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POLICY ANALYSIS AND ECONOMIC MANAGEMENT: LESSONS FOR ACTION IN FUTURE

By Enos S. Bukuku

Paper Presented at the Workshop on Capacity Building in Policy Analysis in Tanzania held in ESRI Headquarters Dar es Salaam on 20 - 21 November, 1995

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Introduction:

From the late 1970s up to the mid-1980s the Tanzanian economy encountered serious macroeconomic and structural difficulties. External shocks, policy mistakes and inherent weaknesses and inefficiencies in economic management compounded the difficulties. The government did not respond coherently to the emerging difficulties because of two principal reasons. One was the refusal to embrace so-called unworkable neoclassical policy prescriptions. The other was the government's lack of the analytical and organizational capacity to diagnose the problems and to outline realistic ways of solving them. During the pre-reform years, policy-making was highly centralized with the President playing a key Civil servants were by and large reluctant to present critical assessments of various policy measures, probably reflecting their sense of job insecurity or merely self-censorship under single party rule. cabinet as a policy forum did not have sharp debates -- the then President Julius Nyerere had an overwhelming weight over the entire cabinet. When for example the IMF suggested scrapping off food subsidies and introducing cost-sharing measures in the social sectors, the government's response was not founded on strong technical information on the cost of government activities. The government did not have a comprehensive view of how much, say, health and education should cost and how much they actually did cost. The response was essentially an ideological one, not based on a well-informed policy research.

The early phase of the economic reform programme (ERP) could be easily managed by a few political leaders and technocrats (Minister for Finance, Principal Secretary to the Treasury, Central Bank Governor, etc). The longer term transition from socialist to market institutions is more farreaching and demands the availability of more skilled professionals. With political and economic liberalization there are demands for increased transparency and accountability which in turn increase public interest and debate with regard to policy directions. This new situation requires a sharper elaboration of public policy and public decision making. It requires better skilled policy designers.

Given the experience acquired thus far in public policy making it is evidently obvious that there is need for an improved technical capacity in areas of economic policy analysis, revenue forecasting and collection, budgeting, government accounting, and auditing. Currently the government budget runs into serious problems partly because of revenue shortfalls and over spending as well as purely due to under-budgeting.

In what follows the paper discusses capacity for policy making in Tanzania, problems encountered in policy analysis and economic management, institutional and technical problems, and concludes with main challenges and appropriate courses of action in future.

Capacity for Policy Making in Tanzania: The 1961 - 67 Period

As is widely known, there was limited capacity for policy making at the time of independence in 1961. However, a small group of Tanzanians was beginning to grow slowly to form the core of policy analysts. These were essentially college graduates from within East Africa, from Europe and from North America. Much of the policy analysis that was done during the first six years of independence was done with the assistance of expatriate personnel in government ministries. Some additional policy analysis was handled via expatriate consultants and via technical assistance from multilateral institutions such as the IMF, the World Bank, the UNDP, the FAO, UNIDO, and the ILO. The government continued to train some of the civil servants in public policy management as well as to recruit college graduates. Much of the effort of these new recruits was directed at establishing an independent government administration at the central level, in regions and in districts. Other graduates were allocated to important public sector institutions.

During the first few years of independence there wasn't really a lot of challenging situations that demanded a sharper focus at policy analysis. This is because the economy was left to function more-or-less along the general lines as left by the colonial administration. The rules of the game were straight forward -- fiscal prudence and the maintenance of a budget surplus. The new administrators were preoccupied with project - appraisal type of policy analysis whereby they had to ensure that calculations for net present values or sound cost - benefit - analyses were made for the various developmental projects that were being undertaken. There were limited goals to be pursued and the economy had not become as complex as it is

today nor was it faced by many challenges as had been the case during the 1980-85 period.

Enter the Policy of Socialism and Self-Reliance: Changes in Policy Stances

As mentioned above, during the first six years of independence there was the beginnings of the growth of a core group of policy analysts in government ministries and some public institutions. The adoption of the "Policy of Socialism and Self-Reliance" in 1967 led in some respects to the relegation to a secondary position the need for rigorous policy analysis. What seemed to step in was "revolutionary zeal" and general type of policy prescriptions that augured well with the need to capture the "commanding heights" of the economy. More specifically, policy analysis as seen in the light of the workings of a competitive market economy was becoming less and less "needed". Political dictates and the dictates of the central planning organs gave direction to the course of direction for the "policy analysis". Professionalism was not promoted instead it was actually played - down. In finance one tended to see more directed credit programs rather than programs resulting from rigorous economic analysis.

