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# Tanzania: Can PRS Succeed Where SAP Failed?

*Brian Cooksey*



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PO Box 79401 • Dar es Salaam • Tanzania  
Tel. (255 22) 2151852 / 3 • Fax (255 22) 2152449  
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# Tanzania: Can PRS Succeed Where SAP Failed? <sup>1</sup>

Brian Cooksey <sup>2</sup>

## Summary

*Most observers agree that the structural adjustment policies (SAPs) implemented in Tanzania and many other low-income countries over the last two decades have not resulted in sustained economic growth or poverty reduction. At the same time, the large loans that helped finance adjustment contributed to a rapid increase in external debt and deepening dependence on continued aid flows to maintain macro-economic stability. At the turn of the millennium, global efforts to address the debt crisis met with some success. Tanzania was one of the first countries to qualify for debt relief, receiving pledges of three billion US dollars relief over 20 years. At the same time, Poverty Reduction Strategies (PRSs) came to replace structural adjustment as the new global aid orthodoxy, linking debt relief to new aid and commitments by aid recipients to major 'pro-poor' social sector investments. But the core policy components of structural adjustment –fiscal austerity, market liberalisation, privatisation and an open trade regime– have been carried over intact from SAP to PRS.*

*Recent gains from macro-economic stabilisation, investment and growth have not been accompanied by significant reductions in the incidence of poverty, particularly for Tanzania's rural majority. In this paper, I argue that the Tanzanian government and the aid agencies share responsibility for the failure of past policies to set in motion an upward spiral of economic growth and poverty reduction, particularly in the rural economy. Their continued failure to ask fundamental questions condemns the PRS to the same fate as its predecessor. I review some of the institutional constraints on growth and poverty reduction under the Poverty Reduction Strategy, including the major role of foreign aid.*

## Introduction

Macro-economic 'stabilisation' has been one of the main success stories of nearly two decades of International Monetary Fund (IMF) inspired reforms. Inflation has fallen from 33 percent in 1985 to around 4.8 percent in 2004. The Government no longer prints money to finance large budget deficits. With some exceptions, banks are no longer forced to extend credit lines to non-performing public corporations, crop authorities and cooperative unions. Foreign investment has increased steadily, reaching US\$224m in 2001. GDP growth has risen from 0.4 percent in 1994 to 6.3 percent in 2002., or to 3.4 percent per capita when population growth of 2.9 percent a year is taken into account.

Stabilisation has prepared the way for economic growth. However, this growth strongly reflects the performance of the mining sector, which exported gold worth an estimated \$510 million in 2003 and \$750 million in 2004, and more if unofficial exports from small-scale mines are included.

Household Budget Survey (HBS) results suggest that reductions in poverty during the 1990s were insignificant. According to the Government of Tanzania's 2002 Poverty and Human Development Report (PHDR) 21.6 percent of the population suffered from food poverty in 1991/92, falling to 18.7 percent in 2000/01 (-13 percent), and basic needs poverty fell from 38.6 percent to 35.7 percent (-7.5 percent). Gains were more significant in Dar es Salaam than in other urban and rural areas. For the same period, the Gini coefficient, a measure of income

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<sup>1</sup> It should be noted that this paper was written before the finalization of the Second Tanzania PRS, now called the National Strategy for Growth and Reduction of Poverty (NSGRP).

<sup>2</sup> Brian Cooksey holds a PhD in sociology from the University of Birmingham, UK (1978). He is founder and director of the Tanzania Development Research Group, based in Dar es Salaam. He can be contacted through [tadreg@raha.com](mailto:tadreg@raha.com)

inequality, rose from 0.34 to 0.37, with the largest change in Dar es Salaam (0.30 to 0.36, or +20 percent). Urban unemployment rose during the 1990s, reaching 26 percent in Dar es Salaam in 2000.

While the above figures may not be very robust or the trends very clear, the views expressed by Tanzanians in a number of recent surveys paint a much gloomier picture of deepening poverty and growing social inequality (see Box 1).

### **Box 1: Tanzanians believe they are getting poorer and more unequal**

The *Policy and Service Satisfaction Survey (PSSS)* investigated public perceptions of the impact of government policies and trends in the availability and quality of social services. Undertaken by Research on Poverty Alleviation (REPOA), the survey covered 3,000 households in seven regions. Only ten percent of respondents thought that all Tanzanians have benefited more or less equally from the government's economic reforms; 90 percent thought only a minority have benefited, while for most people things are as bad as or worse than before. Despite single digit inflation, the price of food and basic consumer goods is the biggest problem faced by Tanzanian households, followed by the cost of healthcare (see Box 10 below).

The *Afrobarometer Survey (2001)* found that 60 percent of respondents agreed with the statement: 'the government's economic policies have hurt most people and only benefited a few.' Large majorities thought public policy performance was bad in ensuring food security, job creation, reducing poverty and the rich-poor gap. In another recent national survey, REPOA found nearly two-thirds of respondents agreeing that 'the gap between rich and poor people has worsened over the last five years...'. Three out of five respondents spontaneously mentioned poverty as their 'most important personal problem'.

*Sources: Amon Chaliga, Robert Mattes and Michael Bratton (2001). 'Attitudes to Democracy and Markets in Tanzania' REPOA/Afrobarometer Network; REPOA (2002). 'Global Attitudes: Tanzanians' Views on Globalisation', report for Princeton Survey Research Associates, October; REPOA (2003). 'Policy and Service Satisfaction Survey,' Dar es Salaam, October.*

## **1. Rural livelihoods**

It seems that the externally driven macro-economic reforms from 1985 to date have not made a significant difference in reducing the grinding poverty of the average Tanzanian. Observers offer contending versions of why reforms have failed. Some blame the implementation of the reforms, others their *non-implementation*. To try to understand what is happening, let us first look at the rural economy.

Most poor Tanzanians live in rural areas. Both government and donors see investment in agriculture as a key to poverty reduction. Box 2 summarises some of the main characteristics of rural livelihoods.

In export-crop producing areas, livelihoods are also under threat from newly empowered crop boards. Prior to formal liberalisation in the early nineteen-nineties, crop authorities oversaw the production, marketing and export of Tanzania's main 'traditional' export crops. These authorities have been replaced by crop boards with radically reduced mandates. In theory, they are responsible for market regulation, including issuing trading licences to private crop buyers and assuring competition and quality control, but not for crop financing or marketing. In practice, the picture is much less clear. Crucially, boards continue to be market players as well as regulators, and enjoy formal powers over producers and traders that far exceed simple regulatory

functions. The Coffee Board, for example, ‘may perform any commercial activity or hold interest in any undertaking, enterprise or project associated with the coffee industry.’

### **Box 2: Rural livelihoods under threat**

The DfID-funded *Livelihoods And Diversification Directions Explored by Research (LADDER)* program, involved village surveys looking at the nature of rural poverty, vulnerability to various shocks, and strategies to deal with both the risks and opportunities afforded by market liberalisation. Diversification is a way of accumulation for a few and coping with poverty for the many. Very few rural households rely entirely on agriculture to assure their livelihoods. Relative wealth and poverty in rural areas are reflected in the ownership of land and livestock. In a sample of 350 households, subsistence accounted for 39 percent of total income for the poorest group, but only 14 percent for the better off. Farming declines in importance as incomes rise and non-farm activities become more important. Non-farm self-employment increases from 11 percent of household income for the poorest quartile to 44 percent for the richest. Moreover, the farms of the better off are significantly more productive than those of the poor. The rich buy the labour of the poor (with their off-farm income) at precisely the time the poor should be working on their own farms.

