eligible for divestment. (Mans, 1994)	By 1993, performance contracts were prepared (for Railways and Posts and Telecommunications corporations), and the privatization of commercial parastatals accelerated. (Mans, 1994) But by 1995 only about one-fourth of the public enterprises that

1993. **Parastatal Sector Reform Commission (PSRC)** was established oversee the implementation of the **Public Corporation Act** 1993. World Bank provides financing for the Parastatal and Public Sector Reform Project, which includes the Privatization and Public Enterprise Reform (World Bank, 2001)	existed in 1991 had been disposed of by the PSRC; most of them of small/medium size (World Bank - OED, 2000)

Table 7.6 - Financial and Banking Sector	
Policies	**Comments**
1986-1989. One of the objectives of the **ERP** was to make a significant upward adjustment in the interest rate structure immediately with a view to achieving positive real rates by mid 1988. The program foresaw a strict control of domestic credit expansion.	Though nominal interest rates were adjusted, real interest rates remained negative throughout the period. Bank lending to parastatals continued (and even increased). About two-thirds of all bank lending outstanding at the end of 1987 went to cover the operating deficits of the crop marketing parastatals (Mans, 1994)
Jul/1988. GoT established a Presidential Commission of Inquiry into the Monetary and Banking System under the chairmanship of Mr. C.N. Nyirabu	Until 1991 Tanzania did not have any specific policy designed to improving the financial sector. (Bigsten & Danielson, 2001)
Jul/1990. Final report of the "Nyirabu Commission" is presented. Its recommendations mainly focused on: (i) stimulating competition by encouraging foreign banks and joint ventures; (ii) strengthening the existing financial institutions;(iii) developing management accountability; and (iv) the recovery of non-performing loans. (World Bank, 1995)	
1991. The GoT issued a Policy Statement on financial sector reform which acknowledged the perverse impact on the sector caused by a lack of competition and Government interference (World Bank, 1995)	
Apr/1991. The **Bank of Tanzania Act** was approved by Parliament to create a more favorable environment for the financial sector (World Bank, 1995)	
May/1991. **Banking and Financial Institutions Act, 1991** (BFIA) is signed into law. Legalizes the establishment of private financial institutions (ends the 24-year old monopoly of commercial banking in Tanzania by the National Bank of Commerce), and gives the BOT the responsibility of licensing, regulating, and supervising banks and nonbank financial institutions. (Nord, 2009, pp. 39-40; Ndulu & Mutalemwa, 2002) & (Tanzanian Affairs, 1992)	By 1993 two banks had been licensed and became operational. Between 1991 and 1995 over 15 new financial institutions –most of them foreign owned- were licensed. (Bigsten & Danielson, 2001)
Nov/1991. WB's **Financial Sector Adjustment Credit** (US$ 275 million), whose primary objective was to create a financial system in Tanzania that would operate on the basis of market-oriented principles. It focused on privatization of the banking sector and allowing foreign exchange bureaus and foreign banks to enter the market.	The credit closed in Dec/1994 with limited success. There were delays in instrumenting LART and restructuring major banks
1992-1994. Restructuring of major banks: the National Bank of Commerce (NBC), the Cooperative and Rural Development Bank (CRDB, with important delays), the Tanzania Investment Bank (TIB), and others (TDFL, Tanzania Housing Bank). Following the completion of portfolio reviews and loans classification by BoT, the non-performing assets of NBC, CRDB and TIB were transferred to LART for recapitalization of banks in 1993 (World Bank, 1995)	
Jun/1992. BOT's responsibility for setting interest rates is removed (Bigsten & Danielson, 2001)	
Aug/1993. BOT introduces Treasury Bills Auctions, as a tool for financing short term government deficit, an instrument for liquidity management, and as a reference point for the determination of market interest rates**Invalid source specified.**	
1994. Interest rates were fully liberalized	
1994. **Capital Market and Securities Act** was enacted, which established the **Capital Markets and Securities Authority (CMSA)**	
1995. **Bank of Tanzania Act, 1995**: Establishes price stability as the primary responsibility of the Bank, and the Supervision of Banks and Financial Institutions as one of its subsidiary functions (Bank of Tanzania)	The Act is seen as a major milestone that converts the BoT into a modern, independent central bank. (Bigsten & Danielson, 2001)
1995. The Tanzania Housing Bank was liquidated.	

Table 7.7 - Civil Service	
Policies	**Comments**
1983. The Kisumo Report on Government restructuring to reduce costs and improve efficiency. Proposes downsizing government, merging some ministries, reducing embassies and enhancement of self help schemes in social service provision (Lukumai, 2006)	
1986-1989. Under the **ERP**, the GoT began to introduce very low user charges for some social services.	Collections fall far short of any serious cost recovery (Mans, 1994)

1989-1992. One of the explicit objectives of the **ESAP** was the rehabilitation and provision of key social services, given the severe deterioration of the social service. 1991. World Bank's **Structural Adjustment Credit**. Focuses on parastatal restructuring and privatization, civil service reform and further restructuring of the markets for agricultural exports (Bigsten M. T., 2001) 1991. **Civil Service Reform Program (CSRP, 1991-1999)** is launched by the GoT with a series of studies financed by UNDP (World Bank, 1999). Its main objectives are: • To reduce the size the public service (*smaller*) • To contain costs by reducing the wage bill (*affordable*) • Payment improvement (*well paid*) • Strengthening managerial capacity and improving organizational structure (*efficient and effectively performing*) Jan/1992. **Public Corporation Act, 1992**. Public service organizations would be declassified as parastatals and incorporated into government departments. 1993. Implementation of the CSRP starts when the World Bank provides support through Parastatal and Public Sector Reform Project (World Bank, 1999)	Given the reduced allocation of resources to social services, under ERP I a worsening trend in the provision of social services continued (Ndulu & Mutalemwa, 2002) The formulation, design and implementation took substantial time (Ndulu & Mutalemwa, 2002) The main achievements were a decline in the number of central government personnel from a peak of 355,000 in 1992 to 264,000 by 1998/99; better control over employment levels using a personnel database and a computerized payroll system; and recomposition of the aggregate wage bill by rationalizing and decompressing the pay structure and consolidating allowances into basic salaries (Nord, 2009). The problems of poor service delivery, lower productivity in relation to expenditure levels, lower levels of accountability reflected by corruption, in some cases embezzlement and negligence, lower pay and weak management systems remained unresolved. (URT, 2010)

Table 7.8 - Mining	
Policies	**Comments**
1989. Mineral trading is liberalized. 1990. Mineral Exploration and Production are liberalized, and the mineral sector was identified as a priority sector. A particularly favourable regime was set up for the sector. (Bigsten & Danielson, 2001)	The main intention was to capture revenues that were lost in the parallel market. Mineral export revenue increased from US$ 15.9 million in 1989 to US$ 53.2 million in 1992 (Bigsten & Danielson, 2001) Between 1990 and 1996, 450 mineral rights licenses have been issued to local and foreign investors (Bigsten & Danielson, 2001), and the share of total investment (gross fixed capital formation) applied to mining increase from about 3% in 1987-1990 to 4.5% in 1991-1995.

Table 7.9 - Infrastructure	
7.9.1 - Roads & Railways:	
Policies	**Comments**
1984. The Ministries of Works and Transport were merged to form the Ministry of Communications and Works (MCW), and the District Councils, under the newly created Ministry of Local Government and Cooperatives (MLGC), were made responsible for the development and maintenance of district roads. The Prime Minister's Office (PMO), through the Regional Administrations, was given the responsibility for regional roads Dec/1987. The GoT called a Transport Sector Conference and presented a draft *National Transport Policy* along with the conference	The division of responsibilities for regional and district road networks proved not effective for development and maintenance of the networks. By 1990, the result of all the changes implemented since 1972 was confusion, demoralization of staff, poorly organized planning and administration, and ineffective long-term institutional and work force development (World Bank, 1990)

