

Final version

Aid and Reform in Tanzania*

by

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August 99

1. Introduction

The purpose of this study is to get a better understanding of the causes of policy reform in Tanzania¹. Specifically we will investigate if and how aid has encouraged, generated, influenced, supported or even retarded reforms. The main aim is to *analyse the reform process* and not the results of the reforms. The specific questions we will try answer are the following ones: 1) What caused the reforms? 2) Who was responsible for the reform and who were the main actors behind the reform? 3) What decisions were taken? 4) How were the reform decisions affected by aid? 5) Has aid helped sustain reforms? The study is thus an exercise in economic history or political economy. The aspects of the reforms that will be considered are primarily macroeconomic management, structural policies, public sector management, and public expenditures.² In analysing the aid-reform relationship we will especially consider the validity of three hypotheses: 1) Governments choose to reform, or regress, independent of the aid relationship. 2) Non-financial aid has a better impact than financial aid on generation of policy reforms. 3) Financial aid works when policy reforms and institution building are underway.

This overall objective of the paper of the paper is threefold, namely to examine the nature of external assistance, to consider the causes and path of policy reforms, and to trace the relationship between the aid and reforms. Section 2 will specify the different types of aid the country receives. Section 3 will describe the economic policy and institutional framework and analyse, more precisely, the causes and implementation of the identified policy reforms as well as the internal dialogue and involvement of different actors. Section 4 will assess the links between aid and reform and sum up our conclusions.

This case study will mainly cover the time period from the beginning of the severe economic crisis in Tanzania in 1979, but to put this in perspective we will also briefly outline the policies pursued before that.

¹ This is one of several case studies undertaken within the World Bank project "Aid and Reform in Africa". The other countries are Cote d'Ivoire, Mali, D.R. Congo, Nigeria, Ethiopia, Ghana, Uganda, Kenya, and Zambia.

² In the terms of reference the approach is described as follows: "The study will examine issues such as economic policy; institutional development; structural (domestic or exogenous) and institutional causes; actors and constituencies behind the reforms; the internal dialogue prior to formalisation of the reform program; internal processes shaping the reforms; the path of reform; the role of aid, conditions, and donors in induction and implementation of reforms."

2. Aid flows to Tanzania

2.1. Introduction and definitions

This chapter reviews the overall aid framework of the country. In this section we present some definitions of aid to be used in the study, while Section 2.2 describes the magnitudes and character of the aid flows. Section 2.3 discusses the relationship with the multilateral institutions, while Section 2.4 deals with that with the bilaterals. Finally, in Section 2.5, we discuss some attempts at donor co-ordination.

The standard aid concept used in most studies is the one of Official Development Assistance (ODA), which consists of financial aid and technical co-operation. Financial aid includes grants and concessional loans having a grant element of at least 25 per cent. Technical co-operation includes grants to nationals of aid recipient countries receiving education or training, and payments to consultants, advisers, administrators and similar persons working on assignments of interest to the recipient countries. However, the standard measure tends to overestimate the aid flow, since it does not provide an accurate measure of the grant element in the official loans. The overestimation is less for Africa than for other regions due to the high grant equivalent in loans to SSA, but it is still significant. Because of these problems the World Bank has produced a new aid measure called Effective Development Assistance (EDA), which provides a more accurate measure of true aid flows than the traditional ODA measure (for a presentation, see Chang, Fernandez-Arias and Serven, 1998). EDA is the sum of grants and the grant equivalent of official loans, and aims to measure the pure transfer of resources. EDA is defined as the grant equivalents of all development flows in a given period. Grants tied to technical assistance are excluded from EDA, but since we use the grant data from DAC they are included in the estimates we present in the following section.

2.2. Aid flows and types

(a) Official aid flows

(i) Volume and composition of aid

Since independence in 1961, Tanzania has been one of the largest recipients of aid in sub-Saharan Africa in absolute terms, and the country still receive considerably more aid as a percentage of GDP than most other countries in the region. Tanzania's share of total aid from all the Development Assistance Committee (DAC) countries was 8.3 per cent during the 1970s by the definition used in this study, and the country then was the largest recipient of aid in Sub-Saharan Africa (see Table 1). This share started to decline in 1981 and by 1985 it was down to 5.8 per cent. Nevertheless, Tanzania still ranked as the second largest aid beneficiary of aid after the Sudan during the 1980s. Even more remarkable is that even in the mid-1980s, when the policy environment was very poor in Tanzania, it received more than twice as much as did Ghana, which at that time was considered to be *the* reformer. This suggests that there is a high degree of inertia in aid flows. Once they are committed, it is difficult to cut a country loose. Also in the 1990s Tanzania ranked second in SSA, marginally behind Mozambique.

Between 1970 and 1996, the country received a total of US \$ 16,632 million in foreign aid (Table 1). It is here defined as the sum of total grants according to the DAC definition plus the

grant equivalent of loans as defined under the EDA definition of the World Bank. Aid has accounted for over 80 per cent of total net inflows of external capital, indicating that private capital flows have been small. The annual volume of aid rose from US \$ 37.7 million in 1970 to a peak of US\$ 1158 million in 1992, but then it declined to US \$ 830.5 million in 1996. In per capita terms, Tanzania's aid receipts peaked in the late 1980s and early 1990s at over US\$ 40. As a share of GDP aid peaked at 30% in 1990, but due to the decline in aid flows and the increase in GDP during the 1990s the share has fallen very significantly to about 13 per cent of GDP in 1997. These figures can be compared with those of some other countries in the region. Aid to Kenya peaked at 27% of GDP in 1993, but had fallen to 5% by 1997. In Uganda aid was 27% of GDP in 1992, but had fallen to 13% in 1997. Aid to Zambia declined from 36% in 1991 to 17% in 1997, while aid to Ghana fell from 14% of GDP in 1989 to only 7% in 1997 (World Development Indicators 1999). We may thus note that Tanzania is not the only country that is highly dependent on aid. Still, aid dependence has declined significantly during the 1990s.

Tanzania has received aid from over 50 bilateral sources. This is a high figure, but not unusual for major African economies. The Nordic countries (Sweden, Norway, Denmark and Finland) have been the major donors, accounting for over 30 per cent of the country's total ODA receipts between 1970 and 1996 (see Table A1 in the Appendix for a breakdown of flows by country). Sweden has provided almost half of that amount for most of this period. The second group of major bilateral donors has been Germany and the Netherlands, each contributing around 8 per cent of total aid over the past 20 years. The third major group consists of Canada, the US and the UK, each accounting for about 6 per cent of Tanzania's total aid receipts. Italy and Japan became important new donors in the late 1980s. China and the Socialist bloc have drastically reduced their aid programmes for Tanzania starting from the 1980s.

During the 1970s, most of the aid flows to Tanzania came from bilateral sources. Multilateral donors contributed an average of about 10 per cent annually. Since the early 1980s, however, the share of multilateral donors has risen considerably. In 1988, the share of multilateral donors to total aid was about 40 per cent (see Table 1). In the case of aid in the form of loans, the contribution of multilateral donors has risen much faster from an average of less than 13 per cent in 1970-75 to over 85 per cent in 1987-96 (see Table 2). Major multilateral donors include the IMF, the World Bank, ADB, EU, UNDP and UNHCR with the World Bank's International Development Association (IDA) providing about half of total aid from multilateral donors. Total disbursements on EDA loans are shown in Table A2 in the Appendix. During the reform period the amounts have been in the range US\$ 200 to 350 million p.a.

In terms of sectoral distribution, most of the aid in the 1960s and the early 1970s was directed to the agricultural and transport sectors. During the second half of the 1970s, emphasis shifted from agriculture towards industry and energy. Transport became an important aid recipient in the late 1980s and early 1990s. The general pattern of aid distribution in the 1990s has been (in order of importance) transport and communications, receiving about half of the aid flows, followed by agriculture, human resources development, health, integrated regional development and energy (Mutalemwa, Noni and Wangwe, 1998). The sectoral allocation of EDA loans is shown in Tables A3 and A4 in the Appendix. Much of the loans during the reform period have gone to the rehabilitation of infrastructures as well as manufacturing. The World Bank has been the dominating creditor during this period (Table A5 in the Appendix). Other donors have been

reluctant to give loans to the poor and heavily indebted country, but have chosen to provide grants instead. By comparing Tables A5 and A6 we may note that also the grant element of World Bank loans has increased. Since grants are more fungible than loans (Feyzioglu, Swaroop, Zhu, 1998), it is generally more difficult to reallocate aid from the IFIs according to the preferences of the recipient government.

Table 1: Total Aid to Tanzania between 1970 -1996 (in million US \$)

Year	Total bilateral	Total multilateral	Total aid	Total aid per capita \$	Share of bilateral aid in total aid	Share of Tanzania in total aid to SSA
1970	37.7	0	37.7	2.7	100	4.6
1971	39.1	0.06	39.04	2.8	100.2	3.8
1972	90.52	1.18	91.7	6.3	98.7	6.3
1973	153.62	1.78	155.4	10.4	98.8	9.6
1974	187.56	7.14	194.7	12.6	96.3	8.0
1975	271.04	32.26	303.3	19.1	89.3	9.8
1976	213.12	44.78	257.9	15.7	82.6	8.9
1977	239.86	67.04	306.9	18.1	78.1	9.3
1978	481.66	51.44	533.1	30.6	90.3	12.0
1979	489.51	67.59	557.1	31.0	87.8	10.5
1980	666.82	94.58	761.4	41.0	87.5	11.2
1981	495.43	165.47	660.9	34.5	74.9	9.5
1982	458.07	176.03	634.1	32.0	72.2	9.2
1983	451.71	132.59	584.3	28.6	77.3	8.4
1984	426.48	107.82	534.3	25.3	79.8	7.3
1985	384.49	98.11	482.6	22.2	79.6	5.8
1986	595.58	194.02	789.6	35.1	75.4	7.9
1987	607	144.5	751.5	32.4	80.7	7.1
1988	621.97	421.63	1043.6	44.5	59.5	8.4
1989	660.73	181.57	842.3	34.1	78.4	6.7
1990	767.78	287.81	1055.6	41.4	72.7	6.4
1991	775.33	315.37	1090.7	41.5	71.1	6.9
1992	789.73	368.27	1158	42.7	68.1	7.2
1993	918.51	235.99	1154.5	42.3	79.5	7.8
1994	642.12	285.08	927.2	32.2	69.2	5.8
1995	622.17	231.83	854	28.8	72.8	5.7
1996	569.65	260.85	830.5	27.2	68.5	6.0

Source: World Bank EDA database and OECD DAC database. The grant estimates are from OECD and include also technical assistance, while estimates of the aid element in the loans are from the EDA computations.

Table 2: Effective Development Assistance in the form of loans between 1970 - 1996 (in million US \$)

Year	Total bilateral	Multilateral	EDA as loans	Share of bilateral aid in total aid
1970	10.15	0	10.15	100
1971	8.5	0.02	8.48	100.2
1972	46.5	0.59	47.1	98.7
1973	89.73	0.88	90.61	99
1974	91.55	3.77	95.32	96
1975	98.17	16.88	115.05	85.3
1976	38.68	23.28	61.96	62.4
1977	54.91	36.52	91.44	60.1
1978	49.16	26.87	76.03	64.7
1979	33.59	35.82	69.41	48.3
1980	53.53	49.51	103.03	51.9
1981	58.87	92.7	151.57	38.8
1982	50.62	93.25	143.87	35.2
1983	82.58	71.89	154.46	53.5
1984	48.82	55.98	104.81	46.6
1985	22.54	52.06	74.6	30.2
1986	46.77	95.99	142.76	32.8
1987	11.72	71.96	83.69	14
1988	22.7	210.85	233.54	9.7
1989	13.38	90.6	103.98	12.8
1990	23.79	145.08	168.87	14.1
1991	16.78	160.11	176.89	9.5
1992	36.83	187.57	224.39	16.4
1993	9.88	119.74	129.62	7.6
1994	6.28	144.57	150.77	4.34
1995	18.88	117.81	136.69	16.02
1996	3.35	132.33	135.68	2.53

Source: World Bank EDA database.

The composition of aid has also been shifting over time. For most of the 1960s and 1970s, investment projects assistance comprised more than two-thirds of total aid. Project aid was the most preferred form of aid. The preference of project assistance to programme aid during this period can be attributed to three factors. First, projects appeared to be easy to plan, design, control, supervise and hence ensured visible results while allowing for direct accountability. Second, unlike programmes, projects are easy to tie to the procurement of goods and services from the donor. Third, projects provided donors with opportunities to by-pass national institutions and pursue their own objectives.

Since the mid-1980s, there has been a shift in emphasis from project aid to programme aid. The growing balance of payments problems and the declining utilisation of capacity in industry and other sectors has mainly prompted this shift. These developments were perceived as evidence of unsatisfactory performance of project assistance, and the realisation that import-support would be critically needed to raise the level of output through greater utilisation of enterprise capacities. Another important change has involved a shift towards financing more explicitly the project forms of the government's recurrent budget. This shift has been a response to the growing awareness that insufficient allocations to the recurrent expenditure in the government budget had become a more serious constraint to the delivery of services than allocations to the development budget.

(ii) Trends in aid flows

Over the period 1970-96, three major phases of aid flows to Tanzania can be identified: the expansion phase (1970-82); the contraction phase (1983-85); and the adjusting phase (1986-96). Aid to Tanzania increased over 20 times (in current dollars) between 1970 and 1982; it decreased by about 25 per cent between 1982 and 1985; and it rose again sharply from US\$ 482.6 million in 1985 to a peak of US \$ 1,158 million in 1992.

(1) The expansion phase (1970-82)

The willingness of donors to extend substantial amounts of aid to Tanzania during the late 1960s and the 1970s can be explained by the development policies the country pursued during this period. The country's emphasis on self-reliance and growth with equity, the targeting of government programmes on basic needs, and emphasis on co-operatives and Ujamaa villages motivated many donors to extend aid to Tanzania during this period. Tanzania's development policies were in line with those of social democrats in the North, notably the Nordic countries, Germany (under Willy Brandt) and Canada; and these regimes took a positive view of Tanzania's development strategy. The World Bank doubled its lending programme to Tanzania between 1973 and 1977 because Robert McNamara, who was President of the World Bank at the time, had adopted a policy of growth with equity which was in line with Tanzania's development strategy under the leadership of President Nyerere (Bagachwa et al, 1997).

(2) The contraction phase (1983 - 85)

Toward the end of the 1970s, there was a change in donors' attitude towards Tanzania. Donors became increasingly critical of the country's development strategy. There was growing evidence that in spite of the Arusha Declaration, neither socialism nor self-reliance had been achieved and that the effectiveness of aid had been low.³ Following the breakdown of negotiations with the IMF in September 1980, the general view among Western donors was that aid to Tanzania could not be effective unless the country agreed to redress inappropriate domestic policies. Despite these developments, the Nordic countries did not abandon Tanzania but continued to provide aid although at a reduced rate. By 1983, however, most donors, including Sweden, had begun to scale down their support drastically and aid flows declined sharply. Ultimately, the sheer magnitude of the crisis, pressure from the IMF, the World Bank and bilateral donors, and the failure of independent national efforts to revive the economy all combined to persuade the government to adopt a far-reaching Economic Recovery Programme (ERP) in 1986 with IMF and World Bank support.

(3) The adjusting phase (1986 - 96)

The agreements with the IFIs in 1986 - a standby agreement with the IMF and a structural adjustment programme with the World Bank - helped to restore donor confidence. Under the ERP, a broad range of policies was adopted aimed at liberalising internal and external trade, unifying the exchange rate, reviving exports, stimulating domestic saving and restoring fiscal

³ The donors drew this negative conclusion about the effectiveness of aid in spite of the fact that they were seldom able to establish a causal link from aid to economic outcomes.

sustainability. The ERP met with strong donor support. Bilateral aid was resumed leading to a second aid boom, which peaked in 1992 (Table 1).

The agreement with the IMF was renewed in 1987, 1988 and 1990. In 1989, the reforms entered a second phase under ERP II (1989-91). This continued earlier efforts at trade and exchange rate liberalisation and macro-economic stabilisation, but was widened significantly to include reforms in the banking system, agricultural marketing, the parastatal sector, government administration and the civil service together with a targeting of the social sectors.

However, during 1993/94 relations between government and major donors deteriorated seriously over failure of the former to collect counterpart funds under the Commodity Import Support (CIS) scheme and to increase the tax collection efforts generally. There were increasing suspicions of corruption. Donors started to question the effectiveness of their aid as indicated, for example, in the evaluation studies carried out by the Nordic countries and the Netherlands in 1994. The government commitment to reform was questioned and failure to conclude a new ESAF with the IMF worsened donor fears. Government, on its part, felt that the donors' demands were often unrealistic and too intrusive in matters that were essentially domestic. An independent group of local and international advisers was commissioned by Denmark to see how the climate of confidence between the two sides could be restored. The Group was headed by Professor Helleiner. Hence, the name of the report that the Group produced in June 1995, which has since become an important policy document in both the donor community and the government. (Mutalemwa, Noni and Wangwe, 1998).

Strained relations between the government and the donors in 1993/94 had a significant adverse effect on aid flows to Tanzania between 1994 and 1996. Donor confidence was restored and normal aid operations resumed after the new government came into power and, especially, following the conclusion of an ESAF agreement with the IMF in 1996.

(b) Other types of financial aid

Substantial aid has been disbursed as balance of payments support through the Commodity Import Support (CIS) and the Open General Licence (OGL) schemes. More and more donors are currently inclined to channel their support through a new BOP Import Support scheme and the newly introduced Multilateral Dept Relief Fund (MDF). A few donors, e.g. the Japanese, still channel their assistance through the CIS arrangement.