Frank Ellis and Ade Freeman summarise the features of rural poverty across the region: ‘... small and declining farm sizes, lack of livestock as a substitutable asset, prevalence even in normal years of food deficit from own production, low monetisation of the local economy, and consequently little cash in circulation to act as a stimulus to multiplying rural activities. ... Moreover, individuals and households confront numerous institutional gatekeepers and blockages that paralyse all but the most energetic from taking additional risks or exploring new avenues for gaining a viable livelihood. Some of these blockages reside ... in district level licensing and taxation systems, some in "invisible" levies and tithes and permissions that are haphazard in their incidence, and variable in the discouragement they represent.’

Lastly, LADDER identifies a gap between the objectives of the Poverty Reduction Strategy and the nature of local-level governance, highlighting the risk that decentralisation will lead to an escalation of predatory behaviour on the part of local councils rather than more accountable government and better service provision. ‘The PRS needs to identify, evaluate, and seek to diminish those factors in the institutional and fiscal environment at local levels that are discouraging and inimical to trade, investment, risk-taking and enterprise... If this does not occur then no amount of school or road building in rural areas will result in the ... poverty reduction that the PRSP process seeks to achieve.’

*Source: Frank Ellis and H. Ade Freeman (2002). ‘Rural Livelihoods and Poverty Reduction Strategies in Four African Countries’, LADDER Working Paper 30, Frank Ellis and Ntengua Mdoe (2002). ‘Livelihoods and Rural Poverty Reduction in Tanzania, LADDER Working Paper No. 11, Overseas Development Group, University of East Anglia.*

The legislation described in Box 3 empowers the Minister of Agriculture to make the boards do essentially whatever he wishes them to do. Rather than facilitating private initiative, the state sets out with a disposition to control almost all aspects of crop development, with the criminalization of unauthorised activities as the ultimate sanction. The Boards are funded through virtual taxes in the shape of export levies and annually renewable crop purchasing fees payable by buyers, and passed on to farmers. The membership of the boards is so structured as to give a majority of voting rights to government appointees as opposed to representatives of producers or commercial interests.

The strong state bias in the three Acts reflects a consensus among the Tanzanian political class that market liberalisation is no longer a viable policy option. “We tried liberalisation, but it didn’t work, so we’re going back to the old crop board/cooperative union system,” seems to be the sentiment. Some cooperative unions in coffee and cotton growing regions are beginning to

receive loans from commercial banks backed by Bank of Tanzania export guarantees. In 2000, all private coffee buyers in Kagera had their licences revoked and unions were given a buying monopoly, leading to a rise in coffee smuggling to Uganda – see Box 12.

### **Box 3: Agriculture: Bringing the state back in**

In 2001, the Tanzanian Parliament passed Acts empowering coffee, sugar and tobacco boards. Under these Acts, it is illegal for farmers to grow coffee, tobacco or sugar (as outgrowers) without the permission of the Boards. Boards will keep and update a register of all growers. All seeds, plants and varieties require prior approval by the Ministry of Agriculture. Penalties for contravening these conditions range from one hundred thousand shillings (about \$100) for coffee to one million shillings (about \$1,000) for tobacco and ten million shillings (about \$10,000) for sugar or *prison sentences* of up to two years in all cases, or both. For tobacco: ‘Any seeds or plants imported, bred or multiplied without the authority of the Director shall be destroyed by the Board at the expense of the offender.’ The registration of a new tobacco processing factory has a total of eighteen conditions. The Board of Directors of the Coffee Board consists of seven members, four of whom are direct appointees of the Minister.

*Source: Brian Cooksey, ‘Marketing Reform? The Rise and Fall of Agricultural Liberalisation in Tanzania’, Development Policy Review, 21 (1): 67-90, 2003*

The varying degrees of competition that have been introduced in export crop markets seem to have been bought (or leased?) via aid conditionality. A \$200 million World Bank agricultural sectoral adjustment loan in 1990 led to partial liberalisation, helped on by the virtual withdrawal of the banking sector from agricultural finance. There is no evidence of any ‘pro-market’ elements in government actively promoting reforms. Indeed, the majority of ruling party Members of Parliament held out against market liberalisation for years after reforms were initially announced. Other writers have found very similar anti-liberalisation trends to those described above in a number of other Eastern and Southern African countries. Yet the government and some academic observers like to maintain that Tanzania is now a fully-fledged ‘market economy’.

Both government and donors place great faith in the implementation of agricultural and rural development strategies as the way forward for agriculture. The Agriculture Sector Development Strategy (ASDS) is an attempt to forge an agricultural sector-wide approach (SWAP) that will attract joint donor funding. ASDP will cost an estimated \$US 600 million over five years. SWAPs are already functioning in health and education.

Tanzania has a long history of unsuccessful donor-driven reforms in all major sectors, a tendency that has grown as the country has become increasingly aid dependent. Like the marketing boards mentioned above, ASDS empowers central ministries, particularly the Ministry of Agriculture. Farmers and the ‘private sector’ are secondary actors.

Private investment in agriculture is as critical as official investment, yet government and donors are fixated with state-sponsored investments, including major donor initiatives. The Ministry of Agriculture is implementing large agricultural projects funded by loans from the World Bank and the International Fund for Agricultural Development (IFAD), a World Bank affiliate. These follow traditional government project management formats. Though projects are supposed to be replaced by SWAPs, there is no evidence that this is happening. The ambitiously titled \$US 54 million World Bank-financed ‘Participatory Agricultural Development and Empowerment Project’ (PADEP) involves the implementation of district council agricultural development plans. Councils have no track record of capacity to manage such activities. The systematic failure

of past project aid to deliver significant or sustainable benefits to ordinary people is one of the reasons for the growing donor emphasis on budgetary support and basket funding.

The government's ability to function as a routine service deliverer is highly constrained by inadequately trained technical staff, lack of motivation, supervision and discipline, and a control rather than a facilitative mentality on the part of government officials. Increasing the budgets of the agriculture and related ministries is unlikely to provide any significant benefits to farmers. The PSSS survey found that only 12 percent of farmers had received extension advice in the previous year, and 41 percent of farmers thought extension services were getting worse (10 percent thought they were getting better). PSSS found only 3 percent of farmers claiming that the crop boards' performance is 'improving', and 45 percent saying it is getting worse. Research on taxation, decentralisation and corruption suggests that the new crop boards and 'decentralised' local government authorities are as much rent-seeking as service providing institutions. Few farmers are clamouring for a return to the old ways of doing things (Box 4).

#### **Box 4: What do farmers want?**

Many Tanzanian officials and academics argue that structural adjustment dealt a body blow to farmers by liberalising input and export markets, with the result that fertilizer has become prohibitively expensive for farmers and farm-gate prices are low and volatile. It is a short step from this argument to a remarkable corollary: that the pre-adjustment period was one of relative stability and prosperity for farmers, who were protected by the state from market fluctuations and provided with subsidised inputs. In 1980, Kenyan coffee farmers were receiving 98 percent of the international coffee price, while Tanzanian farmers were receiving 37 percent. In a 1984 survey, Afro-Aid and BUMACO found that most Tanzanian farming households lacked even basic consumer goods such as sugar, salt, kerosene, soap and clothing. Internal and external trade liberalisation returned the country to a 'normal' state where purchasing power constrains consumption rather than almost total market failure. The monetary stabilisation achieved to date owes much of its success to the reform of agricultural marketing. Claims that agricultural services – research, extension – have collapsed as a result of IMF-inspired budget cuts miss the point: with notable exceptions, these services were mediocre performers at the best of times. Current agricultural policy includes providing subsidised fertiliser to farmers in selected regions, a recipe for favouritism and corruption.

