

**Evaluation Study Commissioned by the Expert  
Group for Aid Studies, Stockholm, Sweden**

**Long-term Development  
Co-operation between Sweden and Tanzania**

**Draft Evaluation Report**

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## Chapter 1

# Evaluation of Swedish Development Co-operation with Tanzania: Introduction

## 1. Introduction

Sweden has a long history of development co-operation with developing countries. Through this co-operation it has provided bilateral development assistance to 152 developing countries since 1960. Two features of this co-operation are particularly apparent. The first is that this co-operation is often very long term in nature. Bilateral co-operation with some countries dates back to the late 1950s and many others back to the mid- to late 1960s (OECD, 2015). The second is that it is characterised by particularly close relationships with the developing countries concerned; meaning that what is important for the impacts of the co-operation is not just the levels of financial support provided, but also the quality of the relationship.<sup>1</sup> Both characteristics have important implications for how Swedish development co-operation is to be understood and evaluated.

Tanzania is among those developing countries with which Sweden has had a particularly long bilateral development co-operation relationship. There is also a very close relationship between Sweden and Tanzania. This co-operation commenced in 1962 with the provision of aid Swedish aid to Tanzania and continues until the present day. Tanzania has received more bilateral development aid than any other country, having received \$US7.01 billion of this assistance since 1962.<sup>2</sup> In 2013 Sweden announced a new development co-operation strategy with Tanzania that covers the period 2013 to 2019 (Government of Sweden, 2013).

This document reports the approach and findings of an evaluation of long-run development co-operation between Sweden and Tanzania. The evaluation is specifically concerned with the contribution of Swedish bilateral aid to poverty reduction in Tanzania since the commencement of this co-operation in 1962. It is also concerned with lessons learned from the evaluation for future development co-operation.

This first chapter of the report is structured as follows. Section 1.2 considers the aim and questions to be addressed by the evaluation. It also identifies and briefly discusses previous evaluations of long-run development co-operation. Section 1.3 outlines the evaluation approach, focusing on evaluation methods and an evaluation framework known as the Aid Quality Evaluation Framework and how it is applied. Evaluability issues

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<sup>1</sup> This was a key finding of a prior evaluation of long-term development co-operation between Sweden and Vietnam. A key informant interviewed as part of this evaluation observed that, 'money is important, but what is more important is the support across our entire history with Sweden; this has nothing to do with money, other countries give us more money, but we don't have the same relationship with them' (McGillivray *et al.*, 2012a, p. 22).

<sup>2</sup> This dollar amount is in constant 2013 prices and has been obtained from OECD (2015).

are examined in both Sections 1.2 and 1.3.<sup>3</sup> Section 1.4 concludes, by principally providing brief contents of the chapters that follow in this report.

## **1.2 Evaluation Aim and Questions**

### **1.2.1 Evaluation Aim and Questions**

The evaluation Terms of Reference (ToR) for the evaluation are very clear. What follows is taken or adapted from the ToR. The aim of the evaluation is the development of a model or method for evaluating the performance of bilateral assistance to an individual country, and the application of that model or method to a country that has been the recipient of Swedish assistance for a long time, in this case Tanzania.

The application of the model or method will be guided by two overall questions:

- (i) Has Swedish aid contributed to poverty reduction in Tanzania over time, and if so, in what way?
- (ii) What are the important lessons for Swedish development cooperation today?

The main objective of the evaluation is to provide grounded and elaborated responses to these questions and to highlight potential lessons for Swedish development assistance. Strengths, weaknesses, and the general applicability of the proposed model for evaluation should be discussed in the evaluation report.

These questions will be discussed in some detail below, but it is instructive to provide some preliminary observations regarding question (i). Evaluations have for many decades looked at possible impacts of aid on poverty reduction. Aid is, in principal, a response to poverty in developing countries. Donor governments often seek to justify the often large amounts of taxpayer funds allocated to aid programs with reference to it being both a response to poverty in these countries and a means of reducing it. Much of the support within donor countries for aid is premised on it having some impact on poverty reduction. Consistent with these factors, it is not surprising that evaluations have tended to seek to quantitatively identify the extent to which the aid activity in question, be it a project or larger program, has reduced poverty. The extent of poverty reduction has been defined as the number of people in the recipient country lifted out of poverty.

Seeking to establish how many people aid has lifted out of poverty is an extremely difficult task on various evaluability grounds. This is primarily because it requires

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<sup>3</sup> The OECD–DAC defines evaluability as ‘the extent to which an activity or a programme can be evaluated in a reliable and credible fashion’. Assessments of evaluability are typically used to judge the coherence and logic of a project or program and clarify data availability and adequacy. These assessments also inform decision on the scope of the evaluation and specifically of the evaluation questions. Of particular relevance to an evaluation of long-term development cooperation is consideration of the elements of the ToR such as the scope of evaluation, evaluation questions, and deliverables, and their feasibility, risks and challenges such as in measuring attribution and contribution, feasibility of collecting data to a sufficient standard, types of data that are feasible to collect and appropriate and feasible methods given the evaluation questions, data availability and quality, and context (OECD, 2010).

consideration of the counterfactual, what would have been the level of poverty in the absence of the aid activity in question. It is not possible to identify how many people might have been lifted out of poverty without knowing this counterfactual. There are of course related subsidiary challenges, including obtaining quantitative poverty data and controlling for the impacts of other drivers of the poverty in question.

Evaluation question (i) cleverly side-steps these challenges. It does not require an assessment of the extent to which Swedish development co-operation with Tanzania has reduced poverty in the former. Instead it requires an assessment of whether this co-operation has contributed to poverty reduction in Tanzania, of whether it has “driven the drivers” of this reduction. This strictly speaking does not require knowledge of what the level of poverty in Tanzania would have been in the absence of Swedish support, nor does it require empirical information on poverty levels in the latter. This is not to say it is not without its challenges, in particular identifying agreed drivers of poverty reduction, in particular those that donors might be able to drive.<sup>4</sup> Nor is it to say that data on poverty will not inform the evaluation study.

### 1.2.2 Previous Evaluations

Evaluations of development assistance or aid are not new, of course. They have been undertaken for almost as long as aid has been provided. The current evaluation is different to most previous evaluations in three main ways. First, its scale is much larger, being concerned not with an individual project or program, but with the entirety of a donor country programme. Second, it assesses aid not against the intended direct outcomes built into the design of a project or program, but with what is typically the fundamental, over-arching aim of a donor, that being poverty reduction. Third, it will focus on a period of time that is very long by typical evaluation standards.

This is not to imply that previous evaluations have not looked at the same scale, not looked at over-arching, country programme-wide objectives or at the long-term. But it is to say that evaluations that display each of these characteristics are very rare. To the knowledge of the current evaluation team, there have only been four completed evaluations with each of these characteristics. In 2010, the Swedish International Development Agency commissioned evaluations of its long-term development co-operation with Laos, Sri Lanka, and Vietnam (McGillivray *et al.*, 2012a, 2012b and 2012c).<sup>5</sup> In 2013, The United Kingdom Department for International Development (DFID)

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<sup>4</sup> Addressing question (i) requires a very similar analytical approach to those used by Killick (1995) in an investigation of the impact of donor supported structural adjustment programs of the 1980s and early 1990s on poverty. At the time there was widespread concern that these programs might result in higher poverty levels in the countries in which they were being implemented. Killick identified a number of determinants of poverty, and argued the structural adjustment programs were unlikely to have had significant impacts of poverty since they were unlikely to have impacted on these determinants.

<sup>5</sup> This was an innovative and bold move for an official donor agency. This was principally because the main evaluation question looked at the extent to which Swedish development co-operation had contributed to sustained poverty reduction, which donor agencies had tended to avoid, given the potential for adverse publicity, and was conducted by an independent evaluation team. Sweden had earlier commissioned a

commissioned a very similar study of its long-run development co-operation with Vietnam. The respective time periods of this co-operation were 53, 44, 38 and 18 years. The evaluations were conducted in response to decisions by Sweden and the United Kingdom to exit these countries as bilateral aid donors. The overall purpose of each was extremely similar to that stated in the Terms of Reference for the current evaluation, in that they were required to assess the donors' contributions to poverty reduction in each country and to provide lessons learned for Swedish or British development co-operation programs in other countries; for donors remaining in the three countries in question; and for the governments of these countries.<sup>6</sup>

What lessons can be learned from these previous evaluations for the current evaluation? There are two main lessons. The first has already been mentioned above, so here we reiterate some points made above.

The first concerns the interpretation of the primary evaluation question used in these evaluations. The primary evaluation question of the first three of these evaluations asked, *how and to what extent did Swedish development co-operation contribute to poverty reduction* in each of the countries. The DFID commissioned evaluation asked the identical question, but in the context of United Kingdom development co-operation with Vietnam. The interpretation of this question was such that an estimate of the number people lifted out of poverty was required, that the evaluations were asking for this estimate. For various reasons, among them being the availability of requisite data on poverty, covering the full periods of co-operation in question, the evaluations were not able to fully answer this question. The closest any of the four evaluations got to answering it was to speculate that Swedish development co-operation lifted 'many millions' of Vietnamese out of income poverty (McGillivray *et al.*, 2012c, p. 124).<sup>7</sup>

Evaluation question (i) above is very similar to this primary evaluation question, but is different in one very important respect: it does not require the evaluation team to make an assessment of the extent of the Swedish contribution to poverty reduction in Tanzania, just to assess whether there has been a contribution *per se*. The writing of the Terms of Reference for the current evaluation has, in effect, taken on board the first of

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country level study of its development co-operation with Tanzania, although the focus of that study (Adams *et al.*, 1994) was on the macroeconomic constraints to the effectiveness of this co-operation.