The adoption of the "Policy of Socialism and Self-Reliance", state intervention in the economy, widespread disincentives in the agriculture sector, mounting and unsustainable balance of payments deficits, declining GDP growth and a general decline in the standards of living for the majority during the 1980-85 period clearly called for policy reform efforts in order to arrest the economic decline and bring about renewed growth. However, policy reform was resisted on ideological grounds. The ruling party and the government in power rather than embarking on rigorous policy analysis in order to weigh workable policy options adopted the position of simply refusing change and reform on ideological grounds. Even when all indications pointed to the need for devaluation and reorientation of government expenditures the ruling party and the organized public rallies government resisted change and and demonstrations to support their cause.

Capacity for Policy Making in Tanzania: The 1980-85 Period

After the 1978-79 War with Iddi Amin's Uganda, the economy of Tanzania underwent serious strains. In place was an economic structure that needed reforming. However, due to resistance to change and reform

the economy continued to experience strains despite a clear need for implementing reform.

After the War with Uganda the government in power as well as the ruling political party interpreted the crisis as a temporary one and gave an estimate of 18 months as the time needed to stem the crisis. In early 1980 the IMF advised the government to cut down expenditure on welfare-type programs and to do away with food subsidies. However, the "most dreaded advise" as far as the government was concerned was to devalue the Tanzanian shilling. All these policy prescriptions were rejected. The analysis to reject such policy prescriptions was based more on ideological and philosophical grounds rather than on rigorous economic analysis. Doing away with food subsidies was rejected on the grounds that workers would take to the streets for demonstrations against the government and the police could be forced into a situation whereby they would have to shoot their fellow citizens. The call by the IMF/World Bank for cutting down expenditures was conveniently interpreted by the government as cutting down expenditures on health and education and instead introducing cost-sharing measures. This was also rejected as being "anti-people". In resisting IMF/World Bank pressure, Tanzania cited a number of countries where devaluation, removal of food-subsidies and cost-sharing measures were followed by food-riots. Economists at IDS Sussex, Cambridge University, UK, the ILO Headquarters in Geneva and a few others both within and outside Tanzania rallied behind the then Tanzanian President Nyerere in resisting change and rationalizing the resistance. Again there was no serious and rigorous economic analysis to support their cause.

Without having a program with the IMF Tanzania was denied access to potential donor funding. Internal solutions to the crisis culminated into two main programs: The National Economic Survival Program (NESP) and the Structural Adjustment Program (SAP). The NESP was an unrealistic program and the underlying analysis was based partly on populism and partly on wishful thinking. The export targets in NESP were completely out of range with reality and reflected the policy analysts' and politicians' contempt for the role of incentives in production and for statistical trend analysis including analysis of potential GDP and its growth or lessons from frontier production functions.

The SAP was an improvement from the NESP and it relied on analysis from the Tanzania Advisory Group which was a grouping of Tanzanian and World Bank identified consultants. However, even the SAP was inadequate in that it prescribed piecemeal solutions when in fact major and deep seated solutions would have been more appropriate. More specifically, given the extent of the economic crisis what was needed was a major policy reversal designed to promote incentives, investments and agricultural growth. The Economic Recovery Program (ERP) launched in 1986 tried to address the right questions.

Enter the Economic Recovery Program (1986 - 90)

Meaningful policy changes in Tanzania were brought about by the adoption of an Economic Recovery Program that embraced market processes. Policy analysis during this time was less dogmatic and tended to rely on the traditionally known instruments: prices, interest rates, exchange rates, investment, saving, supply and demand, etc. During the 1967-85 period there was a tendency among policy analysts to succumb to populism, ruling political party pressure or revolutionary zeal. Neoclassical economic analysis was certainly scorned as being imperialist, anti-people, pro-IMF, etc, etc. More importantly, professional economists were not insulated from potential bashing from the ruling party.

But even the coming of the ERP did not mean smooth sailing for policy analysts. The ruling party's ideological indoctrination had firmed up and taken deep roots over the 1967-85 period. Ruling party stalwarts continued to resist change during the 1986-90 period even though by the mid-1980s it was clear that there was need for policy change and for reducing state intervention in the African economies in general and in the Tanzanian economy in particular.

As explained in Bukuku (1993, 157-8), the political leadership in Tanzania responded to problems of growth and development not essentially by policy means but rather by administrative means and by setting up new administrative units. This of course swelled the size of the public sector. Together with the proliferation of state-owned enterprises (established to solve problems, to enhance growth, to augment treasury revenues or to increase state control over the economy) the resultant economic structure needed detailed information and coordination. However, throughout the 1970-85 period, there was deterioration in the capacity to coordinate and to make the right policy analyses and prescriptions. Additionally, information and data made available to policy analysts were of poor quality. The end result was deterioration of public sector budget capacity and expenditure control, a problem that was still prevalent during 1995. Decision making during the 1980-85 period took

an increasingly ad hoc character and decisions were fashioned along populist lines rather than on hard-nosed economic realism.

