

**ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(E S R F)**

**Aid Effectiveness in Tanzania:
The Case of Danish Aid**

Policy Dialogue Series No. 007

Aid Effectiveness in Tanzania: The Case of Danish Aid

Published by: Economic and Social Research Foundation
P.O. Box 31226 ● 51 Uporoto Street
Dar es Salaam, Tanzania

Printed by: *Change Publications Ltd.*

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ABREVIATIONS

DANIDA	Danish International Development Agency
DTV	Dar es Salaam Television Network
ESRF	Economic and Social Research Foundation
ERB	Economic Research Bureau
IMF	International Monetary fund
NGOs	Non-Governmental Organisations
ODC	Overseas Development Council
OECD	Organisation for Economic Cooperation and Development
SSA	Sub-Saharan Africa
TANGO	Tanzania Association of Non-Governmental Organisation
UNDP	United Nations Development Programme
USAID	United Nations Agency for International Development

PREFACE

The Workshop to discuss Aid Effectiveness in Africa was convened by the Economic Research Bureau (ERB) and the Economic and Social Research Foundation (ESRF), in collaboration with the Overseas Development Council (ODC). This Workshop was a follow-up action after a number of case studies on aid effectiveness had been completed in a number of countries: Botswana, Burkina Faso, Ghana, Kenya, Senegal, Tanzania and Zambia. The aim of the Workshop was to look into how aid relations and aid management could be improved and the impact of the economic crisis on aid effectiveness to improve aid effectiveness.

Case studies on aid effectiveness in Tanzania, Botswana and Zambia were presented and comparisons made. The Botswana case was exemplary. Through careful use of aid funds on previously ear-marked projects, Botswana has achieved an economic breakthrough to the extent that the country is being phased out of the list of countries that should be given aid.

Workshop participants came from far and wide: the Centre for Development Studies in Denmark; the University of Botswana; Scandinavian Institute for African Studies in Sweden; the Overseas Development Council in the USA; the International Centre for Economic Growth in Nairobi, Irish Aid, Dublin, and the African Association of Political Scientists in Harare. Participants from within Tanzania included the Embassy of Finland; the Economic Research Bureau (ERB); Tanzania Association of Non-Governmental Organizations (TANGO); the National Housing Corporation (NHC); the United Nations

Development Organizations (**UNDP**) **TADREG/AFRO AID**; the United States Agency for International Development (**USAID**); and the Economic and Social Research Foundation (**ESRF**). Media representatives such as the Daily News; Dar es Salaam Television Network (**DTV**); Channel Africa; and the Guardian, were also present.

The main speakers and discussants in the workshop were: Prof. S.M. Wangwe (**ESRF**), Dr. G. Mjema and Dr. J. Shitundu (**ERB**), Mr. Jensen and S. Olsen (**DANIDA**), Mr. T. Johnston (**ODC**), Mr. Nicolas van de Walle, (**ODC**), Mr. R. Brigish, Resident Representative (World Bank) Dr. Jackson (**UNDP**), and Mr. Jerker Carlsson (**SIAS**).

The Workshop was dedicated to the late Prof. Mboya Serapnoi Daniel Bagachwa who was a collaborative member of the Tanzanian study team before his death on 9 April, 1996.

AID EFFECTIVENESS IN TANZANIA : THE CASE OF DANISH AID

1.0 Introduction

During the first five post-independence years (1961-66) Tanzania pursued an economic strategy which was principally inspired by the World Bank. This strategy conceived development within the conventional framework of maximizing growth in a predominantly market-led economy. It was envisaged that foreign and local private investments would have been attracted to catalyse development. The result was contrary to expectations. Very little foreign capital was forthcoming. However, in time, it also dawned on the policy planners that such a strategy would have promoted an urban class elite and would have neglected rural development and thus widen the urban - rural development differential. The Arusha Declaration, a blue print for constructing a socialist and self reliant nation, was adopted in February 1967 as a strategic intervention to replace the World Bank - inspired development paradigm. This Declaration put emphasis on promoting egalitarian development, rural development, provision of basic

needs for the masses and placed the major means of production, distribution and exchange under the ownership and control of the State. On foreign aid, the Arusha Declaration was categorical that aid should only be accepted as a means for building self-reliance. However, the implementation of the Arusha Declaration was not accompanied by explicit economic policies which could steer the economy in the desired direction. The Basic Industry Strategy adopted in 1974 as one of the policy instruments of the Arusha Declaration, aimed at promoting structural change and self-reliance through further entrenchment of the State enterprise sector. Paradoxically, its investment programme was overly dependent on foreign aid and credit. Overtime, this largely import-substituting industrialisation strategy became a foreign exchange guzzler, making Tanzania even more and more dependent on foreign aid rather than building self reliance capacity.

This policy dialogue paper analyses the experience of Danish Aid to Tanzania, provides a broad context for reviewing aid effectiveness and locates the challenges which confront Tanzania in trying to improve aid utilisation through ownership of the development agenda and proposes policies and strategies

which need to be adopted to bring about this improvement.

2.0 Current Status

Tanzania has been the foremost sub-Saharan Africa (SSA) recipient of bilateral aid during the 1970s and 1980s. In per capita terms, however, Tanzania's aid receipts have been comparatively modest amounting to US \$ 17 in 1985 and rising to US \$ 31 in 1992. Generally, these receipts have averaged slightly more than US \$ 30 per capita per annum during the period 1989-92. Over the 1980-92 period, the per capita Official Development Assistance (ODA) for Tanzania averaged around US \$ 27.1.