<sup>6</sup> In early 2015, the New Zealand Ministry for Foreign Affairs and Trade commissioned evaluations of the impact on economic and human development of its long-run development co-operation with Cook Islands, Niue, Samoa, and Tokelau.

<sup>7</sup> This conclusion rested heavily on Swedish support for Vietnam's economic reform program *Doi Moi*, which was implemented from the mid-1980s onward. *Doi Moi* is regarded by many to have helped lift tens of millions of Vietnamese out of poverty owing to the sustained growth it was able to generate. Vietnam was one of the few donors operating in Vietnam in the mid-1980s and provided important support for *Doi Moi*, helping to ensure a reasonably rapid and orderly transition from a centrally planned to more market oriented economy. Had Sweden not found itself in this situation the evaluation would have had great difficulty drawing any conclusions regarding the extent to which Swedish support had contributed to poverty reduction in Vietnam. Unless very special circumstances such as this are present in the development co-operation programs of other donors, the primary evaluation question considered by these previous evaluations is not evaluable in the context of evaluations of these programs.

these lessons. The evaluation team is obviously fully cognisant of this and will not stray down the path of seeking to provide an estimate of the extent to which Swedish aid has contributed to poverty reduction in the chosen partner country. Aside from the data issue mentioned above, it is extremely difficult, if not impossible, to delineate the contribution of any one donor's assistance from those of the often scores of other donors that have provided aid to this country. Indeed, delineating the impact of aid on poverty from impacts of other relevant variables is hard enough in itself.

The second lesson concerned identification of the channels or processes through which Swedish aid can potentially reduce poverty in each country. These channels were not identified in any systematic or explicit manner. Some were identified, but simply in the process of conducting and writing up the results of the evaluation. As such the identification was very *ad hoc*. What is clear from the current evaluation is the importance of identified, agreed, explicit and evidence-based drivers of poverty, and its reduction in the recipient country. If Swedish aid is to reduce poverty, then it must be able to influence one or more these drivers in poverty-reducing ways. This will be key to the addressing evaluation question (i) and, in turn, question (ii). We return to this issue below in discussing the approach to be used in the proposed evaluation.

### **1.3 Evaluation Approach**

Undertaking a long-run evaluation of a bilateral development co-operation program of the nature of that outlined in the ToR is a complex task. It requires a rigorous evaluation framework. It also requires the skilled application of rigorous evaluation research methods.

#### **1.3.1 Evaluation Framework**

The Aid Quality Evaluation Framework (AQEF) will be applied for this purpose. Importantly, consistent with the aim stated above of the evaluation, it will be this framework that will be (further) developed for evaluating the performance of bilateral assistance to an individual country. AQEF was originally developed specifically for the evaluations of the above-mentioned evaluations of Swedish long-term development co-operation with Laos, Sri Lanka, and Vietnam. It has since been the subject of ongoing refinement and was also used in the above-mentioned evaluation of development co-operation between the United Kingdom and Vietnam.

AQEF is a heuristic tool catering for the many situations in which it is not possible to directly observe or quantify the impact of development co-operation on poverty reduction, or for that matter a range of other intended outcomes of such co-operation. It essentially guides the evaluation, conditioning the lines of enquiry in the application of the chosen research methods. AQEF has been described as Paris++. What this means is that AQEF is based on a twofold augmentation of the Paris Declaration Principles, agreed in 2005 by DAC member countries and subsequently endorsed at Accra and (with further articulation) at Busan. The Paris Principles are an accumulation of decades of knowledge of aid delivery, building on shared thinking among the donor and partner government communities and extensive knowledge of lessons learned. Whilst care

should be taken in applying Paris Declaration principles retrospectively, they provide important criteria for the assessment of Sweden's bilateral support for poverty reduction in the chosen country.

The AQEF currently consists of three components, which are: (i) consistency with Paris Declaration principles; (ii) consistency with pressing development needs in the partner country; and (iii) cognisance of development capacity.

As is well known in development aid circles, there are five Paris Declaration Principles:

- *Ownership*: Developing countries must lead their own development policies and strategies, and manage their own development work on the ground.
- *Alignment*: Donors must line up their aid firmly behind the priorities outlined in developing countries' national development strategies, they should use partner country systems, and their aid must be untied and be predictable.
- *Harmonisation*: Donors must coordinate their development work better amongst themselves to avoid duplication and high transaction costs for poor countries.
- *Managing for results*: All parties in the aid relationship must place more focus on the results of aid, and the tangible differences it makes in poor people's lives.
- *Mutual accountability*: Donors and developing countries must account more transparently to each other for their use of aid funds, and to their citizens and parliaments for the impact of their aid.

AQEF component (i) requires the evaluation to judge whether the development co-operation program being evaluated has been delivered in a manner consistent with the Paris Principles.

A development co-operation program might be fully consistent with these Principles, but that will be of little use unless this program has addressed or targeted pressing development needs in the country in question. For the purposes of this evaluation, these pressing needs relate to what is required for poverty reduction. AQEF component (ii) asks whether the development co-operation program being evaluation has targeted key drivers of poverty reduction that a donor can realistically influence. This, of course, requires knowledge of what these drivers are, and if they can be tailored to the partner country in question.

A weakness in the original applications of the AQEF was that these drivers were not identified in a systematic manner. This is the second of the above outlined lessons learned from the original evaluations of long-run Swedish development co-operation.

This weakness has been addressed in the ongoing evaluation of long run development co-operation between the UK and Vietnam. This was achieved by building a Theory of Change (ToC) into component (ii) of the AQEF. The ToC provided a comprehensive analysis of the determinants of poverty and its reduction in Vietnam, highlighting those determinants that a donor can feasibly address. The ToC was not based on original research, but largely on a comprehensive literature survey and interviews of key

informants. The current evaluation will repeat this process, developing a ToC relating development assistance to poverty reduction Tanzania.

The third component of the AQEF identifies two development capacities. The first refers to the capacity of the partner country to use or absorb aid efficiently for development purposes, and to sustain benefits from aid funded activities after donor support for them ends. This capacity is, in part, based on the simple recognition that there are limits to the amounts of aid that can be efficiently absorbed, with higher and higher levels of aid not necessarily associated with bigger and better development impacts. This absorptive capacity will depend on many factors, in particular, including the capacity of relevant partner government staff and administrative systems.<sup>8</sup> The second aspect of development capacity relates to the donor agency and its capacity to deliver aid efficiently and effectively for development purposes. This is fundamentally an issue of the adequacy of staffing and administrative systems, but also the composition or structuring of the country programs in question. For example, it may be the case that country programs are spread across a very large number of activities and sectors, making it difficult for the donor agency to manage effectively for development outcomes.

Application of the third AQEF component involves examining whether donors have been cognisant of these development capacities and have acted on this cognisance in the delivery of their aid.

The application of the AQEF has to be nuanced, and must be augmented with other information, in particular project or non-countrywide program evaluations and other relevant investigation such as academic research papers and information on the broad development context and enabling environment faced by Sweden during the duration of its development co-operation with Tanzania. Combined with this information, the AQEF can and has been shown to an important tool for judging whether in all probably long-run development assistance at the country level has contributed to poverty reduction.

The AQEF will be used at the conclusion of this evaluation report to address evaluation question (i). Essentially, if it is the case that Swedish aid to Tanzania has addressed or been targeted towards pressing development challenges insofar as poverty reduction in Tanzania is concerned, if it has been delivered in a manner consistent with the Paris Principles and has has been delivered in a manner that is cognisant with Tanzania's ability to absorb and Sweden's capacity to deliver aid for development purposes, then one would tend to conclude that it has contributed to poverty reduction in Tanzania. Of course reality is such that it might not be possible to draw such an unambiguous

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<sup>8</sup> Absorptive capacity is an issue that has become increasingly prominent in aid policy circles, owing largely to concerns over scaled up aid in order to meet the Millennium Development Goals. It has been recognized, however, that these issues are relevant at all aid levels, large and small. A large literature has emerged on these topics and includes Guillaumont and Guillaumont (2006), Bourguignon and Sundberg (2006), Heller and Gupta (2002), Heller *et al.* (2006) and McGillivray and Morrissey (2001), McGillivray and Feeny (2009) and Feeny and McGillivray (2010).



conclusion and various caveats may inevitably have to be applied, but these comments hopefully convey the way in which AQEF will be applied for the purposes of this evaluation.

### **1.3.2 Evaluation Research Methods**

The application of AQEF and analysis of related information will be conducted using mixed methods research that employs quantitative and qualitative methods in a complementary way to interrogate different types of evidence about the context, evolution, and outcomes of Swedish development assistance in the chosen partner country. Similarly, quantitative and qualitative data will be used in tandem at the meso-level to provide empirical and contextual insights required to address the evaluation questions in an informed manner. Our approach is grounded in the understanding that adopting different but complementary lines of enquiry invariably leads to more robust and credible research (Sale *et al.*, 2002). Our aim will be to ensure that the insights arising from the separate lines of enquiry triangulate and reinforce each other, thus providing a high level of credibility to and confidence in the evaluation findings.