(i) Commodity Import Support (CIS)

Under ERP I, a CIS facility was established whereby donor funds would be utilised to help provide foreign exchange to cushion the devaluation effect and stimulate agricultural exports. The programme was to improve levels of capacity utilisation of existing production facilities. The CIS was a tied facility with donors insisting on procurement of goods from their own countries. Restrictions were also placed on the type of goods that could be imported. Applications for the utilisation of CIS funds had to be submitted to the Treasury and after approval importers were required to pay a minimum of 30 per cent cash cover on the allocated amount. The remaining 70 per cent would be paid on arrival of shipping documents.

The scheme ran into difficulties and many donors decided to abandon it because of government's failure to account for payment of counterpart funds against the foreign exchange disbursed. It may also be noted that the allocation of CIS also reflected donors' preferences in that most donors supported "their" projects, that is projects they had been responsible of financing in the first place. This meant that allocation did not necessarily follow efficiency criteria.

The programme was in some ways similar to the Marshall Plan that helped Europe recover after World War II. The outcome in Tanzania was not as good, though. It was not yet realised that many of the industries were obsolete, and that new investment would be required to make them competitive.

(ii) Open General Licence (OGL)

The OGL system was established in the early 1980s to provide a non-administrative system of allocation of foreign exchange for importation of goods. The system was suspended in 1982 for shortage of foreign exchange. It was subsequently resumed in 1988, with joint financing by the World Bank and other donors. The objective was to support a market-driven programme of imports. Importers were free to import the goods they wanted, provided they were eligible under the OGL system. The minimum value of goods to be financed under the OGL facility was \$ 5000. Issuance of import licenses by the Bank of Tanzania was automatic, provided that the importers fulfilled all the conditions pertaining to the utilisation of the funds under the facility. Foreign exchange was allocated by way of an import licence and importers were required to make a down payment and settle the difference on arrival of shipping documents.

However, payment of counterpart funds eventually became a problem, as importers did not pay promptly, and the scheme had to be abandoned. A new non-administrative system of allocation had to be established in 1993. Attempts by government to collect the overdue counterpart funds in relation to OGL and CIS estimated at Tshs. 160 billion as at the end of 1992 have not been successful.

ESRF (1998) has evaluated the extent to which Tanzania has implemented recommendations from the SPA/JEM project with regard to CIS/OGL. The picture is mixed. There has been some progress, but for example in terms of debt recovery little has been achieved.⁴

⁴ The study found that 17 items whose implementation had either not started or was unsatisfactory according a study in 1996 had now been implemented satisfactorily. However, the six issues whose implementation was unsatisfactory then remain unsatisfactory to date. The issues that have been satisfactorily addressed are; control of leakage through bonded warehouses; determination of management/operations establishing criteria for bonded warehouses; improved supervision of transit trade (including tracking down of goods and conducting audit); Zanzibar leakage (tariffs have been harmonised and Zanzibar is now under the same Pre-shipment Inspection system); rampant exemptions have been reduced and the audit of IPC exemptions has been undertaken and the audit report is now with TRA for follow-up action. The issues on which little or no progress has been made include CIS debt recovery, enforcement of tax laws and other legal provisions, prosecutions and recovery of losses through exemptions.

The CIS debts amount to about Tshs. 115.6 billion owed by the government (Tshs. 12.5 billion), parastatals (Tshs. 72.6 billion) and the private sector (Tshs. 30.0 billion). Except for debts owed by government. Many of the outstanding CIS debts have been disputed. The amount of debt that is not in dispute is in the region of Tshs. 15.2 billion. Even these can hardly be collected as most debtors have tended to plead hardships. The study has examined

(iii) BOP/Budgetary Support.

In 1993, the government introduced a new system of importation as one of the measures adopted under liberalisation of foreign trade. The system provides for importers to declare imports by filling in an Import Declaration Form. Donors, through a Special Programme for Africa (SPA), agreed to disburse BOP import support through a reimbursement method. Under the system, expenditures incurred from the country's own foreign exchange are reimbursed upon presentation of specified import documents. After reimbursement, the Bank of Tanzania promptly pays the equivalent in Tshs. to the Treasury. The agreement between Tanzania and the USA requires the Bank of Tanzania to deposit the counterpart funds to a USAID account maintained with a local commercial bank. The Bank of Tanzania then sells the foreign exchange arising from donor resources to commercial banks in the Inter-Bank Foreign Exchange Market. This system has resolved the problem of non-payment of counterpart funds to the government.

In 1998 donors who were active in providing BOP import support through this system were the UK, Netherlands, EU, ADB, and USAID. In 1993/94 a total of 99.4 per cent of pledges was disbursed. The period 1994/95 to 1995/96 experienced low disbursement of about 30% as most donors withheld disbursement. Thereafter disbursement rates picked up to 58% and 50.4% in 1996/97 and 1997/98, respectively (Mutalemwa, Noni and Wangwe 1998).

(c) The role of debt rescheduling and debt alleviation

Tanzania's external debt has increased from US\$ 4,969.9 million in 1986 to US\$ 7931.2 in 1997 - an increase of 59.9 per cent. Actual debt service decreased from US\$ 303.0 million in 1989 to US\$ 122.0 million in 1990, then increased to US\$ 233.0 million in 1997 and dropped again to US\$ 173.8 million in 1997. Between 1986 and 1997, actual debt service was on average 50 per cent of scheduled debt service and, as a result, debt arrears accumulated from US\$ 664.0 million to US\$ 3,227.0 million during that period.

(i) Paris Club

Between 1986 and 1997 Tanzania has been to the Paris Club five times. The first meeting took place in 1986 and the second was held in 1988. The third, fourth and fifth meetings took place in 1990, 1992 and 1997, respectively. At PC I, Tanzania obtained terms under which 97.5 per cent (US\$ 722.9 million) of eligible debts in arrears were rescheduled. PC II and PC III gave Tanzania the opportunity to benefit from Toronto Terms, which provided for 33 per cent debt reduction. Under PC II debts worth US\$ 22.3 million were cancelled and US\$ 373 million rescheduled. Debts worth US\$ 18.7 million were cancelled and debts worth US\$ 199.4 million rescheduled within the framework of PC III. At PC IV, the Enhanced Toronto Terms were

the performance in CIS debt recovery and observed that the progress report submitted by TRA to the Treasury showed some progress albeit modest. Until December 1997, a total of Tshs. 15,137,003,802/= had been collected. The collection represents 9% of the total amount owing. The study could not establish any substantial collections made worthy reporting during the last six months in 1998. Reasons for this poor performance include primarily shortcomings in the legal framework and inadequate information and documentation. Disputes relating to interest rates and exchange rates adopted in the recovery of the debts have also contributed to delays in effecting payments.

applied and debts worth US\$ 182.8 million were cancelled and those worth US\$ 458.3 million were rescheduled. Under PC V, the government received the Naples Terms. This made it possible for debts worth US\$ 1000 million to be eligible for consideration for cancellation and those worth US\$ 700 million to be rescheduled.

(ii) HIPC

The Highly Indebted Poor Countries initiative, HIPC, was established in 1996 to address multilateral debt. It lays down a set of criteria for providing across the board debt relief. Tanzania is one of the countries potentially eligible for HIPC support, but it takes time before the pre-conditions for HIPC debt relief can be applied. According to established criteria, Tanzania will not qualify for HIPC for at least three years more, but the government has been trying to bring the completion date forward (see below).

(iii) Multilateral Debt Relief Fund (MDF)

In July 1998, the government took the initiative of setting up a Multilateral Debt Relief Fund (MDF) which is intended to assist in servicing debt obligations to multilateral financial institutions (MFIs), i.e. the IMF. Disbursement of funds is based on actual debt obligations that matures during a specific period. Funds disbursed under the system are deposited into a special MDF account and payments are made when the debt obligations fall due. The budgetary savings arising from this arrangement are to be used by government to enhance expenditures in social sectors, namely health and education. Countries that have shown particular interest in contributing to MDF are the UK, Sweden, Ireland, Denmark, Norway, Finland and the Netherlands.

(d) Non-financial aid

(i) Technical co-operation

Between 1976 and 1996, the volume of technical co-operation (TA) resources to Tanzania increased by more than 12 times from US \$ 21.4 million in 1970 to a peak of US\$ 266.7 million in 1995 (see Table A7 in the Appendix). The share of TA in total foreign assistance, which was 56 per cent in 1970, had dropped to 19 per cent by 1975. It rose to 29 per cent in 1985; and stabilised at around 30 per cent in the 1990s.

Technical assistance has mainly been provided as part of particular projects or programmes. In that form it did not address the wider objective of institutional capacity building. Projects have been usually approved by donors on condition that they would be executed by special project implementation units often staffed by highly paid expatriate personnel and selected local experts. This is driven by the urge to speed up implementation though it frequently sets up parallel

management units which duplicate the functions that can be performed by existing local institutions. In fact, donors go as far as managing the funds themselves.

The behaviour of bilaterals differs little from that of multilaterals in their attitude of doubting the efficacy of local capacities. The difference is that multilaterals are bound by stricter rules regarding procurement that ensure that GOT manages the funds and selection of consultants and experts.

A fundamental problem is that there has been no clear government policy on the role or limits of TA. The government policy is so undefined that responsibility is scattered among five ministries, with uncoordinated procedures for determining priority needs, recruiting expatriates, issuing immigration visas and work permits, extending contracts, training of local counterpart/replacement personnel, negotiating donor funding and evaluating expatriate performance (Mutalemwa, Noni and Wangwe 1998). Following longstanding criticism of both donors and GOT over this matter, which culminated with the Helleiner Report of 1995 and commitment in 1997 to do something to rectify the situation, the Government has finally decided to address the problem in a systematic fashion. It has drafted a policy with wide ranging proposals to restore better use of external resources allocated for TA recruitment and enhancing ownership by GOT in the management of these resources. Helleiner asserts in his latest assessment report (March 1999) that donors have started to provide more information upon request concerning their direct expenditures on TA.

(ii) The role of NGOs and similar institutions in transmission of ideas

The growth of the NGO community in Tanzania has been spectacular. While they were about 200 in the mid-80s, by mid-1997 about 8400 NGOs had been registered. The unprecedented growth of civic organisations has made it possible for them to assert themselves more forcefully. They work in coalitions, or individually, to lobby for change; as in the recent case of the movement to influence the Land Bill. Women organisations, which make up a large percentage of all NGOs, have been especially active in this regard. They have been particularly involved in lobbying for legislation to reform laws pertaining to inheritance, domestic violence, land reform, children's rights and child abuse. In this struggle they are not influenced by external assistance as such, although some of these issues have currently become transnational.

The growing strengths and influence of NGOs and other civil society associations has not happened without conflicts. The government has sought ways to contain them or control their actions; it has been obliged to temper its concern and to consult them more frequently. More recently, it has been trying to help them to create an apex body to create a convenient vehicle with which it can dialogue. In general, independent policy analysis groups have begun to speak out directly or through the media and the government (and the donors) are starting to listen carefully to them. A recent example is the work of the UK-based NGO, OXFAM that jointly with a local NGO, the Mwalimu Nyerere Foundation, has provided for a national debate on Tanzania's external debt and possible options. The debate has contributed considerably to the establishment of the Multilateral Debt Relief Fund, with pledges and financial contributions of several bilateral donors.

2.3. Relations to multilateral institutions

Tanzania has had a mixed relationship with the major multilateral institutions – the World Bank and the International Monetary Fund (IMF) – over the years. During the seventies, admiration for the integrity of President Nyerere and the independent development path he was trying to forge, led the Bank, in particular, to provide significant financial assistance to Tanzania. By the end of the decade, however, it was clear that the country was facing increasing economic difficulties due partly to policy mistakes. Both the external and internal accounts were in imbalance. The crisis worsened as a result of several shocks (the break-up of the East African Community in 1977, the war with Idi Amin's Uganda in 1978/79, the end of the coffee boom in 1978, and the second oil crisis in 1979). It seemed inevitable that some of the Arusha declaration principles of socialism would have to be abandoned if the economy was to recover.

The period from 1978-82 marked a period of difficult relationships with multilateral institutions. Tanzania attempted a number of home-grown economic reforms described elsewhere in this paper (Section 3). These had very limited success as the proposed programmes were too limited and unable to attract foreign financing. Increasingly, bilateral donors who had always been supportive of Tanzania were making their financial support conditional on Tanzania making a deal with the IMF.

Finally in 1986, Tanzania reached agreement on a Stand-by Arrangement with the IMF. This agreement paved the way for increased lending by the World Bank and several other donors. While resuming, the level of bilateral aid did not recover to pre-1986 levels in real terms. Consequently, as discussed in section 2.2 above, compared to the seventies the multilateral donors have become much more important accounting for over 90 percent of effective development loans by 1996 (See Table A5 in the Appendix).

The World Bank has taken a lead in mobilising aid through the Consultative Group Meetings. In December 1997, it was held in Dar es Salaam for the first time and regarded as generally successful (Helleiner, 1999). Locating the CG in Dar enabled the President and the entire cabinet to participate. It also allowed trade unions, non-governmental organisations (NGOs), and the private sector to interact with the donor community. Unfortunately, this positive step towards ownership was setback in 1999. The donors voted (narrowly) to hold the CG in Paris, arguing that they would be better able to attract high level representation.

The need for donor co-ordination has been obvious to donors in Tanzania for a long time. Still, efforts to actually co-ordinate aid from different donors have mostly not progressed beyond the organisation of meetings, where they exchange information with each other and the government. Now the World Bank has taken a lead in renewed efforts on donor co-ordination, co-chairing the monthly joint government-donor meetings with the UNDP. In addition, through the Special Program of Assistance for Africa (SPA) and the World Bank/IMF Annual Meetings, the Bank actively consults with the other donors. Given the importance of other donors (notably the Nordics) in Tanzania, however, there seems to be more of a collaborative approach. Nonetheless, it appears that still significant duplication exists among donors and little progress in standardising reporting systems and so on. For example, several donors are supporting capacity building in the Ministry of Finance with little attempt to co-ordinate such support. Individual donors have their own parallel project management systems which essentially by-pass the

official channels for aid management. Indeed, the 1999 *Public Expenditure Review* estimates that more than 70 percent of aid did not enter through the budget in the last fiscal year.

Aid sometimes does not tie in national priorities or development plans. Attempts at sector-wide approaches (in education and health) are currently attempting to resolve some of these problems. The recent multi donor-government review missions in these sectors are an encouraging sign.

The World Bank is encouraging government ownership of major components of the macroeconomic policy dialogue. In 1999 for the first time, the government drafted the *Policy Framework Paper* and made significant contributions to the *Public Expenditure Review*. With respect to the former, while the PFP took longer due to the need to consult, it seems to be generally agreed that this new approach resulted in greater ownership by the government.

World Bank loans during the reform period initially focussed rehabilitation of the country's dilapidated infrastructure. Thus, there was lending for roads, power, and telecommunications. Tanzania has had several adjustment loans from the World Bank and IMF (see Table 1). A multi-sector rehabilitation loan supported macroeconomic adjustment in 1986. Sectoral adjustment was supported through loans for industrial reform (1988) and the agriculture sector (1990). The most recent adjustment lending was the Structural Adjustment Credit in 1997. Loans for improved public sector management and for some reforms in the judiciary appeared relatively late. A Public Sector Management Project was approved in 1993, and a Financial and Legal Management project to "improve the legal regulatory framework and to improve the administration of justice" was approved in 1992.

General conditionality in Bank lending has been marked by increased cross-sector conditionality and the use of multiple floating tranches. For example, the most recent adjustment credit consists of five tranches. The first tranche was released when the cross-sectoral conditions of credit effectiveness were met. The other four (floating) tranches were designed to be released when specific sectoral conditions were met for (i) development expenditures and the social sector; (ii) divestiture of NBC; (iii) parastatal reform; and (iv) petroleum sector liberalisation. Conditionality in the Bank adjustment credits has focussed on numerical targets. The current adjustment program targets a *fiscal balance* of 0.9 percent (after grants) of GDP before Board presentation. For example on *trade*, earlier adjustment lending targeted the number of items on the negative list for imports, as well as the number of tariff rates and their level were conditions. In some cases, the conditions have focussed on the preparatory work required for effective implementation. This includes the issuance of terms of reference for consultants, establishment of particular units, drafting of action plans, revision of legislation and so on. The IMF targets have tended to be more strictly numerical and focussed on macroeconomic indicators such as inflation, money supply growth and so on.

Table 3: Loans from the World Bank 1986-1999

	Principal (US\$ millions)	Disbursed (US\$ millions)	Approval Date
Roads Rehabilitation.	50	58.7	6-May-86
Power Rehabilitation/Energy	40	44.3	6-May-86
Multi-Sector Rehabilitation I a/	50	54.5	20-Nov-86
Multi-Sector Rehabilitation I	46.2	48	20-Nov-86
Telecommunication II	23	24	28-May-87
Multi-Sector Rehabilitation I	30	30.1	19-Jan-88
Multi-Sector Rehabilitation	26	25.4	19-Jan-88
Agriculture Exports Rehabilitation I	30	17.7	29-Mar-88
National Agriculture & Livestock	8.3	8.6	13-Dec-88
Industry & Trade Adjustment Credit	135	129.2	13-Dec-88
Industry & Trade Adjustment Credit	12.5	12.6	13-Mar-89
Agriculture Extension	18.4	19.3	21-Mar-89
Tree Crops	25.1	19.2	27-Jun-89
Industry & Trade Adjustment Credit	10.3	12	12-Oct-89
Ports Modernisation	37	31.7	27-Feb-90
Health & Nutrition	47.6	42.5	6-Mar-90
Agriculture Adjustment Credit	200	207.6	29-Mar-90
Education Planning & Rehabilitation	38.3	33.8	22-May-90
Roads I	180.4	157.6	31-May-90
Agricultural Adjustment Credit	16.1	16.4	13-Dec-90
Petrol Rehabilitation	44	29.4	15-Jan-91
Railways Restructuring	76	48.3	13-Jun-91
Urban Sector Engineering	11.2	10.9	30-Jul-91
Financial Sector	200	211	14-Nov-91
Agricultural Adjustment Credit	11.3	11.8	26-Nov-91
Engineering Credit	10	10.8	14-Jan-92
Forest Resources Management	18.3	18.5	11-Feb-92
Financial & Legal Management Project	20	15.5	9-Jul-92
Financial Sector	11.3	11.4	23-Dec-92
Telecom III	74.5	47.1	27-Apr-93
Power VI	200	164.5	6-May-93
Public Sector Management	34.9	32	10-Jun-93
Agriculture Sector Management Project	24.5	15.2	20-Jul-93
Roads II	170.2	20.4	7-Apr-94
Mineral Sector Development	12.5	9	28-Jul-94
Financial Institutional Development	10.9	10.3	3-Aug-95
Urban Sector Rehabilitation	105	15.9	23-May-96
National Extension Project Phase II	31.1	9	11-Jul-96
River Basin Management	26.3	6.7	11-Jul-96
Lake Victoria Environment.	10.1	1.7	30-Jul-96
Structural Adjustment Credit I	125	49.4	20-Jun-97
Structural Adjustment Credit I	3.9	3.8	20-Jun-97
Human Resource Development 1	20.9	5	7-Oct-97
Structural Adjustment Credit I	2.6	2.5	15-Dec-97
Agriculture Research	21.8	2	29-Jan-98
Tax Administration	40	0	30-Mar-99

Source: World Bank Project Files.