Research findings back up the myth of 'the good old days.' Both the PSSS focus groups and the Participatory Poverty Assessment, undertaken by the Economic and Social Research Foundation, found farmers blaming liberalisation and 'unscrupulous' private buyers for all their woes. The PPA even claims that farmers identified global market trends as one source of vulnerability to 'external shocks' that serve to deepen poverty levels. A closer approximation to the truth came from the survey component of PSSS. Rural householders were asked which marketing arrangement they preferred. A third preferred a mixed cooperative/private marketing system; a third preferred a totally private marketing system, and a quarter preferred a cooperative controlled system. 'Richer' farmers were more in favour of cooperative marketing than the poor.

Why do focus groups and survey results differ? Perhaps because vocal focus group participants are likely to be the better off farmers who indeed benefited from the pre-liberalisation system. Most farmers did not benefit, but this relatively 'silent majority' is less likely to participate in focus group discussions and less likely to speak up in the face of their better-off neighbours.

*Source: Benno Ndulu and Francis Mwegu (1994). 'Economic Adjustment Policies', in Joel D. Barkan (ed). Beyond Capitalism vs. Socialism in Kenya and Tanzania, East African Publishing House, Nairobi; Economic and Social Research Foundation (2003) Tanzania Participatory Poverty Assessment, REPOA (2003), PSSS, section 6.6*

I do not wish to suggest that ‘free markets’ are the obvious and only solution to the institutional problems faced by Tanzanian farmers. Markets fail for many reasons, and I have only mentioned a few (see Box 11). Rather, I suggest that the low (and unacknowledged) capacity of the state as service provider and the conflation of commercial and regulatory roles by the crop boards constitute serious blockages to the emergence of a dynamic rural economy. I am also persuaded that aid donors undermine the emergence of a viable agricultural development policy by empowering central and local government officials who cannot be held accountable for their deeds and misdeeds, further distorting markets and discouraging private investment, both local and foreign, and enterprise.

*Environmental conditions* strongly influence rural poverty levels and household vulnerability to external shocks. Deforestation and soil erosion present major challenges to sustainable agriculture and livestock keeping. The 2002-03 drought undermined rural livelihoods across much of the country, leading the government to distribute food aid. Livestock-keepers were hard hit. Most Tanzanians still depend on fuelwood and charcoal for cooking. Natural resources are vulnerable to misuse and over-exploitation. Box 5 describes illegal logging in Southern Tanzania.

### **Box 5: Is the ‘Mkapa Bridge’ under-developing the South?**

Recently Tanzanians celebrated the opening of the ‘Mkapa Bridge’. Financed by the Kuwait Fund, the 1km bridge across the Rufiji river reduces the trip from Dar es Salaam to Mtwara and Lindi from days to hours. The bridge is already opening up these poor regions for economic development – and the unregulated plunder of natural resources. At dusk every evening, 10 to 15 trucks of all shapes and sizes can be seen trundling across the Mkapa Bridge on their way to Dar es Salaam. The trucks carry a dozen species of mature tropical hardwoods, mostly cut in three-metre sections, destined for the parquet floor industry in Taiwan. The dirt-poor villages of Rufiji District are home to an over-supply of willing hewers of wood. Now chain saws are replacing hand saws, and smaller trees will be felled as soon as all the big ones are gone. The drawers of water in Rufiji, women and girl children for the most part, are under unusual stress as a result of the recent drought, which has undermined food security and grain markets throughout the country. The huge revenues from the royalties due on the logging could alleviate their condition.

According to *Mwananchi*, a Swahili daily, ‘The Tanzania Exporters Association (TANEXA) wants the Government to review its policy in trade in wood products and stem the habit of foreign logging companies from Asia, which are now said to be transporting 50 containers of logs daily from the port of Dar es Salaam. TANEXA chairman Simon Mutabuzi said the law allows exploitation of teak and Pau Rosa types of trees only but the Asians are now felling Pangapanga, Afrormosia, Muhama, Mtundu, Mperwa, Mwituu, Mkorati, Ebony and Sandalwood. “Tanzania laws prohibit logging companies from felling these types of trees but it is two months now since we first complained of the matter without the Government taking any action,” Mutabuzi told journalists. He said TANEXA has taken the matter to Tanzania Investment Centre (TIC) but to no avail. He said one of the containers containing the logs for export was found containing two tons of elephant tusks in the logs and that a forestry officer was found supervising the job of loading instead of apprehending the illegal loggers.’

A temporary ban was put on the logging after it was made public in a series of *Guardian* articles, beginning in June 2004. (‘At least 10 trucks laden with logs leave the area every hour.’)

*Sources: Mwananchi, 28 October, 2003, The Guardian, June 30, July 15, 16 2004. and various field communications*

*Land ownership and use* are crucial components of current debates and policies concerning market liberalisation and poverty reduction. Those favouring foreign investment in agriculture and ranching are pushing for the right for investors to buy rather than simply lease land, a right that the 1999 National and Village Land Acts specifically denies. Those concerned with community

and smallholder rights, and rights to seasonal pasture for pastoralists, argue that the 1999 legislation is inadequate, being, according to Sholto Cross, ‘predicated on elaborate procedures for certification whose bureaucratic requirements may well tilt the actual practices of land access in favour of a literate elite.’

The ‘pro-investor’ lobby wants to revise the land acts to allow for ‘radical title’. Banks want secure property rights in land so that it can be used as security against loans. A way around the issue has been proposed through a ‘Land Bank’, whereby investors would acquire land directly from the Tanzania Investment Centre, which claims to have already identified ‘surplus’ land for the purpose. The Ministry of Agriculture is actively looking for investors in the huge state-owned NAFCO estates and NARCO ranches, for which the current National Land Act tenurial restrictions constitute a stumbling block.

Politically, “many are opposed to selling off state-owned farms and ranches if this means the influx of commercial farmers from Southern Africa. Current land laws do not adequately protect the rural poor against losing individual and collective livelihoods based on land, pasture and other common resources. The amendment of the Land Act ... poses a potentially devastating threat to the security of peasants.” (NGO Policy Forum 2002:11).

These legal and policy issues have not prevented the development of a flourishing land market, including leasing, and growing differentiation among farmers. Tanzania’s ruling class are said to own large amounts of land, but generally fail to develop it for commercial purposes. Policy-makers aspire to promote the emergence of a class of ‘yeoman’ farmers. Concerns with the welfare of small farmers notwithstanding, the rural transformation required for poverty reduction and development will need to confront the low productivity of land where fragmentation of holdings is widespread, making intensification difficult or impossible, and the inevitable growth of a class of landless wage-labourers if and when rural transformation takes off.

Investments in *mining* and *tourism* have helped Tanzania’s growth rate in recent years. Mining generates natural resource rents that increase government revenues and foreign exchange earnings, but is not ‘pro-poor’ in the direct sense of creating significant employment opportunities. Indeed, highly labour-intensive artisanal mining is threatened by the foreign direct investment (FDI) that has poured into the sector in recent years. Although the deaths of over 50 miners in Bulyanhulu in 1996 are disputed by the government and the mining companies involved (Sutton Resources/Kahama Mining, later Barrick Gold), there is no dispute that clearing artisanal miners from mining areas is hardly a ‘pro-poor’ measure. Other relevant issues are the leniency of the investment agreements (too soft on the mining companies?) and the degree of illicit plundering going on (such as smuggling and theft). Despite receiving World Bank loans to speed up and make transparent licensing procedures, mining sector regulation remains inefficient. There is a ‘missing middle’ in the mining industry – a total absence of medium-scale mines – resulting in part from slow procedures and official incompetence that only the big mining companies have the resources to deal with.