The quantitative analysis will not involve original econometric modelling of the impact of Swedish development co-operation on poverty reduction. This is ruled out on standard evaluability criteria. What it will involve is a detailed analysis of the levels of aid to the country in question, from Sweden and other donors; looking at the sectoral focus of this aid; the extent of fragmentation and proliferation of Swedish and other aid, and at trends in poverty and other related variables identified by the ToC. It will also involve evidence of whether there appears to be harmonisation between Sweden and other donors, on the extent of tying, on fragmentation and proliferation, and aid stability and predictably and so on. It will also involve surveying and reviewing previous quantitative studies relevant to the evaluation questions. Combined with information about the overall institutional and development policy settings of the chosen partner country, the quantitative analysis will culminate in a series of stylised macro level “big picture” facts about aid to this country. Some of these stylised facts will be based on simple scatter plots of Swedish bilateral and total aid and variables of interest. These facts will then be further interrogated by the more micro level quantitative analysis that follows.

The qualitative analysis will be more micro in orientation, although not exclusively so. It will be based on the flexible exploration of the evaluation questions through the use of semi-structured interviews of key informants and analysis of existing project and sub-national program documentation. AQEF will guide the questions put to key informants, who will also be given the opportunity to comment on their overall assessment of the impact of Swedish aid on poverty reduction and lessons learner, as well as any other information they deem appropriate. Key informants will be selected during the Inception Stage of the evaluation. Case studies - defined as specific units of analysis with clearly defined boundaries - will also be used to explore the evaluation questions in a context specific way. Case study selection will be conducted using purposive rather than random selection. Purposive sampling involves the selection of cases for their richness

of information in relation to key time periods, people, events and impacts. This is appropriate methodologically, owing to the exploration of predefined questions and concepts. It will also enable the richest access to data given the time and resources available for this evaluation. The qualitative micro level evidence will also be supplemented by existing documentation of projects and other activities supported by Swedish bilateral assistance.

## **1.4 Conclusion**

We conclude this chapter by briefly outlining those that follow. The effectiveness of donor bilateral programs will be influenced by the broader operating environment.

This operating environment will be conditioned by a range of factors, including the activities of other donors, recipient government policies and institutional performance and the scale and complexity of the development challenges faced in the recipient country in question. These factors, together with broad empirical analysis of Swedish bilateral aid to Tanzania since 1962 and an analysis of drivers of poverty reduction in Tanzania are provided in Chapter 2. This driver analysis serves as the theory of change mentioned above.

Chapter 3 contains the qualitative and case study analysis mentioned above. This analysis is also based on key informant interviews. Four case studies, purposely selected, are provided, as follows: (i) the Health through Water and Sanitation Program (HESAWA); (ii) Swedish support for the energy sector; (iii) Swedish support for education; and (iv) Swedish general budget support.

Chapter 4 concludes by providing responses to the two above outlined evaluation questions. It also provides a forward looking commentary of strengths, weaknesses and the general applicability of the model or method used in the evaluation.

## **Chapter 2**

### **Aid and Development in Tanzania**

#### **2.1. Introduction**

An evaluation of Swedish aid to poverty reduction in Tanzania must be cognizant of the broader environment, enabling or otherwise, in Tanzania. This environment will include trends in Tanzanian poverty levels over time, Tanzania's macroeconomic performance, its development strategies and policy regimes, drivers of poverty in Tanzania and the levels and characteristics of aid provided by other donors. Such an evaluation obviously must also be cognizant of various details of Swedish aid to Tanzania, such as levels of this assistance over time, its sectoral focus, key priorities and findings of previous evaluations. These factors both dictate the magnitude and nature of the poverty reduction challenge faced by Sweden in Tanzania over time, as well as providing a broader contextual for the case study investigation that follows in Chapter 3.

The contents of this chapter reflect this reasoning. It commences by looking at trends over time in income poverty in Tanzania and in other development or well-being achievements, including those in health and education. This is followed by an examination of Tanzanian macroeconomic performance from the 1960s to the present. The preceding material is provided in Section 2.2. The rationale for this examination is that poverty reduction is in general harder to achieve when macroeconomic performance is low. Tanzania is by no means an exception to this general rule. The chapter then looks in Section 2.3 at overall donor support for Tanzania since 1960, taking into account aid volumes but also the extent of proliferation and fragmentation of this support. Swedish development co-operation with Tanzania since 1962 is examined in Section 2.4. Included in this section are the findings of some previous evaluations of this co-operation, together with the finding of some previous studies of the effectiveness of the overall aid donor effort in Tanzania. The chapter then turns in Section 2.5 to a discussion Tanzanian development policy since the 1960s, providing additional context for the macroeconomic and other data presented in earlier sections. Section 2.6 establishes and examines core drivers of poverty in Tanzania. This analysis provides the Theory of Change mentioned in Chapter 1, identifying the drivers of poverty reduction that donors can themselves drive.

#### **2.2 Poverty and Macroeconomic Performance**

##### **2.2.1 Poverty**

Poverty has characterised the lives of the vast majority of Tanzanians in the not so distant past. Yet much has changed to Tanzania's income poverty profile over the last two decades. Three changes are evident: the proportion of the Tanzanian population living in poverty has fallen; those living in poverty have, on average, become less poor, and the number of poor people has increased.

These assessments are based on poverty data provided by the World Bank.<sup>9</sup> These data are presented in Figures 1 to 3, which provide information based on three international poverty lines, the \$PPP1.25 per day extreme income poverty lines and the \$PPP2 and \$PPP2.5 per days lines.

Consider first the poverty rate data shown in Figure 2.1. Poverty rates based on all three poverty lines increased between 1992 and 2000. That based on the extreme poverty line increased by the greatest margin, by 12 percentage points, from 72 to 84 percent over this period. The reverse has been the case since 2000, with poverty rates based on all three poverty lines falling. In 2012 the percentage of Tanzanians living in extreme income poverty fell to 43 percent. While declines in these rates are obviously to be welcomed, it remained the case that the clear majority of Tanzanians in 2012 still lived below the \$PPP2 and \$PPP2.5 per day poverty lines.

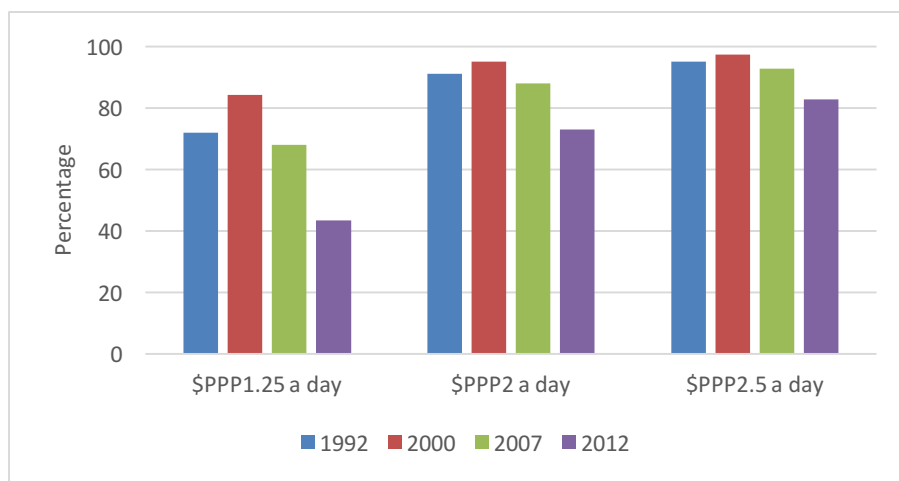
Figure 2.2 presents data on poverty gaps, defined as the average shortfall from the poverty line, expressed as a percentage of this line, for those living in poverty. As such it reflects the depth of poverty. Poverty gaps at each of the \$PPP1.25, \$PPP2 and \$PPP2.5 lines were higher in 2000 than in 1992 but have since declined. All gaps are indeed lower in 2012 than in 1992. The poverty gap at the extreme income poverty line of \$PPP1.25 in 2012 is 13 percent. This is less than half that for 1992, which was 50 percent.

That poverty gaps are lower in 2012 than in 1992 is certainly good news. This is offset by the unambiguously bad news that there are more Tanzanians living in income poverty in 2012 than three decades earlier, in 1992. This is clear from Figure 2.3. There were 1.8 million more Tanzanians living in extreme income poverty in 2012 than in 1992. The actual number for these years are 19.6 and 20.8 million, respectively. Better news is that fell from 27.9 million in 2007, so that solid progress in reducing extreme income poverty has fallen appreciably since this year. The number of Tanzanians living on less than \$PPP2.0 is also higher in 2012 than in 1992, but at least has fallen since 2007. In 2012 34.9 million Tanzanians lived on less than \$PPP2.0. The number living on less than \$PPP2.5 has continually increased over the period in question, and reached 39.6 million in 2012.

