Tanzania's Economic Reforms and Lessons Learned

Having experienced a steady economic decline in the late 1970s and a financial crisis in the early 1980s, Tanzania formally adopted an economic recovery program in 1986. It has since pursued reforms and made significant achievements: macroeconomic stability has been achieved and a wide range of structural reforms completed. Gross domestic product (GDP) growth per annum averaged 4.2 percent during this period, reversing per capita income decline experienced in the decade before 1986. The growth in per capita income led to a considerable decline in the level of poverty. The long-term poverty trend has been declining for most of the post 1986 period, as indicated by various poverty studies conducted between 1976 and 1996. The studies indicate that the post-1984 period in Tanzania was marked by an overall improvement in real incomes: a 1996 by Ferreira study found that poverty (defined as the number of households below the basic needs poverty line) declined by approximately 22 percent between 1983 and 1991. Despite the setbacks on the macroeconomic policy front between 1991 and 1994, when poverty rose by approximately 11 percent, the most recent (2000–01) household budget survey confirms that there was a sustained decline in poverty over the entire decade. The survey findings show that as per capita income accelerated, after the reform progress was reinforced in 1995, poverty is estimated to have declined by approximately 28 percent between 1994 and 2002. The survey further points out that poverty reduction has been more rapid in urban areas, in particular in Dar es Salaam, than it has been in rural areas.

Tanzania’s adjustment and reform process has been gradual and at best cautious but steady, deep, and sustainable. Subsequent to the temporary setback in macroeconomic policy during the first half of the 1990s, the government achieved macroeconomic stability in the late 1990s. Inflation was reduced from about 30 percent in the 1980s and early 1990s to single digits in late1990s, when severe fiscal imbalances were brought under control through prudent fiscal management; inflation in 2002 was 4.6 percent. Acceleration of structural and institutional reforms, as well as creation of new institutions, led to improvement in the investment climate, increased foreign direct investment (FDI) flows, and job creation. The balance of payments improved significantly, reflecting large donor inflows and increased export earnings, mainly from nontraditional exports. Tanzania’s sustained commitment to economic reforms triggered its eligibility for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in April 2000, making it one of the first countries to reach the completion point and to benefit from irrevocable and substantial debt reduction. Debt reduction in turn paved the way for additional donor inflows. The additional resources, including from the HIPC debt reduction, allowed the government to increase budgetary expenditure allocations to social sectors and other priority sectors, such as rural roads, the judiciary, and HIV/AIDS-related activities. This has led to visible improvements in public service delivery, in particular education and health.

The success and durability of economic reforms in Tanzania is attributed to a strong and "tested" sense of ownership of the reforms early in the process, a wide domestic consensus on economic reforms, and a broader understanding of the issues. This achievement resulted from a number of factors: a consultative and participatory approach, a series of "homegrown" programs, sustained commitment and political leadership, and consistent support from development partners. The openness and inclusiveness of the consultative process of the 1980s internal debates, led by the University of Dar es Salaam, brought together reformers and nonreformers, helped clarify and broaden the understanding of issues, and legitimized the need for economic reforms. The government's use of national commissions as instruments for collecting views and building consensus on issues broadened the domestic constituency for the reforms, reinforced internalization of the process, and thereby underpinned reform ownership.

Experimentation with homegrown programs provided the government space to test, learn, and adapt reform measures to country circumstances and to minimize alienation of support groups. It also helped build confidence in the government to scale up the reform measures. Once the measures demonstrated a positive impact, the likelihood of policy reversal was reduced because the support of the measures had been demonstrated to a broader constituency.

The sustained commitment and political leadership demonstrated by Tanzania's leadership has fostered sustainability of the reforms. President Nyerere's departure in 1985 signaled a break from socialist policies and allowed the process to evolve in an orderly fashion. President Mwinyi's liberalization efforts post-1985 and initiation of institutional and structural reforms ushered in a free market economy, and President Mkapa reinforced the importance of macroeconomic stability and ensured consolidation of a free market economy, after 1996.

Development partners have been an important and integral part of the process of economic reforms. Their contribution was manifest in two distinct ways: providers of substantial financial and technical assistance and adjudicators and monitors of government's performance (or nonperformance) in implementing economic reforms. Financial support from development partners, both bilateral donors and multilateral institutions enabled the government to aggressively reverse the socialist policies after the 1986 reforms and helped to bring economic recovery and improvement in public service delivery. Technical assistance contributed to capacity building, strengthened institutional framework and helped to create a conducive environment for a market-driven economy. While donor support fell in the early 1990s when the reform effort temporarily collapsed, it rose again when reforms resumed under the Mkapa regime in 1995.