The good news is that, to date, disputes over Tanzania’s natural resources have not led to the systematic corruption, plunder, violence and social disruption that is common in other countries, the Democratic Republic of Congo being the nearest example. Political scientists argue that countries whose taxes come largely from natural resource rents are less accountable to their citizens than countries where voters are major taxpayers. Economists point to the enclave nature of mining, where there is minimal job creation compared to the value added and few multiplier effects. The appropriation of natural resource rents through corruption should also be examined

as a serious issue if our focus is on the poverty reduction impact of growth. Box 6 suggests that this is not an idle warning.

*Tourism* is another area with modest job creation effects, and, some argue, a strong tendency for the major tourist companies and airlines to retain much of the value added (it is unclear from official statistics how much Tanzania earns from tourism). Local communities should benefit from tourist-related incomes, including eco-tourism and hunting safaris..

In summary, if stabilisation is to contribute to sustained economic development, there will have to be a lot more saving and investment in agriculture and agro-processing, industry and the service sector, stimulating a much higher overall growth rate. This will require a transformation in the current approach to taxation and regulation, and the creation of institutions that promote rather than frustrate overall rural development. There is little sign that this is happening to any significant degree.

### **Box 6: Merimeta and ‘contingent liabilities’**

Merimeta Ltd was a joint venture between the Tanzanian Ministry of Defence and South African investors. Government liabilities relating to Merimeta were highlighted in the 2002 Public Expenditure Review. A non-profit company, Merimeta was designed to generate income from gold exports that could finance military procurement outside the budget while also adding to public revenue. Annual net income for military procurement was projected to be \$15 million or more. According to the 2002 PER, the Ministry of Defence incurred debts of US\$130 million for military equipment procured on the strength of Merimeta’s anticipated cash flow. As a result of the collapse of Merimeta, the government may have incurred large contingent liabilities and foregone considerable potential revenue. Gold sales were \$329 million in 2002, nearly a quarter of total export value. Key questions arise: Are Merimeta gold sales included in this figure? How much did Merimeta realise from gold sales, and what happened to the money if it did not contribute to government revenue?

*Source: Public Expenditure Review, FY02, pp. 87-8 NGO Commentary, PER Consultative Meeting, Karimjee Hall, Dar es Salaam, May 13, 2003*

## **2. The urban landscape**

Although the relative size of the ‘informal’ economy is difficult to estimate, ‘informalisation’ is widely considered to be one of the main consequences of structural adjustment. While ‘black markets’ in most consumer goods and foreign exchange are a thing of the past, there is little doubt that the number and type of ‘informal’ enterprises has mushroomed under market liberalisation. The closure of many state enterprises, preceded or followed by retrenchment of staff, has served to stimulate the creation of both small-scale formal and informal (i.e. unregistered and untaxed) enterprises.

While much effort has been dedicated to encouraging FDI, and the large-scale importers have done well out of liberalisation, smaller enterprises, particularly those in the ‘informal sector’, have had to struggle to survive. Despite the trend towards informalisation, petty producers and traders are usually subjected to official harassment rather than support (Box 7). Despite the establishment of the National Micro-Finance Bank (NMB) and various NGOs specialising in small-scale loans, most small enterprises are frustrated in their efforts to grow and perhaps ‘formalise’ through lack of affordable credit, training, tax incentives and – critically – a conducive regulatory environment.

### Box 7: Unlocking the mysteries of capital and second-hand underwear...

In 2002, world-famous Peruvian economist and ideologue **Hernando de Soto** visited Dar es Salaam to expound his thesis on why capitalism is successful in some countries and not in others. He argues that most private property in poor countries -particularly land and housing- is 'dead' in that it is not used as collateral for borrowing, investment and accumulation. Property rights are poorly developed and entering the 'formal' capitalist economy presents formidable time- and money-consuming bureaucratic obstacles, as de Soto long ago demonstrated in the slums of Lima, capital of Peru. (To obtain a legal license for a small business took 289 days and cost 31 times the average monthly minimum wage). Tanzania's ruling class listened carefully as De Soto spelled out the solution to capitalism's third world failure: develop property rights for the poor. One senior government official pointed out privately afterwards that politicians and private businessmen who routinely fail to pay back the large loans they obtain from banks and other government/parastatal institutions would be the first to risk losing the property they put up as collateral *if* property rights were effectively formalised and legally binding. Lesson: formalising the property of the rich is also a major challenge.

The week after De Soto's visit I observed Dar es Salaam City Council militiamen and women summarily destroying the temporary stands of fast food vendors and retailers in various parts of the city centre. The next day the government issued a ban on imported second-hand underwear, sold mostly through informal sector outlets. An official of the Tanzania Bureau of Standards told the BBC World Service that second-hand underwear poses a health hazard, that local manufacturers can produce the imported items, and that it is unseemly for Tanzanian women to buy the 'rich world's' cast-off bras and panties.

Source: Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Basic Books, (2000); BBC World Service. Ian M. Schmutte 'Hernando de Soto: Right Wing Revolutionary', *History of Economic Thought*, 11/21/2002, Draft 3

The 1995 Dar es Salaam Informal Sector Survey found that 95 percent of financing for small enterprises came from personal resources, family and friends. Sub-contracting linkages between larger and smaller manufacturers are weakly developed. There is no coherent body of public policy or programmes to promote small- and micro-businesses.

Informalisation and diversification constitute responses to economic opportunities and challenges under market liberalisation. When considerable financial and human resources are invested in such activities we may talk about informalisation and accumulation, and when they are responses to stress and poverty the best description is diversification and coping strategies. Informal accumulation often involves illegal and poorly regulated activities -poaching, gemstone and drug smuggling, logging-usually protected by senior members of the state security, army and police.

### 3. Privatisation

Critics of neo-liberalism challenge the extreme view of privatisation, which considers that even natural monopolies such as water and electricity should be under private ownership. In Tanzania, this usually means private *foreign* ownership. Consequently, genuine concerns over equity or profit repatriation issues can be confused with personal and/or political interests in patronage and rent-seeking. Adopting a purely nationalistic position on privatisation often plays into the hands of those in the latter group.

In some cases, privatisation is accepted as an unqualified commercial success, for example, breweries, cement works and sugar estates. A number of *management contracts*, as opposed to out and out privatisation, have provided increased efficiency, cash-flow and profitability. For

example, the Dar es Salaam harbour container terminal has been successfully taken over from Tanzania Harbours Authority, with a massive improvement in container turn around times. In little over a year, the electricity utility TANESCO collected Tshs 90 billion of unpaid bills after Net Solutions were awarded a management contract.

Management contracts are often criticised on the grounds that expatriate managers are paid too much, their local counterparts are marginalized and exploited, profit repatriation is excessive (even ideologically unacceptable), the new managers fail to deliver on their contractual agreements, and for other reasons. Demands are made to investigate or cancel contracts, in spite of improved revenue collection, profits and/or performance.