* Boldface indicates policy-based loan.

a/ Projects appearing more than once reflect the release of multiple tranches.

Tanzania seems to be facing more difficulties meeting the conditionality criteria for structural reforms. Privatisation and reform of the financial sector have been sticking points in the dialogue with the IMF and World Bank. Targets have been missed on a number of occasions. For example, financial sector reform (involving the privatisation of a number of state-owned banks) has dragged on since 1995. These difficulties appear to be partly linked to political pressures and partly to inadequate technical capacity to implement the agreed-upon reforms.

Multilateral lending has worked effectively for those aspects of liberalisation that were administratively less complex. For example, agriculture, foreign investment and external trade have all been progressively liberalised. Less progress, however, has been made in those areas that are more administratively complex, and which require more frequent monitoring. For example, the privatisation of the National Bank of Commerce and civil service reform has taken longer than anticipated. Other general issues that have contributed to slow and unsatisfactory progress in the implementation of projects include: the lack of counterpart funds for IDA financed projects, cross-sector conditionality, and difficulties with Bank procurement procedures. Overall, however, disbursement ratios have risen for the Tanzania portfolio and they are roughly at par with the World Bank average.

The multilateral organisations have been pushing the basic structural adjustment agenda in Tanzania as in other African countries, and during the 1990s the policy makers have largely accepted this. They have also supported local research foundations (such as ESRF and REPOA) financially or through consultant contracts, and also this may be ultimately contributing to the generation of ideas. In Tanzania, it seems the university (notably the economic faculty) was very influential in generating new ideas for reform. Economic and sector work (ESW) by the World Bank on Tanzania has become increasingly infrequent, as projects have overwhelmed the country program. The amount spent on ESW has declined in each of the past four years.⁵ There now seems to be a renewed effort to carrying out more economic analysis but it remains to be seen if this translates into more resources for that work. One exception to this trend is the collaborative Country Economic Memorandum/Poverty Assessment in 1996, which was well-funded and involved UNICEF, the World Bank and bilateral donors.

2.4. Relations to bilateral donors

During the reform period (1986-96), Tanzania has been critically dependent on DAC bilateral donors. As noted in Section 2.2, the socialist bloc and China, which became important donors in the 1970s have due to internal political and economic problems reduced drastically their aid programmes to Tanzania during the 1980s. Within the donor group, one may distinguish three categories of donors:

- 1) The Nordic countries, most of which have Tanzania as the main recipient of aid and which have a long tradition of consulting among themselves on aid issues and of co-ordinating their actions at head-office and local levels;

⁵ It is hard to assess how significant a trend this is as World Bank procedures for estimating cost only recent moved to dollar-budgeting.

2) A category of major Western industrial countries (in the DAC group), including Germany, the Netherlands, Canada, the US, the UK, Italy, Japan, Belgium and (particularly for Tanzania) Ireland; and

3) A large number of the small donors such as, the former Socialist block, China and the bilateral Arab Funds.

Since the early 1970s, Tanzania has had a very special relationship with the Nordic countries, in particular Sweden. This country has consistently provided substantial resources to Tanzania and positioned itself on top of the list of the country's aid donors. By 1983 Tanzania's relations with practically all the bilateral donors were under great strain. The fact that even the strongest supporters scaled down their assistance contributed to the change in country's policies.

The view among the bilateral donors today is that Tanzania is trying to do the right things in terms of policy reform, but that the administrative capacity and competence is very low. This means that they are reluctant to shift responsibilities to the recipient government, although they in principle realise that this is necessary for aid to be effective and long-term sustainable. Donors are reluctant to shift too much of their efforts into building administrative capacity, since this might risk their conventional project's management and success. The Swedish slogan is now "Partnership in Development", but much remains to be done before this can become a reality on the ground. There is in any case an improvement in terms of policy-making capacity, in so far as it is now more often the government that writes policy and position papers spelling out the priorities. Previously Ministries often referred to World Bank documents when asked about the government policy.

There is work underway to make comprehensive sector programmes in education, health, roads, water and local government, but how well these will function will depend on the one hand on the capacity of the government (particularly at the local level) and on the willingness of donors to change to another type of control. The latter will depend on the former, which means that it is hard to be optimistic about thing changing very much in the short run. Donors will probably still have a high degree of control of their own slices of the "joint" programmes to make sure that the activities are in accordance with their list of priorities and that the money can be accounted for. It is an eternal dilemma in the aid business, that the donors one the one hand want to give control to the recipient government but at the same time has to report to their home constituencies, particularly the Parliament, about the use of the money allocated to aid.

This also puts a brake on efforts of co-ordination. Some donors are more willing to go down this road than others are, but it is very hard to believe that all will agree to be co-ordinated. And this means that aid dependence will persist. At present there is an ambition that the recipient should take a more strict line with the donors to make sure that aid fits in with the domestic priorities, but in practice there is still a very flexible attitude to donor demands. Tanzania does not say no to donors who are willing to put their money into a project, although it may be out of line with the priorities of the government and may be hard to finance long-term.

An efficient partnership or efficient local control requires a well-run bureaucracy, and that in turn requires a competent staff and organisation. As long as the government pays very little

relative to the private sector, it will find it hard to retain or recruit the best people. On top of this there is a virtual stop on new hiring, which means that there is little new blood coming into the system. Donors are involved in various topping-up exercises, either to key personnel or key units to bring about a more efficient organisation, but this in turn complicates the general overhaul of the civil service. The government has set down principles of civil service reform including gradually increasing real wages, but already they are behind on the latter count. Given the constraints of the cash budget and the limited ability to collect taxes, it will be very hard to achieve the goals set out in the plan.

One aspect of partnership or increased ownership is that the recipient should shoulder a large part of the recurrent costs of a certain project. Typically it is written in the initial agreement that a certain percentage is to be paid by the government and that this will gradually increase. It is the case, however, that in reality the government is willing to sign agreements like this although it should be clear that they will not be able to pay up in the end. The assumption is that they deal with that issue as it occurs, and typically the donor does not withdraw from the project but tries to find some way to salvage their project anyway. Thus, there is a tendency towards hypocrisy on both sides of the table.

It is also hard to co-ordinate within the government. In the case of the education programme the co-ordination exercise involves as many as nine ministries, which suggests that in the end it will be hard to get a simple and efficient management structure. Thus, both on the side of the donors and the government, there is a large variety of players and interests involved, and in a weak system as the Tanzanian one it will be hard to get the bureaucracy to work well. Also in a wide-spanning aid relationship such as Tanzania's, it should not be surprising to find the interests of players on both the donor and recipient sides overlapping or inter-locking thus evolving into relationships that are outside the officially established channels.

One early step in the attempts at changing the relationship between donors and the Government of Tanzania was taken in September 1996, when the Nordic countries Denmark, Norway, Finland and Sweden entered into a Partnership Agreement with GOT. In this a list of fundamentals were specified with regard to the necessity for the GOT to produce a policy platform, adherence to democracy and human rights, fight against corruption and for good governance, emphasis of macroeconomic stability and domestic resource mobilisation, and the focusing of government activities on core functions, while the civil society and the private sector would complement this. Five general principles concerning the form of collaboration is specified (Embassy of Sweden, 1998, pp. 4-5):

- a) the programme must be fully owned by Tanzania and formulated according to Tanzania's visions and policies,
- b) Tanzania is responsible for the programmes and accountable for resources provided,
- c) There should be shared financing with the Tanzanian share increasing over time,
- d) There should be a move from discrete projects to sector programme support,
- e) The activities supported by the Nordic countries should be only those which the government of Tanzania gives priority.

These principles obviously represent a radical break with what has been the practice before, but the actual practice is of course still a very long way from the above. Since for example Sweden

has a long list of goals that must be met for aid to be considered at all, it is somewhat hypocritical to write that the programmes must be fully owned and wholly formulated according to Tanzanian priorities. When the government formulates plans, it certainly keeps an eye on what the donors want to hear. It is only when transfers are in a general form, e.g. via transfers to the Multilateral Debt Relief Fund that one could really talk about ownership. Still, other forms of collaboration maybe characterised as partnerships, although the donors is in a much more powerful position the recipient government. The donor can always threat to withdraw its money, while the recipient government has no such course of action open to it.

In contrast to the Nordic countries which have been working behind the scenes to provide encouragement and support to Tanzania, the next category of major donors, led by the US, the UK and Germany, have traditionally taken a hard line in their relations with Tanzania. They have tended to identify more strictly with the IFIs and, to a greater degree, to trigger their aid disbursements more in line with World Bank and IMF judgements.

However, support for reform considerations are also balanced against a complex set of foreign policy interests. For instance, it has been argued that during the second half of the 1980, Tanzania with its role as a front line state supporting independence for countries in Southern Africa and a vocal critic of Western countries' continued economic ties with South Africa, did not do well in aid terms with the UK under Margaret Thatcher. Today, however, following the recent change of government, in the UK, under Labour the country's aid disbursements to Tanzania have doubled over the last two years.

Of major significance also has been the influence of domestic economic interests of the donors. For instance, it has been reported that in the late 1980s American pressure on Japan to reduce her balance of payment surpluses led to a major increase in Japanese aid to developing countries, including Tanzania. Subsequently, as a special indication of Japan's attempt to shape an independent African political and economic co-operation policy, she hosted the first Tokyo International Conference on African Development (TICAD I) in 1993 and TICAD II in 1998. The other main objective of TICAD is to highlight Africa's development problems and prospects, thereby raising their dimension to a global level worthy the attention of the international community. Similarly, France has in recent years been reported to have plans for a significant expansion of its aid programme to Tanzania (and similar countries) as a counterbalance to the UK's (and American) efforts to expand its operations in francophone Africa. As a former colonial power, Germany has maintained a special interest in Tanzania and has, among other things; tended to fund some projects that have special features of historical connection. The Arab funds have continued to provide concessional lending without much policy linkage, except when they are involved in cofinancing with the Bretton Woods institutions or the AfDB. In 1988/92, Italian aid to Tanzania rose sharply mainly because of a major increase in support of projects operated by Italian contractors.

Tanzania's relations with donors came under great strain in 1994/95 towards the end of the government of President Mwinyi. But recent assessments indicate a substantial improvement in donor relations. A major factor that has contributed to this improvement has been cited before in reference to the Helleiner Report of June 1995. Following an extensive discussion of the report,

an agreement was reached in January, 1997 between the donors and the government on a new mode of interaction based on a partnership approach (see Section 2.5

Many donors are cautious, slow, and reluctant or unable to make the shift, especially making contributions to "basket funds" in support of these sectoral programmes. The tendency is for each donor to cling on their particular area of specialisation, e.g. the USA on capacity building for private sector development, the Irish on integrated rural development; and the Swiss on structural adjustment.

However, an overall assessment is that to-day many bilateral donors see a great potential in Tanzania. While they recognise that the country's old structural problems like an inefficient civil service, a slow rate of project implementation and poor accountability in project management still exist, they seem to have been encouraged by an improved policy environment, and perceived willingness and determination to implement reforms.

2.5. Donor co-ordination - transition in slow-motion

Tanzania is at present in the forefront in the discussions on the change of the aid relationship into a partnership between donors and recipient. Sida (1999) has made an informal evaluation as to what has been achieved, since the so-called Helleiner Workshop in January 1997. The study reviews the list of aims as set out in the Agreed Minutes at that meeting:

- 1) The first point was that information about planned aid actual aid flows should be provided by the donors to the government of Tanzania. This has proved to be very difficult to achieve due to very different ways of accounting for flows among the various donors. Attempts are again made in this year's PER.
- 2) Donors should follow GOT's priorities for development projects and seek to exit from non-core activities. Tanzania claims that the number of projects has been very significantly reduced from about 1500 to about 500-600, but the information is scanty. It should also be noted that development expenditures in 1997/98 were 60% below target. This suggests that the efficiency of the system in the absorption of resources still is poor. The shortfall may be due to for example the lack of counterpart funds, failure to meet conditions for the project or problems in implementation.
- 3) A couple of sectors (education and health) were to be chosen as test cases for aid co-ordination modalities. There have been steps in this direction (see e.g. Tanzania, 1999), but disagreement among donors as to how one should proceed has slowed down the process. Still, the education sector SDP has just undergone a very comprehensive appraisal by joint appraisal teams composed of foreign consultants appointed by donors who are active in supporting the sector and local consultants appointed by the Ministry of Education (total of 60 consultants). These consultants spent two weeks to make the appraisal and submitted the report to the Ministry. The report will provide input into the donor-Tanzania negotiations. This is an example of joint action in the policy reform process.
- 4) The PFP should be made public and the government should consult with the civil society. The PFP has been made public, but so far the consultations with society have not taken off.

- 5) One should integrate donor discussions on debt relief and development assistance. Here a Multilateral Debt Relief Fund has been established, although it is a bit unclear as to what has been achieved in terms of integrating the discussions.
- 6) One should develop the planning and financial management capacity in the Treasury and the Planning Commission. There are several programmes underway that seeks to build capacity. The further role of the Planning Commission seems unclear, though.
- 7) Tanzania should take the lead in the preparation of PFPs and PERs. This has happened. Tanzania has taken a lead role in the drafting and discussion of the Policy Framework Paper. The relevant ministries are more involved than earlier. The same can be said about the Public Expenditure Reviews. The work is now done on three levels. First, there is a steering committee that is overseeing the process at the policy level. This consists of the PSs in the relevant ministries and is chaired by the PS in the Ministry of Finance. Second, there are technical advisory groups that oversee the implementation of the technical studies and the PER process. This group consists of senior officials from the relevant ministries and is chaired by the Deputy PS in the Ministry of Finance. Third, there is a working group to monitor and co-ordinate the progress on the technical studies. Also this is chaired by the Deputy Permanent Secretary in the Ministry of Finance and it also includes key personnel from the relevant ministries and representatives of donors and research institutions. This group has met twice a month during the process. There is also a small secretariat providing logistical support and other help. This consists of representatives from the Ministries and the World Bank. The approach is very participatory and is open both to ministries, the research community and donors. The decentralisation of the PER, CAS, SAC and CEM to the local World Bank office seems to have helped to achieve a more consultative approach. The fact that the highly respected professor Benno Ndulu is located at the World Bank offices in Dar es Salaam has also helped to improve the local control and access.
- 8) Information, accounting and reporting of assistance should be standardised. This has not been done.
- 9) Best practice projects in Africa should be collected and analysed. This has not been done by the government, and maybe it should not be its job to do so.
- 10) The capacity of the government to manage should be enhanced and the donors should be willing to transfer more of responsibility to the GOT. This is an ongoing process, where for example Sweden is taking a lead. The process is de facto very slow, though. There is major concern about the problems of corruption that makes it hard to transfer responsibility. Unless further efforts are undertaken to control corruption and improve transparency, progress will be very difficult to achieve.
- 11) With regard to the relationships with the Civil Service it was emphasised that parallel or topping-up arrangements should be minimised. Again, not much has happened apart from report identifying and discussing the problem.
- 12) Co-ordination meetings should be rationalised. The Ministry of Finance has started quarterly sectoral reviews in some sectors (health, education and roads) to deal with the donors in a more co-ordinated way.
- 13) It was also suggested that the use of Technical Assistance should be reviewed. This has not been done.
- 14) The recommendations should be followed but by a joint committee. A Development Forum has been set up that has recently started to function after being dormant for a long time.

15) Further stocktaking should take place at the CG meetings. There was stocktaking in the CG meeting of December 1997, which was held in Dar. The venue of the CG also allowed broader participation of Tanzania side in the CG. The meeting of 1999 was also supposed to take place in Dar, but the donors preferred to meet in Paris.

Helleiner has recently been back to Tanzania to review of the progress achieved done in the implementation of agreed actions. He finds that there has been a significant advance (Helleiner, 1999), especially in establishing government leadership in macro-economic management. However, this review also notes that, progress at the sectoral level has been slow. A major test of the new relationships has been the introduction of sector-wide programmes in education, health and a refurbished road sector. This calls for a major change from the traditional directly-controlled project approach, the timely provision of complete information, increased emphasis on sector-wide policies (and the capacity and willingness for frank dialogue on them), the turning over of some budgetary control and procurement functions to a local authority and, above all, the acceptance of government leadership and ultimate responsibility for the sector programme.