document “Programme for Transport Sector Recovery”. The donor community responded positively to the recovery program presented and, in partnership with IDA, the GoT formulated three major programs: the Integrated Roads Program, the Port Modernization Project II, and a proposed Railway Restructuring Project. The GoT also presented the outline of a five-year **Core Rural Roads Program (CRRP)**, whose primary objective was assuring access to key agricultural areas. Subsequently a Rural Roads Organization and Management Study was undertaken. Among the principal recommendations of the study (that started to be adopted by the Government in September 1989) was the decentralization of the execution of operations of the Ministry of Communications and Works to the Regional Engineer’s Offices.	
1990. After three years of consultation, the **Integrated Road Project I** (IRP I) was launched. Its estimated cost was US$871 Million (the largest single road program in SAA). It pooled resourced from IDA and 15 other donor agencies. The project was developed with the assistance of IDA, which finally contributed with a credit of US$166 Million and took responsibility of coordinating donor’s assistance. The main objectives of the projects were to develop Ministry of Communications Works and Transport institutional capacity to manage the networks, and to restore Tanzanian's trunk and regional roads network.	In 1999 the trunk roads network had 9,629 km, of which 26%, 26%, and 47% were in good, fair and poor condition respectively. In 1999 the network had 10,203 km, and its condition was 30%, 39%, and 30% in good, fair, and poor condition respectively. The targets where for roads in good condition where 60% and 80% by 1996 and 2000 respectively. The final assessment of the project (2000) highlighted
Apr/1992. The Railways Restructuring Project (RRP) became effective. Its main objectives were to (i) strengthen the organization of the Tanzania Railways Corporation (TRC), eliminate regulatory bottlenecks to its effective operation and set it on the path to commercially viable entity; and (ii) rehabilitate infrastructure assets, replace obsolete and uneconomic operational assets and provide limited new investments consistent with the prospects for traffic growth. The project involved US$275 Million (US$76 million from IDA), and was closed on Dec/2002.	The original intention of the GoT was to transform public sector railways while remaining within the parastatal framework. By 1996 it had become clear that the project was failing to attain its development objectives, and in Oct/1997 the GoT announced that it had decided to concession TRC as the only feasible means of meeting the commercial and operational objectives. The RRP was restructured in February 1999 to include concessioning assistance as a specific disbursement category The final assessment of the project of the original objectives in 2003 was marginal satisfactory, and for the modified objectives (including privatization) was moderately unsatisfactory. (World Bank, 2003)
1992. The Ministry of Communications and Works is split, and the **Plant and Equipment Hire Company Ltd. (PEHCOL)** was established.	
Jul/1992. The road fund was established, through which part of the collected revenue from fuel levy was allocated to road maintenance	During the first three years the fund covered a large share of the maintenance cost. However, starting in 1995 misuse of the resources was evident, which seriously affected donors’ confidence.
1992. Road maintenance administration was decentralized in 20 regions	
1992. The GoT established the **National Construction Industry Development Strategy**, which led to the establishment of a private sector led construction industry. Local contractors and consultants received training.	The number of private contractors increased from 43 in 1989 to 610 in 1996, of which 200 were in the road sector (mainly devoted to road maintenance). Yet, by 2000 only 10% of total value of contracts was assigned to qualified domestic contractors. However, by 2010, private sector involvement in the transport sector was strong, with practically all works executed by private sector contractors (100 percent of maintenance works were done by local contractors) and practically all transport services were provided by private sector operators (the exception was Air Tanzania Corporation) (World Bank, 2010)
1995-1996. “Crisis” with the road fund. Following short falls in the government revenue, the road fund was diverted to the general account.	The government saw the issue as a balancing act between important national priorities. Among donors, the 1995/96 'road fund crisis" rekindled the donors' concern that maintenance was

	not being given adequate priority (World Bank, 2000)

7.9.2 - Telecommunications	
Policies	**Comments**
1986-1991. Since 1986, Tanzania Post and Telecommunication Corporation (TPTC) had a very poor performance and a negative net income; in 1989 TPTC was insolvent. Substantial improvement was achieved in 1990-1991 in preparation for the Third Telecom Project. (World Bank, 2001)	
1992. The National Telecommunications Policy was drawn up by the GoT as a framework for reform of the telecommunications sector. It laid the foundation for private sector participation. The Telecommunication Restructuring Program (TRP) was formulated specifically to facilitate the reform, and received support from the World Bank and other donors (UNITED NATIONS ECONOMIC COMMISSION FOR AFRICA, 1996). The TRP (of US$242 million) provided capital investment to (i)expand telecommunication services to subscribers in urban and rural areas; (ii) rehabilitate the existing network to improve quality of service and TPTC's profitability; and (iii) modernize the sector's legal and regulatory framework and institutional arrangements (World Bank, 2001)	
Mar/1992. A performance contract between the Ministry of Transport and Communications and Tanzania Post and Telecommunication Corporation (TPTC) was established, and TPTC was provided with administrative and financial autonomy and accountability.	
1992-1993. TPTC was restructured, domestic tariffs were increased 300-500% and international tariffs were reduced by approximately 15%, a plan for delegation of authority and accountability was instituted, and a productivity and cost cutting incentive program was introduced for staff and management.	
Apr/1993. As part of the Telecommunication Restructuring Program, the WB approved the **Third Telecommunications Project** (US$74.4 million). Its objectives were (i) to establish a market oriented policy and regulatory framework, to introduce private sector participation in non-basic services in the near term, and develop an action plan to secure private investment in basic services; (ii) to facilitate commercialization and corporatization of TPTC, and build its institutional capacity; and (iii) to eliminate existing bottlenecks in the availability of telecommunication services, particularly to business subscribers, so as to satisfy the most urgent demand and foster the development of other sectors (World Bank, 2001)	The Project closed in Dec/2001 with a satisfactory outcome.
Dec/1993. The Parliament passed three basic laws, namely, the Tanzania Communication Commission Act, the Tanzania Telecommunication Company (Incorporation) Act and the Tanzania Posts Corporation Act. In addition, the Vesting of Assets and Liabilities Act No. 21 was also passed. The enactment of the these laws led to the dissolution of the former Tanzania Posts and Telecommunications Corporation and the creation of the new Tanzania Telecommunications Company Limited (TTCL), the Tanzania Posts Corporation (TPC) and the Tanzania Communications Commission (TCC). These three new organizations would operate as separate and autonomous public entities. The Communications Act (1993) also outlined the responsibilities of government vis-a-vis the new entities. (UNITED NATIONS ECONOMIC COMMISSION FOR AFRICA, 1996)	Formed in 1978 to take over the functions and powers of the defunct East African Posts and Telecommunications Corporation, TPTC enjoyed an exclusive right to operate Public Switched Telephone Network (PSTN) for the provision of telecommunications until 1993. (UNITED NATIONS ECONOMIC COMMISSION FOR AFRICA, 1996) This step was followed by a significant liberalization of the sector (World Bank, 2001)
Oct/1994. The first mobile license was awarded to Mobitel	

7.9.3 - Ports	
Policies	**Comments**
1985. Port Rehabilitation Project became effective (closed on Dec/1992). The project intended to modernize the port of Dar es Salaam and its specific objectives were: (a) expand the container handling capacity of the port to meet the rapidly increasing containerized traffic; (b) rehabilitate the general cargo berths; (c) improve equipment maintenance; and (d) improve the management and skills level of the Tanzania Harbours Authority (THA)	
Dec/1990. As part of the Program for Transport Sector Recovery launched in 1987, **The Port Rehabilitation Project II** becomes effective (the cost was US$122 Million, of which IDA financed US$37 Million). The main objectives were "to expand the physical, managerial and operational capabilities of THA (Tanzania Harbours Authority) to meet the traffic volume expected in the 1990's and to provide a more reliable and cost effective link with the neighboring landlocked countries".	In 1996/7 the Development Credit Agreement was modified to include the concessioning of the container terminal of Dar es Salaam (DSM). Privatization succeeded as the container terminal of the DSM port was transferred to a private concessionaire in

	2000 resulting in significant improvements in operational and financial performance. The project closed in June 2000 and the final assessment of the project was satisfactory.