The *Executive Agencies* (EA) concept has been widely applied in Tanzania, and aspects as diverse as statistical services, road maintenance and bore-hole drilling are now handled by EAs under government regulation. There are major problems with this concept, as experience in Tanzania and elsewhere demonstrates. Regulating EAs requires capacity and probity, the widespread absence of which was the rationale for setting up EAs in the first place. When a central government service unit is restructured to compete with private providers for contracts, it is unlikely that competition will be very fair. More important, EAs may have apparent autonomy, but in practice the parent ministry retains key controls over crucial activities, including the award of contracts. In the recent case of TANROADS, not only did a substantial number of operational staff get transferred from the Ministry of Works to TANROADS, but parallel decision making structures were created with the retention of key functions in the parent ministry. Despite (because of?) the availability of money from the Road Fund (financed from an earmarked fuel tax) many of Dar es Salaam's heavily used roads are still maintained and repaired in a profoundly casual and perfunctory manner. If road-tax-paying Dar es Salaam motorists cannot get their local councils to do a better job, it is unlikely for communities' further upcountry to be able to do so. Patronage politics subverts the application of the EA concept.

Official *regulatory bodies* for various public/private service providers - telecommunications, power supply, water- are also potentially vulnerable to manipulation. For example, the recent refusal of the regulator to reduce the (exorbitant) charges for cellular phone calls pending the contracting of an 'international consultancy' on tariffs, may denote manipulation by a cell phone cartel to exploit customers.

The three privatised cement factories appear to form a cartel that is protected by high import tariffs that allow them to earn monopoly rents. Potential foreign investors into the sector are discouraged because of the unwelcome competition new market players would introduce. It is not accidental that hardly a week goes by without a cement factory donating several tonnes of cement to one or other good cause patronised by the ruling elites and their spouses.

Thus, while privatisation has notched up some major successes – reducing official subsidies and budget deficits, bringing in foreign investment, increasing production and tax revenue – other related areas remain contested. Some observers do not recommend a full privatisation of public utilities if management contracts can do the job. The analysis is complicated by the possibility that sometimes they cannot. For example, the telephone corporation TTCL's management contract is heavily contested on the grounds that the managers are not meeting their commitments. A number of such contracts are under threat from the former beneficiaries of cronyism and patronage, particularly as they observe the growing cake resulting from efficient, modern management. The widespread perception that the *wazama* (indigenous Africans) have been marginalized by liberalisation questions the legitimacy of liberalization, and provides grounds for populist politics.

Trade liberalisation is credited with making imported consumer goods available after years of shortages, rationing and black marketeering when state corporations were in control of wholesale trade. However, the general lack of Tanzanian products in the South African-owned supermarkets and more modest *dukas* bears testimony to the lack of dynamism and enabling opportunities in local agriculture and agro-processing industries, and is not primarily a consequence of liberalisation or 'unfair competition' from imports.

Some of the main beneficiaries of almost two decades of liberalisation are the Asian trading community and an emerging class of African politicians, bureaucrats and businessmen (and women) and a sprinkling of actors within a growing 'civil society'. In all these sectors one finds outstanding and socially responsible individuals and groups. Those who have benefited most, however, are the 'straddlers' and the systematically corrupt. 'Straddling' means having a foot in different sectors, or moving rapidly from one to another. For example, senior civil servants and academics become politicians, politicians join the private sector, their spouses run donor-funded NGOs. For businesses, corruption means enrichment through tax evasion and deal making with government officials for procurement and service provision (cronyism). For politicians and bureaucrats enrichment is the other side of this coin, plus plundering state coffers and diverting aid receipts. A range of secondary operators services and sometimes joins this class, including academics, consultants, professionals (lawyers and accountants in particular), the children of the elite, and some local staff in aid agencies. There are also rich pickings for unscrupulous and corrupt expatriate businessmen, aid and relief agency staff, and big international companies vying for aid-financed contracts, which involve routine kickbacks.

If the above seems an exaggeration, one only has to look at the type of construction going on in Dar es Salaam's 'middle class' residential suburbs and count the number of luxury vehicles on the roads to register the obvious fact of rapid and fabulous enrichment. How much of this is honest returns to honest labour, and how much is not, is an issue for further research.

## 4. Good and bad governance

The effective implementation of the Poverty Reduction Strategy (PRS) depends in no small measure on improved public finance management. Aid agencies stress efficient and transparent service delivery within the overall framework of basket funding and budget support. For nearly a decade, aid agencies have stressed democracy and good governance and a commitment to fighting corruption as preconditions for aid.

It is difficult to exaggerate the impact of the misuse of public funds on national development prospects and the lives of the poor. Box 8 shows how bad public policy can undermine economic growth and implicate budget support.

Is the Tanzanian Government constrained by the risk of invoking conditionalities, including the reduction of aid, if they fail to control corruption? Only in very extreme circumstances. The general rule is that donors are under pressure to move money and protect (and if possible increase) their budgets, even if it means turning a blind eye to corruption and systematic failure to meet other formal aid conditions. The bigger the aid programme the greater the likelihood of denial of corruption and 'slippage' in reform implementation.

Donors tend to keep corruption conditionalities at a general level, rather than tying aid to actual impact. The kind of indicators preferred concern inputs and processes rather than outputs and impact, for example, anti-corruption laws passed, corruption reports published, strategies in

place, budgets funded and staff recruited, rather than the number of corrupt officials prosecuted or corruptly acquired assets returned to the state. If conditionalities were tagged to impact, there would be a risk of governments failing to meet them, forcing donors to invoke penalties, or explain why they do not do so. If good performance rather than declarations of intent triggered aid, the same problem would arise. Thus, conditionalities are almost always 'ex ante' rather than 'ex post.' For most donors conditions concerning local commitment to anti-corruption are purely formal, while the real anti-corruption action is informal.

### **Box 8: Independent Power Tanzania Ltd (IPTL): Public-Private Partnership at its worst**

**IPTL** is a private power project funded by Malaysian investors. The deal to supply 100 megawatts of power using diesel generators was hotly contested by donors and consultants on the grounds of cost, the choice of technology, and the projected demand for power. After local and international legal wrangling the project was finally commissioned on January 15, 2002. During its first year of operation, IPTL cost \$40 million in capacity payments alone, and functioned at less than 10 percent of installed capacity. There has been a public outcry and hot parliamentary debates over IPTL, with evidence of corrupt payments to government officials. The Tanzanian Attorney General Andrew Chenge has taken Nation Media Group to court for libel over an article published in *the East African* which he says depicts him as corrupt and incompetent in relation to IPTL. The Finnish contractor Wärtsilä is implicated in colluding with the Malaysian investor to inflate the price of the power generators by US\$10 million. Wärtsilä currently operate the IPTL plant on a management contract.

Tanzanian electricity is very expensive by African standards. IPTL adds to the national power corporation TANESCO's financial worries. TANESCO is now under private management, and power prices have increased and services deteriorated. The nearly *US\$3 million* monthly 'capacity' payments have been shared between TANESCO and the Treasury, which pays a power subsidy to IPTL through the Ministry of Energy and Minerals. Power subsidies will shortly double when the 110 megawatts Ubungo turbines are converted to use natural gas. Bilateral donors are underwriting a significant part of these subsidies through the general budget support facility in which they are putting over US\$70 million in 2004. They are worried that their aid is helping to finance IPTL rather than poverty reduction. No such fears seem to worry the World Bank, which in 2004 granted Tanzania over \$40 million for an 'emergency power' project, most of which is earmarked to pay IPTL.

A number of donors have been involved in behind the scenes efforts to try to resolve the issue. At stake is the credibility of the Mkapa administration's anti-corruption policy. Although the donors have expressed their opposition to the project over the years, they avoid raising the IPTL issue publicly, so as not to further rock the 'post-HIPC honeymoon'.