The implementation of the ERP during the 1986-90 period helped to promote an improved climate for professional economic analysis. This was made possible because the implementation programs for various aspects of the ERP relied on sectoral as well as micro-analyses that were commissioned to local consultants and in some cases to foreign Indeed, various consultants from institutions of higher learning in Tanzania as well as from some independent local consultants helped to shape or comment on on-going implementations. For example, under the "Social Dimensions of Adjustment" (SDA) Project, various consultants reviewed and analysed the impact of the ERP on the social sectors and on the vulnerable groups in society. Their analyses and recommendations were taken into account when planning implementation of the following phases of reform. There is definitely some change in respecting views of policy analysts and at least in weighing the alternative Additionally, the new environment has also allowed policy dialogue on a wider scale than had been the case during the pre-reform years. Indeed, during the 1990-95 period some lobby groups such as the Confederation of Tanzania Industries (CTI) prepared on a yearly basis "pre-budget proposals" to the Minister for Finance. The CTI also presented to the Planning Commission proposals on "a new industrial policy for Tanzania". In response, the government held a dialogue with the CTI to brain-storm on CTI's industrial policy proposal. The dialogue was chaired by the President and Chairman of the Planning Commission and attended by some cabinet ministers, senior government officials and Such a policy dialogue in the officials from the CTI (private sector). cabinet room would have been unthinkable during the 1980-85 period. Other attempts at broadening the policy dialogue have involved the holding of public seminars and workshops for senior government officials, heads of parastatal organizations and private sector executives. In October 1992 a successful seminar on "privatization and private sector development" was held and participants were drawn from both the public and private sectors. The seminar facilitated the gathering of many useful comments from the participants. Since the issue of privatization has attracted a lot of debate and criticisms and since there are a number of conceptual problems, the Prime Minister's Office deemed it necessary to organize yet another seminar on "privatization and private sector development" for all Members of Parliament during June 1994. The seminar was chaired by the Prime Minister and First Vice President and was also attended by all cabinet ministers, principal secretaries, a select group of academicians, heads of

parastatal organizations and some private sector executives. Again, the seminar was very useful in facilitating a policy dialogue. From the above discussion it is obvious that broadening the policy dialogue is useful and should be encouraged especially for the controversial policy issues such as cost-sharing, privatization, retrenchment, enforcing tax compliance, environmental concerns, export expansion drive, movement of seat of government to Dodoma, etc, etc. The aim is not for government to abdicate policy making responsibilities, rather the aim is to sharpen understanding on some of the underlying considerations in particular sets of policy issues.

During the 1967-85 period the perceived view was that the government had monopoly over identification of problems and solutions to the problems be it via administrative means or via policy means. This view tended in particular to place a considerable amount of weight on the "thoughts, directives, and writings" of the then President of Tanzania Julius Nyerere. Politicians in general and even some civil servants resigned to think for themselves and instead joined in the bandwagon of exaltations for the continuation of "the correct thoughts and policies of President and ruling party chairman Julius Nyerere. This was the height of decay in intellectual thinking among some civil servants and some political leaders. The results of such a situation was policy missteps and an unsustainable economic structure; besides continued economic crisis and declining GDP growth.

Problems Encountered in Policy Analysis and Economic Management During the 1986-95 Period.

It has already been explained that during the 1980s, due to growing economic and financial difficulties in a number of African countries there was a need for policy change as a response to the continued economic difficulties. The needed reforms also reflected the growing skepticism regarding the role of the state in the African economies and the need to swing the balance away from state activism and toward market-oriented policies.

However, during the 1980s there was loss of control and ownership of policy reform programs in a number of African countries. At this time in the 1980s to a very large extent, the IMF and the World Bank defined the problems, and set the agenda and the principal issues and focus of the policy negotiations. Because of weak indigenous policy analysis capacities coupled with the desperation for accessing to funding, some

African countries "accepted" the IMF/World Bank policy prescriptions without first carrying out rigorous internal policy discussions on the IMF/World Bank policy proposals. In the case of Tanzania the preparation of the "Policy Framework Paper" (PFP) demonstrates a lack of complete ownership on the part of Tanzania for the policy prescriptions contained in the PFP. What points to such a situation is when it comes to implementation: there are clearly gaps in implementation capacities indicating that the PFP was agreed to without having a thorough grasp of what exactly it demands in terms of the implementation timetable and what the interrelated implications are. Negotiating policy agreements with the IMF and the World Bank under considerable financial pressure leads to impaired bargaining power hence implying that policy agreements signed under these circumstances have little chance of gaining government's continued commitment. One lesson from this discussion is that improving government's budget performance and improving export earnings, etc., will help to increase bargaining power when negotiating policy agreements.