7.9.4 - Energy	
Policies	**Comments**
1992. Through the National Energy Policy, Tanzania Electricity Supply Company's (TANESCO) 30-year monopoly on the production and supply of electricity ended. Minister for Water, Energy and Minerals Jakaya Kikwete told Parliament that it would take years for the whole country to be energized unless private organizations and individuals were free to enter the power market. (Tanzanian Affairs, 1992)	

Table 7.10 - Health	
Policies	**Comments**
1984. The Ministry of Local Government (MLG) was created when it was decided to place responsibility for the actual delivery of services at the local level (including health services) in the hands of the district authorities (World Bank, 1990)	
March/1989. The Government held a major donor conference to solicit grant support for its family planning/child spacing activities (primarily training and contraceptive supplies). (World Bank, 1990)	Between 1981 and 1986, budget allocations for health declined precipitously in real terms; it was only in 1987/1988 that Government allocations for health showed an increase in real terms (World Bank, 1990)
1989. Health was explicitly included within the framework of ESAP. A document outlining a "Priority Social Action Program" (PSAP) was prepared, and options for reversing the erosion of the level of public spending on social services were examined in the context of preparing the Government budget (Bank, 1988).	
Mar/1990. The WB agreed on a credit of US$47 Million for the Health and Nutrition Project, as part of the ESAP and PSAP (the first IDA credit in the sector). Its objectives were to raise the quality, coverage and effectiveness of family planning, nutrition and basic health services in the country.	During the first three years, the implementation of the project was very poor. After a redefinition of its objectives and extension of the closing date in 1996 (until 1999), the implementation improved dramatically, and the objectives were largely achieved.
1991. A national drug policy was adopted to address drug shortage. Management and procurement was restructured.	
Jun/1993. Cabinet Paper No. 25/6 establishing the Cost Sharing Program in government health facilities. Its application started in 1994.	According to the WB, the reform process could have moved much faster if not for the initial political resistance to eliminate the government pharmaceutical monopoly and to implement cost sharing. (World Bank, 1999)
Sep/1993. A Parliament Act established the Medical Stores Department (MSD) as a semi-autonomous body. The GoT later reformed drug pricing to reflect replacement costs and directed all government health facilities to channel their drug funds through MSD.	While the MSD established a well capitalized revolving fund, it suffered from the demand constraints by public health facilities due to the inadequate and erratic funding from the Treasury. In 1998 the GoT sponsored an external review of the MSD. (World Bank, 1999)
Jul/1994. Introduction of cost-sharing measures. The program was gradually expanded.	

Table 7.11 - Education	
Policies	**Comments**
1984. A presidential commission (created in 1980) published a final report "Educational System in Tanzania Towards the Year 2000", which reviewed the educational system and emphasized the unsatisfactory educational quality. Key recommendations were the consolidation of primary education and the expansion of secondary education. Shortage of educational materials, absence of libraries, and inadequate training of teacher were problems identified. The important future role of private secondary schools was acknowledged (Bank, 1988)	

1988. In conjunction with the WB and UNESCO, a study was carried out on the financing of education, particularly to try to prioritize the actions needed to rehabilitate the education sector. (Bank, 1988) 1989. Education was explicitly included within the framework of ESAP. A document outlining a "Priority Social Action Program" (PSAP) was prepared, and options for reversing the erosion of the level of public spending on social services were examined in the context of preparing the Government budget (Bank, 1988). The Ministry of Education and Culture established a task force to map out an education strategy for the 21st century (Ministry of Education and Vocational Training, Tanzania)	
Jun/1990. The WB approved a credit for the "Education Planning And Rehabilitation Project" (US$22.5M, total project US$37.1M), whose main objectives were: to strength the institutional capacity to plan and implement educational policies and programs; to improve the quality of education at the primary and secondary levels, and to strengthen the mobilization and effective utilization of nongovernment resources and support for education (Bank, 1988)	The credit was closed in Dec/1997. The project was assessed as partially successful. The most unsuccessful component was the rehabilitation and construction non-government secondary schools.
1989-1992. During the ERP and ESAP user charges were slowly introduced. Fees for primary school were very low and hard to collect. Fees for secondary schools were high (TSh 16,000) and of easier collection. The university continued without fees. (Mans, 1994)	Educational services and attainments continued declining. Primary school enrollment and dropout rates increased. Enrollment in secondary school remained one of the lowest in the world, at 3%.
Nov/1990. The Ministry of Science, Technology, and Higher Education was created. It worked in the formulation of the Higher Education Policy (1998)	
Feb/1992: Riots took place at two universities to protest the introduction of cost-sharing measures in association with the World Bank Higher Education Credit (A. Bigsten, 1999, p. 29). The imposition of fees was finally delayed.	
Nov/1992. After the presentation of the report on education strategy, The Ministry of Education and Culture started working in the formulation of the National Education and Training Policy (Ministry of Education and Vocational Training, Tanzania)	
Feb/1995. Promulgation of the **Education and Training Policy**, which emphasized liberalization, privatization, and facilitation (i.e. liberalization of the provision of education) as opposed to state ownership and provision of facilities and services (Ministry of Education and Vocational Training, Tanzania)	The relaxation of the restriction on private secondary education led to rapid growth of private secondary schools, and proved to be an effective way to cope with some of the excess demand for secondary schooling in the context of tight constraints on the public budget.

Table 8 – **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 Govt., 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 Govt.) (% 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. Govt.) (% 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	**Source**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
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 & Danielson (2001)

(4) UNCTADstat, Bigsten & Danielson (2001), WDI

(5), (6), (7): IFS

(8), (9): IFS, WDI, Bigsten & 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

Table 9 – **Tanzania: Second Round of Reforms, 1996-2011**

Table 9.1 - Foreign Exchange Liberalization	
Policies	**Comments**
	No significant policies implemented

Table 9.2 - Trade Liberalization	
Policies	**Comments**
Oct/1996. The **National Investment Promotion Policy** is launched 1997. Reduced number of nonzero tariffs from seven to four, and top rate to 30 percent. Average tariff rates around 25% (IMF, 1999) 1997. Government monopoly on importation of refined petroleum products abolished (Nord, 2009) 1997. **Tanzanian Investment Act, 1997** enacted (Replaces the National Investment Act, 1990). Provides the basis for a dynamic investment promotion agency. The **Tanzania Investment Center (TIC)** replaces the Investment Promotion Center. (Ndulu & Mutalemwa, 2002, p. 154) 1998. Preliminary study of further reform of customs tariff structure. Tariff exemptions for capital goods imports were streamlined through adopting a tariff classification based on the Harmonized System of Customs Classification (IMF, 1999) 1999. Tanzania withdraws from the Common Market for Eastern and Southern Africa (COMESA) 1999. State-owned refinery Tanzania Petroleum Development Corporation (TPDC) is closed. Retail prices fully liberalized (Nord, 2009) 2000. Import liberalization of petroleum products. Application of the VAT to petroleum products 2000. Gradual unification and reduction of tariffs during 2000-2007, intended to improve revenue collection and in line with regional cooperation agreements and the establishment of the East African Community (Nord, 2009) 2003. **Fair Competition Act, 2003** enacted. Intended to promote and protect effective competition in trade and commerce, to protect consumers from unfair and misleading market conduct 2005. Establishment of the East African Community (EAC) customs union with a common external tariff. 2007. Burundy and Rwanda joined the EAC custom union.	Average tariff rates around 12% since 2005 on Common external tariff and tariff dispersion within the Union still relatively high (Nord, 2009)

Table 9.3 - Fiscal Policy and Public Expenditure Management	
Policies	**Comments**
Jul/1996. Establishment of the **Tanzania Revenue Authority** (TRA) as a quasi-autonomous executive agency (World Bank, 2006) 1996. Adoption of a monthly cash budget system (matches expenditures obligations with available resources) (Ndulu & Mutalemwa, 2002, p. 23). All payments for Government Ministries, Departments and Agencies were consolidated and a **Central Payment Office (CPO)** created at the Treasury under the **Central Payment System (CPS)** (Ministry of Finance, Tanzania) 1996. GoT stopped making transfers to crop authorities and public enterprises (except for strategic grain reserve management and assistance to state banks awaiting privatization) (Ndulu & Mutalemwa, 2002, p. 23) 1998. First phase of the **Public Financial Management Reform Program (PFMRP)** launched. Pilot experience of the **Integrated Financial Management System (IFMS)** (Ministry of Finance, Tanzania) Jul/1998. **Value Added Tax Act, 1997** enacted. Sales tax was replaced by the value-added tax (VAT) (Ndulu & Mutalemwa, 2002, p. 23) & (IMF, 1999) Jul/1998. Introduction of an expenditure commitment monitoring system that intends to mitigate some of the negative effects of the monthly cash budget system by allowing 10 key ministries to operate with three-months commitments (instead of monthly). (Ndulu & Mutalemwa, 2002, p. 23) 1999. The **Integrated Financial Management System (IFMS)** was extended to all the Government Ministries, Departments and Agencies (Ministry of Finance, Tanzania)	The adoption of a monthly cash budget system was key in curbing budget deficit and eliminating inflationary financing VAT provided about one-third of government revenues (Robinson, Gaertner, & Papageorgiou, Tanzania: Growth Acceleration and Increased Public Spending with Macroeconomic Stability, 2011)