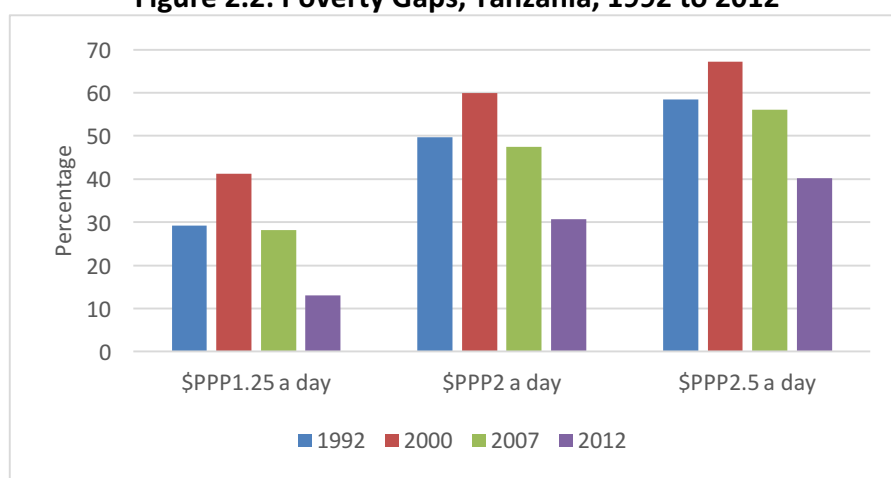
**Figure 2.1: Poverty Rates, Tanzania, 1992 to 2012**

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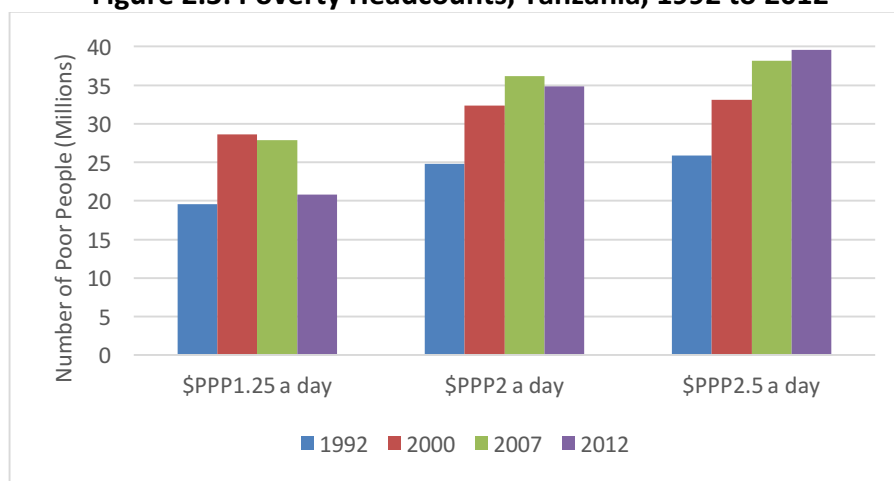
<sup>9</sup> The data in Figures 2.1 to 2.3 are taken from World Bank's *Poverty and Equity Database* (World Bank, 2015a). The earliest year for which this source publishes poverty data for Tanzania is 1992. The only other years for which poverty data based on international poverty lines are published in this source are those for which data are presented in Figures 2.1 to 2.3. It does publish data on the Tanzanian national poverty line, but for 2012 only. There are little data on poverty in Tanzania prior to 1992. Huang (1976: 74-75) estimates that per capita GDP in 1971 was 700 shillings whereas 70% of all (and almost 75% of rural) households had incomes below 2000 shillings and 90% (almost 95% rural) of households had incomes below 4000 shillings. As average household size is unlikely to be below five individuals, it is plausible that over 80% of households, and as much as 90% in rural areas, were income poor.



**Figure 2.2: Poverty Gaps, Tanzania, 1992 to 2012**



**Figure 2.3: Poverty Headcounts, Tanzania, 1992 to 2012**



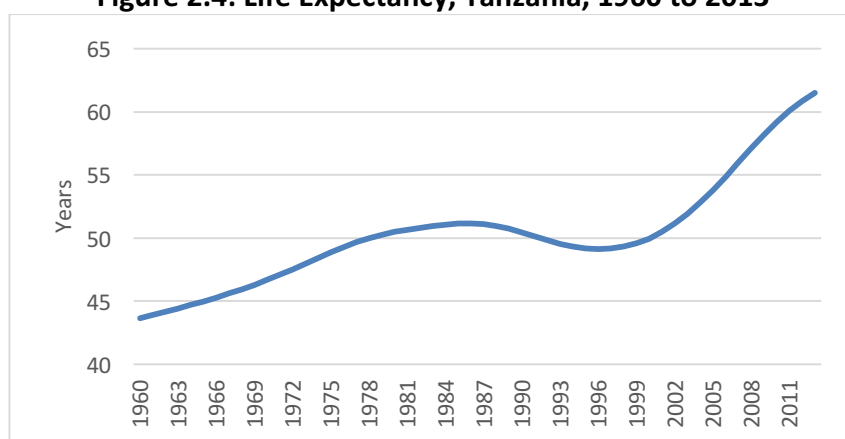
Poverty can be defined in many ways. It is widely accepted that poverty is multidimensional, involving far more than shortfalls in income. Poverty can be said to exist if there are shortfalls in any number of well-being dimensions. These dimensions

include those relating to health, education, personal security, access to water and sanitation, environmental conditions, social connections, and participation. Data on Tanzanian achievements in a number of these dimensions are shown in Figures 2.4 to 2.7.<sup>10</sup>

Achievements in health are shown in Figures 2.4 and 2.5. Life expectancy has increased by 18 years between 1960 and 2013, despite falling between 1988 and 1996. Life expectancy in Tanzania was 61.5 years, which is around 20 years lower than that for most OECD countries. Child mortality has fallen appreciably. In 1960, 244 out of every 1000 children born alive died prior to their fifth birthday. This number fell to 52 deaths in 2013.<sup>11</sup>

Data for an indicator of achievement in education, the primary school completion rate, are shown in Figure 2.6. Quite a mixed picture over time is shown. Primary school completion increased from 20 to 123 percent of the relevant age group between 1970 and 1984. It then fell to 47 percent in 1989 and staying at around 55 percent until 2005. Completion then started an upward trend and was 76 percent in 2013. The average for low and middle income countries in 2013 was 50.4 deaths per 1000 live births, while that for low income countries was 76.3 (World Bank, 2015b).

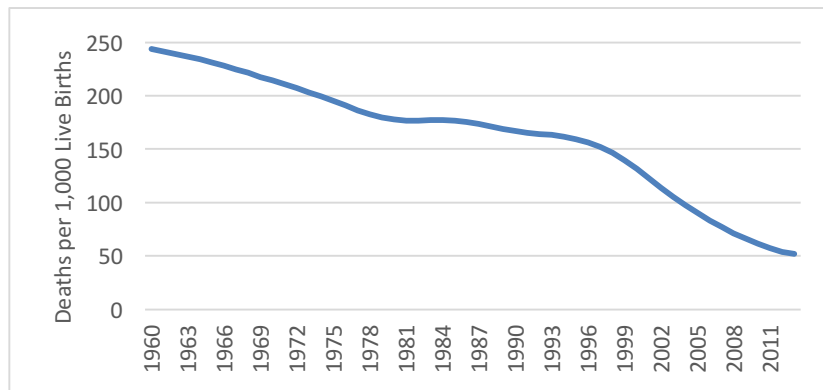
**Figure 2.4: Life Expectancy, Tanzania, 1960 to 2013**



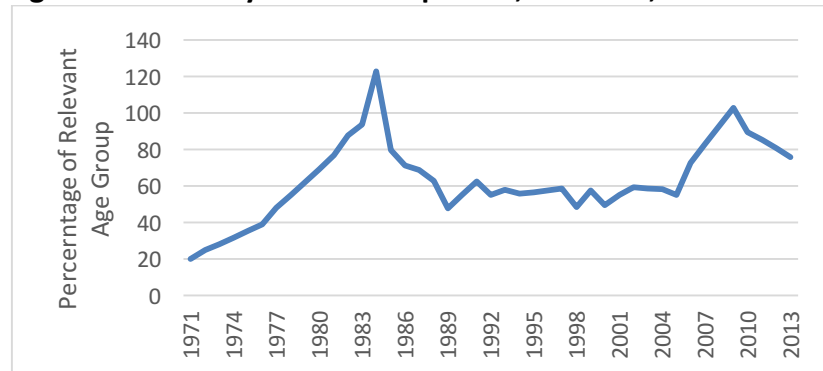
**Figure 2.5: Child Mortality, Tanzania, 1990 to 2013**

<sup>10</sup> There remains ambiguity regarding the settings of poverty lines for non-income well-being dimensions despite the widespread acceptance that poverty is multidimensional. It is for this reason that the health, education and water and sanitation data presented below are presented in levels rather than shortfalls from a poverty line. The data presented in Figures 2.4 to 2.7 are taken from the World Bank's *World Development Indicators* (World Bank, 2015b) and cover all years for which data on the selected indicators are reported in this source.