Institutional and Technical Problems

In Tanzania various reform packages have been subjected to criticisms and serious attack from the labour unions, from members of political parties, from members of parliament, and sometimes, surprisingly, even from some cabinet ministers who are supposed to know them and defend them!! One explanation to this situation relates to the weaknesses in the technical design of reforms. In order to design economically and politically feasible policies there is need for the following:

- technical capacity to correctly identify policy issues that need attention;
- capacity to prepare alternative policy programs and to have a ranking of both economically and politically feasible policy options;
- capacity to manage negotiations with essentially IMF/World Bank economists; and;
- capacity to monitor and review implementation programs with a view to being able to correct policy measures as they are being implemented.

Tanzania faces a serious problem when it comes to technical capacity for policy analysis because of a number of reasons. The **first** reason relates to a shortage of high quality and experienced professional economists and statisticians in the key economic ministries. Some of the early university graduates who occupy key positions in policy making are "rusty" in terms of the needed "rigour and relevance" in economic policy analysis. As if that is not enough of a drawback, in Tanzania, traditionally, government ministries have not attracted first class and other top-notch graduates from universities. The best brains have usually joined teaching positions in academic institutions and positions in state-owned enterprises and certainly the private sector where there is better remuneration. For a long time government employment has been so to speak employment of last resort. Needless to say, this has not attracted into civil service the cream of society.

The second reason is closely connected to the first reason and relates to the recruitment policy in government ministries. Unlike in the case of some countries, entrance into the Tanzanian civil service is not subject to stringent entry qualifications or at least an entry examination. College and university graduates simply "walk into" government employment, and end up being permanent and pensionable employees. There is simply no pressure to prove oneself and show excellence before being granted permanent and pensionable employment status. During the 1967-85 period recruitment into the civil service placed much emphasis on the "correctness of one's ideological inclination" (sic). Unfortunately, "ideological correctness" did not necessarily imply also technical competence.

The third reason for the lack of technical capacity for policy analysis in Tanzania relates to the structure of the civil service. About 70% of Tanzania's civil service comprises primary school leavers. This makes senior level personnel in government ministries to waste time handling administrative and procedural issues that could have been taken care of by the lower cadre if the lower cadre had good basic education or a minimum of secondary education. Also, the Tanzanian situation has been beset with many "crisis situations" which have consumed intellectual capacities of professionals who otherwise should have devoted more time to thinking and brain-storming rather than crisis management.

The **fourth** reason relates to the course content of some of the university graduates who were "mistrained" at the university especially during the 1972-79 period when populism and, revolutionary fervour "substituted" for technical competence. Undergraduate course offerings in the bachelor's degree course in economics were seriously deficient in macro and micro-economics. Economists who graduated from the university of Dar es Salaam at this time were more of a general development-theory-type of economists who were very well versed in explaining the causes of underdevelopment but not on how to overcome underdevelopment and graduate as economies on the fast growth lanes. Monetary theory and price theory were not rigorously studied. The emphasis on East European central planning type of models did not help to ingrain into the university undergraduates the essential importance of markets, market processes, incentives, consumer sovereignty, etc, etc.

The **fifth** reason for the lack of technical capacity in policy analysis in Tanzania is closely connected to the fourth reason: The shortage of professional economists in key economic ministries who are well grounded in applied analysis and who have the requisite knowledge in statistical analyses and who can both work with poor quality data and help to generate the required data sets for a more informed policy analysis. It is true that data is deficient in Tanzania but it can be generated and in useful form.

Since the mid-1980s, the supply of credible economists has increased in government ministries though not to an appreciable extent. Even where there are some technically competent economists and who can come up with credible policy proposals there is still the problem of the lack of strong political commitment for carrying out policy reforms. Indeed, during the 1986-95 period some good policy proposals failed because of lack of political commitment leading to indecision, stalemate and worse, policy reversals within very short periods. The situation of indecision and policy reversals affects investments and brings confusion and frustrations. In this regard there have been numerous complaints from the private sector and from the donor community for government policy indecision or worse still policy reversals within a very It is not only the presence of technically competent professional policy analysts that matters but also a conducive political leadership and commitment. The presence of visionary leaders is certainly an added advantage. Indeed, policy making is made the more easier once it is informed by a coherent long term view of socio-economic development. In a crisis situation where policy response is simply to

solve crises one cannot create a coherent whole and room for manoeuvre is certainly curtailed.