1999. Tax Administration Project, with support of an IDA credit (US$40 million) and other donors. Its main objective was raising tax revenues without increasing tax rates by: (i) improving the legal framework; (ii) broadening the tax base; (iii) strengthening the Tanzania Revenue Authority (TRA) to increase efficiency and effectiveness of tax administration; and (iv) improving the administrative infrastructure. (World Bank, 2007)	The project was closed in Dec/2006. Tax Revenue increased from 12.4% of GDP in 1999 to 13.8% in 2006, and to 15% in 2008/2009.
2001. **Public Finance Act, 2001** enacted.	
Oct/2000. The **Poverty Reduction Strategy Paper** was presented (prepared in consultation with development partners). It was intended to facilitate the allocation of resources to priority sectors.	
Jul/2002. Introduction of the **Taxpayer Identification Number (TIN)**	The number of registered taxpayers increased from 190,000 in Jul/2003 to 309,000 in Dec/2006.
2003. TRA introduced the **Large Taxpayers Department (LTD)**.	By 2010, the LTD collected almost three-quarters of domestic taxes from more than 370 enterprises. (Robinson, Gaertner, & Papageorgiou, Tanzania: Growth Acceleration and Increased Public Spending with Macroeconomic Stability, 2011)
Jun/2004. **Income Tax Act, 2004** (amended and replaced the Income Tax Act, 1973). Among other things, required every resident person carrying on a business anywhere and non-resident person carrying on a business in the URT to be issued a TIN.	
2004. **Public Procurement Act, 2004** enacted, which provided for the establishment o f a regulatory framework and decentralization o f procurement functions to ministries, departments and agencies.	
2005. The **National Strategy for Growth and Reduction of Poverty (MKUKUTA)** was presented (a continuation of the Poverty Reduction Strategy Paper). It specified priority sectors for the allocation of public expenditure.	The 2009/10 budget allocated 71 percent of expenditures to MKUKUTA II priorities (Robinson, Gaertner, & Papageorgiou, Tanzania: Growth Acceleration and Increased Public Spending with Macroeconomic Stability, 2011)
Dec/2008. The Taxpayer Identification Number System was rolled out to all Tanzania Mainland regions and Zanzibar	By Dec/2008, the number of registered taxpayers was 434,000 (excluding employees)
Jul/2009. The VAT rate was reduced to 16 percent, bringing it into line with most East African countries (Robinson, Gaertner, & Papageorgiou, Tanzania: Growth Acceleration and Increased Public Spending with Macroeconomic Stability, 2011)	
Apr/2010. Amendment to the Public Finance Act, 2004 were submitted to Parliament, intended to introduce a centralized independent internal audit department (IMF, 2010)	
Dec/2010. The National Strategy for Growth and Reduction of Poverty II (MKUKUTA II) launched.	

Table 9.4 - Agriculture	
Policies	**Comments**
1997. Agriculture and Livestock Policy and Cooperative Development Policy are issued.	
1999. Land Bill and **Village Land Bill.** Recognized equal access to land ownership and use by men and women; prevented the ownership of land by foreigners, and recognized customary land tenure as equal to granted tenure (Tanzanian Affairs, 1999). Established more transparent execution of land-based transactions and property rights. (Ndulu & Mutalemwa, 2002, p. 167)	The Tanzanian Bankers' Association (TBA) appealed to the Government to review the Land Act as it was a major constraint to the use of land as collateral by borrowers. (World Bank, 2007)
2001-2002. As a part of the Vision 2025 and to complement the poverty reduction strategy, the Government formulated an **Agricultural Sector Development Strategy (ASDS, 2001)** and the **Rural Development Strategy (RDS, 2002)** to provide the basis for pursuing poverty reduction and food security objectives in the rural areas. The ASDS established a framework for improving agricultural productivity and profitability in order to improve farm incomes, reduce rural poverty and achieve greater food security. It focused on five strategic areas: (i) strengthening the institutional framework; (ii) creating a framework for commercial activities; (iii) identifying public and private sector roles in improving support services; (iv) strengthening marketing for inputs and outputs; and (v) mainstreaming planning for agricultural development in other sectors. (African Develpment Bank Group, 2006)	The specific ASDS long-term targets for reducing rural poverty were set as follows: (a) the proportion of the rural population below basic needs poverty line reduced from 38.7% in 2000/01 to 20.4% by 2010; (b) the percentage of rural food-poor people reduced from 20.4% in 2000/01 to 11.6% by 2010; and (c) agricultural growth rate accelerated from 3.4% to 5.2% per annum by 2003.
2003. The GoT, in collaboration with stakeholders, developed the **Agriculture Sector Development Program (ASDP)** as the instrument for operationalizing the ASDS	

Table 9.5 - Parastatals	
Policies	**Comments**
1996. The GoT agrees to expand the privatization program to divest all major utility and infrastructure public enterprises (ports, railways, electricity, telecommunications, etc.), banking, agriculture and mining public enterprises (World Bank, 2010)	Between 1994 and 1998, about 150 public enterprises are privatized (World Bank, 2010)
1998. Establishment of **Tanzania Private Sector Foundation**, intended to enhance government collaboration with the private sector (Tanzania Private Sector Foundation, 2011)	
1999. **Public Corporation (Amendment) Act, 1999**	
Jul/2000. World Bank provides financing for the **Privatization and Private Sector Development Project** (US$45.9 million), which foresees the divestiture of 180 small/medium and 20 strategic/large public enterprises, a 10 percent expansion in employment and a 20 percent increase in revenue flows to the government by 2007 (World Bank, 2010)	
2000. Lease contract for the container terminal to a private operator (TICTS), for a period of 10 years (World Bank, 2010)	
Feb/2001. Partial privatization of the Tanzania Telecommunications Company (TTCL) (World Bank, 2010)	
2002. Privatization of Air Tanzania (ATCL) (World Bank, 2010)	
2002. Management contract awarded to Net Group Solutions of South Africa in the electric utility TANESCO (World Bank, 2010)	
	By 2003, the privatization of commercial and industrial public enterprises is mainly completed and handled in an effective manner (Nord, 2009, p. 18) & (World Bank, 2010)
2005. After only 18 months of operation, a lease contract in the water sector with a private consortium is terminated by the GoT, claiming that the private operators is not meeting performance targets nor paying the lease fees (World Bank, 2010)	
2005. The management contract of TANESCO is terminated. TANESCO is run again by the GoT, and is "despecified" (i.e., removed from the list of firms slated for private participation) (World Bank, 2010)	The decision was taken against the advice of the donors and for reasons more political than technical in nature (World Bank, 2010)
2005. The lease contract for the container terminal to a private operator (TICTS) (whose original expiration was in 2010) was extended for 15 years (World Bank, 2010).	IDA questioned the transparency and terms of the extension. (World Bank, 2010)
	GoT commitment with the implementation of **Privatization and Private Sector Development Project** gradually diminishes after the first attempts to secure. In 2005 the President commissions a report taking stock of the infrastructure privatization experience. The 2005 elections further slows down the implementation (World Bank, 2010)
Jun/2006. The **Loans and Advances Realization Trust (LART)** is phased out and its mandate is transferred to the **Consolidated Holding Corporation (CHC)**.	This contributed with the slowdown of the privatization process (World Bank, 2010)
2006. Following a decade of World Bank-assisted effort to prepare Tanzania Railways Ltd (TRL) for private participation, a 25 year lease contract was finally concluded with an Indian firm, RITES.	
2006. Re-Nationalization of Air Tanzania (ATCL), when the strategic partner (South African Airways) departed after a period of significant losses (World Bank, 2010)	
Dec/2007. The **Parastatal Sector Reform Commission (PSRC)** is phased out and its mandate is transferred to the **Consolidated Holding Corporation (CHC)**. The substantial effort made under the **Privatization and Private Sector Development Project** to build the capacity of the PSRC comes to naught, as few if any of the trained staff are taken on by the new privatization authorities. (World Bank, 2010)	
2009.The Canadian firm SASKATEL withdraws from the management of Tanzania Telecommunications Company (TTCL), the Government retakes the management of the company (World Bank, 2010)	
Oct/2009. The Cabinet approved a national Public-Private Partnership policy, aimed at increasing transparency and efficiency in public-private partnership transactions. (World Bank, 2010)	
2010. The private operator of Tanzania Railways Ltd (TRL) does not succeed in meeting any of the major performance targets and the Government intends to terminate the lease in the near future. (World Bank, 2010)	
Mar/2010. World Bank's loan for the **Privatization and Private Sector Development Project** closes with unsatisfactory outcome.	The largest disappointment is in the experience of infrastructure privatization. There are still 34 entities under divestiture, and 56

	other public enterprises in which the GoT invested. The GoT "de-specified" 6 companies (including TANESCO and Tanzania Port Authority (TPA)). The de-specification was done on "strategic" ground justifying Government ownership, with no consultation with the WB (World Bank, 2010)