The conclusion must be that very much remains to be done for the process to move forward. The ideas from the Helleiner workshop make sense, but there are problems both on the donor and the government side. Still, a general observations that one may make is that Tanzania is rather good at launching new initiatives and setting up interesting plans, but it has very poor capacity in implementing them and to live by the new principles once they have been launched. This is largely true in the past when such initiatives were not backed by institutional arrangements to keep the implementation going. With the current emphasis by the Third Phase Government on institutionalisation of initiatives taken there seems to be a better chance of performing less poorly than in the past. Transition in Tanzania is very far from a “big bang” approach. It is rather transition in slow motion. This is of course a concern, because if there is not take-off the system may eventually implode.

3. Policy reforms and institutional development

3.1. Introduction

This second part of the study analyses the causes and processes of the reforms. However, before entering into this discussion we need to provide a brief background of the events leading up to the Tanzanian economic crisis. This is provided in Section 3.2. We will then in Section 3.3 provide a chronology of the process of policy reform since 1979. Here we identify the main phases in the donor-recipient relationship. Then in Section 3.4 we more specifically look at inflation and fiscal policy (macroeconomic management) and trade policy (an example of structural policies). The macroeconomic and structural policies considered here have been shown in empirical studies to affect developing countries growth (Sachs and Warner, 1995). But successful development also depends on institutional development, so in Section 3.5 we discuss institutional reform such as the privatisation process and public sector management.

3.2. From the Arusha Declaration to Crisis

Following independence in 1961 the government concentrated on the Africanisation of the public sector, but otherwise there was continued reliance on the private sector. Industrial development was promoted by import substitution policy, but the economy still remained fairly open. It continued to be highly dependent on revenue from commodity exports. During the period 1961-1967 per capita incomes grew by 2% per year, the highest rate of any period in independent Tanzania (see Table 4). This was a period of macroeconomic stability with low inflation and a satisfactory balance of payments, and capital formation increased steadily between 1963 and 1967.

However, the government was not content. It was concerned about the apparent increase in inequalities, and found industrial growth to be below expectations as was the inflow of external resources. President Nyerere felt that a new strategy was necessary to speed up development.

Table 4: Data for the Pre-Arusha period 1961-1967

	1961	1962	1963	1964	1965	1966	1967
Per capita income growth %	-7.5	4.3	1.2	3.6	-0.2	9.9	1.8
Population growth %	2.8	2.8	2.9	2.9	2.9	3.0	3.0
Urbanisation %	4.8	4.9	5.1	5.2	5.3	5.6	5.9
% of labour force in agriculture	92.4	92.1	91.9	91.7	91.4	91.2	90.9
Monetary growth %		21.7	25.6	-15.2	31.8	476.7	13.1
Gross investment % of GDP	13.7	11.6	10.7	12.0	13.9	15.1	18.9

Sources: Compiled by Bigsten and Danielsson (1999). Income and investment data from the Bureau of Statistics, Dar es Salaam. Other data from World Development Data 1998.

The Arusha Declaration of 1967 was a watershed in Tanzanian political and economic history. The government abandoned the cautious policies pursued so far and launched the strategy of "African socialism". There was a concern that external dependence was too high, and that it was necessary to create an internally integrated economy. The necessary structural transformation was to be facilitated by increased state control.

By the early 1970s, the Government had consolidated its hold on most parts of formal economic activity. Banking and large portions of the industrial sector had been nationalised, the bulk of international trade and private retail trade had been confined to state agencies, and market prices had largely been replaced by administered prices. A foreign exchange allocation system was developed in response to the balance of payments crises of the early 1970s, and a National Price Commission was established to set prices of a vast range of commodities. By the mid-1970s, most of the rural population had been forced to resettle into "Ujamaa" villages as part of a strategy to promote co-operative agriculture, and monopoly government marketing boards had replaced peasant marketing co-operatives. In 1974 the Government began to implement its Basic Industries Strategy (BIS) of import-substituting industrialisation, but it soon had to postpone it in the balance of payments crisis that accompanied the first oil shock. The external position improved dramatically during the coffee boom 1975-1978, and the Government revived the BIS in a decision that came to dominate the allocation of foreign exchange and the pattern of domestic investment. We see in Table 5 that investment were high throughout the 1970s, although it declined somewhat in 1973 -75. The investment programme was state-led, but a lot of the investments undertaken in the 1970s were donor supported. The crisis was heralded by the break-up of the East African Community in 1977 and the rapid depletion of international

reserves following the end of the coffee boom in 1978 and an abortive import liberalisation that same year.

There was disagreement among donors in the second half of the 1970s about Tanzania, where several bilateral donors were supportive, while the World Bank and the IMF became more and more critical of policies with regard to agriculture, domestic pricing, the BIS, and the exchange rate (Collier, 1991). Since President Nyerere's position was strong both domestically and with many bilateral donors, he was able to take a hard line with the IFIs.

During the 1968-1978 period per capita incomes growth was still positive at 0.7% per year (see Table 5). The growth was led by the public sector, while Tanzanian export, which continued to be dominated by traditional agricultural exports such as coffee and cotton, stagnated. The policy environment in Tanzania was hostile to both traditional and non-traditional exports. The rewards to peasant production for export were undercut during the 1970s by the government monopolisation of marketing, with inefficiencies driving down producer prices, the relocation of rural producers in the "villagisation" drive, the high effective protection of the import-substituting industrial sector, which turned relative prices in favour of urban areas, and the use of trade controls rather than exchange rate adjustment as a means of adjusting to external shocks. The weaknesses of the system had been concealed for a few years by the coffee boom bonanza, but when this ceased the inefficiencies of the economy became apparent.

Table 5: Data for the Pre-Crisis period 1968-1978

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Per capita inc. Growth %	2.1	-0.7	3.0	0.8	2.3	0.5	-0.5	2.9	2.3	-2.7	-1.9
Population growth %	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.1	3.1	3.1
Urbanisation %	6.1	6.4	6.7	7.4	8.1	8.7	9.4	10.1	11.0	12.0	12.9
External debt Million \$			212	284	407	619	900	1170	1380	1700	1970
% labour force in agriculture	90.6	90.3	90.1	89.7	89.3	88.9	88.5	88.1	87.7	87.2	86.7
Monetary growth %	17.8	9.2	12.0	18.2	17.7	18.2	22.1	24.4	25.1	20.2	12.6
Gross investment % of GDP	18.4	16.3	22.9	26.8	23.6	22.6	21.6	20.8	29.0	29.4	33.8

Sources: Compiled by Bigsten and Danielsson (1999). Income and investment data from the Bureau of Statistics, Dar es Salaam. Other data from World Development Data 1998.

3.3. Chronology of policy reforms 1979-1999

In Section 2 we presented basic information about the aid flows to Tanzania, while this section presents the overall pattern and phases of the reform process. We will indicate the distinctive periods of reform and we will also try explaining what has caused the changes between periods of reform and periods of retraction. We have identified five policy phases in the last 20 years in Tanzania and we discuss them in sequence.

1979-1982: Stalemate

After the collapse of the commodity boom of 1975-1978, the Uganda war (1978-79) and the second oil crisis in 1979, the economy was faced with very severe economic problems. As a response to this, Tanzania agreed to a stand-by credit with the IMF in 1979, but since it failed to observe the agreed budget ceiling the agreement was cancelled. During the discussion of the release of the second tranche the head of the visiting IMF mission was ordered to leave the country. The Minister of Finance, Mtei, was perceived by President Nyerere as being too close to the IMF and was removed. Mtei was succeeded by Jamal, who was less eager to reform the economy. Nyerere made a speech in which he criticised the IMF for trying to set itself up as the International Ministry of Finance and rejected their demands. Tanzania then turned to the World Bank for assistance, but although the Bank had been supportive throughout the 1970s it now refused to support the Tanzanian government. Then there was little communication for about two years until 1981, when the Bank indicated that it could provide quick-disbursing aid if certain policy changes were undertaken and an agreement could be reached with the IMF. The latter demanded at 50-60 per cent devaluation, a significant reduction of the budget deficit, removal or reduction of consumer and producer subsidies, positive real interest rates, and higher agricultural prices and import liberalisation. Some new measures were proposed in the National Economic Survival Programme (NESP) of 1981, which was essentially part of an application to the IMF.

The goals stated in the plan were to increase export revenue and to eliminate food shortages through various supply side measures and to reduce public expenditures. This was to be achieved by tighter state control of public expenditures and increased production. The plan was wholly unrealistic, and the IMF found it to be completely lacking. Tanzania anti-reform elements argued that the problems causing the crisis were external and not internal policy weaknesses. The government's position was that Tanzania was a structurally weak economy and that the remedies proposed, including the dismantling of the socialist structures and major cuts in social spending on education, health and water, would not help revive the economy. The government was not ready to accept to carry out significant reforms. This partly explains why NESP I (1981) and NESP II (1982) were more of exhortations than policy change documents.

Moreover, at this time there were very few senior officers in central ministries capable as a group to undertake independent macro-economic and sectoral analysis to generate new ideas and develop new programmes to address the crisis. Local intellectual capacity was not sufficiently available to engage in a meaningful debate with the IFIs and even to counter-balance the ruling party's inclinations towards maintaining the status quo. There was excessive reliance on a handful of expatriate advisors, most of who preferred to toe the party line. Sometimes, these advisors held divergent policy perspectives and it was a task to maintain harmony among them.

The academia at 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. To identify with the party could open up opportunities for accelerated promotions or for transfer to more remunerative positions in parastatal organisations or political structures. Because of a severe shortage of qualified people, such transfers were very frequent at the time and contributed to the lack of consolidation of intellectual policy groups within the Government or around it.

1982-1985: Hard internal debate

The country was now in a desperate situation with the exchange rate greatly overvalued and exports at very low levels. The bilaterals and the World Bank were trying to find some middle ground and sponsored a Technical Advisory Group (TAG) with well-known economists, who were asked to come up with some compromise package. It proposed a more moderate devaluation, but the government did not accept even this. The government used the report to produce its own reform package, which was a dilution of the policy changes, which were proposed in the TAG report. This revision was done by the Planning Ministry, then under Minister Malima who was basically anti-reform (1980-1992), although he later became more pro-reform (1992-94). The government turned to the Nordic bilaterals to fill the gap left by the IFIs, but by now also those were becoming increasingly critical and did not provide the extra funds. There was thus a steep decline in aid flows between 1982 and 1985, which was period of extreme economic crisis.

Still, a sign of some movement on the government side was the appointment in 1982 of the then PM Msuya as Minister of Finance: He was more aware of the need to mend fences with the IFIs. Together with Rutihinda, who was the PS in the Ministry of Finance at the time, he tried within the government to push for reforms. There were similar attempts at the Bank of Tanzania. Still,

the supporters of reform in the Ministry of Finance had to work hard to build up support for it within the government. There was at that time a large dominance of hard-line left-wingers in the Cabinet opposed to the reforms, with the Minister of Finance Msuya as one of the few advocates of reform. The Minister of Planning Malima was a leading opponent of the reformers, and he quickly brought in Ajit Singh from Cambridge to write a counterproposal to the reform plan. There was a head-on collision between Msuya and Malima, where the latter even wrote a memo to the President accusing the reformers of being “traitors”. The parastatal establishment was also a major stumbling block in the process, although some could see that devaluation would make it possible for them to improve their results.

It took time for the government to realise that parastatals were a problem. First, there were attempts to peg the desired exchange rate at a level, which was sufficient to clear losses of parastatals. This point was favoured very much in 1983 and 1984. Second, the extreme opposer of the reforms, Malima, submitted a paper to the ruling party suggesting that the problem of parastatals was rooted in the existence of the private sector. The private sector would have to be phased out in order to give room for parastatals to recover! Presumably he had in mind that private sector was doing harm to the parastatals through the deals they had with them (e.g. supplying them with overpriced goods and services).

Public opposition to the policies of the early 1980s was limited, and people rather chose to withdraw into subsistence or to find other ways to deal with shortages and regulations. Parallel markets emerged, as did illegal cross-border trade. The rapid expansion of the underground economy as well as capital flight undermined the tax base. Semi-public discussions were started at the behest of the reformers within government, and an informal network of economists from the University of Dar es Salaam as well as private consultants plus personnel from key ministries such as agriculture, transport, industry and trade and the Planning Commission was set up to provide a forum for debate and to increase the understanding of the politicians and the policy makers.

The strong political leadership made it possible to push through major decisions (or to reject others) without proper analysis and debate. Nevertheless, there were individuals of courage – notably Edwin Mtei or Cleopa Msuya – who could put forward reform ideas to the party hierarchy and the Cabinet. Naturally, such people faced major resistance from the party and, as such processes go, vacillating positions developed within the Cabinet depending on who could get the President’s ear. But the increasingly precarious social situation arising from severe shortages of consumer goods, especially in large cities, forced the leadership to search for solutions and, ultimately, to consider seriously the implementation of more comprehensive reform packages.

Up until 1983 the government essentially preserved existing policies. Instead of introducing measures to deal with the disequilibria, the government pursued campaigns against corruption and profiteers. Stewart, Klugman and Neyapti (1999, p. 82) argue that a side-effect of the political stability that characterised Tanzania was that it postponed pressures for economic reforms that were essential for economic development. Adam et al (1994) argue that the backing from a range of bilateral donors also made it possible to delay adjustment.

A second home-grown Structural Adjustment Programme (SAP) was anyway launched in 1983. This was more ambitious than the previous one, but it did not change any of the major parameters of policy. Here one tried to identify a series of structural problems in the economy and then adjust the type of state-intervention for the economy to do better. It was not a matter of liberalisation and deregulation. The main aim was to increase agricultural production and exports, and among the measures was a modest devaluation. It did have some positive effect on exports and agriculture, but was far from closing the gap between the official and the parallel rates. There was a further tightening of fiscal and monetary policies. Still, the measures were insufficient to reverse the trend. The situation remained grave, and there was increasing public criticism of the shortages. The increasingly tough security measures against smugglers and profiteers only increased the goods shortages, and it was mainly the smaller culprits that were sentenced in the end. Campaigns against corruption and profiteers were directed at attacking stockpiling of goods and improving distribution of goods. It was believed that the problem of shortages was caused by hoarding or unfair distribution of goods. When the shortage of goods became worse even with the campaigns, then the champions of this campaign began to realise that the problem of shortage of goods was more deep-rooted. This realisation influenced the decision to permit partial import liberalisation in 1984. In fact Mr. Sokoine, then Prime Minister, led the campaign against profiteers and later he also led the initiative towards partial liberalisation starting with transport (imports of pick-ups were allowed and supply improved) and these positive results were used to argue for further import liberalisation.

The failure of SAP was also aggravated by the two other factors. First, the receding aid inflows worsened the already low levels of capacity utilisation and therefore worsened the shortage of goods. Second, the allocation of whatever foreign exchange was available through CIS favoured projects, which had earlier been funded by the respective donors rather than follow efficiency criteria. The few resources available were spread too thinly to be effective.

In 1984 economists from the University of Dar es Salaam started to hold public meetings, where they advocated liberalisation measures. The initial discussions targeted policy makers and politicians and some private sector leaders. These meetings were, of course, against the official party line, but were supported by the reformers within the government, for example in the Ministry of Finance and the Bank of Tanzania. So in 1984, in the face of extreme goods shortages, the government finally made a more substantial move. It chose to allow own funded imports, it devalued the currency and it increased agricultural prices by about 30%. There was an export retention scheme, and user charges were introduced in health. This was the first step on the road to the restoration of relations with the IFIs. There was now some improvement in the economy and imports could increase somewhat. The government tried to mend relations with the IMF, which felt that the new reform programme was at least a basis for further discussion. Talks were reopened between the Government and the IMF at the end of the Nyerere era.

1986-1992: Initial reforms and aid boom

When Mwinyi took over as president there had been some initial steps already taken on the reform route with the ERP. The government reached an agreement with the IMF in 1986, which

also meant that other donors came back in force. Joint Government-Donor meetings were initiated and have been going on with more or less intensity since then.⁶

The Economic Recovery Programme (ERP) covered the period 1986 to 1989. The targets specified were:

- a. to increase output of food and export crops through appropriate pricing strategies,
- b. to increase capacity utilisation in industry from 20-30 percent up to 60-70 percent,
- c. to restore internal and external macroeconomic balance through 'prudent' monetary, fiscal and trade policies,
- d. to reduce inflation from 30 per cent to 15-20 per cent,
- e. to increase foreign exchange earnings from exports from US\$ 400 m. to US\$ 630 million by 1989
- f. to rehabilitate and maintain basic social services

The policy instruments to be used included

- a. Raising agricultural prices by 5 percent per annum or to 60-70 percent of the world market price, and reducing the incidence of price controls.
- b. Exchange rates - devalue sufficiently to eliminate exchange rate overvaluation by mid-1988 and subsequently move to market-based allocation of foreign exchange.
- c. Trade policy - deregulation of both imports and local trade.
- d. Public expenditure control - continue the austerity measures started in 1984-1985, limit government recurrent expenditure and reduce deficit financing from the banking system. Rationalise and reduce parastatal activities and subsidies to them.
- e. Tight monetary policy, raise interest rates until positive in real terms, adopt tight credit ceilings and limit the growth of money supply to 15-20 percent per annum.
- f. Revenue collection - close monitoring and looking for ways to increase efficiency and/or broaden the tax base.
- g. Non-price measures to increase agricultural production; improving access to consumer goods, distribution of agricultural inputs and transport infrastructure. General freeing of consumer goods markets.

The Multisector Rehabilitation Credit agreed in 1986 was funded with US\$ 300 million, half from IDA and half from other donors. It concerned prices, fiscal management and exchange rate adjustment. The main aim of this programme was to increase agricultural production, via devaluation and improvements in marketing and transport. The allocation of the funds were left to the government conditional on compliance to certain macro-conditions, which were imposed through the disbursement in tranches. At the end in 1988 some money went through the OGL. Under the programme there was a major devaluation, limits on the budget and balance-of-payments deficits and limits on domestic credit. Still, the implementation had not been as smooth as initially hoped for. The second programme entered into was the Industrial Rehabilitation and Structural Adjustment Credit of US\$ 242 million was agreed in December 1988. The main focus of this programme was trade liberalisation, tariff and sales tax reforms, and industrial restructuring. Funds were now channelled through the OGL system.