The implicit role of adjudicators and monitors of government's performance (or nonperformance) was demonstrated through withdrawal of assistance when the government was reluctant to adopt economic reforms, in response to economic crisis in the early 1980s, and also in early 1990s, when macroeconomic reforms faltered. Conditioning aid on policy measures was a contentious source of tension: it was perceived to undermine sovereignty and government's ownership of economic management. It created tension between the government and its donors and prompted donors to evaluate their approaches in aid relations. For example, the disagreement between President Nyerere and the International Monetary Fund in 1980 was symptomatic of the government's assertion of sovereignty, ownership, and space for internal dialogue. The 1994 Helleiner process, an initiative to mediate between the government and its donors, though precipitated by the derailed reform process, underlined the imbalances in government/donor relations. The Independent Monitoring Group, an outcome and a culmination of the Helleiner process, now serves as an instrument of accountability and a performance monitoring tool, on behalf of the donors and the government. This was a direct response to government/donor tensions and the absence of a common adjudicating mechanism framework.

The direct dialogue with development partners has been an important catalyst in Tanzania's economic reform process. The dialogue informed the early debates on economic issues and indirectly contributed to homegrown programs. It also facilitated greater government ownership of the process and helped government/donor relations to evolve from confrontation to partnership approaches. Furthermore, it triggered the need to focus on aid effectiveness and to re-examine and improve aid delivery mechanisms.

Tanzania has made tremendous progress on many fronts. However, the remaining central challenge is making growth deliver more efficiently in terms of poverty reduction on pro-poor growth. To accomplish this, the focus should be on accelerating growth of agriculture and rural sector development, to engender economic opportunities in rural areas where poverty remains pervasive. Equally important is the need to sustain robust growth, a necessary element to achieving the Millennium Development Goals (MDGs).

Conclusions and key lessons learned

Since the inception of economic reforms in 1986, a large segment of Tanzania's population has benefited from gradual poverty reduction, which was driven mostly by steady improvement in economic performance, implementation of structural reforms, and, in the most recent past, greater attention to public service delivery. GDP growth has been sufficient to allow increases in income per capita, including in rural areas. Overall the long-term poverty trend has been declining. However the decline in poverty has been more pronounced in urban areas, while poverty in rural areas remains considerably higher. The HIPC debt reduction, which was followed by additional donor inflows, allowed the government to increase expenditure allocations to provision of public service delivery.

An important aspect of Tanzania's economic reforms has been the transition from a socialist to free market economy. In this context the government's main challenge and focus were how to implement economic reforms with minimum adverse effect on provision of social services, in particular to the vulnerable. For example, the government opposed the devaluation of the currency because of fear of inflationary pressures and its impact on the vulnerable group. Such issues were discussed, clarified, and understood through a truly open and participatory debate. The implementation of the homegrown programs was a transitioning and learning processes in which the government learned what policies worked (or did not work) in eliciting economic activity.

What are the lessons learned?

- Early winners and good results help to build support for more ambitious and large scale reforms.
- Understanding of the issues by a wider segment of society through debates and participatory approaches engenders broad ownership of the reform process.
- It is important that the reform process is locally-driven. It increases the public's sense of ownership and ensures commitment to implementation and sustainability.
- It is important to carry out analytical work during the pre-reform period to be able to inform the internal policy dialogue and to frame the economic debate.
- Participatory approach helps bring a wide range of stakeholders on board—the open dialogue, and the various "home-grown" programs through which the reform process evolved, created broad ownership and allowed the government to formulate a reform program that was not only acceptable at home, but was also acceptable to development partners.
- Public acknowledgement of policy failure by political leadership sends a powerful message to the general public. It is a necessary and important step toward initiating change in policy regime.
- To ensure sustainability and credibility, it is important that the government rally public opinion in support of reform program. This requires a forthright and active effort to explain the benefits and costs of the reform agenda to civil society
- Sustained commitment to reforms and consistent message from the political leadership is critical to the credibility and sustainability of the process.
- Institutional impediments should be recognized at the outset in order to establish realistic expectations for reform outcome.
- Divestiture signaled a stronger commitment on the part of the government to private sector-led development, it led to increased domestic and foreign capital, technology, and managerial skills.
- In order to cultivate "buy-in" as well as the general public's support for privatization, there is need for successful privatized public enterprises which bring about lead to improved productivity, contribute to the tax base, and create employment opportunities for local investors.

- The gradual approach creates space for the government to adapt policies to its individual county circumstance. While it slows the speed of reforms, it engenders strong ownership, sustainability, and minimizes policy reversals.
- There is need for a strong institutional mechanism for accountability to sanction government's performance and donor behavior.
- Tanzania's open and direct discourse with its donors helped improve aid relations and aid effectiveness—and fostered partnership approaches—It resulted in improved donor coordination, increased government ownership, and a movement toward harmonization of processes.