Table 9.6 - Financial and Banking Sector

Policies	**Comments**
Feb/1996. Financial Institutions Development Project was made effective (approved by the WB in on Aug/1995, by US$10.9 million). FIDP was meant to support: (a) the restructuring and privatization of the National Bank of Commerce (NBC) and the restructuring of the smaller People's Bank of Zanzibar (PBZ) so as to encourage competition and efficiency in the banking sector; (b) continued strengthening of the Bank Supervision Directorate (BSD); (c) improvements to the payments system; (d) the creation of a private credit information bureau; and (e) the development of the insurance industry and capital markets. Of these, the restructuring of NBC was clearly of the greatest importance and priority.	The credit was closed in Jun/1999. Despite delays in the privatization of NBC (and the put on hold of the restructuring of the PBZ), the project was assessed as satisfactory.
1997. Cooperative and Rural Development Bank (CRDB) was privatized (African Forum and Network on Debt and Development, 2007)	
Sep/1997. The state-owned National Bank of Commerce (NBC) (which accounted for over half of the banking system deposits) was split into the **NBC (1997)** (designed to be a full commercial bank with business lines targeted to larger commercial enterprises) and the **National Microfinance Bank** (**NMB**, destined to provide nation-wide coverage with business lines targeted to small depositors). Preparations for the privatization of both institutions began (IMF, 1999)	
Apr/1998. Dar es Salaam Stock Exchange becomes operational, supervised by the Capital Market Authority (African Forum and Network on Debt and Development, 2007) & (Ndulu & Mutalemwa, 2002, p. 161)	
May/1998. Establishment of the **National Insurance Board**, which was intended to rehabilitate the National Insurance Corporation (NIC). The NIC was "specified" for privatization. Liberalization of the insurance regime (IMF, 1999)	Five years later, in May/2003, the **Financial Sector Assessment Program (FSAP)** highlighted that the very poor performance of the (former monopoly) **NIC** was overshadowing the performance and potential of the insurance sector.
Aug/1998. **NBC (1997)** and **National Microfinance Bank** were offered for sale.	
(early)/1999. Amalgamated Bank of South Africa (ABSA) won the bid to purchase 70 percent of NBC (1997). the attempt to privatize NMB was not successful.	
Aug/1999. **Second Financial Institutions Development Project (FIDPII)** was approved by the WB (by US$ 27.5 million; became effective in Sep/2000). It was designed to complete the program of technical assistance begun under the first FIDP; and to finance the investments associated with the transformation of the largest state-owned savings bank to a privately owned microfinance bank.	The closing date of the credit was extended three times (from Dec/2003 to Dec/2006) due primarily to the resistance to the privatization of NMB from vested political interests and the Government's inability to move forward with the initially agreed-upon timeline (World Bank, 2007)
Aug/1999. The GoT put in place a management contractor to manage NMB and enable it to meet its objectives as a commercial bank-cum-microfinance provider with the intention of preparing it for an early privatization. (World Bank, 2007)	
May/2003. **Tanzania Financial Sector Assessment Program (FSAP**, joint World Bank-IMF**)**. Among other things, it recommended completing the task of divestiture of state-controlled entities and insurance; strengthening the legal and judicial framework supporting lending; that BOT take the lead in forming the credit bureau rather than relying on TBA to make progress; and emphasized specific needs in insurance regulation and supervision. (World Bank, 2007; IMF, 2003)	The recommendations supported the reform agenda of FIDP II and thus infused the implementation with a refreshed sense of urgency, especially for the strengthening of the financial infrastructure (World Bank, 2007)
2003. Second Generation Financial Sector Reform Program launched, aimed at broadening access to financial services, while ensuring the soundness of the financial system.	
2004. After engaging a Consultant to undertake a Diagnostic Review and Evaluation of Restructuring/Privatization Options for the Tanzania Investment Bank (TIB), the GoT decided to transform the TIB into an investment bank.	
Sep/2005. After long process of privatization, 49% of the **National Microfinance Bank** (**NMB**) shares were sold to a Consortium led by Rabobank.	Once NMB's performance under the management contractors began to exceed expectations (and profit rose), the privatization of NMB lost momentum and started to become more difficult. Finally,

	only 49% of the bank was sold (the original plan was 70%), and a further 21 percent would be sold to Tanzanian citizens at a later date (World Bank, 2007)
Oct/2005. The **Financial Sector Deepening Trust (FSDT)** was launched. Established by Canada, the UK, Sweden, the Netherlands and Denmark, its aimed is to provide greater access for more people to engage with the financial sector throughout Tanzania. 2006. **Banking and Financial Institutions Act, 2006**: Provides comprehensive regulation of banks and financial institutions; regulation and supervision of activities of savings and credit co-operative societies and schemes with a view to maintaining the stability, safety and soundness of the financial system aimed at reduction of risk of loss to depositors (Bank of Tanzania) Jun/2006. **Bank of Tanzania Act, 2006**. Establishes a more responsive regulatory role of the Bank of Tanzania in relation to the formulation and implementation of monetary policy and for the supervision of banks and financial institutions Dec/2006. A report on Pension Funds Reform was presented by a consultant. Apr/2008. The **Financial Leasing Act, 2007** was signed into law. Jun/2008. The **Social Security (Regulatory) Act, 2008** was enacted. Dec/2008. The **Mortgage Financing (Special Provisions) Act, 2008** is signed into law. Amended provisions included Land Act, The Land Registration Act, The Magistrate Court Act, and The Civil Procedure Act 2009. **Insurance Act, 2009**. Establishes the **Tanzania Insurance Regulatory Authority** (TIRA)	

Table 9.7 - Civil Service	
Policies	**Comments**
Jan/1996. President Mkapa appointed a commission headed by former Prime Minister Joseph Warioba which was given a mandate to assess the state of corruption in the country and formulate appropriate recommendations. (Transparency International, 2007) Dec/1996. The "Warioba Report" was published, which served as a foundation for combating corruption in the following years (Transparency International, 2007) 1996. The adoption of a monthly cash budget system severely affected service delivery in all sectors, though priority social sectors were later protected. (Ndulu & Mutalemwa, 2002, p. 23) Jul/1998. Introduction of an expenditure commitment monitoring system that intends to mitigate some of the negative effects of the monthly cash budget system by allowing 10 key ministries to operate with three-months commitments (instead of monthly). (Ndulu & Mutalemwa, 2002, p. 23) 1999. Adoption of a comprehensive **National Anti-Corruption Strategy and Action Plan (NACSAP, 2000-2005)**. Some measures undertaken included the removal of corrupt leaders, the strengthening of the existing Prevention Corruption Bureau, the appointment of a minister of good governance and the establishment of a Commission of Ethics. (Transparency International, 2007) 1999. Within the framework of the Vision 2025, the GoT developed the National Framework for Good Governance (NFGG) to address good governance and accountability, which became the platform for the public sector reform.	
1999. As a part of the Civil Service Reform Program, a **pay reform policy and strategy** was introduced whose medium-term objective was to enhance the prospects for the government to recruit, retain and motivate a critical mass of technical and professional staff, and whose implementation required a gradual increase in civil servant remuneration, improving the link between pay and performance, and the adoption of a Selective Accelerated Salary Enhancement (SASE) scheme aimed at enhancing the salaries of key professional, technical, and managerial personnel.	The achievements were partial. Even though wage increases were granted in 2006 (reflecting in part a consolidation of allowances previously recorded separately from wages) and in 2008, retaining quality staff remained challenging. The wage bill increased by more than originally envisaged, as the government recalibrated its employment strategy to achieve the MDGs and substantially expanded the hiring of education and health workers. (Nord, 2009)
2000. Launch of the first phase **(PSRP1, 2001-2007)** of the **Public Service Reform Program (2001-2011).** Its main objectives were to: (i) Improve public expenditure efficiency and to build capacity to manage for economic growth and poverty reduction; (ii) Ensure that service delivery within the priority sectors of the public service conformed to public expectations for value, satisfaction and relevance by end 2011; and (iii), To improve accountability, transparency and resource management for service delivery in the public sector.	The focus changed to improving delivery of public services. Despite the introduction of a performance management system and more decentralized policy making, progress in achieving the objectives was slow. Poor service delivery persisted in many areas, accountability remained weak, and there was limited value-for-money assessments. (Nord, 2009)