⁶ Gibbon and Raikes (1996) provide an extended discussion of the policy changes during this period.

Then there was a new agreement covering the period 1989-1992. It was an IMF Economic and Structural Adjustment Facility (ESAF) plus three different World Bank projects. The ESAF covered liberalisation of the foreign exchange market. The other programmes were the following:

1. The Tanzania Agricultural Adjustment Credit of US\$ 338 million started in 1990, again with IDA as the major source. The main concern was now the liberalisation of the marketing of agricultural inputs and outputs. The money again went through the OGL system, now with a negative list, indicating that the credit was not restricted to agriculture only.
2. The Financial Sector Adjustment Programme from 1991 covered US\$ 275 million. This focussed on the privatisation of the banking sector and the allowing of foreign exchange bureaux and foreign banks to enter the market.
3. The Structural Adjustment Credit of 1991 focused on parastatal restructuring and privatisation, civil service reform and further restructuring of the markets for agricultural exports.

Overall the period from 1986 to 1992 saw the second aid boom, the first one being in the 1970s. Still, although reforms were undertaken during the second half of the 1980s, the Cabinet was still dominated by hard-liners, which went along very reluctantly. Also the former president Nyerere, who had stayed as chairman of CCM, the ruling party, made his views known from time to time, but mostly he did not intervene directly. It was just a handful of ministers that really supported the reforms, and the debates in the Cabinet were very hard until the Eastern European collapse. After that, say from 1990 onwards, the tone changed dramatically and the hard-liners really conceded defeat. In fact a few of them, such as Ms Mongela, Alfred Tandau and David Mwakawago, who were all strong in the ruling party we made ambassadors in various countries. This kept them away from active domestic politics. Although resistance to reforms has been reduced over time and the “purge” of the hard-liners was a major step forward, elements of resistance still remained taking different forms. After the ruling party conceded ideological defeat in 1991 in the Zanzibar Resolution, the opposition to reforms that has been surfacing from time to time has mainly been issue-oriented rather than based on specific ideological lines. The opposers of reforms have also changed tactics and have been taking nationalistic lines (in the name of indigenous people or Tanzania in general) rather than ideological lines (in the name of socialism). These tactics have been felt most clearly in the process of privatisation.

So in the first few years of the 1990s reforms took off. Donor confidence in the government increased significantly in the early 1990s and the IFIs presented very positive reports on the achievements of the government. Since that time there has been less emphasis on overall comprehensive macroeconomic programmes. There has been a shift from macroeconomic targets to issues such as privatisation and civil service and parastatal reform. The Five-year Plans were abandoned and were replaced by Policy Framework Papers, Rolling Plans and Forward Budgets.

The public debate in the early 1990s concerned mainly the poor quality of social services, but there was also critique against the lack of democracy. Initially there was limited public opposition to adjustment measures, but in 1992 there were riots at two universities about the introduction of cost-sharing measures in association with the World Bank Higher Education Credit.

The government's suppression of the civil society has gradually eased. It allowed independent newspapers in 1988, it allowed limited public debate on human rights violations in 1991 and in the same year it reduced the supervisory power of CCM over the co-operatives. Labour and co-operative unions received some autonomy after 1990. (Stewart, Klugman, Neyapti, 1999). These reforms made it possible to debate issues that previously had not been allowed. The leadership code was abolished in 1992, and several officials have taken advantage of their new won freedom in unethical ways. Some of this has been exposed in the press.

Nyerere eventually threw his support behind the introduction of democracy. At this time several opposition parties had been formed in Britain and in Tanzania (underground). In 1991 a Presidential Commission undertook a survey about the introduction of multiparty democracy, and they recorded that 77 per cent supported the existing one-party system. However, CCM succumbed to external pressure and legalised the registration of opposition parties in 1992. CCM continued to win by-elections, although their legitimacy was contested. CCM still had privileged access to media and there were accusations of irregularities. The opposition parties were either fragmented in ideological identity or were distinguished for their geographical concentration of membership.

1993-1995: Off-track

In 1992 President Mwinyi appointed Malima as Minister of Finance, a move that is hard to explain politically given his background, but he seemed to have changed his views on economic reform. The Cabinet team also changed. This was the start of a new period of crisis, though, and President Mwinyi seemed less emphatic as a reformer during his second period in office. Some argue that he lost control. During the years 1993-1995 reforms got off track, fiscal policy went out of control, there were large-scale tax exemptions granted by the Minister of Finance and a general feeling that corruption and tax evasion were rampant. Government revenue fell, and the government reverted to heavy borrowing in the Central Bank. Much of the fiscal control and discipline that had been developed from 1986 was lost.

So why did the reform process stagnate? The main reasons is probably that the donors shifted demands to new areas and raised the stakes. The second generation reforms are more intrusive than the first generation reforms. They demand the closing up of various leakages in the system through for example bank reforms. This confront vested interests more directly, and the government then seeks to find new ways to allocate rents. Thus, for this type of reforms to be successful the government must really be fully committed to radical reform. The government was not fully committed.

Many of the donors now lost faith again. In November 1994 the Nordic donors except Denmark suspended aid payments because of the tax exemptions to politically influential people. The IMF failed to engage the government in meaningful discussions and in 1994 they cancelled the adjustment programme and essentially pulled out. Malima was soon forced to resign as Minister of Finance, mainly due to the tax exemption scandals but also for his inability to communicate with the IFIs. He was moved to the Ministry of Industry, but before the elections in 1995 he joined an opposition party and left the government. A new Minister of Finance, Kikwete, was appointed for a short period.. Politically it was important to replace a Moslem by a Moslem to

avoid turning it into a religious issue especially because Malima had often indicated in private that he was the first Moslem minister of finance. The transfer of Malima from Finance was clearly engineered by donors on account of revenue the way CIS funds and exemptions were handled.

In fact a few months before Parliament had tried to fight out these issues and gave strong criticisms to Malima for the exemptions, but he survived. President Mwinyi was not ready to let him go. A few months later, when the donors put their foot down, Mwinyi let Malima go but by transferring him to industries and trade rather than sacking him. This demonstrates the relative influence of donors compared to domestic constituencies. In matters of policy reforms it would appear that donors exert greater influence than local groups. This imbalance has been changing gradually and is likely to continue changing as ownership of development policy shifts to Tanzania.

1996-1999: Back on track

A number of opposition parties took part in the first multiparty elections, but CCM retained power in 1995 with 62 percent of the votes. The new government was elected in November 1995, and in early 1996 the new President Mkapa installed a new team and from then on the reforms started again. Mkapa had throughout been one of the few reformers in the government. The government set off on a shadow programme with the IMF for the period January-June 1996, which was successfully implemented. This was watched carefully by all the donors, and was praised by the IMF. The IMF then came back with a new three-year EASF and other donors followed. Since then the relations have improved and are now good. The donors followed in the footsteps of the IMF and have since then had good relations with the government. Still, aid inflows are smaller than they were before the break, due to the general decline in foreign aid.

The agenda, which the new government came with at the end of 1995 largely, reflects the agreement, which had been reached between Tanzania and donors as expressed very well in the Helleiner report. Mkapa put high priority on fighting corruption and mending the relations with donors. He was also determined to keep the reforms on track. In the first few months of the new government a commission was formed to examine the problems of corruption, initiatives to form a Tanzania Revenue Authority were accelerated and TRA was established in July 1996. In order to get the new cabinet to get to grips with economic reforms a workshop was organised for all ministers and principal secretaries in which various aspects of reforms were discussed. Resource persons were drawn from within and outside Tanzania organised by the President's office (Civil Service Department) and Commonwealth Secretariat and ESAMI. The workshop lasted a whole week in Arusha in January 1996.

The government signed a deal at the Paris Club in January 1997 and is now expecting to go back to Paris in November 1999. It has received Naples terms already, but now hopes that it can get further and within a reasonable time be included in the HIPC to get a reduction of their debt stock. So far, there have been rescheduling that has reduced the burden of debt service in the short term very much (maybe from \$800 million a year to say \$200 million). In principle Tanzania would have to wait another three years before it can get the deal, but it argues that it should be allowed to count 1996 as well and on top of that be given some rebate on the three

extra years required to qualify. Debates are ongoing in the donor community as to whether three years more really is appropriate for heavily indebted countries like Tanzania, and it may well be that the period generally can be shortened. Thus, sometime between 2000 and 2002 Tanzania should be eligible for the HIPC treatment. Private debt is small and has been reduced by donor financed debt buybacks mostly. Now the Multilateral Debt Relief Fund helps the government to service its debt to the IFIs.

The current status of the adjustment programme is relatively satisfactory. The country performs well on the macroeconomic indicators, but it struggles with some of the structural performance indicators.

During 1996-99 there are a few cases where local constituencies have been able to express their interests and influence policy by seeking assistance from existing policy analysis institutions. First, in 1996 a group of business people felt the tax regime was unfavourable to them. The tax rates were too high and they wanted to convince the government that high tax rates were inimical to revenue growth. They sought assistance of ESRF, which did a study that synthesised their views and helped them to argue their case. The main argument was that if tax rates were lowered and simplified compliance would increase and tax revenue would increase. This argument was contrary to what IMF was advising government. However, in 1996/97 budget the government gave in some of these demands and the following year more gains were made in that direction. In order to blunt the influence of the IMF on the government the business community representatives even arranged to meet and discuss with the major donors and the IFI representatives. It is not clear how much this helped but they got some concessions in their favour. In 1997 the Confederation of Tanzania Industries wanted to convince the Dares Salaam City Commission that it should lower tax rates and revenue would not suffer. The COI approached ESRF to undertake a study on the issue and came with recommendations basically lowering the tax rates but widening the tax base. The study helped in the negotiations and CTI reached an agreement with DCC. In the end CTI was happy with lower rates and DCC was happy because that year revenue exceeded the level of revenue in the previous year by a considerable margin. In both cases the local groups influenced policy by generating the ideas and getting a local policy research institute to assist in analysing the issues and putting across their interests in a manner which could be understood better by the policy makers.

Civil society is also beginning to have some influence on policy but progress in this direction is still gradual. In the case of restructuring of the National Bank of Commerce, the government was basically agreed with the World Bank about the three-way split (into trade bank, regional bank and microfinance). This idea was not discussed internally but it was sold to the Tanzanian policy makers on the promise that it is the option which would be most likely to be supported by World Bank without taking too long as support for the budget was very crucial and budget time was approaching. A group of concerned citizens offered to discuss the matter and analysed the options and concluded that the three-way split was not in the national interest. The group was organised by the Development Policy Centre and held a one-day meeting at ESRF. At the end of the day it was resolved that a letter be written to the President requesting him that the matter should be delayed for 3 months to allow more careful discussion of the options for restructuring NBC. In response the President decided to reopen the discussion and appointed additional members to the Steering Committee on this matter. Some of the new members came from the

group, which had met to discuss the matter and submit their views to the President. The expanded Steering Committee worked on the issue of NBC and came out with a recommendation for a two-way split (microfinance and then rest). This option was adopted and is operating at the moment. In fact three of the four new members to the Steering Committee, who were also opposed to the three-way split were subsequently appointed to the Boards of the new banks. What came out of this experience is that the Tanzania policy advisers had selected an option, which they had been made to believe that the World Bank preferred, and therefore its selection would simplify subsequent negotiations on these issues. On paper therefore it appeared as if it was a decision by Tanzania's policy analysts and policy makers but in reality little analysis had been done. The recommendations had reflected what Tanzanian had perceived as the position of people who matter in the World Bank. Their objective was to simplify negotiations and not necessarily to come up with the option, which was best for Tanzania. What was deemed best for Tanzania was amounting to what would make it easier to attract aid. When the debate was reopened the selected option changed. Under conditions of genuine ownership of policy making the restructuring options would have been discussed openly and would not have waited for a protest note from concerned citizens. The latter experience shows that civil society is beginning to express its views on policy reforms and that policy analysts sometimes read the minds of IFIs through informal discussions and later come up with "own" selected options which are in reality a reflection of external influence.

3.4. Economic policy and growth outcomes 1979-1999⁷

During the period 1979 to 1985 per capita income fell by 1.5% per year according to official estimates (see Table 6), but the estimates are particularly uncertain for this period because the price system was in disarray and much of economic activities had moved to the parallel economy. Estimates by Bevan et al (1987) suggest more significant income declines. Manufacturing output collapsed due to lack of imports and agricultural growth declined. Public administration was still growing, although the growth rate had declined to less than four per cent. State control of the "commanding heights" of the economy was a central tenet of the Arusha Declaration, and by the late 1970s Tanzania had constructed a very comprehensive parastatal sector (Bagachwa, Mbelle and van Arkadie, 1992). From roughly 40 entities in 1966, the parastatal sector grew to encompass about 450 entities by the mid-1980s, covering the entire range of economic activities. In the manufacturing sector the manufacturing firms produced half the output and controlled two thirds of the fixed assets.

Export performance deteriorated as domestic inflation increased and the government compressed imports through direct foreign exchange rationing rather than accommodating inflation through depreciation. Export data for the crisis period must be interpreted with care, since the black market premium on foreign exchange was high and provided strong incentives for smuggling (Kaufmann and O'Connell (1991). The decline in official exports during the crisis period therefore in part reflects a diversion of exports from official to unofficial channels in response to an increasing parallel premium (it increased from 45 percent at the end of 1978 to over 800

⁷ This section draws heavily on Bigsten and Danielsson (1999). Bevan et al. (1990) provide an extensive analysis of macroeconomic developments during the crisis period.

percent at the end of 1985). Some estimates even put the level of smuggled exports at about 50% of official exports (Adam et al, 1994, ch.7).

The period of more significant reforms began in 1986 with a maxi-devaluation and the initiation of a standby agreement with the IMF and a structural adjustment programme with the World Bank. The agreements with the IFIs helped restore donor confidence. They came back in force and there was a second aid boom, which peaked in the early 1990s. This support was probably important to make the transformation possible, but it is hard to know for sure what would have happened without this resource inflow. Tanzania was obviously in a desperate situation and would have had to go down the reform route in any case.

The reforms managed to increase growth again (Table 7). Per capita incomes have so far grown by 0.6% per year during the reform period. Agricultural growth increased significantly, and the manufacturing sector switched from a decline of 4 percent per annum to positive growth, in spite of the fact that many industries have collapsed in the face of increase import competition. There were strong recoveries in construction, trade, and transport as well. The development of the latter may be considered a necessary ingredient in the recreation of a viable market economy. The lagging sector has been public administration.

Table 6: Data for the Crisis period 1979-1985

	1979	1980	1981	1982	1983	1984	1985
Per capita income growth %	0.2	-0.2	-3.7	-2.6	-5.6	0.2	1.4
Population growth %	3.1	3.2	3.2	3.2	3.2	3.2	3.2
Urbanisation %	13.9	14.8	15.4	15.9	16.5	17.0	17.6
External debt Million \$	2070	2450	2880	3130	3390	3620	4030
Interest rate spread %	7.5	7.5	8.0	8.0	9.0	9.0	7.8
%labour force in agriculture	86.3	85.6	85.6	85.5	85.4	85.2	85.1
Monetary growth %	46.9	26.9	18.1	19.5	17.8	3.7	30.3
Gross investment % of GDP	33.6	33.1	28.6	26.0	19.3	20.2	18.7

Sources: From Bigsten and Danielsson (1999), Income and investment data from Appendix A. Other data from World Development Data 1998.

Drought and floods undermined agricultural production in 1997. Harvest of coffee and cotton, Tanzania's main exports, were particularly badly hit, undermining the country's trade balance. Tanzanian economic growth in 1998 is estimated to have been only about 3 percent, barely keeping pace with the population growth (2.8%).

Table 7: Data for the Reform period 1986-

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Per capita income growth %	3.4	2.7	1.3	-0.6	3.1	-0.3	-1.3	-4.1	-0.1	0.6	1.4	0.5
Population growth %	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.0	3.0	2.9	2.8	
Urbanisation %	18.2	18.9	19.5	20.2	20.8	21.5	22.2	22.8	23.5	24.2	24.9	
Current account % of GDP			-11.6	-15.5	-18.1	-17.2	-21.8	-24.5	-25.5	-24.4	-15.8	
Export % of GDP			9.8	14.6	13.2	8.5	8.4	15.2	18.5	20.5	21.5	
Import % of GDP			27.3	30.7	35.5	35.3	36.8	44.0	45.4	42.4	36.2	
External debt Million \$	4610	5490	6010	5850	6410	6540	6620	6800	7260	7430	7410	
Government Consumption % of GDP			16.8	16.3	17.0	18.4	19.3	19.5	18.1	16.1	13.2	
Gross investment % of GDP (WEB)			18.2	17.0	22.3	25.9	26.5	25.8	24.6	21.7	17.9	
Gross investment % of GDP official		23.5	17.4	19.3	28.2	28.5	28.9	26.7	26.4	21.2	23.8	
Domestic saving % of GDP			1.3	1.3	0.3	-0.6	-1.6	-2.8	-2.0	0.0	3.4	
Interest rate spread	10.0	11.8	12.2	14.0						18.2	23.6	
% labour force in agriculture	85.0	84.8	84.7	84.5	84.4							
Manufacturing VER in GDP %			8.1	8.1	8.9	9.1	8.5	7.8	7.4	7.3	7.3	
Monetary growth %	27.9	32.1	32.6	32.1	41.9	30.1	40.6	39.2	35.3	33.0	8.4	

Sources: From Bigsten and Danielsson (1999). Income and investment data from Appendix A. Other data from World Development Data 1998.