IPTL is potentially ten times as costly as the BAE radar deal (see text below), but has not received one tenth of the international press coverage.

*Source: Adapted from Brian Cooksey, 'Aid and Corruption: A Worm's-Eye View of Donor Policies and Practices' 11<sup>th</sup> International Anti-Corruption Conference, Seoul, South Korea, 26-29 May, 2003, and Cooksey (2002)*

As they move away from projects towards poverty oriented budget support, donors are more than ever concerned that aid funds are seen to be properly used. Large bilateral donors such as the UK's Department for International Development (DfID) naturally aspire to aid only those countries that are serious about fighting corruption. In 2001, British Overseas Development Secretary Clare Short crossed swords with the Tanzanian government over the purchase of a \$40 million radar from BAE Systems, a leading arms manufacturer, just after Tanzania obtained pledges of HIPC debt relief. Reports suggested the radar was overpriced and inappropriate for Tanzanian needs. Ms Short claimed but did not prove that the deal was corrupt. British budget support to Tanzania was temporarily halted. Prime Minister Tony Blair supported the deal and

eventually budget support was restored. Ms Short mended her bridges with President Mkapa, and Britain subsequently increased its aid commitments to Tanzania by 50 percent. This is interesting in light of a speech made by Ms Short earlier in 1999, where she said that, because aid is fungible, “it would be unacceptable to be putting large sums of money into education and health care if other parts of the government budget are being spent wastefully or corruptly. Increasingly, controls on corruption are a central theme of our development programme” (*Sunday Observer*, Dar es Salaam, 28 March 1999).

There have been a number of large-scale investments in recent years, and others are planned, that have attracted critical commentary on their utility and cost. The radar and IPTL (by far the most serious example of the crippling cost of corruption) are discussed in the text. In 2004, BAE Systems informed the British Government that they have been approached by the GOT to procure a second radar. Other controversial projects include a number of high-rise buildings with state or parastatal involvement in Dar es Salaam, including the \$75million ‘twin towers’ of the Bank of Tanzania; President Mkapa’s \$40 plus million executive jet; a disputed project for the Tanzanian army to procure helicopters (\$147million); and a new national stadium financed by the Chinese. It is widely believed that politically motivated corruption may be increasing in the build-up to the 2005 presidential and parliamentary elections. Box 9 is illustrative:

#### **Box 9: Some recent statements on corruption in Tanzania**

- "We (MPs and Ministers) are selfish. We use our positions in order to get rich. We just use the public as a ladder ... to amass wealth." (*Dr Hasy Kitine, former Minister of Good Governance*)
- "Some leaders are corrupt to the core." (*Joseph Warioba, former Prime Minister, in response to Kitine's remarks*).
- "If you are a clean and not a corrupt leader, you cannot get angry at the corruption allegations; but if you are corrupt you would react angrily." (*Yusufu Makamba, Dar es Salaam Regional Commissioner*)
- ‘... what he [Kitine] knows to be true. And what many of us believe to be true: that the Government is riddled with corruption; that the corruption that is eating the heart out of this country is grand corruption, not the petty stuff; and that grand corruption is invariably the domain of principal officers and leaders in high public places.’ (*Karl Lyimo, Business Times 24 Jan. 2003*)
- "We are fighting corruption scientifically and that is why we have been concentrating on plugging corruption loopholes instead of waiting to nab corrupt people because it is an onerous task. He [Dr Kitine] is free to present the details concerning his accusations ... either through the press ... or send them to Prevention of Corruption Bureau or forward them directly to the President himself. ... the government has already opened PCB offices at district level and ... the war against corruption was now moving to local governments where [the] majority of people are living." (*Wilson Masilingi, Minister for Good Governance*)
- ‘It seems to us that the Government continues to make progress in the fight against corruption.’ (*Donor Statement on Governance, CG 2002*)
- “It is unfair to generalise in evaluating our fight against corruption” ‘because efforts have been made to curb the vice.’ (*Andrew Chenge, Attorney General, the East African, May 10, 2004*)
- [There is] ‘a spate of corruption that is of such magnitude and so widespread that no leader appears to recognize it or know (sic) how to tackle it. This is the dilemma for President Mkapa. Taking to task any of his colleagues who have been obviously corrupt has proved impossible, probably because few will be left untouched. (*Edwin Mtei, Former Governor of the Bank of Tanzania, quoted in The East African, January 24, 2005*) Other sources: *Daily News excerpts from www.raba.com January 2002*

Below I consider the possibility that aid is actually a *major source* of corruption.

## 5. Aid dependency and effectiveness

Official aid to Tanzania finances most of the development budget and about forty percent of recurrent expenditure. Total aid flows rose from US\$2.3 billion during the 1970s to \$7 billion during the 1980s and US\$7.8 for 1990-97. Aid now averages US\$1 billion a year. Aid finances balance of payments support, debt relief, direct budget support, sector basket funding and project financing. Of these, the latter is declining while basket funding and general budget support are rising. Detailed analysis is difficult since a significant proportion of donor spending is still not captured in government budgets.

Aid dependency means a dominant policy role for the Bretton Woods institutions, who also account for a growing proportion of external debt. The growing debt burden issue has been addressed through the Heavily Indebted Poor Country (HIPC)/PRS process. As a result of HIPC/PRS, debt servicing fell from about 62 percent of exports in 1992 to 29 percent in 2000.

Some of the inherent general weaknesses of aid highlighted in the literature are that it may: crowd out investment, substitute for local taxation, provide perverse incentives to governments *not* to reform, undermine local accountability, have huge transaction costs for recipients, distort public sector incentive structures, make exports uncompetitive, and create foreign debt. A number of these weaknesses are demonstrable in the Tanzanian case. Though some of these problems –for example, debt and high transaction costs – can perhaps be addressed in the short-run, chronic donor dependence can only *exacerbate other inherent weaknesses*.

If this is right, then the volume of aid to a particular country must obey the law of diminishing marginal returns, with negative returns after a certain point. Yet the debate on foreign aid in the developed world seems to assume an elastic ‘absorptive capacity’ in recipient countries, and the main policy issue thereafter is achieving aid commitments of a certain proportion of GDP. The needs of the poor are not the issue, but the capacity of aid to meet them. This fundamental point is routinely ignored in international debates on aid and new aid initiatives of all kinds.

There is growing global pressure in rich countries to increase aid commitments in order to attack poverty, particularly in Africa, through additional funding for healthcare and education; HIV/AIDS, malaria, and TB research, prevention and treatment. The United Kingdom is leading initiatives to write off multilateral debt (most bilateral debts have already been written off) and to double aid transfers so as to help poor countries’ meet the Millennium Development Goals of 2015.

In January 2005, British Minister of Finance Gordon Brown visited Tanzania. Much of his time was spent meeting with ordinary citizens, in visits facilitated by the NGO Policy Forum. Having been moved, his gift to the people of Tanzania was an agreement to pay off \$750 million Tanzania owes to the World Bank over the next ten years. While freeing up more resources for development may be laudable, the UK public may be concerned that their taxes are being used to pay off the interest on debts for past projects that were routinely plagued by corruption, waste and mismanagement, and which have yielded little sustainable benefits for the poor.

If the pro-aid lobbies in the rich countries carry the day, there will be significant increases in development aid for Tanzania in the next few years. The failure of past aid is put down to it being inadequate in volume to have a major impact on poverty. Solution: more aid! The implications in terms of deepening dependency of rapid increases in aid are not addressed by the pro-aid lobbies.