2001. The **Public Leadership Code of Ethics** was enacted to encourage public leaders to disclose their assets within thirty days and thereafter at the end of each year and when they leave public office (Transparency International, 2007) 2002. **Public Service Act, 2002 (PSA)** enacted, which provided an enabling legal framework for managing performance in the public service. 2003. **PSRP1** objectives revised. New focus on a series of intermediate outcomes related more to capacity investments in the public sector and less on direct improvements to service delivery. Activities: (i) performance improvement with focus on installing performance management systems; (ii) restructuring and private sector participation, including contracting out or hiving-off non-core functions and services; (iii) decentralization and institutional pluralism including creation of executive agencies; (iv) development of management information systems and (v) leadership, personnel and management development. Dec/2005. In his inaugural speech, President Kikwete emphasized that the new government would continue to implement the crosscutting reforms started under the Mkapa government to provide more efficient and effective delivery o f services, and highlighted the need for good governance, transparency and accountability. He emphasized the war on corruption. (World Bank, 2006) Dec/2006. The **National Anti-Corruption Strategy and Action Plan II (2008-2011)** was officially launched. Building on NACSAP I, the main objective was to strengthen and institute good governance, transparency, accountability, integrity, efficiency, rule of law and improved public service delivery	
2008. The second phase of the **Public Service Reform Program (2008-2012)** was launched under the banner of "Enhanced Performance and Accountability". The main objective is to extend, embed, and institutionalize the reforms initiated under PSRP1.	It emphasizes building the capacity of government entities to formulate policies; decentralizing human resources processes and systems; retaining quality staff through adequate remuneration and incentives; institutionalizing performance management systems; and increasing public sector accountability.
2009. The Medium Term Pay Policy was revised, with a focus on recruiting new staff in education, agriculture, livestock, irrigation and health sectors, as well as maintaining competitive salary levels, transparency and equity in payscales for the public service.	

Table 9.8 - Mining	
Policies	**Comments**
1997. **Mineral Policy of Tanzania, 1997** enacted, which stressed on private sector led mineral development while the major roles of the government are regulating, promoting and facilitating	By 1997 there were nearly 400 mining right licenses in Tanzania (Ndulu & Mutalemwa, 2002, p. 169)
1997. The **Tanzanian Investment Act, 1997** was enacted, which included major tax incentives for mining 1998. The **Mining Act, 1998** was enacted, which reduced taxes and import duties, and legalized repatriation of profits	The investment incentives were mainly based on large fiscal incentives. Difficulties in monitoring.
Nov/1999. The first commercial gold mine starts operations (Ndulu & Mutalemwa, 2002, p. 169) 2001-02. Additional 15% capital expensing eliminated for new investors (Nord, 2009)	
2010. Tanzania joined the **Extractive Industries Transparency Initiative** (EITI)	Though this step might reduce investment incentives, it was expected to improve transparency
2010. **Mining Act 2010** enacted. Imposed higher royalties, required companies to list in the country, and gave the State a stake in future projects.	Expected to increase fiscal revenues and government monitoring capacity. Tanzania remained comparable to its neighbors in its investment regime

Table 9.9 - Infrastructure	
Transport Sector in General	
Policies	**Comments**
2003. The **National Transport Policy (NTP)** was formally approved by the GoT. The key objectives are: (i) ensure optimal use of resources by investing in improved infrastructure in all modes of transport, promote modal efficiency and enhance competition; (ii) recover some of the cost from users and support the overall socio-economic development in a most cost effective manner; (iii) promote public-private partnership in the development of transport infrastructure, where the private sector can easily invest alone;	

(iv) attract private sector for investments in seaports, airports and railways, whereas the roads will remain the responsibility of the GOT and development partners. 2003. Creation of Surface and Marine Transport Regulatory Authority (SUMATRA), as well as the Tanzanian Civil Aviation Authority (TCAA) 2005, The former Ministry of Works and the Ministry of Communication and Transport (mainland) were merged into the Ministry of Infrastructure Development 2006. Preparation of a Transport Sector Investment Program and broad agreement between GoT and Development Partners to move towards a sector-wide approach (World Bank, 2010) 2007. GoT launched the (10-years) **Transport Sector Investment Program (TSIP)**. The first phase of the program foresaw a budget of more than US$ 6 billion of investment in roads, railways, airports, and ports over the period Jul/2007-Jun/2012 Jun/2010. WB approved the Transport Sector Support Project (of US$270 million) to support the first Short Transport Sector Investment Plan. The main objectives of the projects are the rehabilitation of trunk roads, improvement of airports, improvement of Road Safety Management, and Promotion of Public Private Partnerships	Actual investment during the first 2 years was around US$500 million (against more US$1,882 million budgeted). Starting in 2010 three year rolling plans or Short Transport Sector Investment Plans (STSIP) will be prepared and updated annually, and started receiving support from IDA and other partners. (World Bank, 2010)
9.9.1 - Roads & Railways:	
Policies	**Comments**
Oct/1997. The GoT announced that it had decided to concession TRC as the only feasible means of meeting the commercial and operational objectives. 1998. The **Roads Fund Board (RFB)** was established to ensure the availability of sufficient funds for maintenance of roads through the levy of a surcharge on fuel. The amounts collected are allocated as follows: 63 percent to TANROADS for maintenance, seven percent to Ministry of Infrastructure Development for development, and 30 percent to Prime Minister's Office-Regional Administration and Local Government (PMO-RALG), which allocates its share to the 132 LGAs based on network length, road type and maintenance needs (World Bank, 2010) 1999. The privatization process of the **Plant and Equipment Hire Company Ltd. (PEHCOL)** begins under the Presidential Parastatal Sector Perform Commission. Jul/1999. The **Tanzania National Road Agency (TANROADS)** was established under the Executive Agencies Act, 1997, to manage the trunk and regional roads. Its chief executive took position in Feb/2000 Sep/2002. TRA's concession bidding documents were issued. The bidding process was completed with no bids. 2006. Following a decade of World Bank-assisted effort to prepare Tanzania Railways Ltd (TRL) for private participation, a 25 year lease contract was finally concluded with an Indian firm, RITES. A rail asset holding company (RAHCO) was created. 2007. Road user charges for the funding of maintenance were increased from US$0.08 to US$O. 16 equivalent per liter of fuel. Oct/2007. TANROADS commenced implementation of performance-based management and maintenance contracts on about 1,000 km of important rural roads in three regions on a pilot basis (World Bank, 2010) 2010. The private operator of Tanzania Railways Ltd (TRL) does not succeed in meeting any of the major performance targets and the Government intends to terminate the lease in the near future. (World Bank, 2010)	Between 2000 and 2009, total revenue of the RFB increased from US$47 million to US$197 million. By 2010, the contract was under stress and the Government was likely to repossess the company as RITES offered for sale its 51 percent stake in the company. (World Bank, 2010)

9.9.2 - Telecommunications	
Policies	**Comments**
Aug/1997. GoT approved the **National Telecommunications Policy**. 1998. Following TTCL's debt restructuring exercise in coordination with GoT/Ministry of Finance, TTCL generated a profit for the	

first time since its incorporation (World Bank, 2001) Jun/2000. Detecon (Germany) /MSI (Netherlands) offered US$120 million for a 35 percent stake in TTCL and committed to have more than 800,000 connected lines before the end of the four-year exclusivity period. Feb/2001. Negotiations for the partial privatization of the Tanzania Telecommunications Company (TTCL) were finalized. Detecon and MSI, acquired 35% stake and took over both the board and management (World Bank, 2010). Aug/2005. MSI and Detecon pulled out. TTCL and Celtel Tanzania legally separated. The GoT maintained 65% ownership of TTCL, while Celtel International (previously known as MSI) remained with the 60% of Celtel Tanzania Feb/2007. The Canadian firm SaskTel International was awarded a three-year management contract of up to $5 million by the Parastatal Sector Reform Commission to manage all aspects of the operations, maintenance and expansion of TTCL to improve the company's financial, commercial and technical performance (allAfrica.com) 2009. SaskTel withdraws from the management of Tanzania Telecommunications Company (TTCL), the Government retakes the management of the company (World Bank, 2010)	The privatization of TTCL was considered a success by all stakeholders.