From the Arusha Declaration in 1967 up until the reforms in the mid-1980s policies encouraged public sector investment, while they actively discouraged private sector investments with the help of a complex system of regulations and licenses (Likwelile, 1998). There was also preferential treatment of the public sector in credit allocation (Ndulu, Hyuha, 1984). The public sector dominated investment activity and came to dominate production in major parts of the economy, and trade was confined to a limited number of parastatals (Moshi, Kilindo, 1995). There was a preference for large and capital intensive investment projects, often infrastructure projects, rather than directly productive investments. Gross fixed capital formation stood at 23.7% on average during the pre-crisis period 1967-1978, and then remained above 30% of GDP during the first years of the crisis period before it gradually declined to 18.7% in 1985. The investment levels in Tanzania have been high throughout, but that there has been a strong shift towards private sector investment in recent years. The relative expansion of private sector investment is partly due to the shift in policy, partly due to the lack of resources to finance public sector investments.

We show in Table 8 the distribution of investment across sector during the reform period. Agricultural investments have remained fairly low, where we would have expected a stronger response in this sector from marketing liberalisation measures and improvements in the transport infrastructure. There has been an expansion from low levels in mining, where there has been substantial investments in, for example, gold mines. There has been very little investment in manufacturing for most of the years, which may reflect the lack of profitable investment opportunities in the manufacturing sector as well as lack of credibility in the reform measures. If investors are not certain that the new system is going to persist, they would prefer to put their money in more short-term assets such as Treasury bills. The risk rating has improved in Tanzania, but it is still much below that of other countries in the region (Ndulu, Wangwe, 1997). Much of the new investment has instead gone into infrastructure, trade and finance. This is probably a necessary first step to restore the economic and market infrastructure after a long period of decline. We cannot be sure, however, that there will be a substantial recovery of investments in the directly productive sectors, although there are some recent signs of a recovery.

Table 8: Shares of gross fixed capital formation by kind of economic activity at current prices, Shs. Million

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	Total
Agriculture	0.052	0.039	0.040	0.042	0.049	0.063	0.063	0.063	0.064	0.063	0.097	0.066
Mining	0.030	0.026	0.025	0.032	0.048	0.046	0.041	0.043	0.043	0.043	0.106	0.053
Manufacturing	0.003	0.007	0.002	0.002	0.002	0.003	0.003	0.003	0.003	0.003	0.133	0.026
El&water	0.277	0.213	0.229	0.256	0.237	0.235	0.240	0.244	0.240	0.241	0.111	0.218
Construction	0.182	0.248	0.256	0.178	0.161	0.148	0.152	0.136	0.145	0.144	0.110	0.147
Trade	0.111	0.095	0.098	0.120	0.111	0.116	0.119	0.122	0.119	0.120	0.109	0.116
Transport	0.015	0.051	0.022	0.010	0.010	0.008	0.009	0.010	0.009	0.010	0.111	0.029
Finance,real est.	0.314	0.283	0.288	0.340	0.314	0.324	0.331	0.335	0.330	0.332	0.117	0.290
Public adm.	0.016	0.038	0.040	0.020	0.068	0.058	0.042	0.044	0.047	0.044	0.104	0.056
Total	1	1	1	1	1	1	1	1	1	1	1	1

Source: Bureau of Statistics: National Accounts of Tanzania Mainland 1987-1997, p.23.

The investment rates have throughout been fairly high in Tanzania, although they are a lot lower during the reform period than what was implied by the old, non-revised national accounts. It is

obvious that low levels of capital formation can not explain Tanzania's growth problems. The crucial issue is one of quality of investments rather than quantity. Low quality of investment during the pre-crisis and crisis periods is explained by the highly distorted macroeconomic environment and, in the crisis period, by the government's persistence with the BIS in the face of collapsing foreign exchange availability. The capacity utilisation rate in manufacturing was driven below 30 percent in the early 1980s. The first phase of reforms in Tanzania was clearly designed to address the more drastic distortions associated with quota protection and non-market pricing of foreign exchange. A second constraint on investment productivity in Tanzania, however, has been the dominance of the public sector in the allocation of credit. Until the banking sector reforms initiated in 1992, the parastatal sector had automatic access to credit from the monopoly commercial banking sector, which in turn had automatic access from the Bank of Tanzania. The vast bulk of NBC's lending was to the parastatal sector; in 1980 the private sector accounted for less than 8 percent of NBC's outstanding loans. The parastatal sector made enormous losses through the 1980s (see Eriksson (1998)), representing a major drain not only on the budget but also on credit from the banking sector. The point is simple: without hard budget constraints, relative price changes are not likely to produce major reallocations of resources or major productivity gains. To a large degree, the parastatal sector, and particularly the marketing boards and (quasi-public) co-operative unions during the reform period, were able to pass a major portion of the relative price changes they faced into greater losses that were financed by the budget or banking system.

The reforms of Tanzania's financial system have just started, and as yet there is relatively little long term financing available for private firms. Tanzania Housing Bank has folded and the National Bank of Commerce is being transformed and provides mainly short-term loans. Private investments therefore often have to be financed by foreign money.

3.5. Institutional reforms and governance

Governance is a crucial constraint on the prospects of development in Tanzania. The newly elected president Mkapa set up a commission that produced a 900 page report on corruption and mismanagement, the Warioba report, which outlined the extent of the problem. Since then, however, little concrete action was taken, although some lower level officials were dismissed from the government. There are mainly two pressure groups - the press and the donors - which are capable to change government policy or force it to take action against malpractice. So far, however, people that misbehave tend not be fired or brought to court. They are transferred to some other activity. The lack of action may be because the elite is a rather tightly knit network. The Parliament does not really play an independent watchdog role in Tanzania. Throughout the history of the country its role has rather been to support the government's development efforts.⁸

⁸ The government issued a progress report on the implementation of the Warioba report in February 1999 as a response to the critics. Also, in March 1999 a high level retreat on Good Governance was held for 3 days in which participants were senior government officials (level of Permanent Secretaries and heads of governance institutions such as the Accountant and Auditor General, Anti-corruption institutions), resource persons (drawn from ESAMI, ESRF and University of Dar es Salaam, and selected Public Institutions such as TRA, Corruption Prevention Bureau) and a few donors (UNDP, USAID, Sweden and The Netherlands).

The civil service reform programme was officially launched in July 1991, but it was not until in 1993 that the government embarked on designing a programme to implement reforms to strengthen the management of the public sector. The aim of phase one of the programme was to reduce the scope of government operations to affordable levels, to rationalise the government machinery, to develop an open, objective and competitive pay structure, to decentralise executive responsibilities to local government, and to improve quality and performance of civil servants (Public Sector Reform Programme, 1998, p.1). The main achievement of stage one of the strategy was the redefinition of the role of the state. The government is in the process of withdrawing from production activities, tries to reduce its role to affordable levels and enhance the participation of the private sector and NGOs in service delivery. Between 1993 and 1997 there has been a 30% reduction in the size of the work force from 355,000 to 270,000.

The new five-year strategy for public sector management and employment builds on what has been achieved so far, to try to achieve better levels of performance. A lot of efforts is to be devoted to attempts aimed at strengthening public sector discipline and develop clear lines of responsibility and accountability and generally to develop modern management principles. The aim is to deliver quality public services under severe budget constraint. The new programme has one interesting budget based incentive built in. When a ministry or an agency has managed to operationalise a services improvement programme on the basis of the performance improvement model it will be graduated out of the Acash budgeting \cong exchequer release mechanism. This means that the Ministry of Finance will from the outset commit to fund fully and predictably the approved budget of the organisation. This is regarded as a key output of the public financial management reform programme, and it seems to be a rational way out of the tight cash budget system. Those that have managed to achieve an effective system will be able to run their operations more smoothly in the future. A second incentive mechanism is that institutions will be allowed to retain a significant portion of the cost-savings realised on the implementation of restructuring and private sector rationalisation programmes. Monitoring and evaluation mechanisms will also be strengthened. There is also going to be increased private participation in public sector service delivery.

The crisis years in Tanzania led to a dramatic deterioration of real civil service salaries. By the late 1980s the real salary of a civil servant was only one fifth of what it was in the early 1970s. (Guidelines, 1998, p.2). There had developed very severe distortions and inequities in the compensation structure, and the morale of the service had as a result of this deteriorated very significantly. Performance was poor, and absenteeism, moonlighting and corruption were growing. The government has tried to rectify these distortions by rationalising the scales and by increasing the real income levels. Many donors offer remuneration incentives (local cost compensation) in various forms to civil servants working in their projects. According to a recent estimate about 1000 civil servants benefit from local cost compensation (Guidelines, p.4) at a cost of 13 billion Tshs. This system of course may make the donor project function better, but in the longer term the system tends to undermine efforts of capacity building in the government sector. The strategy now is that there shall be a convergence between donor pays and government salaries over the next five years. In the future a civil servant that takes up a project job will have to resign from his civil service job. The aim of the government is to achieve reasonable and competitive wages for its employees. For low level workers the government salaries are often higher than those in the private sector are, but for higher grades the salaries are

not competitive. The government will do away with various kinds of benefits, but housing allowances will remain for top personnel. There will also be medical benefits and post-employment security.

In the drive towards socialism and towards political control the government set up a large number of parastatals. This is one of the most dramatic examples of dysfunctional government.⁹ The performance problems of the parastatals were at their peak during the crisis period, 1979-1985, but the system remained intact and even expanded further after that. Parastatal losses were growing, but they had by now learnt how to operate the system and they were successful acquiring various forms of finance from the government, banks and foreign donors. This made it possible even for chronic loss makers to survive. The reforms have gradually changed this. Since reforms in the parastatal sector initially were very limited at the same time as relative prices changed and competition increased, the losses of the parastatals grew rapidly. The soft budget constraint delayed structural adjustment and reduced the effectiveness of stabilisation measures. In the 1990 the ruling party finally decided to move towards complete private ownership. The Parastatal Sector Reform Commission (PSRC) was formed in March 1992, but it was not fully operational until mid-1993. The progress of the privatisation process has been slower than originally anticipated. First the PSRC dealt with the smaller units, but now it has started to work on the major companies such as the utilities. These were originally considered to be strategic, and from 1992 the original idea was to bring in private management and to let them work under performance contracts. This was not as effective as hoped for, so from 1996 private ownership is envisaged in the strategic industries including railways, telecommunications, harbours, and Air Tanzania. Of the 383 firms that the PSRC had on the books when it started, 230 had been dealt with by June 1998. Another 50 are expected to be processed during the fiscal year 1998/99, while the rest might take a few years more. Then the PSRC is to be phased out, when its task is accomplished. In the wake of mounting criticism especially in the Parliament that public firms were being sold away to foreigners with no meaningful participation of Tanzanians, the government has in 1998 established The Privatisation Trust to promote wide-share ownership among the citizens.

There has been progress with regard to the privatisation programme, which has been characterised by the World Bank as one of the better in Africa. The dismantling of the parastatals will be concluded within a few years. The problem will then shift to issues of regulation of various utilities with a virtual monopoly position, and the system for handling these issues is still very weak. Thus, the division of responsibilities between the functions of government and those of producers has made large strides forward, but many still remains to be done before this is translated into an efficient industry.

The judiciary is exceedingly weak, although for example a commercial court is to be instituted. At present it may take years for a firm to get a decision in a lawsuit. The labour laws are obsolete, and even firms that fire dishonest or corrupt workers may be taken to court in expensive trials. This means that in fact they have to buy off the dishonest workers that they dismiss.

⁹ Eriksson (1998) provides a detailed discussion about the impact of parastatals on the Tanzanian economy. Moshi (1998) provides evidence about the extent of the budgetary burden that the public enterprises have constituted.

It seems clear that Tanzania had made considerable progress with regard to the economic policy regime. Every year the World Bank undertakes a policy and institutional assessment, ranking performance with regard to 20 factors in the areas of a) macroeconomic management and sustainability of reforms, b) policies of sustainable and equitable growth, c) policies for reducing inequalities, and d) public sector management. As expected, SSA is the region with the lowest average ranking. Still, Tanzania ranks above the average African ranking (World Bank, 1999). However, the impact of the reforms on the economic performance is still limited. The impact of similar reforms in Uganda has definitely been better. One reason may be that Uganda course for a much longer period of time. Uganda under Museveni has had more genuine ownership and commitment than Tanzania, where there have been set-backs and less of full force in the implementation. Tanzania always seems to be on the verge of take-off, but so far it has not happened.

A major problem is that the government lacks the competence to manage an essentially market-dominated economy. The provision of public services remains poor, and corruption has probably increased due to the low levels of salary in government. From 1994 the relationships with the donors deteriorated again. The donors had for example pledged substantial balance of payments support, but due to their view that the government has not been effective enough in tax collection efforts and other areas, they have withheld substantial amounts. Still, Tanzania has certainly come a long way since 1985. Few countries have undergone such a dramatic change of the entire social and economic set-up in such a short time as Tanzania.

4. The relationship between aid and reforms

Evolution of the relationship

In the late 1970s negotiations with the IMF collapsed, since the demands of the IFIs implied a critique of the fundamentals of the Tanzanian approach, that is socialist economic management. We have noted that political resistance to reforms was strong, since the liberalisation of the economy really represented a U-turn relative to the development strategy that was outlined in the Arusha Declaration. The reforms were seen as counter to the ideology of the ruling party, which therefore resisted it as long as it was at all possible. The behaviour of donors during the crisis was neither uniform nor consistent. It took a long time for donors take a critical look at Tanzania's post-Arusha economic development policies. The Nordic countries and the Dutch did not take a clear position in favour of liberal reform and the IMF until 1983. The economic crisis of the first half of the 1980s plus the withholding of aid and open donor critique of the policy, even from the "traditional friends", spurred a debate within the government, but also outside it, for example at the university. This external pressure is likely to have helped to tip the balance in favour of the domestic groups supporting for reforms. There were small policy changes during the first half of the 1980s, but comprehensive reforms were still resisted. By the mid-1980s, however, the crisis was so acute and the external support so small that the government had to budge. The reforms, which were undertaken in 1984 and 1985, were done partly in anticipation of the negotiations with IFIs. They were at one level internally generated but at another level they were made with a view to preparing conditions for negotiation with the IFIs. The retirement of Nyerere as President in 1985 opened the way for the agreement on the Economic Recovery Programme for 1986-1989 and later on for a new ERP for 1989-1992. Although some people within the government believed it was an appropriate strategy for the future, many saw it as a temporary setback. Nonetheless it is true that aid made reforms possible, at least in the sense that the government saw reforms as a way to get aid. The agreement on reforms also attracted resources, but it was the initial deprivation of resources that speeded up preparations for reform and stimulated the internal debate.

After 1986 the tempo of internal policy debates declined and reforms were basically directed by the IFIs and donors. The types of reform measures that were undertaken were in the standard Structural Adjustment mould, and the of level ownership decreased. The policy changes that were required in the case of Tanzania were unusually large, though, and all parties involved were not really supportive. There was a lot of foot-dragging, but the reformers gradually increased their influence. From the early 1990s the anti-reformers have essentially lost control of the party, but even after this it has been hard to stay on course. Soon there was slippage in the programme again and there seemed to be an increase in corrupt practices, which meant that there was a new crisis in donor relations between 1993 and 1995. Donors were dissatisfied with the government's efforts with regard to revenue collection efforts. The decline in aid inflows following the deterioration in donor-Tanzania relations again had a significant impact on Tanzanian behaviour. It seems to be the case that aid can more easily induce government to undertake first stage reforms, which included macroeconomic stabilisation and some price liberalisation. Aid seems to be less effective in stimulating the more intrusive second-generation reforms. These include the freeing up of key markets, institutionalisation of the market economy, privatisation and

opening up for foreign participation. These reforms are more directly in conflict with vested interests than first generation reforms and are therefore more likely to meet resistance.

Still, the new government, from November 1995, put improvement of donor Tanzania relations high on the agenda. This time the withdrawal of donor support led to more substantive discussions of the need to enhance ownership of the policy reforms. The post 1986 resumption of aid eroded had ownership of the reform process, while the resumption of aid relations in 1996 came with strong expressions of the need to enhance ownership of the reform process. Donor support to institutions of reform such as the Tanzania Revenue Authority showed that donors were willing to see the problems of revenue collection, which had been at the centre of the collapse of Tanzania-donor relations in 1993-94 resolved through institutional reform. The new government has increased reform efforts, although it has had continual problems in undertaking some of the institutional and structural reforms set out. Structural and institutional reforms are at present high on the agenda, and there have been major problems in their implementation. Still, it is hard to foresee any reversals of the reforms at this stage, although the effectiveness of many aspects of the reform process is in doubt.

During the reform phase Tanzania has managed to bring about an improvement in its policy environment, and it has seen positive per capita income growth. Still, in spite of an increase in investment, it has not been enough to accelerate growth very much. The returns on investments have been poor, which is an indication that the reforms have not as yet fundamentally changed the economic environment. Many reforms are still plans to be implemented, and those that have been implemented are often ineffective.

Evaluation of the impact of aid on reforms

Our discussions about the link between aid and reforms in Tanzania has of necessity been tentative. It is virtually impossible to identify a counterfactual pattern of change. The key question is whether aid has bought reform, or whether the reforms would have come anyway, since they were an economic necessity. Initially aid probably delayed reforms by helping financing schemes that would have been wholly unviable without aid backing, but once aid started to fall in the first half of the 1980s reforms were probably speeded up by the cut-backs. Of course, a country, which is not committed to reform, may find it in its interest to initiate a reform in order to subsequently receive foreign assistance. Then, once aid is disbursed, the recipient may not exert much effort in making the reform succeed. This may well have been the case in Tanzania at that time.

There are three aspects of the aid-reform relationship that we will consider here, namely the impact of aid on the initiation and pace of reform, on the policy content, and on the effectiveness of implementation.

