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Aid, Industrialisation and Economic Development in Tanzania: Some New Ideas and Old Debates

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Aid, Industrialisation and Economic Development in Tanzania: Some New Ideas and Old Debates

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ABREVIATIONS

ESRF	Economic and Social Research Foundation
NGOs	Non-Governmental Organisations
SSA	Sub-Saharan Africa

PREFACE

This report is a summary of a public lecture on "Aid Industrialisation and Economic Development in Tanzania: Some New Ideas and Old Debates"; that was delivered by Prof. Marc Wuyts of the Institute of Social Studies at the Hague, the Netherlands. Prof. Wuyts is no stranger to Tanzania. He was a lecturer at the University of Dar es Salaam in the 1970s when issues concerning aid, industrialization and development were passionately debated. His experience in the region also covers Mozambique.

The Workshop was organised by the Economic and Social Research Foundation and was attended by professionals, academicians, donors, politicians, members of the business community and **NGO**s.

AID, INDUSTRIALISATION AND ECONOMIC DEVELOPMENT IN TANZANIA: SOME NEW IDEAS AND OLD DEBATES

1.0 Introduction

The topic of aid and development has dominated the international community and nation-states since the early 1970s. More recently, the subject has taken the centre stage of the development debate in the light of the shift from bilateralism to multilateralism and the growing influence of globalisation which is increasingly eroding the role of aid in favour of investment. In the context of developing countries, like Tanzania, a debate has also emerged on what sector policy thrusts should underpin economic development. Should industrialisation take the lead or should agriculture continue to be the backbone of the economy? This policy dialogue paper attempts to address these topical issues from a historical and current perspective and identifies the challenges which confront Tanzania in the context of these issues and suggests the kind of policies and strategies that need to be adopted to address the identified challenges.

2.0 The Status of the Debate

Aid to developing countries emerged in the immediate aftermath of the African independence era. Its classical theory grew out of Keynesian economics. The modern Keynesians like Rostow, Chenery, Hirschman, Singer and Prebisch were concerned about how to transform what they saw as backward and underdeveloped societies into dynamic and growing economies. In their view, underdeveloped economies reflected certain gaps (shortage of capital, foreign exchange, human resources) which could be filled partly by foreign aid and technical assistance. Most of these economists believed, however, that aid could only be effective if the environment in which it was injected was conducive to its efficient use.

The 1960s and part of the 1970s appeared to vindicate the optimism of the Keynesian economists: rapid rates of economic growth were achieved in Sub-Saharan Africa. However, concern also emerged as to whether economic growth secured development. Thus whilst economies grew, the fruits of that growth did not lead to the fast eradication of poverty, thereby making a mockery of the much avowed redistribution with growth policy which many SSA countries had embraced.

However, a contrary view to that of Keynesianism has also been in vogue since the early 1970s. The central thesis of this view is that if conditions for development are not present, then aid would be unproductive and ineffective. Concomitantly, if the key factors of development are present, economic growth would take place even without foreign aid and that if they are absent, then development would not take place **even** with aid. Experience in SSA countries shows that poor policies have hitherto not been questioned by donors. On the contrary, the flow of aid has supported, underwritten and even encouraged policies that patently undermined the factors of development.

It is this latter view about development aid which has informed aid policy in the late 1980s and 1990s. The contemporary view about aid is thus that, rather than stimulating investment and, therefore, economic growth sustainability, it fuels consumption thereby undermining the internal capacity for growing domestic savings and self reliance.

3.0 The Tanzania Context

The relationship between aid, industrialisation and economic development in Tanzania has been influenced largely by development philosophy, economic policy, and the form of aid given and its utilisation. This relationship can be analysed on the basis of two different and varying periods: The pre-economic reform period (1967 -1985) and the post -economic reform period (1986 to-date).