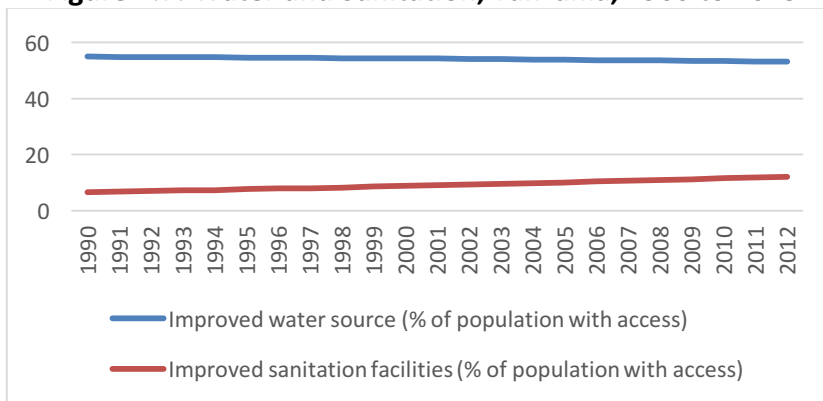
<sup>11</sup> The average for low and middle income countries in 2013 was 50.4 deaths per 1000 live births, while that for low income countries was 76.3 (World Bank, 2015b).



**Figure 2.6: Primary School Completion, Tanzania, 1960 to 2013**



**Figure 2.7: Water and Sanitation, Tanzania, 1960 to 2013**



Trends in the percentage of Tanzanians with access to an improved water source and improved sanitation facilities are shown in Figure 2.7. Virtually no progress has been achieved in access to an improved water source in Tanzania. The percentage of the population with access to an improved water source has actually fallen, from 55 percent in 1990 to 53 percent in 2013. Contrasting this has been progress in sanitation, with the percentage of the Tanzanian population with access to an improved sanitation facility increasing from seven percent in 1990 to 12 percent in 2012. The percentages of the population with access to an improved water source and an improved sanitation facility in all low and middle income countries in 2013 were 57 and 87, respectively (World Bank, 2015b).

### 2.2.2 Macroeconomic Performance

Good macroeconomic performance does not guarantee poverty reduction. Yet poverty reduction is invariably much harder to achieve without it, sustained rates of real per capita economic growth in particular. It can also determine the level of aid a country receives, with bad performance being associated with lower aid than would otherwise be the case. A brief examination of aspects of Tanzania's macroeconomic performance is provided in what immediately follows. It provides a backdrop for the the poverty profile presented above, and some insights into the presentation of aid flows that follows below. A more thorough review, including an examination of related institutional and political factors follows later in this chapter.

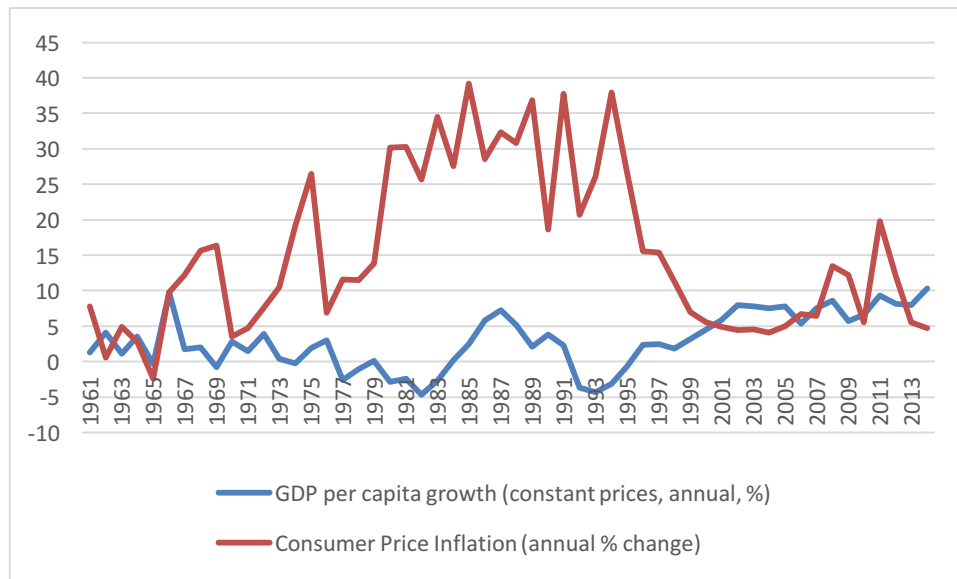
Data on Tanzanian economic growth and inflation are available for the years 1961 onward. These data are shown in Figure 2.8.<sup>12</sup> The 1960s was a period of rather variable macroeconomic performance, with real per capita GDP growth averaging 2.5% and varying between 9.8% and -0.8%. Inflation trended upward in the late 1960s, reaching 16.4% in 1969. The 1970s were challenging years for the Tanzanian economy, during which both the appropriateness of its economic policy stance and the effectiveness of aid to it were increasingly questioned. Real per capita GDP growth averaged 0.68% between 1970 and 1979 and was negative in three of these years. Inflation averaged 13.4% during this period and peaked at 26.5% in 1975. The early 1980s were particularly harsh for the Tanzanian macroeconomy. They initially saw negative growth, during what is referred to below as the years of economic crisis and saw most of its development gains of the previous years lost, as is evident from the data shown in Section 2.2 above. Some macroeconomic recovery is evident from 1984 until the early 1990s. Real per capita GDP growth peaked at 7.3% in 1985 and averaged 3% during the period 1980 to 1989. Inflation remained very high, however, averaging 31% during these years. The 1990s also witnessed variable macroeconomic performance and were, on average a period of low economic growth and very high inflation. Real per capita GDP growth was negative in the years 1993 to 1995 and averaged a low 0.3% for 1990 to 1999 overall, the good economic growth from 1996 notwithstanding. Inflation averaged 20.1% during these years. Continuing the trend that commences in 1996, Tanzania has maintained impressive, upward trending economic growth throughout the 2000s. Real per capita GDP growth has ranged between 4.6% and 9.3% between 2000 and 2012 and is forecast to be 8% and 10.3% in 2013 and 2014, respectively. Inflation, while still often high, has been much lower in since 2000 than in previous periods.

**Figure 2.8: Economic Growth and Inflation, Tanzania, 1961 to 2014**

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<sup>12</sup> The data plotted in Figure 2.8 have been taken from Edwards (2012) and IMF (2002 and (2015)). Data for 2013 and 2014 are forecasts. GDP per capita levels for the 1960s have been calculated using per capita GDP growth data reported in Edwards and GDP per capita levels data from IMF (2002).





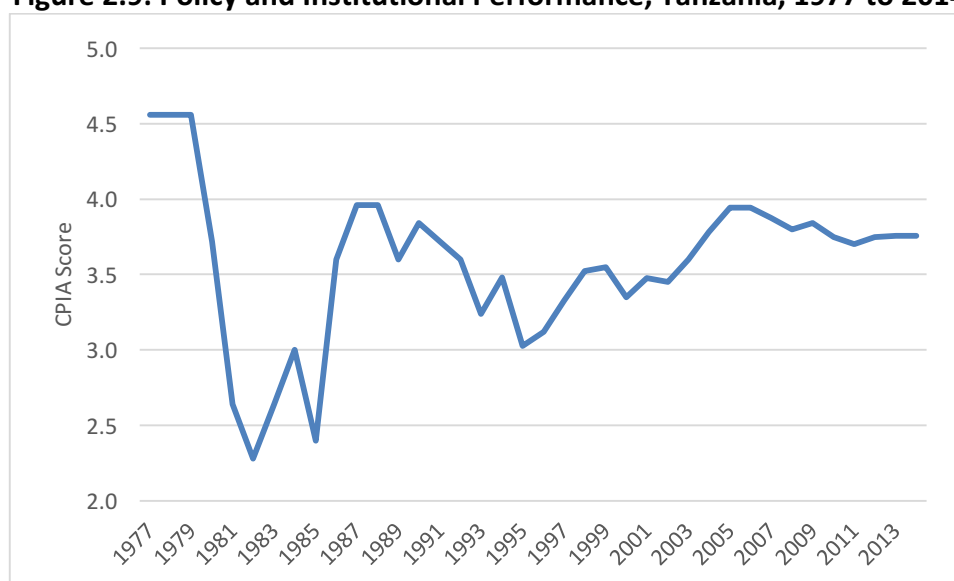
Much has been written on Tanzanian policy stance and institutional performance, arguably more than on any other developing country. This issue is dealt with at length below, and here we simply observe and report on related assessments. The World Bank's Country Policy and Institutional Assessment (CPIA) is a widely used, and in some circles highly criticized, diagnostic tool intending to capture the quality of a country's policy stance and institutional performance.<sup>13</sup> It is considered by the World Bank and others to reveal the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of development assistance (World Bank, 2015c).<sup>14</sup>

<sup>13</sup> A detailed discussion of the CPIA is not necessary given our current purposes, but it rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions. CPIA scores have a theoretical range of zero to six. A higher score indicates better quality policies and institutional performance. Note that CPIA scores had a theoretical range of zero to five for all years prior to 1998. The Tanzanian scores shown in Figure 92. for these years were converted to the one to six range through normalisation to ensure consistency with those for 1998 onwards.

<sup>14</sup> The linking of recipient country policy to aid effectiveness follows from the finding of the cross-country empirical study of Burnside and Dollar (2000). Burnside and Dollar found that the incremental impact of aid on recipient country economic growth was lower in recipients with poor quality policies. Put differently, the finding was that if aid is accompanied by bad policies it will be ineffective in promoting growth. As is well known, this study set off arguably the most intense debate in aid effectiveness circles ever witnessed. Subsequent cross-country research, including that of Hansen and Tarp (2001), Clemens *et al.* (2004) and Easterly *et al.* (2004), challenged this finding, arguing that there was little empirical evidence of this link from cross-country data. It was, however, consistent with impressions from the field and popular among donor agencies. While there are undoubtedly many more potential drivers of economic growth in Tanzania, the data for the late 1960s to early 1980s shown in Figures 8, 9, 10 and 12 is broadly consistent with the Burnside and Dollar finding. In short, these data show increasing aid, declining policy and institutional performance quality and declining growth.