Generation of reforms has largely been originating with the IFIs or donors, hence the concern about lack of ownership as pointed out in the Helleiner report. The donors have also had a significant impact on the pace of reform. Some argue that things would be much slower if there were no deadlines set up by the IMF. The relationship between the World Bank and the government is good at present, and the World Bank has taken a lead in co-ordinating donor

activities. The content of policy has largely been the standard Structural Adjustment package, with limited original Tanzanian input. The weakness of domestic agents in generating ideas has been reinforced by lack of co-ordination in the management of reforms. Reforms have been managed piecemeal with each one being carried out by the respective government department in isolation. There has not been an effective mechanism for examining reforms as a whole package. It is only recently after beginning to draft the PFP that the broad perspective on reforms has started to take shape. Added to this is the new initiative to prepare SDPs, although technical advisors have played an important role in the formulation of some of the SDPs. It should also be realised that local groups have historically been excluded from policy debates and policy making, which has been regarded as the responsibility of the government. It is expected that with economic and political liberalisation taking root it will be increasingly possible for local groups to play a role in generating ideas for reforms. The various groups local groups have a better chance to articulate their interests and over time they will be building the capacity to articulate their interests. Given the very strong leadership in the period up to the reforms and a fundamentally different development policy framework that had been adopted, the process of consensus building towards reform was bound to be difficult. Still, in recent years there has been a more open debate that may help build national consensus and commitment.

With regard to the content of the policy, however, there has been improvements during the current government. It did appoint a team of local experts to craft the development vision for Tanzania. The search for a direction was high on the agenda. The vision 2025 document, which was submitted to government in 1998, was approved and adopted by the government in May 1999. Some of the issues that the vision document includes are: reduction of aid dependence and promotion of self reliance (on domestic resources), building capacity to own the development agenda, human development including poverty eradication, building a strong and competitive economy and broadening and institutionalising participation in development.

Today it is largely the government that set sector priorities. Donors push for mainly health and education, while the government also are concerned with roads, water etc. Still, at the present time the big problem now is not the lack of insights about what the appropriate policy package is, but that the effectiveness of the implementation of reforms is still low. It is not easy to determine to what extent this is due to structural characteristics and a generally low level of competencies or due to the lack of commitment on the part of the government and lack of support and pressure from the domestic constituency.

There has obviously been several setbacks in the Tanzanian reform process, but it seems unlikely that it would have progressed to its current stage unless the pressure from donors. It is not possible to say whether it has been technical assistance and policy advice or the financial flows that has brought the change about. Since the non-financial aid typically is combined with financial aid, it is hard to separate the effects.

The problem of the counterfactual also applies to the issue of whether the reforms are sustainable without aid in the future. The answer to this question also hinges on whether aid buys reforms that the government otherwise would be unwilling or even unable to undertake, or if the reforms are done willingly since it is obvious that they are the best option open in any case. In the case of

Tanzania aid initially bought reforms that otherwise at least would have been delayed, but in the 1990s it seems more likely that there is some genuine backing of the reform process.

It seems likely that the ineffectiveness of the system to a considerable extent depends on the aid relationship. There is certainly need both for a more efficient governance structure, and changes of the character of the donor-recipient relationship. It is not very clear exactly how and to what extent changes in the aid relationships can contribute to improvements of the governance structure, but we will anyway try to discuss this issue

Where to go?

It is argued by Collier (1997) that the link between aid and reforms in Sub-Saharan Africa is weak and that governments generally have decided to reform due to pressure from domestic political forces, largely independent of the aid relationship and aid conditions. According to this view, it is only a combination of informed and empowered wider domestic constituencies and the presence of successful neighbours that will induce reforms. Conditionality should therefore not be used to induce policy change, but to ensure that aid goes to environments where it can be effective. The flow of aid should reflect the level of the policy environment. In the review of ESAF (IMF, 1998) it was also argued that high conditionality programmes generally do not do well. When conditionality is tight the recipient country has a feeling of loss of control over the policy content and the pace of implementation of the reform programme. It is also suggested that there is a correlation between the degree of ownership and the success of programme implementation.

Aid to Tanzania has bought a certain reform agenda. This does not necessarily mean that they would follow a strategy of no reform without aid, but a strategy more in line with the "real" priorities of the government. It is, however, not easy to figure out in what way such a reform agenda differs from the current one, and therefore also hard to determine its viability. Still, to make the reform process more effective the government should be allowed to take control over priorities, and if donors are not willing to support the agenda, because they believe it to be unviable or detrimental to development as they see it, they will have to withdraw from supporting the country. There is a problem in implementing this policy, as reflected in the slowness of change in donor flows to Tanzania. It is easy to withdraw if the support is of a general nature such as balance of payments or budget support, but once the donor is closely involved in project aid it becomes very difficult to pull out and thereby probably kill the project. This is actually another argument for more general forms of aid. If the notion of country choice is to become meaningful there is a need for more general forms of transfers.

It has been pointed out conditionality is more effective when it focuses on a small range of quantifiable indicators. Still, the number of conditions has not declined very much over the years, and they have become increasingly important since the bilaterals now demand that the GOT meet the demands of the IFIs. Here the donor community should move towards conditions, which means that they reward good behaviour or good policy environments based on expert evaluations rather than reward promises.

Such a strategy also requires improved donor co-ordination, since this would make it easier for the government to take control. There is some movement towards more general forms of support, such as in the case of the tax reform programme where the World Bank put up some money and the donors then came in and provided the rest without their own specific requests. This is not the norm, but instead the donors fall over each other in some areas, such as capacity building in the Ministry of Finance.

Given the magnitude of aid received by Tanzania, the poor growth record poses an obvious question of aid effectiveness. It is clear on the face of it that aid has not had a strong payoff in terms of growth. Constructing a proper counterfactual is extremely difficult, however. What would have happened if aid had been smaller? Aid has clearly exerted two kinds of influence in Tanzania - on the supply of external resources, and the other on policy formation. Disentangling these effects is crucial for assessing the impact of aid on growth in Tanzania. The answers to the question of whether aid works only in good policy environment is still left hanging in the air. The policy environment as we normally define it has certainly improved a lot in Tanzania, but as yet there is no strong evidence that aid has a better growth impact now than in the early stages of the reform period. On the basis of this paper we are therefore not able to say that much about the impact of aid on the real economy. Still, aid has certainly had a major impact on the reform process in Tanzania.

Appendix: Aid data

Table A1 Total Grants by Creditor 1970-1996 (US\$)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
CANADA	2.3	3.5	3.9	3.5	6.1	14.8	7.4	7.3	92.1	28.6	19.4	27.2	35.2
EU	0	0	0	0	0	15.1	5.7	10.6	17.8	22.9	22	32.2	20.8
SWITZERLAND	0.4	0.2	0.2	0.5	0.3	0.4	0.6	0.7	2	3.1	14	5.5	5.2
GERMANY	4.2	3.6	5.6	7.8	10.6	13.8	16.9	18.2	22.4	40.8	209	54.5	59
DENMARK	1.5	2.7	4.1	5.5	8.8	6.5	9.7	6.9	19.7	50.1	22.6	32.5	39.1
FINLAND	0	1	2.1	3.1	5.8	4.5	6.3	5.2	8	33.8	17.7	12.8	12.7
FRANCE	0	0	0	0	0	0	0	0	0	0	1.6	1.9	2.7
UNITED KINGDOM	4.3	3.4	3.5	3.4	3.1	8.5	10.4	11.7	19.8	46.5	74.5	56	41.2
ITALY	0.5	0	0.1	0.4	0.1	0.2	0.4	0.8	1.1	1	1.8	10.7	12.3
JAPAN	0.7	0.7	0.7	1	1.9	3.1	2.9	2.7	3.2	13.8	13.3	17.5	10.9
NETHERLANDS	1.1	0.9	2.6	3.4	5.1	8.1	23.4	35.6	91.5	76.2	81.5	68.9	52.2
NORWAY	1.4	2.9	3.5	6.9	10.8	17.2	14.5	25.7	30.7	35.1	44.2	40.1	51.9
SWEDEN	2.1	3.2	9.1	17.5	29.5	54	51.2	57.7	114.4	93.4	78.1	76.5	73.8
UNITED STATES	5	4	4	5	7	17	24	17	11	11	21	25	20
World Bank	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	23.5	26.1	39.4	58	89.1	163.2	173.4	200.1	433.7	456.3	620.7	461.3	437

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
CANADA	33.9	24.7	30.4	27.2	36	42.7	37.1	34.7	29.1	31.7	20.2	10.7	25.4	9.2
EU	19.2	28	28	36.7	34.2	34.2	52.7	41.5	37.7	110.8	65.5	85.7	59.2	40.6
SWITZERLAND	5.8	6.1	6.1	19.2	17	14.5	23.5	19	13.9	29.2	11.9	20	19	15.6
GERMANY	36.3	49.8	32.4	44.9	60.2	68.1	51.9	61	66	68.5	72.4	64.4	67.3	58.7
DENMARK	30.2	29.1	40.1	132.5	49.2	77.8	78.7	78.6	89.1	94.8	80.9	76.6	59.1	91.1
FINLAND	16.9	21.1	16.6	25	33.2	67.2	55.4	51	40.5	34.8	15.7	22.5	9.4	9.1
FRANCE	2.9	1.5	1.3	2	2.4	2.6	16.7	3.2	3	27.7	20.4	12.2	22.7	5.9
UNITED KINGDOM	43.9	29.7	23	17.5	38.6	58.7	60.2	30.6	61.8	100.6	37	40.4	30.3	66
ITALY	7.6	9.4	13.7	17.6	76.5	27.5	13.4	16.1	9.1	19	266.6	10.2	3.7	3.2
JAPAN	12.6	18.3	22.9	30.4	40.9	82.6	56.7	43.4	61.1	79.3	99.6	106.7	125.9	109.5
NETHERLANDS	34.7	40.4	36.3	60.5	73.9	78.9	71.8	94.6	63.7	50.5	55.1	57.8	78.6	74.9
NORWAY	54.8	45.7	45.4	71.8	75.4	79.2	57.6	103	85.7	81.9	68.6	50.5	52.3	53.2
SWEDEN	69.3	55.1	49	106.4	76.5	103.6	90.4	149.6	143	93.1	91	50.8	45.3	65.2
UNITED STATES	14	20	19	7	9	14	6	78	133	27	24	24	18	13
World Bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	382.1	378.9	364.2	598.7	623	751.6	672.1	804.3	836.7	848.9	928.9	632.5	616.2	615.2

Source: DAC data base. Technical assistance is included.

Table A2: Total Disbursements on all EDA loans (US\$ MN)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
	43.354	50.17	92.049	162.551	174.964	254.353	133.353	197.779	162.307	162.466	240.136	554.34	261.041

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
	350.819	358.528	160.872	227.458	205.825	336.728	194.158	287.737	276.387	350.987	200.445	243.845	218.09	202.769

Source: World Bank EDA data base

Table A3: Total Disbursements of EDA Loans by Sector (US\$ mn)

	Creditor type	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
AGRICULTURE, FORESTRY, FISHING	Multilateral	1.28	1.211	0.997	1.868	2.372	18.432	13.905	15.965	15.872	27.009	13.804	27.424	11.892
AGRICULTURE, FORESTRY, FISHING	Bilateral	0.968	1.459	1.052	1.142	2.186	10.07	5.221	12.165	8.274	6.013	11.458	13.881	11.44
BALANCE OF PAYMENTS SUPPORT	Multilateral	0	0	0	0	0	30	0	20.45	0	0	0	10	0
BALANCE OF PAYMENTS SUPPORT	Bilateral	0	0	0	0	0.968	2.31	2.09	1.512	0	0	0	0	0
COMMUNICATION	Multilateral	0	0	0	0	0	0	0	0	0	0	0	0	0
COMMUNICATION	Bilateral	0	0	0	0	0	0	0	0	1.031	6.418	5.31	4.936	3.271
COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES	Multilateral	0.024	0.483	1.265	3.962	1.952	2.857	4.964	9.65	5.458	9.666	7.741	20.076	41.269
COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES	Bilateral	0.747	0.568	1.403	2.863	6.058	5.573	8.214	5.391	8.006	5.642	4.619	4.47	2.781
CONSTRUCTION	Bilateral	0	0	0	0	0	0	0	0	1.817	1.259	0.524	0.205	0
CONTRIB. NOT RECORDED AS DAC F	Multilateral	0	0	0	0	0	0	0	0	0	0	0	0	0
CONTRIB. NOT RECORDED AS DAC F	Bilateral	0	0	0	0	0	0	0	0	0	3.173	0	0	0
CONTRIB.TO FINANCE CURRENT IMP	Multilateral	0	0	0	0	0	0	0	0	0	0	0	0	0
CONTRIB.TO FINANCE CURRENT IMP	Bilateral	0	0	0.067	1.818	2.592	6.928	9.225	6.789	5.634	3.239	16.863	20.383	21.307
DEBT REORGANIZATION	Bilateral	0	0	0	0	0	0	0	0	0	0	0	0	0
ELECTRICITY,GAS,& WATER PRODUC	Multilateral	1.242	7.245	9.333	10.012	8.944	3.422	1.814	3.591	6.232	12.316	40.607	14.907	2.73
ELECTRICITY,GAS,& WATER PRODUC	Bilateral	4.238	7.07	11.321	39.634	21.743	10.69	10.033	10.55	14.342	0.623	10.897	14.827	20.615
FINAN.,INSUR.,REAL ESTATE,BUS.	Multilateral	0	0	1.928	0.817	3.827	6.433	4.818	4.367	8.282	11.136	16.325	10.399	14.05
FINAN.,INSUR.,REAL ESTATE,BUS.	Bilateral	0	0	0.404	0.62	2.401	6.312	6.455	4.533	2.129	1.832	1.602	1.661	1.265
GENERAL PURPOSE CONTRIBUTIONS	Multilateral	0	0	0.223	0.424	0.239	0.713	1.67	10.518	2.699	4.188	3.201	14.224	11.581
GENERAL PURPOSE CONTRIBUTIONS	Bilateral	2.656	3.214	4.32	6.799	8.845	8.371	5.623	5.683	5.785	8.544	14.09	11.545	11.553
MANUFACTURING	Multilateral	0	0	0	0	0	1.603	15.66	18.09	23.269	14.966	17.399	27.859	43.619
MANUFACTURING	Bilateral	3.65	2.359	2.556	31.961	40.69	56.571	29.021	45.148	30.314	18.958	34.279	15.987	11.245
MINING,QUARRYING	Multilateral	0	0	0	0	0	0	0	0	0	0	5.513	23.09	15.005
MINING,QUARRYING	Bilateral	0	0.017	0.028	0.021	0.016	0.01	0.006	0.003	0.004	0	0	0	0
N.A.	Bilateral	0	0	0	0	1.259	2.099	1.775	1.356	0.907	0.546	0.325	273.621	0.988
TRADE,RESTAURANTS,LODGING	Multilateral	0	0	0	0	0	0	0	0	0	0	0.732	0.567	2.305
TRADE,RESTAURANTS,LODGING	Bilateral	2.543	1.959	0.792	0.007	0.002	0	0	0	0	0	0	0	0
TRANSPORT & STORAGE	Multilateral	8.115	6.384	4.49	0.507	2.3	6.611	2.812	3.689	7.547	3.669	12.06	2.407	4.32
TRANSPORT & STORAGE	Bilateral	17.891	18.201	51.87	60.096	68.57	75.348	10.047	18.329	14.705	23.269	22.787	41.871	29.805

	Creditor type	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
AGRICULTURE, FORESTRY, FISHING	Multilateral	11.086	16.053	10.668	11.142	3.544	23.4	15.359	88.887	48.92	126.743	32.766	37.582	29.138	37.519
AGRICULTURE, FORESTRY, FISHING	Bilateral	9.364	6.06	6.315	5.323	0.217	3.523	0.685	2.081	1.975	0.187	3.304	3.551	2.817	0
BALANCE OF PAYMENTS SUPPORT	Multilateral	0	0	0	0	0	0	1.414	2.919	3.094	0	0	0	0	0
BALANCE OF PAYMENTS SUPPORT	Bilateral	0	0	0	0	0	0	0	16.902	0.012	0	0	0	0	0
COMMUNICATION	Multilateral	10.6	5.008	1.767	3.386	5.586	3.385	7.68	5.915	2.611	1.85	1.338	5.1	6.307	27.885
COMMUNICATION	Bilateral	2.417	1.066	0.406	0.227	0.113	0.047	9.919	11.631	6.329	2.938	0	3.565	1.52	0.069
COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES	Multilateral	15.934	15.977	14.529	60.67	54.46	192.083	25.324	12.658	25.806	9.92	14.085	35.411	27.664	22.952
COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES	Bilateral	66.679	8.7	9.527	1.95	1.228	17.144	2.007	0.259	0.066	0.001	0.15	0	0.744	1.074
CONSTRUCTION	Bilateral	9.441	0	1.241	2.462	1.399	0	0	0	0	0.357	0	0	0	0
CONTRIB. NOT RECORDED AS DAC F	Multilateral	0	0	0	0	0	0	0	0	0	0	0	0	1.114	0
CONTRIB. NOT RECORDED AS DAC F	Bilateral	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CONTRIB.TO FINANCE CURRENT IMP	Multilateral	0	0	0	0.329	0.711	1.51	0.185	2.984	7.5	0	0	0	0	0
CONTRIB.TO FINANCE CURRENT IMP	Bilateral	15.116	1.684	0.01	11.241	0.638	0.506	0.349	0.216	0.484	0	0	8	0	0
DEBT REORGANIZATION	Bilateral	0	6.123	0.75	1.699	1.801	1.329	16.817	5.506	8.249	5.687	7.493	0	0	0
ELECTRICITY,GAS,& WATER PRODUC	Multilateral	3.339	14.298	9.43	18.409	8.464	26.44	15.488	13.218	5.635	5.643	4.454	13.954	57.877	51.547
ELECTRICITY,GAS,& WATER PRODUC	Bilateral	34.455	26.055	14.87	26.487	2.299	7.687	11.481	12.296	16.125	69.748	4.369	1.35	23.753	2.612
FINAN..INSUR.,REAL ESTATE,BUS.	Multilateral	8.43	5.51	0.326	2.83	0.001	0	0	0	49.947	46.783	68.679	61.414	14.027	16.941
FINAN..INSUR.,REAL ESTATE.BUS.	Bilateral	1.238	1.001	2.805	0.383	0	0.068	0.027	0.018	0	0	0	1.103	0	0
GENERAL PURPOSE CONTRIBUTIONS	Multilateral	0.355	2.854	7.86	3.499	4.011	2.168	1.804	0.211	0	0.132	0	0	0	0
GENERAL PURPOSE CONTRIBUTIONS	Bilateral	6.972	4.101	2.447	2.335	4.896	6.673	4.23	7.787	7.113	6.021	0.921	0	0.873	2.947
MANUFACTURING	Multilateral	44.59	31.453	15.827	12.373	7.836	4.634	52.574	50.576	35.853	21.72	7.152	3.472	1.974	0
MANUFACTURING	Bilateral	23.279	6.6	0.946	25.068	0.024	1.219	0	1.069	1.787	3.167	0	0	0	0
MINING,QUARRYING	Multilateral	4.646	0.741	0.573	3.674	1.863	0.661	2.668	4.556	0.342	0.601	0.411	0	1.535	1.623
MINING,QUARRYING	Bilateral	34.201	180.532	10.346	5.939	2.374	1.583	0	0	0	0.011	7.935	0	0	0
N.A.	Bilateral	0.005	0.096	19.167	0.067	75.707	0	0	0	0	0	0	0	0	0
TRADE,RESTAURANTS,LODGING	Multilateral	2.441	1.194	0.002	0.18	0	0	0	0.654	5.209	0	8.038	0	0	0
TRADE,RESTAURANTS,LODGING	Bilateral	0	0	0	0	0	0	0	0	0	0	0	6.203	0	0
TRANSPORT & STORAGE	Multilateral	13.566	6.784	17.469	20.908	15.025	24.322	9.928	22.658	41.687	46.203	38.541	57.941	47.617	37.6
TRANSPORT & STORAGE	Bilateral	32.665	16.638	13.591	6.877	13.628	18.346	16.219	24.736	7.643	3.275	0.809	5.199	1.13	0