Main Challenges and Appropriate Courses of Action in Future

The discussion above has highlighted some issues related to capacity for policy making in Tanzania. The discussion has pointed out certain weaknesses in capacity. If an effective capacity for policy analysis and economic management is to be raised, certain measures have to be taken to revamp both professional expertise and an appropriate institutional set up.

Professional Expertise

- Train on short-term and long-term basis experts on computers, fiscal and monetary affairs, government budgeting and accounting, business management, etc;
- Recruit top graduate achievers in economics, law, commerce, statistics, public administration, etc; for civil service positions and offer attractive salaries;
- Recruit competent professionals for customs and income tax administration and introduce performance linked pay.

Institutional Arrangements

- (i) Establish a strong, coordinating body in the Prime Minister's Office that will:
 - (a) track the fiscal situation, implementation of adjustment operations, and think long-term;
 - (b) coordinate ministries responsible for economic policy making and coordinate implementation of policies in order to improve delivery of social services;

- (c) ensure adequate coordination in the design and implementation of social sector policies;
- (ii) Establish a competent policy research secretariat for Members of Parliament to help them get a better grasp of the socio-economic issues and challenges facing the country.
- (iii) Strengthen the Cabinet Secretariat's capacity for policy analysis and research by recruiting better skilled professionals and send others on retraining.
- (iv) Make it mandatory for all Cabinet Members to attend crucial cabinet meetings discussing policy issues so as to enlist and ensure policy consistency and commitment by all concerned.
- (v) Strengthen the professional expertise of the Bureau of Statistics with a view to having much better quality data and within relatively short time periods.
- (vi) Reorganize the Ministry of Finance and recruit a batch of competent professionals to form the backbone of policy analysis at Treasury (budgeting, government accounting, fiscal and monetary affairs, etc). Remove "deadwoods" with "rusty" capacities and bring in "new blood" to beef up Treasury's analytical capabilities.
- (vii) Establish a Council of Economic Advisors (first informally to include economic advisers to the President and Prime Minister and a select group of leading academics, and private sector individuals with a grasp of public policy issues; and later formally to form a core team of a policy think tank).
- (viii) Establish an inter-agency policy group to brain-storm on policies (review, analysis, design, etc) with membership from all economic ministries, Prime Minister's Office, Cabinet Secretariat and Central Bank.
- (ix) Establish a Government Business Deliberation Council to promote policy dialogue among government policy makers and private sector executives. The council should be chaired by the President and should meet three times per year.

Conclusion

In its new redefined role one of the core functions of government includes economic policy making. A lot needs to be done in order to raise the capacity for policy analysis and economic management in Tanzania. In the short-term reorganization and on-the-job training will do. In the long run more and more people have to be trained. The importance of building this needed capacity should not be underestimated. Indeed, the development of capacity to effectively manage public policy is one of the critical ingredients for development.

Over the past nine years Tanzania has implemented some far reaching policy reforms. However, there are still some on-going reforms; and in some cases the policy reform process has yet to start. From the literature it has been said that "... knowing about desirable policy objectives and even sequences of reform is not enough. Reform is above all a matter of politics and government action: unless coalitions can be built and sustained, bureaucracy mobilized, and policies effectively formulated, financed, and implemented, they fail -- as we have too often seen" (Lamb, et. al, 1992, ix). It is important to pay heed to this advice especially considering the fact that under the multi-party political process in Tanzania, the legislature will have members from different political parties and it is desirable for consensus to be forged among all parties. Having said so I should hasten to add that what is desirable and needed in Tanzania is a strong government. If the government is weak then policies, however good, may fail due to stalemate and indecision. Politically strong governments will tend to give senior civil servants and advisers a relatively free hand with the design and elaboration of policy reforms within their overall political programs. In such situations officials can influence both the direction of policy and its technical quality (Lamb, et. al. 1992, 2). It is desirable to have a strong government that can give senior civil servants more flexibility in policy design and elaboration. This in itself will help to ensure continuity of desirable policies. But also, this is desirable because most political leaders, unless driven by ideology or forced by circumstances, show an understandable aversion to risk and an equally strong preference for "business as usual" in policy making (Lamb, et. al, 1992, 2). Finally, since technocrats are expected to play a critical role in policy design and implementation it is important for technocrats to be well grounded in basic principles of sound economic management. Indeed, the technocrats of high performing economies of East Asia and elsewhere were at least agreed on the basic fundamentals of sound macroeconomic management. This is a basic minimum that ought to be established in the Tanzanian situation.

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