However, aid levels fell in the early 1980s; dropping from about US \$ 700 million in 1982 to about US \$ 490 million in 1985. The level rose again after an agreement was reached with the IMF in 1986. Thus between 1986 and 1990, aid reached a peak of US \$ 1151 million per annum. Since 1990, however, the level of aid has declined gradually to US \$ 814 million in 1995. In the specific context of Danish aid, the assistance rose from US \$ 344 million in 1970 to about US \$

1430 million in 1992. This increased level of Danish aid raised Denmark's share of aid from 1.2% to 2.1% of the total of the OECD countries contributions. Indeed, relative to total aid to Tanzania, Danish aid accounts for about 10% of total ODA to Tanzania. The inflows from Denmark were US \$ 37 million (1985), US \$ 35 million (1986) and US \$ 95 million (1992). Throughout the 1970s and the 1980s, Tanzania remained the most favoured and the largest recipient of Danish aid world-wide. In this vein, between 1989-1992, Tanzania received more than one-quarter of Danish total bilateral assistance to the 20 aid programme countries.

2.1 Forms of Danish Aid

Generally, Denmark has maintained almost equal shares in her bilateral and multilateral development assistance. Overtime, the share of bilateral aid has been slightly higher. In any case, a relatively high share of Danish aid is channelled into multilateral activities. Thus International Organisations received 44% of Danish ODA in 1993 and 45% in 1994. The loan element of aid has also declined in favour of the grant

element. The Danish portfolio of resource transfers has taken four main forms:

- (i) Danish capital goods (hardware) through state loan-funded projects;
- (ii) Danish commodities provided as balance of payments support;
- (iii) Danish technical assistance or know how; and
- (iv) International know how provided through financing and contracting out to agencies of the United Nations.

2.2 Sectoral Composition of Danish Aid

Whereas in the 1960s and the early 1970s most projects which benefited from Danish aid were in the agricultural and transport sectors, the industrial and energy sectors became the new beneficiaries during the second half of the 1970s. On the other hand, the transport sub-sector emerged as the most important aid recipient during the late 1980s and early 1990s. In a nutshell, the share of Danish aid to productive sectors (agriculture, industry and construction) declined from 56% in 1980 to 35.2% during 1983-85; and declined further to 11.4%

during 1990-1993. Over the same period, its share to social and economic infrastructure increased from 32% in 1980 to 69.2 during 1990-1993.

3.0 Challenges

It is widely recognised in Tanzania that aid has neither promoted self-reliance nor has it enhanced utilization of local resources. Indeed, it is generally considered that aid effectiveness has been undermined and that the control and ownership by Tanzania over its development agenda has been reduced considerably. This situation demands rectification. Obviously there are several challenges that must be addressed if Tanzania is to manage its aid portfolio more effectively and in the interest of building sustainable self reliance. Some of the more critical challenges are the following:

- Reducing dependence while increasing reliance on local resources, efforts and initiatives.
- Restructuring aid relationships in ways which ensure control and ownership of the development agenda by Tanzanians.
- Utilizing aid and capital inflows in ways which complement rather than replace domestic

resources, efforts and initiatives.

- Deploying aid and capital to raise the level of technological and institutional capabilities and competitiveness of local economic activities.
- Rationalising aid coordination both at intra-government, inter-donor and government-donor levels.
- Developing a national framework on the basis of which aid and capital flows can be accepted and absorbed into the economy with maximum effectiveness.
- Shifting the allocation of aid from intensive use of the limited capacity of the government's administrative machinery in favour of capacity building.
- Incorporating the national aid strategy in the overall national development strategy.

4.0 Policies and Strategies

The challenges posed by the new realities which underpin development aid and assistance, decline in aid flows and optimal use of aid necessitate the development of effective

policy and strategy responses. The following policies and strategies are central to addressing these challenges:

- Put in place policies and incentives to encourage mobilisation and utilization of domestic resources (human and capital).
- Promote self-reliance and encourage the utilization of aid and capital inflows only to the extent that they complement rather than replace domestic resources, efforts and initiatives.
- Improve the national aid absorptive capacity with a view to enhance the effectiveness of aid.
- Discourage aid parallel project management systems.
- Discourage donors from operating and implementing aid projects/programmes outside the formal administrative machinery.
- Provide more information on programmes/projects which are aid funded in order to enhance transparency and encourage open debate.
- Solicit from donors full information on expenditures which they incur directly.

especially expenditures under technical assistance and project commodity assistance programmes.

- Phase out foreign aid projects and programmes smoothly after building local capacities.
- Put in place mechanisms of coordination of aid activities.
- Decentralise decision making from the centre to the field offices to ensure optimal use of aid.
- Encourage donors to learn and adequately understand the local conditions with a view to promoting local ownership and sustainability of development aided programmes.
- Ensure that the allocation of aid is determined by sectoral priorities, policies and strategies.
- Develop national and sectoral frameworks and strategies which would guide the formulation and implementation of development programmes and projects.

5.0 Areas for Further Research

A number of areas for further research emerge from the subject of aid. These are the following:

- The relationship between the National Development Vision and the role of aid and aid effectiveness.
- The role of aid in enhancing democracy, democratic values and institutions and human rights.
- Whether aid conditionality improves accountability on the part of the recipient or not.
- The impact of close contacts between Donor Private Sector and NGOs and similar organisations in aid recipient countries in the development cooperation framework.