Source: World Bank EDA data base

Table A4: Total Disbursements by Sector (US\$ mn)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	
AGRICULTURE, FORESTRY, FISHING	2.248	2.67	2.049	3.01	4.558	28.50	19.12	28.13	24.14	33.02	25.26	41.30	23.33	20.45	22.11	16.98	16.46	3.761	26.92	16.04	
BALANCE OF PAYMENTS	0	0	0	0	0.968	32.31	2.09	21.96	0	0	0	10	0	0	0	0	0	0	0	1.414	
SUPPORT								2													
COMMUNICATION	0	0	0	0	0	0	0	0	1.031	6.418	5.31	4.936	3.271	13.01	6.074	2.173	3.613	5.699	3.432	17.59	
COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES	0.771	1.051	2.668	6.825	8.01	8.43	13.17	15.04	13.46	15.30	12.36	24.54	44.05	82.61	24.67	24.05	62.62	55.68	209.2	27.33	
CONSTRUCTION	0	0	0	0	0	0	0	0	1.817	1.259	0.524	0.205	0	9.441	0	1.241	2.462	1.399	0	0	
CONTRIB. NOT RECORDED AS DAC F	0	0	0	0	0	0	0	0	0	3.173	0	0	0	0	0	0	0	0	0	0	
CONTRIB.TO FINANCE CURRENT IMP	0	0	0.067	1.818	2.592	6.928	9.225	6.789	5.634	3.239	16.86	20.38	21.30	15.11	1.684	0.01	11.57	1.349	2.016	0.534	
DEBT REORGANIZATION	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6.123	0.75	1.699	1.801	1.329	16.81
ELECTRICITY,GAS,& WATER	5.48	14.31	20.65	49.64	30.68	14.11	11.84	14.14	20.57	12.93	51.50	29.73	23.34	37.79	40.35	24.3	44.89	10.76	34.12	26.96	
PRODUC		5	4	6	7	2	7	1	4	9	4	4	5	4	3		6	3	7	9	
FINAN.,INSUR.,REAL ESTATE,BUS.	0	0	2.332	1.437	6.228	12.74	11.27	8.9	10.41	12.96	17.92	12.06	15.31	9.668	6.511	3.131	3.213	0.001	0.068	0.027	
GENERAL PURPOSE	2.656	3.214	4.543	7.223	9.084	9.084	7.293	16.20	8.484	12.73	17.29	25.76	23.13	7.327	6.955	10.30	5.834	8.907	8.841	6.034	
CONTRIBUTIONS								1		2	1	9	4		7						
MANUFACTURING	3.65	2.359	2.556	31.96	40.69	58.17	44.68	63.23	53.58	33.92	51.67	43.84	54.86	67.86	38.05	16.77	37.44	7.86	5.853	52.57	
MINING,QUARRYING	0	0.017	0.028	0.021	0.016	0.01	0.006	0.003	0.004	0	5.513	23.09	15.00	38.84	181.2	10.91	9.613	4.237	2.244	2.668	
N.A.	0	0	0	0	1.259	2.099	1.775	1.356	0.907	0.546	0.325	273.6	0.988	0.005	0.096	19.16	0.067	75.70	0	0	
TRADE,RESTAURANTS,LODGING	2.543	1.959	0.792	0.007	0.002	0	0	0	0	0	0.732	0.567	2.305	2.441	1.194	0.002	0.18	0	0	0	
TRANSPORT & STORAGE	26.00	24.58	56.36	60.60	70.87	81.95	12.85	22.01	22.25	26.93	34.84	44.27	34.12	46.23	23.42	31.06	27.78	28.65	42.66	26.14	
	6	5		3		9	9	8	2	8	7	8	5	1	2		5	3	8	7	

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
AGRICULTURE, FORESTRY, FISHING	20.45	22.113	16.983	16.465	3.761	26.923	16.044	90.968	50.895	126.93	36.07	41.133	31.955	37.519
BALANCE OF PAYMENTS SUPPORT	0	0	0	0	0	0	1.414	19.821	3.106	0	0	0	0	0
COMMUNICATION	13.017	6.074	2.173	3.613	5.699	3.432	17.599	17.546	8.94	4.788	1.338	8.665	7.827	27.954
COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES	82.613	24.677	24.056	62.62	55.688	209.227	27.331	12.917	25.872	9.921	14.235	35.411	28.408	24.026
CONSTRUCTION	9.441	0	1.241	2.462	1.399	0	0	0	0	0.357	0	0	0	0
CONTRIB. NOT RECORDED AS DAC F	0	0	0	0	0	0	0	0	0	0	0	0	1.114	0
CONTRIB.TO FINANCE CURRENT IMP	15.116	1.684	0.01	11.57	1.349	2.016	0.534	3.2	7.984	0	0	8	0	0
DEBT REORGANIZATION	0	6.123	0.75	1.699	1.801	1.329	16.817	5.506	8.249	5.687	7.493	0	0	0
ELECTRICITY,GAS,& WATER PRODUC	37.794	40.353	24.3	44.896	10.763	34.127	26.969	25.514	21.76	75.391	8.823	15.304	81.63	54.159
FINAN.,INSUR.,REAL ESTATE,BUS.	9.668	6.511	3.131	3.213	0.001	0.068	0.027	0.018	49.947	46.783	68.679	62.517	14.027	16.941
GENERAL PURPOSE CONTRIBUTIONS	7.327	6.955	10.307	5.834	8.907	8.841	6.034	7.998	7.113	6.153	0.921	0	0.873	2.947
MANUFACTURING	67.869	38.053	16.773	37.441	7.86	5.853	52.574	51.645	37.64	24.887	7.152	3.472	1.974	0
MINING,QUARRYING	38.847	181.273	10.919	9.613	4.237	2.244	2.668	4.556	0.342	0.612	8.346	0	1.535	1.623
N.A.	0.005	0.096	19.167	0.067	75.707	0	0	0	0	0	0	0	0	0
TRADE,RESTAURANTS,LODGING	2.441	1.194	0.002	0.18	0	0	0	0.654	5.209	0	8.038	6.203	0	0
TRANSPORT & STORAGE	46.231	23.422	31.06	27.785	28.653	42.668	26.147	47.394	49.33	49.478	39.35	63.14	48.747	37.6

Source: World Bank EDA data base.

Table A5: Disbursements on EDA loans by Creditor 1970-1996 (US\$ M)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
ADB	0	0	1.928	4.85	3.983	6.524	1.038	0.574	10.605	1.018	36.233	22.215	8.224
CANADA	1.158	1.46	4.646	37.74	17.989	4.871	5.764	1.121	0	0	0	0	0
SWITZERLAND	0	0	0	0	0	0	0	0	0	0	0	0	0
GERMANY	0.042	0.746	1.264	3.322	7.01	10.518	9.48	12.965	23.308	7.689	7.289	3.948	2.239
DENMARK	2.368	2.026	1.373	1.067	8.858	8.268	13.426	24.189	21.296	8.632	15.061	2.174	0.524
FINLAND	0	0	0.481	0.853	0.869	7.212	5.965	3.538	1.846	0	0	0	8.52
FRANCE	0	0	0	0	0	0	0	0	0	7.714	25.094	25.571	20.805
UNITED KINGDOM	0	0	0	0.235	0.253	0.129	0.042	0.021	0.565	0.694	0.412	1.123	1.552
ITALY	2.12	1.142	1.562	1.38	0.601	0.263	0.082	0.019	0	0	4.307	3.899	3.646
JAPAN	0	0	0	22.385	38.797	31.762	22.377	13.606	15.066	16.556	17.846	36.262	32.107
NETHERLANDS	0	0.206	0.722	2.325	5.055	8.135	7.18	6.207	0.054	1.578	1.353	1.322	1.467
NORWAY	0.013	0.013	0	0	0	0	0	0	0	0	1.232	1.396	0.416
SWEDEN	7.923	10.254	10.833	6.893	4.219	2.223	1.129	0.39	0	0	0	0	0
UNITED STATES	4.37	9.472	4.213	2.998	3.261	12.233	5.023	11.82	6.555	9.013	8.471	8.892	8.163
World Bank	10.661	15.323	16.085	12.075	14.161	59.804	39.383	63.367	52.061	72.69	70.104	98.086	107.238
Total	28.655	40.642	43.107	96.123	105.056	151.942	110.889	137.817	131.356	125.584	187.402	204.888	194.901

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ADB	7.012	10.407	22.772	34.381	0.29	133.204	4.215	0.052	24.402	1.515	13.114	10.908	6.548	51.644
CANADA	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SWITZERLAND	0	0	0	0	0	0	0	0	0	0.357	0	0	0	0
GERMANY	1.512	0.985	0.654	0	0	0	0.107	0.124	0	0	0	0	0	0
DENMARK	3.207	2.274	0.034	22.975	0	0	0	0	0	0	0	0	0	0
FINLAND	0	5.835	0	0.333	0	0	0	0	0	0	0	0	0	0
FRANCE	11.627	5.171	1.902	1.507	1.176	0.919	2.216	4.091	4.501	1.45	0	0	0	0
UNITED KINGDOM	0.56	0.369	0.231	11.101	0.345	0.18	0.782	18.722	2.147	0.067	3.454	10.599	2.817	0
ITALY	10.234	24.96	15.168	29.231	20.152	30.813	30.363	36.466	22.503	77.671	5.368	0.214	23.753	2.681
JAPAN	17.185	4.641	8.899	5.351	0.247	0.102	0.051	5.139	7.912	5.622	7.493	0	0	0
NETHERLANDS	1.32	0.676	0.399	0.141	0.057	0.023	0.014	0	0	0	0	0	0	0
NORWAY	0.157	0	0	0	0	0	0	0	0	0	0	0	0	0
SWEDEN	0	0.521	0	0	0	0	0	0	0	0	0	0	0	0
UNITED STATES	6.676	4.325	1.859	0.575	0.217	0.052	0	0.261	0	0	0	0	0	0
World Bank	90.251	74.345	45.903	92.73	95.004	137.771	116.284	189.297	180.664	237.796	155.891	183.203	159.774	136.111
Total	149.741	134.509	97.821	198.325	117.488	303.064	154.032	254.152	242.129	324.478	185.32	204.924	192.892	190.436

Source: World Bank EDA data base

Table A6: Total Grant Element by Creditor 1970-1996

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
African Development Bank	0	0	0.059068	-0.219959	-0.008669	0.672122	-8.64454E-	-2.21349E-	4.095906	-0.014364	15.44780	8.960966	1.009146
CANADA	0.428885	0.847759	4.077151	32.15810	15.70584	4.312462	4.921095	0.954465	0	0	0	0	0
SWITZERLAND	0	0	0	0	0	0	0	0	0	0	0	0	0
GERMANY	0	0.358599	0.607601	2.301310	5.388103	8.352197	7.589165	10.29757	17.78176	5.504168	5.298418	2.870716	1.633721
DENMARK	0	0.077785	0.349752	0.605820	6.142921	6.691987	10.60145	19.36068	17.95983	7.178247	13.30686	1.891968	0.453129
FINLAND	0	0	0.235896	0.428941	0.436987	4.073034	2.070643	0.534894	0.120133	0	0	0	1.176416
FRANCE	0	0	0	0	0	0	0	0	0	0.799027	7.499406	6.939984	6.985513
UNITED KINGDOM	0	0	0	6.74772E-	7.26456E-	3.70407E-	1.20597E-	6.02987E-	0.073153	0.090798	0.053903	0.156812	0.248030
ITALY	0	0	0.074119	0.083336	0.040274	0.016187	0.006350	0.001471	0	0	0.114621	0.103763	0.545133
JAPAN	0	0	0	2.673332	4.663534	3.839221	2.704419	1.650193	3.937501	6.266033	9.210448	22.39592	19.25626
NETHERLANDS	0	0.084988	0.279146	1.112096	3.182486	5.739715	5.200835	4.433109	0.004265	0.960408	0.926012	0.913500	0.920965
NORWAY	0	0	0	0	0	0	0	0	0	0	0.460238	0.521503	0.155405
SWEDEN	0.226757	0.182973	-0.029109	0.008076	-0.015288	-0.018836	-0.024991	1.02117E-	0	0	0	0	0
UNITED STATES	1.510034	2.166728	1.575552	1.336404	1.499387	6.546919	2.712198	6.481516	3.486323	2.944059	2.583836	4.078003	4.577506
World Bank	0	-0.024220	0.530551	1.117831	3.375268	14.71110	21.49838	30.52487	20.46963	31.78776	29.62509	63.81241	81.77445
Total	2.165676	3.694615	7.759730	41.60596	40.41157	54.93648	57.27881	74.23863	67.92851	55.51614	84.52665	112.6455	118.7356

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
African Development Bank	5.931847	9.040213	17.23824	28.35543	0.111428	103.7071	3.255719	0.008935	18.89661	1.145093	9.513868	7.717076	3.927583	35.31172
CANADA	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SWITZERLAND	0	0	0	0	0	0	0	0	0	0.086695	0	0	0	0
GERMANY	0.968862	0.533921	0.351928	0	0	0	-0.034962	-0.040517	0	0	0	0	0	0
DENMARK	2.858558	2.023903	0.029039	20.23753	0	0	0	0	0	0	0	0	0	0
FINLAND	0	1.887951	0	0.045979	0	0	0	0	0	0	0	0	0	0
FRANCE	4.799597	2.375770	1.127927	0.696489	0.342149	0.214480	0.695216	1.283022	1.398497	0.454902	0	0	0	0
UNITED KINGDOM	0.107953	0.053687	0.025175	6.596000	-0.013186	-0.008057	-0.037344	1.835822	-0.140262	0.003590	0.116446	-1.062441	0.270265	0
ITALY	3.813431	12.21083	6.770602	11.90796	9.694800	15.00536	14.58652	17.50653	10.96460	33.01884	3.532701	0.148883	16.52540	1.593231
JAPAN	10.03737	2.654794	4.777057	2.451754	0.156750	0.064755	0.032782	0.926615	1.524406	1.123954	1.646417	0	0	0
NETHERLANDS	0.792835	0.395292	0.228568	0.075769	0.034948	0.014101	0.008583	0	0	0	0	0	0	0
NORWAY	0.058650	0	0	0	0	0	0	0	0	0	0	0	0	0
SWEDEN	0	-0.096700	0	0	0	0	0	0	0	0	0	0	0	0
UNITED STATES	4.284486	2.907917	1.276863	0.396112	0.149002	0.035562	0	0.037709	0	0	0	0	0	0
World Bank	54.76558	42.79851	28.81201	69.67844	72.43180	107.0718	87.70944	142.7214	136.3662	179.5619	106.7344	132.7891	110.0874	93.21205
Total	88.41918	76.78610	60.63742	140.4414	82.90769	226.1052	106.2159	164.2795	169.0100	215.3950	121.5438	139.5926	130.8107	130.1170

Source: World Bank EDA data base

Table A7: Total Technical Assistance Grants (US\$ mn)

YEARS	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Tanzania	21.4	24.0	34.8	41.2	48.6	60.2	77.0	80.2	106.5	138.6	172.9	176.8	181.2
TOTAL	437.6	503.5	594.5	693.9	786.4	1 015.4	1 038.6	1 106.9	1 378.2	1 687.6	2 206.7	2 206.0	2 072.3

YEARS	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Tanzania	173.9	138.7	141.4	163.4	186.7	210.2	202.4	209.4	209.0	236.5	238.9	211.9	266.7	254.2
TOTAL	2 071.5	2 010.0	2 227.4	2 769.6	2 989.1	3 331.1	3 371.6	3 667.6	3 767.8	4 160.8	4 185.5	3 651.7	4 178.1	3 915.8

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