9.9.3 - Ports	
Policies	**Comments**
1995. A private operator started managing the port of Kigoma at the lake of Tanganyika (World Bank, 2010 2000. Lease contract for the container terminal to a private operator (TICTS), for a period of 10 years (World Bank, 2010) 2004. The Tanzania Harbor Authority was transformed into the **Tanzania Port Authority (TPA),** a "landlord" port organization that is responsible for all marine and inland ports (World Bank, 2010) 2005. The lease contract for the container terminal to a private operator (TICTS) (whose original expiration was in 2010) was extended for 15 years (World Bank, 2010). 2009. TICTS' concession of the terminal was renegotiated and the exclusivity clause (pegged at 650,000 Twenty-foot equivalent unit) was dropped (World Bank, 2010)	IDA questioned the transparency and terms of the extension (World Bank, 2010)

9.9.4 - Energy	
Policies	**Comments**
2001. GoT established the Energy and Water Utilities Regulatory Authority (EWURA) as an autonomous multi-sectoral regulatory authority responsible for technical and economic regulation of the electricity, petroleum, natural gas and water sectors. 2002. Management contract awarded to Net Group Solutions of South Africa in the electric utility TANESCO (World Bank, 2010) 2005. The management contract for TANESCO to SouthAfrica's Net Group expired, and the Government decided not to renew the management contract but to continue with full public ownership of TANESCO (the company is "de-specified" i.e., removed from the list of firms slated for private participation) (World Bank, 2010) 2005. Tanzania's Parliament approved a Rural Energy Act which established a Rural Energy Agency (REA) to lead the development of rural energy access initiatives and a Rural Energy Fund (REF) to finance such initiatives. (World Bank, 2007) Feb/2007. The Cabinet approved a Financial Recovery Plan (FRP) for TANESCO, with the objective of restoring complete financial sustainability of TANESCO. Tariffs were first increased by 6%, and operational costs were expected to be met with further tariff increases in late August 2007. Mar/2008. After one of the most serious energy crises in the country (2006), the Tanzania Energy Development and Access Expansion Project (TEDAP) became effective, supported by US$105 million from IDA. Its main objective was to improve the quality and efficiency of the electricity service provision in the main three growth centers of Dar es Salaam, Arusha, and Kilimanjaro and to establish a sustainable basis for energy access expansion and renewable energy development. This fist project would primarily focus on the urgent upgrade of TANESCO's transmission and distribution grid, and was part of an ambitious plan that contemplated an electricity access scale-up, raising coverage from 10% to 25%, and a cumulative investment plan of about US$1.3 billion. (World	EWURA was made operational in June 2006. (World Bank, 2007) The decision was taken against the advice of the donors and for reasons more political than technical in nature (World Bank, 2010) By that time electricity coverage was less than 10% nationally. Rural coverage was below 2%. (World Bank, 2007) Before the FRP, system wide losses were about 24%. The cost of generation for TANESCO was about 8.4 cents, when compared to an average retail tariff of about 7 cents. In 2008 EWURA authorized a 21.7% tariff increase, and is expe

Bank, 2007) Dec/2010. EWURA authorized an 18.5% electricity tariffs increase, effective Jan/2011 (TANESCO had requested 34.5%)	

Table 9.10 - Health	
Policies	**Comments**
Jun/1996. The Cabinet approved a proposal for national social insurance (later approved by the parliament in Apr/1999). Jul/1996. The Community Health Funds program (CHF) pretest was launched (later expanded) Dec/1996. A higher schedule for cost sharing was announced. 1998. Community Health Funds pretest is expanded to 6 more districts. Apr/1999. Creation of the National Health Insurance Fund for the administration of a compulsory contributory insurance scheme for public servants, which would initially cover 50,000 central government employees and their dependents. 1999. The GoT embarked on a health sector reform program and, with support of development partners, developed a long-term (2000-2011) **Health Sector Development Program (HSDP)**, whose main objective was to improve access, utilization, quality, and financing of health services through increased efficiency and effectiveness in use and allocation of resources, to maximize impacts on health outcomes, especially among the poor, women, and children. (World Bank, 2003)	
2000. Phase I of HSDP (2000-2003) was launched (estimated cost US$654 million, and an IDA credit of US$22 million). Its objective was t o improve resource management and the quality of health services through sector reforms and institutional capacity building (World Bank, 2003)	During this first phase, particular achievements were made in decentralization, institutional capacity and improved resource management (World Bank, 2003)
Dec/2001. The Tanzania Commission for AIDS (TACAIDS), a Multi-sectoral coordinating body, was established with a mandate "to provide strategic leadership and to coordinate the implementation of a national multi-sectoral response to HIV/AIDS (World Bank, 2003)	
2004. Phase II of HSDP (2004-2007) was launched (estimated cost US$963 million, and an IDA credit of US$25). The specific objectives of the program were to increase financing for district-level essential health services; scale-up the integrated management of childhood illness (IMCI), vitamin A distribution, improved malaria treatment, and HIVIAIDS testing, counseling and treatment; implement strategies for reducing maternal mortality; pilot incentives for health workers to serve in rural areas; expand public-private partnerships for access to medicines, distribution of bednets and provision of services by faith-based institutions; strengthen routine M&E; expand insurance coverage; and rehabilitate primary health facilities.	
Jun/2005. The National Strategy for Growth and Reduction of Poverty (MKUKUTA) includes *improving survival, health, nutrition and well being of all children and women and especially of vulnerable groups* as one of its goals (cluster II, goal 2)	
2007. The closing date of Phase II of HSDP was delayed, initially until 2010, and later until Jun/2011.	Though not all original targets were met, by 2011 significant improvements (exceeding the targets) had been made in reducing infant mortality and malnutrition, increasing life expectancy, extending the use of insecticide treated nets, and substantially increasing the per capita government's health budget, among others.
Dec/2010. The National Strategy for Growth and Reduction of Poverty II (MKUKUTA II) includes *improving survival, health, nutrition and well being*, *especially for children, women and vulnerable groups* as one of its goals (cluster II, goal 3)	

Table 9.11 - Education	
Policies	**Comments**
1995-2000. At the time the ETP was prepared, various donors, including the IDA, were supporting the GoT through different individual projects with small geographical and program coverage. By the mid 90s The GoT started developing a sector program to cover all the education and training subsectors in collaboration with donors. External consultants financed by donors assisted in the process. Though the Education Sector Development Program (ESDP) was initiated in 1997, by 1999 the program was still not in place. (World Bank, 2005) 1999. The GoT published "The Tanzania Development Vision 2025" as a set of basic principles that would guide its economic and	