3.1 Pre-Economic Reform Period

During this period the main characteristics of aid and its utilisation were as follows:

- aid was given to the State.
- aid was invested in import substitution industries;
- aid was project oriented in the sense that it was used to finance imports of capital goods;
- aid encouraged production of cash crops for export; one consequence of which food crop prices plummeted leading to under production

and the food crisis of 1974 was its clear manifestation. The food crisis inevitably precipitated a shift of emphasis from cash to food crops. This shift was facilitated by unfavourable pricing of export crops because of overvaluation of local currency and large margins which accrued to the marketing crop authorities. The end effect was a fall in exports and thus lower import capacity leading to serious under-utilisation of capacity in industries.

- aid gave rise to deficit financing to provide counterpart funds through credit creation. This type of financing, through the banking sector, led to money printing and to rising inflation.

3.2 The Post Economic Reform Period

This period witnessed a change of policy paradigm as far as aid is concerned. The reforms started in 1986 were informed by a non-interventionist approach. Aid acquired the form of import support, away from project - orientation, to a programme orientation. The emphasis was placed on efficiency utilization of existing capacity rather than capacity creation. The financial reform framework which evolved embodied credit squeeze and non-reliance on the banking sector for raising matching funds. The main role of aid in the new policy paradigm is three-fold:

- to improve the Government's capacity to collect tax and non-tax revenue and manage its Budget prudently.
- to assist the financial system to restructure and improve efficiency.
- to liberalise the economy with specific reference to the privatisation of parastatals and creating a more conducive environment for attracting investments.

4.0 Challenges

Clearly, the relationship between aid and development is presently in a state of flux. Developing countries like Tanzania ought to quickly realise, on the one hand, that aid only plays a minor role in stimulating growth and development and, on the other hand, that too much aid is likely to increase the likelihood of the country substituting or postponing internally generated action in promoting self-sustaining development. Indeed, increased reliance on aid may signify that the mainsprings of development are yet to be adequately put in place. All these facets of aid and development point to the kind of challenges that Tanzania faces and most confront in order to promote industrialisation and economic growth that is robust and sustainable. The challenges include:

- improving the Government's capacity to collect, tax and non-tax revenue and manage its Budget prudently.
- debottlenecking economic infrastructure.
- improving some aspects of industrial and agricultural production.
- assisting the financial system to restructure and to improve efficiency.
- liberalisation of the economy with specific reference to the privatisation of parastatals and

creating a more conducive environment for attracting investments.

- stimulating both imports and investments and thereby increasing income.
- improving the financial performance of institutions so that they are able to honour their debts and make profits at the same time.
- enabling growth of financial infrastructure.
- improving the overall efficiency of the national economy by investing in economic infrastructure and human resources development.
- building a new economic culture that appreciates global economic changes and supports people who can invest.
- improving the revenue collection and administration function.
- speeding up the process of privatisation of parastatals.
- reducing overdependence on aid.
- improving the overall effectiveness of aid.
- putting in place "support systems" which

complement the capacity utilisation aspects of aid

- identifying areas of priorities where aid should be directed to .

5.0 Policies and Strategies

Tanzania like most developing countries cannot count on any significant change in the international economic environment in so far as aid is concerned. Tanzania must therefore address the challenges of its industrialisation and economic development more through a thorough exploitation of its own resources, the will and commitment of its people and the re-orientation of its development strategies. In this context, the following policies and strategies need to be considered:

- determine and put in place a policy and incentives regime which would attract investments and promote mobilisation of domestic resources (human and capital).
- instil a spirit of self-reliance in all social and economic activities.
- accept and utilise only aid and capital inflows which complement domestic efforts and resources.

- speed up the process of privatising state-owned enterprises.
- allocate more resources and award better incentives to the revenue collection function.
- allocate aid to identified priority areas.
- provide attractive incentives to investors in the sector of financial infrastructure.
- put in place mechanisms for coordination of aid activities.
- improve the sustainability of aid supported projects.
- improve the management of the Government budget.
- improve the Central Banks's regulatory and supervisory responsibilities of banks.

6.0 Areas for Further Research

Four major areas are identified for further research work:

- the linkage between agriculture and industrialisation and how aid can concurrently accelerate the development of both sectors.

- the role played by institutional arrangements in ensuring the effectiveness of aid.
- how can it be ensured that aid addresses both growth-enhancing and poverty-reduction objectives?
- aid and private sector development.