I would add a more contested inherent weakness of aid to the above daunting list: that aid stimulates corrupt practices. Years of investigating corruption and aid lead me to conclude that: (1) aid agencies and staff are sometimes corrupt; (2) even when they not - and generally they are not - aid agencies can easily encourage waste and corruption among recipients through disbursement pressures and the tendency to over-fund particular sectors or activities; and (3) there are pressures on donor agencies to hide or ignore the bad news (ineffective projects, suspicion or proof of corruption) which mirror pressures on government to do the same. My efforts to report examples of grand corruption involving aid have generally made me more enemies than friends among both aid donors and recipients (Box 8). I conclude that aid agencies routinely fail to practice the transparency and accountability they require of their development partners.

When analysts claim that aid has had 'no impact' they are missing the point. Rather, the question should be, if aid has not had the *desired* impact, what impact has it had? Answers to this question may be sought in psychology (the aid-dependent mentality), social science (aid creates/strengthens patronage networks), and economics (aid as investment, income, substitute for taxes, capital flight). My position – that aid effectiveness is undermined by the practice of various forms of political patronage, leading to inefficient resource use and corruption – leads one to ask how aid influences, and is influenced by, the political system so defined. Neither donors nor aid recipients are very keen to explore these intellectual avenues, though there are signs that a number of agencies are gearing up to investigate the nature of political corruption. One important issue here is the cost of the 'democratic transition' in Africa that the aid agencies have been keen to promote.

It is quite early days to assess whether the 'new' aid relationship, based on local ownership of commonly agreed 'pro-poor' policies, improved aid coordination and harmonization of requirements, and better governance, will stand up to the test of time. The issue is not so much that aid dependency is difficult for a poor country to break out of, but rather that both recipient and donors are, for better or for worse, mutually dependent on the continued aid relationship. One conclusion to draw from this is that, barring some major unforeseen upheaval, aid is likely to continue at high levels for the foreseeable future, regardless of the performance of the Tanzanian economy and government. Since aid finances the trade gap, it would be difficult for donors to pull out or reduce financial assistance, for whatever reason, and leave the economy to the tender mercies of international commodity markets.

Aid has never been able to stimulate the kind of virtuous cycle of economic growth and social development that could help poor countries, Tanzania included, grow out of chronic aid dependency. The Independent Monitoring Group, consisting of Professor Samuel Wangwe and other distinguished economists, sees reduced aid dependency as a desirable goal, and President Mkapa is on record as favouring such a policy. Yet it is difficult to see how this could be achieved within the present 'willing giver-willing recipient' incentives structure, not to mention the global pressures to increase aid commitments mentioned above.

## **6. PRS and the social sectors**

The main difference between SAP and PRS is the focus on enhanced social sector investment. Health, education and rural roads are the main 'pro-poor' sectors to benefit to date. The PSSS asked householders' opinions on trends in these and other sectors. The majority of respondents were enthusiastic about the abolition of primary school fees, and critical of the cost-sharing

policy in health (see Box 10). Investments in road construction and maintenance have had more positive impact in Dar es Salaam, than in other towns, and little impact to date in rural areas.

### Box 10: Cost-sharing inconsistencies cost lives

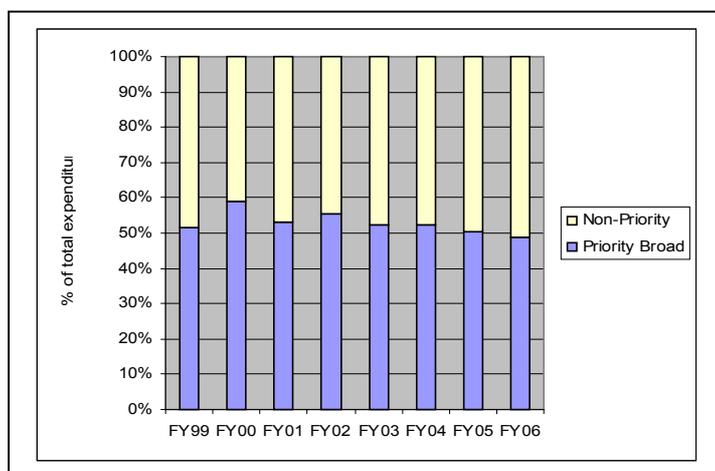
In 2000, the Tanzanian Government abolished primary school fees and launched the Primary Education Development Plan (PEDP). Funded in part through a US\$150 million loan from the World Bank, PEDP has increased enrolments from 5 to 7 million in just three years. The PSSS mentioned in Box 1 above found widespread popular satisfaction with PEDP, though most parents are concerned with the poor quality of education and high examination failure rates.

In contrast, in the mid 1990s the government introduced ‘cost-sharing’ or ‘user charges’ in government hospitals and is planning to extend the policy down to dispensary and health centre level. PSSS found that the cost of healthcare constitutes a major problem for over half the population. Two-fifths of respondents know of people who have been refused treatment through inability to pay the cost of consultation, treatment, or informal payments to health workers. Research throughout Africa confirms that cost-sharing excludes the poor and very poor from modern medicine. Exemption mechanisms do not work - on the contrary, they favour the better off. NGOs are asking why ‘cost-sharing’ has been abandoned in education but is expanding in health. If government and donor resources are targeting the main ‘pro-poor’ sectors, surely healthcare should be the first priority, they argue. According to the PHDR, infant and under-five mortality rates declined between 1960 and 1985, but in the last decade they have stagnated, ‘and there may have been a small increase in recent years.’ Sixteen percent of Tanzanian children die before their fifth birthday.

*Sources: REPOA, Policy and Service Satisfaction Survey, (PSSS, 2003); GOT, Poverty and Human Development Report (PHDR, 2002)*

The Tanzanian government and donor agencies have put a lot of effort into improving the efficiency of budgetary planning and finance in order to refocus spending towards the ‘pro-poor’ sectors. Yet there is worrying evidence that, although ‘pro-poor’ spending has increased significantly under the PRS, ‘non-pro-poor’ spending has increased just as much (Figure 1). A recent review of General Budget Support by Daima Associates and ODI found that ‘there have been few shifts in the patterns of expenditure. The impression is there is “more of the same”, and that key constraints to service delivery have not yet been addressed.

**Figure 1: Share of priority and non-priority expenditures in total discretionary expenditures, FY99- FY06**



*Source: Public Expenditure Review External Evaluation 2003*

This at least was the tentative conclusion of the External Review of the 2003 Public Expenditure Review by Danida and the World Bank. The projection of this trend to FY06 threatens to undermine the Medium Term Expenditure Framework (MTEF) which guides both PER and PRS.

Moreover, money budgeted often does not reach the intended beneficiaries. An expenditure tracking study undertaken by REPOA and the Economic and Social Research Foundation (ESRF) found that *more than half* non-salary expenditure in the health sector did not reach the intended facilities. The annual report of the Controller and Auditor General (CAG) documents unauthorised and improper expenditure on a huge scale. Rarely do these reports lead to the return of monies misused or disciplining the officials responsible. Given the extent of ‘leakages’ at both the national and the local government levels, the challenge is to translate enhanced social sector budgetary allocations into more and better social services for the majority poor. This presupposes more transparency in social service budgeting and finance and much more downward accountability at the local level. This message has been forcefully articulated by international and local non-government organisations, including the NGO Policy Forum in PER and Consultative Group meetings. But little appears to have changed as a result.