social policies, including a prominent role for education. Achieving "*a well educated and learning society"* is one of the main elements of the vision. 2000. The GoT prepared the Poverty Reduction Strategy (PRS), which emphasized priority sectors of primary education, primary health care, agricultural research and extension, rural roads, the judiciary, and HIV/AIDS 2000. The GoT, through its own initiative, formulated the **Education Sector Development Program (ESDP)** framework, which provided a structure and guidance through which sector dialogue between the Government, Development Partners, and the Civil Society Organizations (CSOs) could be enhanced. (World Bank, 2005)	
Jul/2001. As part of the ESDP, the GoT formulated the **Primary Education Development Program (PEDP, 2001-2009)**, intended to reform delivery of primary education covering the entire country (through improving education quality, expanding school access, and increasing school retention at the primary level). It was initially financed with own funds. In Oct/2001 the WB approved a Sector Adjustment Credit for US$150 million to support the program. The Netherlands also requested IDA to act as Administrator of a Grant in the amount of US$50 million in support of the PEDP. (World Bank, 2005)	The WB credit closed in Oct/2004 with a satisfactory evaluation. Primary School Gross Enrollment Ratio (GER) increased from 78 percent in 2000 to almost 114 percent in 2007. The PEDP continued with continued with mainly public budget support supplemented by other donors as well as substantial contributions from local communities (World Bank, 2010)
Jul/2001. In line with the Poverty Reduction Strategy (PRS), the GoT abolished school fees and other levies for primary education.	This made primary enrollment increased sharply in 2001 and 2002
Mid/2004. As part of the ESDP, the GoT launched the first phase of the **Secondary Education Development Program 2004-2020 (SEDP I, 2004-2009)** aimed at improving access and equity; educational achievements, and service management and delivery of secondary education. Between Sep/2004 and Sep/2007 the SEDP was supported by a Structural Adjustment Credit of US$ 123.6 million of IDA and a grant of US$ 26.4 million. The program continued with mainly public budget support supplemented by other donors as well as substantial contributions from local communities (World Bank, 2010)	As a result, Government secondary schools increased from 828 in 2004 to 2,806 in 2007, particularly for the underserved areas. Public Schools increased from 463 to 679 in the same period. Secondary school Gross Enrollment Ratio (GER) increased from 9.4 to 22.1.
Jun/2005. The National Strategy for Growth and Reduction of Poverty (MKUKUTA) was launched. One of cluster-II targets is "*ensuring equitable access to quality primary and secondary education for boys and girls, universal literacy among women and men; and expansion of higher, technical and vocational school"*.	
2005. The government started reducing tuition fees for government secondary school from Tshs 40,000 to Tshs 20,000	
Jul/2006. PM that there would be a community secondary school in every ward (a political/administrative subdivision below that of districts).	Despite the increase in the demand for secondary education at the community level (given the success of PEDP in increasing primary enrollments and the historically low enrollment rates of Tanzanian secondary education), the WB cautioned the Government about the fiscal dangers of too rapid expansion beyond the medium growth scenario of the SEDP Program Document and its impact on quality. Enrollment in all secondary schools increased from 432,599 in 2004 to 1,222,403 in 2008 to 1,466,402 in 2010. (World Bank, 2010)
May/2008. GoT finished the revision of the Education Sector Development Program (ESDP 2008-2017), which constitutes the key education sector document for planning, budgeting and implementation purposes (URT, 2008)	
Jun/2010. Within the context of the Tanzania Development Vision 2025, MKUKUTA, ETP of 1995, and the ESDP 2008-2017, the GoT launched the **Secondary Education Development Program II, 2010-2015**, whose main objective is to improve the quality of secondary education, with a focus on underserved areas. WB agreed to support the program with US$150 million	
Dec/2010. The National Strategy for Growth and Reduction of Poverty II (MKUKUTA II) was launched. Two of cluster-II goals emphasize ensuring access to pre-primary, primary and secondary education (goal 1), as well as the expansion technical, vocational, higher, and adult education (goal 2).	

TABLE 10: Human Development Index, 1990-2010

	1990	1995	2000	2005	2009	2010
Tanzania (United Republic of)	0.329	0.330	0.332	0.370	0.392	0.398
Sub-Saharan Africa	0.354	0.358	0.315	0.366	0.384	0.389
World	0.526	0.554	0.570	0.598	0.619	0.624

Source: Human Development Report 2010

Table 11: Total factor Productivity Growth: 1986-2009, Alternative Calculations

	Nord et al (2009)*	Mwase and Ndulu (2008)**	This study
1980-1985	n.a.	-2.0%**	-2.1%
1986-1990	2.20%	2.09%**	2.0%
1991-1995	-2.0%	-0.89%**	-1.9%
1996-2000	2.3%	n.a.	2.0%
2000-2009	3.5%*	n.a.	3.3%

* The figure for the latter period refers to 2000-2008.

** The time periods considered by Mwase and Ndulu (2208) are slightly off relative to those in the other two studies. Specifically, the figures in this column refer to: 1980-84, 1985-89, and 1990-97.

Table 12: Incidence of Current Account Reversals, 1970-2005

	No Reversal	Reversal
Industrial Countries	97.54	2.46
Latin American and Caribbean	86.86	13.14
Asia	91.70	8.30
Africa	82.82	17.18
Middle East	86.93	13.07
Eastern Europe	92.31	7.69
Total	89.64	10.46
Observations	2240	
Pearson		
Uncorrected chi2 (5)	70.692	
Design-based F(5, 11195)	14.132	
P-value	0.000	

Table A.1: Long Term Growth Equations, Global Data Set, 1970-2005

	EQ.1	EQ.2	EQ.3	EQ.4	EQ.5	EQ.6	EQ.7	EQ.8	EQ.9	EQ.10
Initial GDP	-0.6067	-0.5195	-0.6929	-0.6308	-0.7492	-0.6837	-0.7452	-0.7941	-0.4824	-0.5347
	(-4.89) ***	(-3.87) ***	(-5.88) ***	(-5.3) ***	(-6.77) ***	(-5.97) ***	(-5.86) ***	(-5.62) ***	(-3.9) ***	(-4.6) ***
Gov. Con. / GDP	-1.9776	-1.6436	-1.2147	-1.1566	-0.9665	-2.1869	-1.8135	-1.5903	1.1823	0.5369
	(-1.56)	(-1.67) *	(-1.12)	(-1.16)	(-1.04)	(-1.73) *	(-1.79) *	(-1.55)	(1.07)	(0.6)
Gross Inv. / GDP	0.0948	0.0951	0.0693	0.0813	0.0630	0.0799	0.0712	0.0889	0.1052	0.0963
	(2.16) **	(2.22) **	(1.48)	(1.77) *	(1.35)	(1.9) *	(1.71) *	(2.15) **	(2.35) **	(2.21) **
Secondary Education	2.5631	1.0528	1.6628	1.5416	2.2043	1.7256	0.7560	0.8292	2.0959	2.5515
	(3.02) ***	(1.3)	(1.67) *	(1.62)	(2.46) **	(2.24) **	(1.02)	(0.93)	(2.53) **	(3.07) ***
Openness	0.0169	0.0122	0.0091	0.0229	0.0131	0.0146	0.0108	0.0083	0.0171	0.0156
	(2.63) ***	(2.26) **	(1.53)	(1.56)	(2.11) **	(2.38) **	(1.87) *	(1.46)	(2.6) **	(2.44) **
Terms of Trade Volatility	--	-0.0973	--	--	--	--	--	--	--	--
		(-4.35) ***								
Corruption	--	--	0.3024	--	--	--	--	--	--	--
			(1.79) *							
Democracy	--	--	--	0.1015	--	--	--	--	--	--
				(2.72) ***						
Judiciary Independence	--	--	--	--	0.2013	--	--	--	--	--
					(2.21) **					
Law and Order	--	--	--	--	--	0.2348	--	--	--	--
						(2.17) **				
Property Rights	--	--	--	--	--	--	0.5056	--	--	--
							(4.12) ***			
Rule of Law	--	--	--	--	--	--	--	1.0493	--	--
								(3.72) ***		
Inflation	--	--	--	--	--	--	--	--	-0.0044	--
									(-2.7) ***	
RER Volatility	--	--	--	--	--	--	--	--	--	-1.2873
										(-2.15) **
Inflation Volatility	--	--	--	--	--	--	--	--	--	-0.0009
										(-1.78) *
R-2	0.5847	0.672	0.6291	0.6097	0.6394	0.6231	0.6587	0.6552	0.5981	0.611
Number Observations	113	110	102	110	106	107	98	103	101	101

Robust z-statistics are reported in parentheses. Regional dummy variables included, but not reported. *** significant at 1%; ** significant at 5%; * significant at 10%. See the text for details.

Table A.2
The Dynamics of Growth, 1970-2004:
World and Sub Saharan Africa
(*GLS, Random Effects Estimates*)

	Eq 2.1 (Complete Sample)	Eq. 2.2 (Sub Saharan Africa)
Growth Gap	0.765	0.625
	(26.22) ***	(11.41) ***
Change in Terms of Trade	0.085	0.081
	(11.26) ***	(7.51) ***
Reversal	-1.936	-3.748
	(-5.37) ***	(-6.59) ***
Deviation of World Real Interest	-0.155	-0.054
	(-3.73) ***	(-5.57) ***
War Dummy	-0.428	-0.947
	(-2.24) **	(-1.75)*
R-squared		
within	0.4794	0.4547
between	0.1877	0.0089
overall	0.4478	0.4420
Number of observations	2341	657
Number of groups	94	22

Robust z-statistics are reported in parentheses. *** significant at 1%; ** significant at 5%; * significant at 10%.