Tanzania's CPIA scores for 1977 to 2014 are shown in Figure 2.9.<sup>15</sup> The figure is dominated by the very sharp decline in the assessed quality of policies and institutional performance from 1979 to 1982, and the overall improvement in these assessments from 1995 onward. Overall the data are consistent with what might be described as a "W pattern": decline (down), recovery (up), decline (down) and then recovery (up). While the data shown in Figures 2.8 and 2.9 themselves clearly do not establish causality between policies and institutional performance and growth, they are certainly consistent with the widely accepted view, supported by research, that good policies and institutional performance are important drivers of economic growth. Both follow the W pattern, as defined.

**Figure 2.9: Policy and Institutional Performance, Tanzania, 1977 to 2014**



## 2.3 ODA Inflows: Overall Support from the International Donor Community

### 2.3.1 ODA Volume

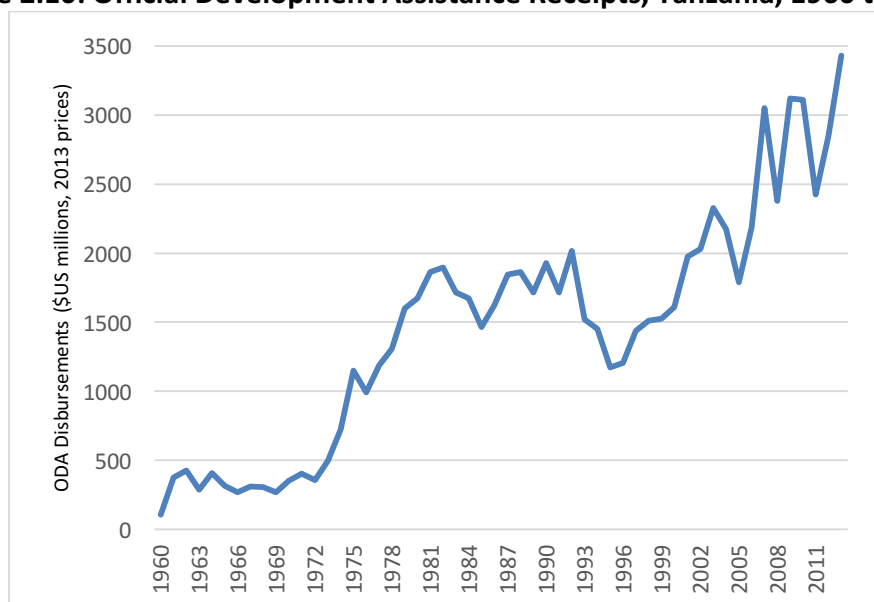
For the purposes of the evaluation, aid is taken to be Official Development Assistance (ODA). As such, it is concerned with those concessional transfers, in cash or in kind, that are funded by OECD DAC donor country taxpayers and provided by their governments to developing countries with the aim of promoting development in these countries. Private flows, such as those emanating from non-government agencies, and remittances sent by residents of donor countries to family members or others living in the chosen recipient

<sup>15</sup> The data plotted in Figure 2.9 were obtained from the World Bank. CPIA data for years prior to 1977 are not available.

are not considered.<sup>16</sup> The use of ODA is consistent with the vast majority of studies that comprise the aid effectiveness literature.<sup>17</sup>

Tanzania's ODA receipts from all donors, alongside those from Sweden, as shown in Figure 2.10.<sup>18</sup> ODA from all donors over the period 1960 to 2013 is \$80.69 billion. This makes Tanzania the seventh largest recipient of ODA in the world in volume terms over this period.

**Figure 2.10: Official Development Assistance Receipts, Tanzania, 1960 to 2013**



Bigsten *et al.* (2001) identify three phases of aid to Tanzania for the years 1970 to 1996: the Expansion Phase (1970 to 1982); the Contraction Phase (1983 to 1985); the

<sup>16</sup> Non-government agencies can be and often are involved in the delivery of ODA, but they do fund directly fund it.

<sup>17</sup> In what follows our focus is on members of the OECD DAC. Aid from other donors should not be overlooked. Economic assistance from the former Soviet Union and other Communist Bloc should not be ignored prior to the collapse of the Berlin Wall in 1989 (Gordon, 1994, Thiam and Mulira, 1999, Bigsten *et al.*, 2001). China has in particular been a major donor. By 1977 it had provided \$US360 million in economic assistance to Tanzania (Thiam and Mulira, 1999). Quantification of the extent of support is difficult, but China currently and has for many years been as a major donor of development assistance to Tanzania.

<sup>18</sup> All ODA and related data (on activities and sectors) are taken from OECD (2015a). At the time of obtaining ODA flow data, the latest year for which data were available was 2013. There was one exception to this for Swedish sectoral data. These data for 1965 and 1972 were taken from documents obtained from the Swedish National Archive in Arninge. Details of these documents are available from the authors of this report. For activity and sector data, the latest year for which data were available was 2014. In OECD (2015a), the earliest years for which ODA flow and activities and sector data were 1960 and 1973, respectively. These was an attempt to used data from databases held by Sida, but this proved unfruitful owing to the data for 1989 to 1997 not being coded by sector. Finally, for reason or reasons unknown, Swedish ODA data for 1966 are not provided in OECD (2015a) and could not be located at the Swedish National Archives. This explains the gap in the chart lines displaying Swedish ODA flows in the relevant figures shown below.

Adjustment Phase (1986 to 1996). We add to these phases what we will call the Early Phase (1960 to 1969) and the Post-adjustment Expansion Phase (1997 to the present).

ODA flows during the Early Phase were relatively modest, varying from \$106 to \$425 million per year and totaling \$3.07 billion. Early in the Expansion Phase annual ODA levels were not dissimilar to those of the late 1960s. This changed in 1974 when ODA jumped to \$724.5 million, eventually climbing to \$1984 million at the end of the Expansion Phase in 1982. Donor countries, in particular the Nordic donors and Germany and Canada, during this phase adopted a positive view of Tanzania's policy of self-reliance, growth with equity and the overall desire to pursue a path of African socialism following the 1967 Arusha Declaration. The increase in aid during the Expansion Phase is in large part due to these donors seeking to support these aspirations. The World Bank under the leadership of Robert McNamara has also adopted a policy of growth with equity and owing to this alignment doubled its concessional lending program to Tanzania between 1973 and 1977 (Bigsten *et al.*, 2001).

There was a change in donor attitudes regarding Tanzania toward the end of the 1970s. As noted above, and as will be further discussed later in this chapter, economic growth was modest, becoming negative during the crisis years of the early 1980s, Tanzania's policy and institutional ratings had been substantially downgraded and self-reliance had not been achieved despite the scaling up of aid to it. And not surprisingly given these observations, it was thought the aid to Tanzania had not been particularly effective (Bigsten *et al.*, 2001).<sup>19</sup> The Contraction Phase was a culmination of these attitudes. Most donors, including Sweden, begun to scale down their aid levels to Tanzania in 1983. As shown in Figure 2.10, total ODA to Tanzania fell to \$1713.4 million in that year. It fell again in 1984 and further still to \$1466 in 1985.

The year 1986 was pivotal for Tanzanian aid and development policy. It saw Tanzania reach respective agreements with the IMF for a standby agreement and the World Bank for a structural adjustment. The Adjustment Phase of 1986 to 1996 just begun, therefore, with Tanzania adopting a range of policies aimed at restoring economic growth through a liberalization and fiscal sustainability measures. Successive follow-on agreements were reached with the throughout the late 1980s and early 1990s (Bigsten *et al.*, 2001). These actions restored donor confidence in Tanzania and the upward trajectory in total ODA flows resumed, as is clear from Figure 2.10. As Bigsten *et al.* (2001) note, strained relations with and a loss of confidence among donors led to a sharp reduction in total ODA flows to Tanzanian in 1994 to 1996. In 1996 total ODA to Tanzania was \$1207.6 million, after peaking during the Adjustment Phase at \$2018.26 in

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<sup>19</sup> One should note that these views were formed despite Tanzania's strong performance with respect to health and education achievements during the 1970s (as depicted above in Figures 2.4 to 2.6). It could have been the case that donors were of the view that these achievements could not be sustained without sustained economic growth. Whether this was the case remains to be seen. What does not remain to be seen is that the rates of improvement in these achievements, and in the case of school enrolment their levels, were not sustained, as the above Figures make clear.

1992. The World Bank replaced Sweden as the largest donor in terms of ODA volume in this period (OECD, 2015).

Donor confidence was however restored and the upward trend in ODA resumed in 1997, at the start of the Post-adjustment Expansion Phase. This phase is characterized by strong and growth donor support. Donors, having seen Tanzania reasonably successfully deal with a sometimes difficult and sweeping period of reform, express this support through increased ODA flows over time. This is not to imply that there has been continually increasing aid from one year to the next. To the contrary, there has been a high degree of year-on-year volatility in aggregate ODA levels. For example, ODA fell from \$US2325 million in 2003 to \$1789 million in 2005. But there has been very strong upward overall growth, with total ODA increasing from \$1436 million in 1997 to \$3430 million in 2013, the highest level ever to Tanzania.