## 7. Globalisation, content and discontent

Nobel prize winner and former World Bank chief economist Joseph Stiglitz’s bestseller *Globalization and its Discontents* (Penguin Books 2002) makes a strong case against the Washington Consensus. Much of his anti-market fundamentalism argument is more relevant to Asian and Latin American than to African contexts, however. Where he does address a universal problem is in stressing the difficulty of creating viable markets (Box 11). Like De Soto (Box 7), Stiglitz stresses the importance for market development of ‘clearly established property rights and the courts to enforce them.’ One of his criticisms of IMF adjustment policies is that they fail to address all the market failure constraints, and are not sequenced. These points are highly relevant for Tanzania, particularly in regard to agriculture and rural development.

### Box 11: Making markets work is hard

Adam Smith’s model ‘argues that market forces – the profit motive – drive the economy to efficient outcomes *as if by an invisible hand*. One of the great achievements of modern economics is to show the sense in which, and the conditions under which, Smith’s conclusion is correct. It turns out that these conditions are highly restrictive. Indeed more recent advances in economic theory ... have shown that whenever information is imperfect and markets incomplete, which is to say always, *and especially in developing countries*, then the invisible hand works most imperfectly. Significantly, there are desirable government interventions which, in principal, can improve upon the efficiency of the market.’

*Joseph Stiglitz, Globalization and its Discontents, Penguin Books 2002, pages 73-4 (emphasis in the original)*

It is generally agreed that international commodity markets discriminate against many third world producers through subsidies to producers and tariffs and quotas on imports. It does not follow, however, that Tanzania does *not* have a comparative advantage in producing primary products for international markets as a key component of its anti-poverty strategy. The Tanzanian government acknowledges this fact by promoting the expansion of all ‘traditional’ export crops, including coffee and cotton, through the crop marketing boards mentioned above.

The problem is that the marketing boards generally do not do what they should do (regulate competition, provide market information, control quality and fair practices) and do what they shouldn't (procure inputs, deduct levies for research and extension, indulge in corruption) (see Box 3). If policy-makers were committed to taking advantage of existing international market opportunities, they would have to bring in many more private sector actors than is currently the case. Donors such as IFAD, the World Bank, the ADB and European Union simply crowd out the private sector and provide incentives to bureaucrats to focus on further multi-million dollar projects as the way forward. Government and donors tend to be profoundly ignorant of what the private sector is or can do, and are themselves major sources of 'market failure'.

### **Box 12: Liberalization and coffee in Uganda and Tanzania**

During the 1990s Uganda, Tanzania's landlocked neighbour, liberalised agricultural marketing. Consequently, coffee exports rose dramatically and levels of income poverty fell steadily year on year, albeit not for the very poor. The liberalisation was the result of the virtual closure of the Ministry of Agriculture and the Ministry of Finance spearheading the Plan for the Modernisation of Agriculture. At the same time, Tanzanian coffee sales fell from 56,000 tonnes in 1990 to 47,000 in 1998 (some Kagera coffee was smuggled to Uganda because the prices were better there). By the end of the decade Uganda was earning more from coffee exports alone than Tanzania earned from its entire range of 'traditional' exports – coffee, cotton, cashew, tea, tobacco, sisal and pyrethrum – combined. As well as demonstrating that liberalisation can reduce poverty, this comparison also teaches us that benefits from export trade liberalisation should be immediate – with need to wait for the 'trickle down effect' to kick in.

*Source: Donald Mitchell and John Baffes, 'Tanzania Agricultural Exports: Challenges and Constraints in a Global Environment', The World Bank, Washington 2002; TADREG data base.*

On returning from the Cancun World Trade Organisation meeting in September 2003, Dr Juma Ngasongwa, leader of the Tanzanian delegation and Minister of Trade and Industry, declared the meeting a 'victory' for African nations that had 'stood up' to pressures from the developed nations to agree to WTO proposals on tariffs and other trade issues. How this constituted a 'victory' is not clear. Both President Mkapa and the *Economist*, a widely-read British weekly magazine, declared the collapse of the trade negotiations a disaster for poor countries.

The Ministry of Industry and Trade is currently coordinating the Tanzania Trade and Poverty Programme (TTPP), designed to integrate trade issues, albeit belatedly, into the Poverty Reduction Strategy. A major conclusion of the TTPP is that Tanzania has failed to take advantage of existing primary produce export opportunities through lack of competitive input and output markets and widespread state failure in performing licensing and regulation functions (see Box 4).

## **Conclusions**

Donor aid agencies are always looking for a star performer, and for the moment Tanzania is one of them. Tanzania may have earned its status as much from its own measures as the poor performance of many of its neighbours. Regardless, the star status will eventually fade unless the Government can formulate *and implement* policies that promote the well-being and incomes of the majority poor. For the moment, there is little evidence to suggest that the Government has the vision, the will or the capacity to *ask the fundamental questions* that might allow such a policy to evolve. Donor countries have helped Tanzania out of the depths of economic collapse of the 1980s and 90s, and currently provide most of the foreign exchange to protect the exchange rate and fill the trade gap. Overall, however, current policies and reforms have not addressed the

underlying causes of market failure, and have arguably contributed to that failure. Views on the merits and demerits of general budget support compared to projects vary between aid agencies. Some believe the move from project to budgetary support under the PRS is a very risky venture, with only a limited shelf life. They think the state machinery is too vulnerable to corruption and patronage, and bureaucratic inefficiency, to handle large additional resource flows effectively.

Proponents of the PRS, including development agencies such as DfID, spend much time and effort thinking about these issues. Yet in their concern to see PRS work they may still be failing to ask some vital questions that needed to be more systematically addressed. For example: Are political systems based on patronage or 'neo-patrimonialism' capable of initiating market reforms that will bring about broad-based growth? What does aid really contribute in such contexts? Is corruption the price we have to pay for political stability, and is it a precondition for the emergence of an African capitalist class that will know why markets matter and do more to make them work? Apart from institutions and governance, what are the other causes of 'market failure' in specific contexts? If there are winners and losers from liberalisation, how many are there of each? What technologies are best suited for poverty reduction and sustainable development?

These questions should of course be asked in the offices of the donors and in their meetings with their 'partners' in Government. Even more importantly they need to be subject of public debate and thoughtful analysis in Parliament, and among civil society organizations, academia, research institutions (or 'think tanks'), and the media.

The central pillars of neo-liberalism – market liberalisation, privatisation, budgetary austerity, free trade – are only useful policies if they translate into equitable and sustained economic growth. Proponents of neo-liberalism therefore need to demonstrate how their policies are delivering these results.<sup>3</sup> How each of these policies and other aspects of liberalisation are managed in practice determines overall growth and poverty outcomes. In all this the state has a major role to play, but not the current role.

Perhaps Tanzania's most precious assets are sustained peace and political stability. If the PRS fails to deliver on deep poverty reduction for the majority of the people, these assets could be threatened. In Tanzania as elsewhere, misuse of religion is a potential source of instability and violence; absolute and relative deprivation among the growing mass of urban youth can lead to breakdown of law and order and the rise of populist demagoguery appealing to partisan and racist sentiments. Put the two together and a worst nightmare scenario is not that implausible.

I asked at the outset whether PRS can be expected to succeed, where SAPS have failed, to make the transition to sustained economic growth that spreads benefits widely and enters into a virtuous upward spiral with state-provided social services. A review of some of the evidence suggests the answer is 'no'. It will probably remain so, unless we begin to think more deeply about the underlying issues and face up to some unpleasant truths.

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<sup>3</sup> Those who want to roll back these policies are obliged to tell us how they propose to deal with the problems that led to the need for the reforms in the first place, and offer workable costed alternatives.