The discussion thus far has focused on ODA volume, the absolute amounts of this inflow received by Tanzania. More important from a development impact perspective is the level of ODA to Tanzania relative to economic and demographic aggregates such as GDP and population.

Tanzania ODA receipts relative to these aggregates are shown in Figures 2.11 and 2.12.<sup>20</sup> Two facts dominate Tanzania's ODA receipt relative to GDP.<sup>21</sup> The first is the massive increase in the Adjustment Phase. Tanzania's ODA receipts in 1986 were 6.1% of its GDP. This number had jumped to 36% in 1992. This number huge by international standards, with most countries typically receiving ODA which is the equivalent to between one and two percent of GDP, although higher ratios of common in sub-Saharan Africa. The second dominant fact about Tanzania's ODA relative to its GDP is the decline that started in the latter part of the Adjustment Phase and continued throughout the post-Adjustment Expansion Phase. This decline is almost as dramatic as the increase experienced between 1986 and 1992, with ODA relative to GDP falling to 8.5% in 1999. By 2013 ODA relative to GDP was 7.7%, thus returning to level not much higher to those received during much of the 1960s. The declines since 1992 are striking because in most part they have been observed during a period of strong growth in absolute levels of ODA to Tanzania. This says much about the Tanzanian economy over the last two decades, and has important implications for ODA effectiveness.

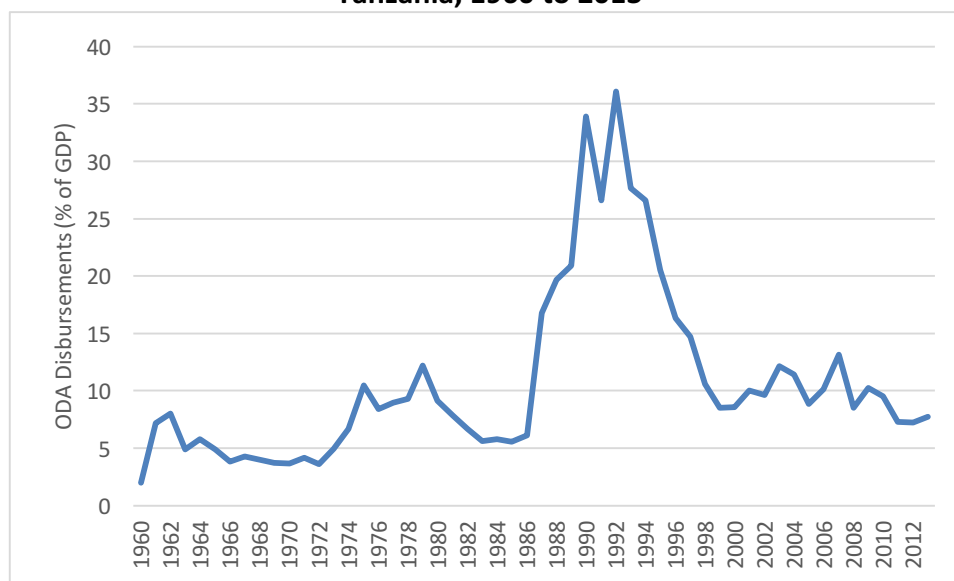
Per capita ODA receipts follow a broadly similar trend, in although the peak occurred earlier, in 1981, toward the end of the Expansion Phase. In that year Tanzania's per capita ODA receipts were \$97. In 2013 there were \$68, roughly the same as there were 1975. The overall picture though is of economy that has depended less on ODA, in a purely quantitative sense, since the early 1980s.

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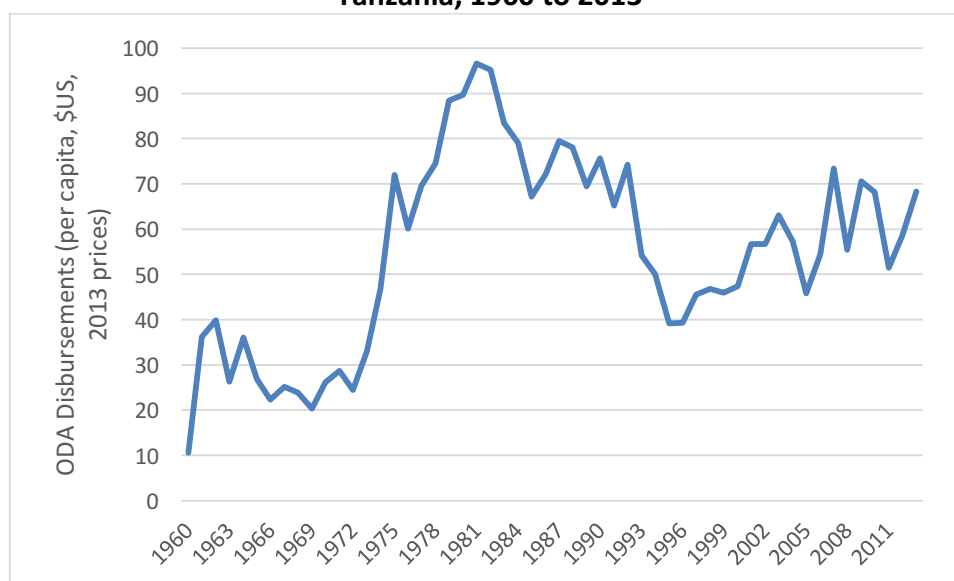
<sup>20</sup> The GDP data used to calculate the ODA relative to GDP for the years 1970 onward were taken from IMF (2002) and (2015). The data used in these calculations for 1960 to 1969 were estimated using data in Edwards (2012) and IMF (2002). Population data used to calculate ODA per capita were taken from World Bank (2015).

<sup>21</sup> In presenting these data we need to note that ODA does not enter GDP directly and is not part of GDP. Instead it finances expenditure that enter GDP directly.

**Figure 2.11: Official Development Assistance Receipts Relative to GDP, Tanzania, 1960 to 2013**



**Figure 2.12: Official Development Assistance Receipts Relative to Population, Tanzania, 1960 to 2013**



### 2.3.2 ODA Fragmentation and Proliferation

ODA can be looked at a third way. This does not involve looking at the level of ODA funding to the recipient country in question but at what might be called the spread of

this funding, across the number of donors that support a recipient, the activities of projects these donors fund and the number of sectors in which donors are present.<sup>22</sup>

Proliferation in the number of donors and activities and the fragmentation of donor support across sectors are of concern from an aid effectiveness perspective. They are identified under the third component of the Aid Quality Evaluation Framework (AQEF) which concerns development capacity. Proliferation places stress on partner governments and tests their capacity to work effectively with donors to achieve development results. Co-ordination of donor efforts and the disbursement of aid funds becomes increasingly difficult as the number of donors and donor funded activities increases. It can also be associated with significant opportunity costs, distracting recipient governments from, such as budgetary preparation and implementation. Developing countries have for many years voiced concern over this, with Tanzania introducing the well-known ‘quiet period’, during which donor meetings, missions and reviews are minimised so that the government can concentrate on budget preparation and approval processes. Activity proliferation can also place undue pressure on donors to work with recipient countries to achieve development results at the country program level. Fragmentation of individual donor efforts across sectors can have the same impact. It can also lead to a situation in which donors are involved in sectors in which they might not have sufficient expertise to achieve development results, being counter to principles of the division of donor effort and the exploitation of donor comparative advantage. And it, too, can place excessive pressure on recipient governments.

Against this background it is instructive to look at data on the number of donors supporting Tanzania, the number of activities they have funded and the sectors in which they have been active. Data on the first two of these topics are shown in Figure 2.13 and 2.14, respectively. The data are very clear: there has over time been significant surges each year in both the number of donors supporting Tanzania and the number of activities they fund within it. Seventeen donors provided aid to Tanzania in 1994, only two more than more than 20 years earlier, in 1973. In 2014 48 donors provided aid to Tanzania. Donors funded 54 activities in Tanzania in 1973. This number had risen to 149

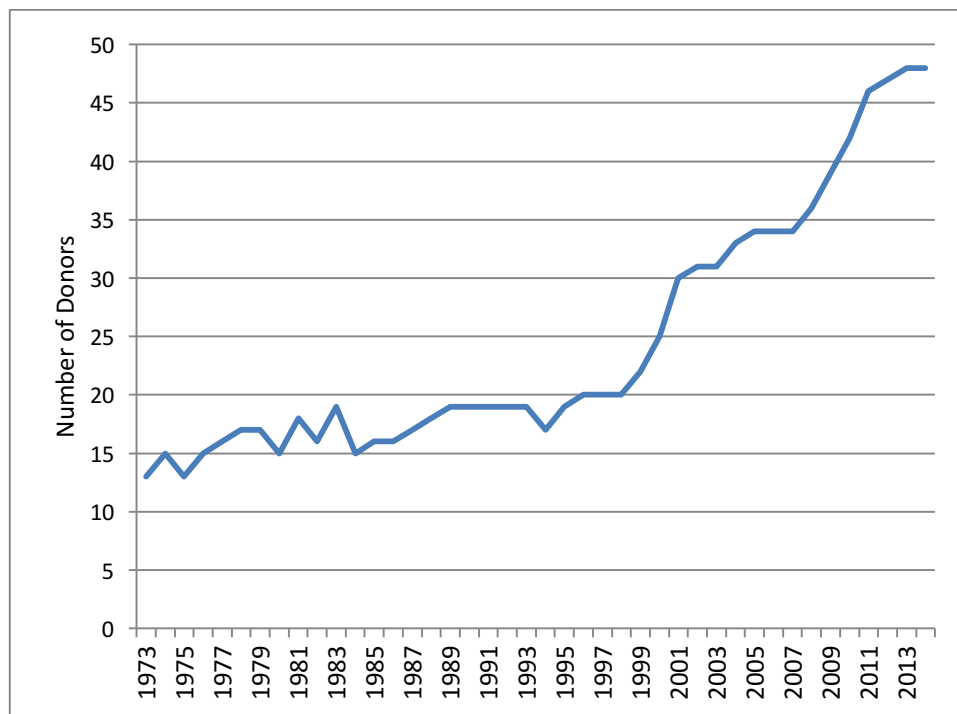
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<sup>22</sup> An aid activity is a discrete entity or exercise that can take many forms, such as a project or a programme, a cash transfer or delivery of goods, a training course, a research project, a debt relief operation or a contribution to a non-governmental organisation. Each activity will have its own budget, is assigned a DAC purpose code and reported by agencies to the OECD-DAC. (OECD, 2015b). It should be acknowledged that it is not necessarily the case that all these activities will necessarily have been delivered in Tanzania. Some may have been delivered in donor countries but allocated to their Tanzania country programs. These activities are likely to represent only a tiny proportion of total activities. The sectors to which we refer below are based on OECD DAC classifications. OECD DAC sectors identify the specific area of the recipient’s economic or social structure that the transfer is intended to foster (OECD, 2015c). Data on DAC sectors are reported at various levels of aggregation. The sectors for which data are reported below refer to what is known as the DAC5 3 digit codes at the highest level of aggregation. This means that in the case of the education sector, for example, data are reported for education rather than basic education, secondary education and so on. For details of sectors used for reporting in 2014 are available from OECD (2015d).

in 1988 and to 506 in 1994. By 2011 it had risen to 3742 activities, 69 times the number in 1973.

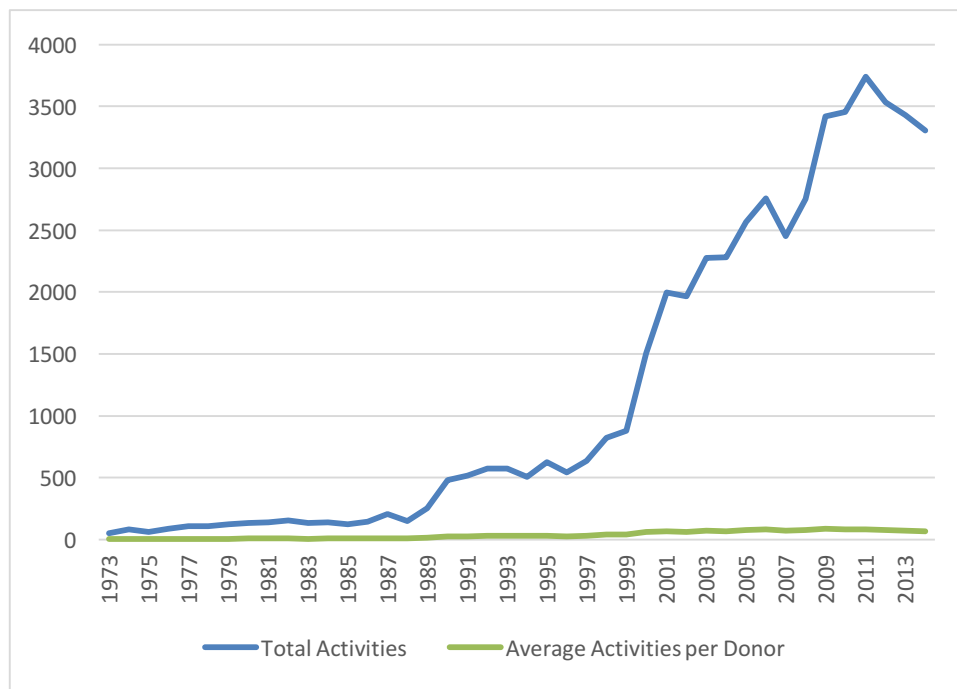
These increases in one sense are pleasing as they indicate strong support for Tanzania in its development and poverty reduction efforts. But in another sense, consistent with the AQEF, they are deeply concerning. As Bigsten *et al.* (2001), Edwards (2012) and others have pointed out, Tanzania has traditionally struggled with governance and related public administration issues. While Tanzania's capacities in these senses will clearly have increased since 1973 (although not since 1977 if the data in Figure 2.9 are to be taken seriously), it is doubtful whether it has increased commensurately to the number of donors and donor support activities. Donor efforts can of course compensate for this, but this compensation would not to be significant to say the least. We return to this issue shortly.

**Figure 2.13: Number of Donors Supporting Tanzania per Year, 1972 to 2014**



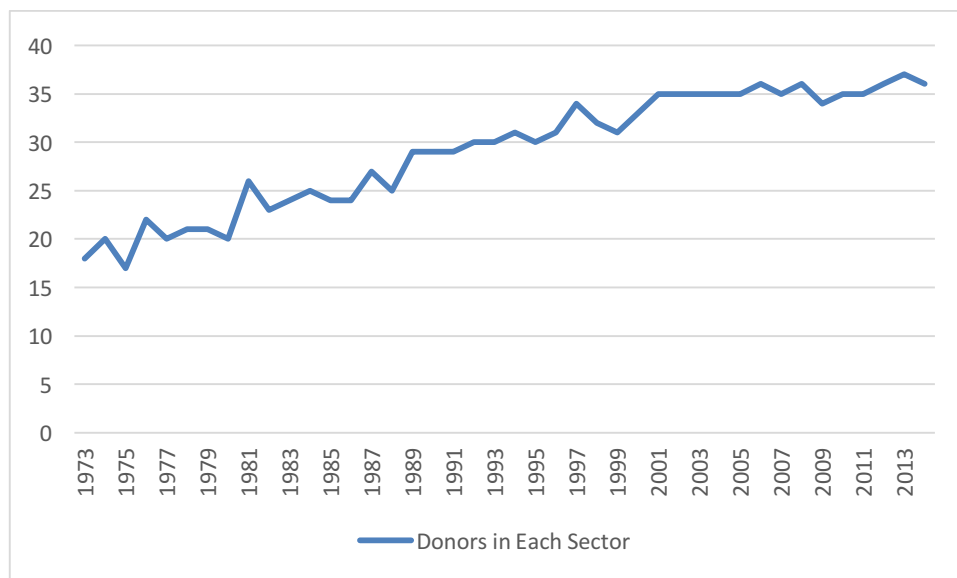


**Figure 2.14: Proliferation of Donor-supported Activities per Year, Tanzania, 1972 to 2014**



Donor presence in DAC sectors is charted in Figure 2.15. There has been a steady increase in this presence, which has increased from 18 to 36 donors operating in each sector between 1973 and 2014. Whether this indicates that donors are spreading themselves too thinly remains to be seen, as this will depend on the number of sectors each individual donor is active.

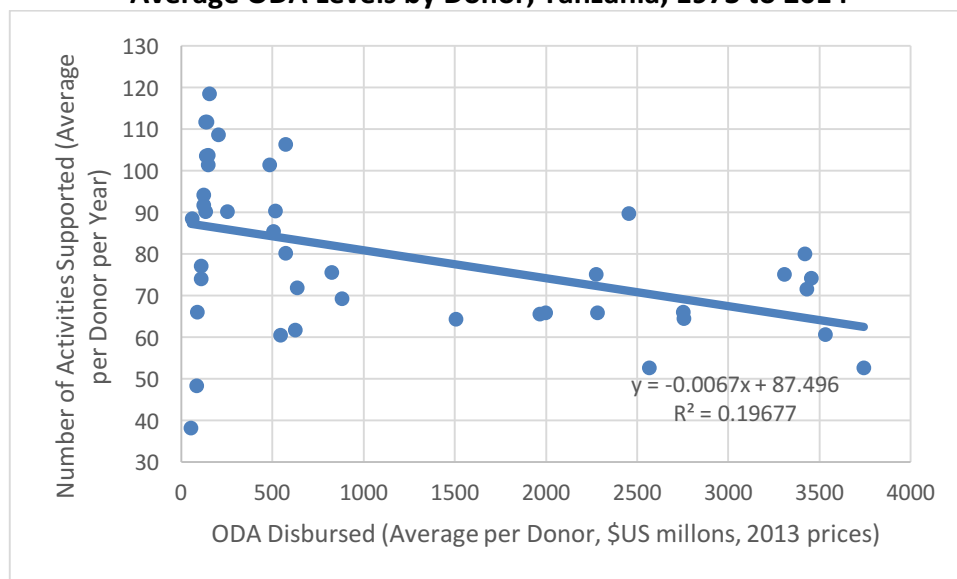
**Figure 2.15: Donor Presence in DAC Sectors, Tanzania, 1973 to 2014**



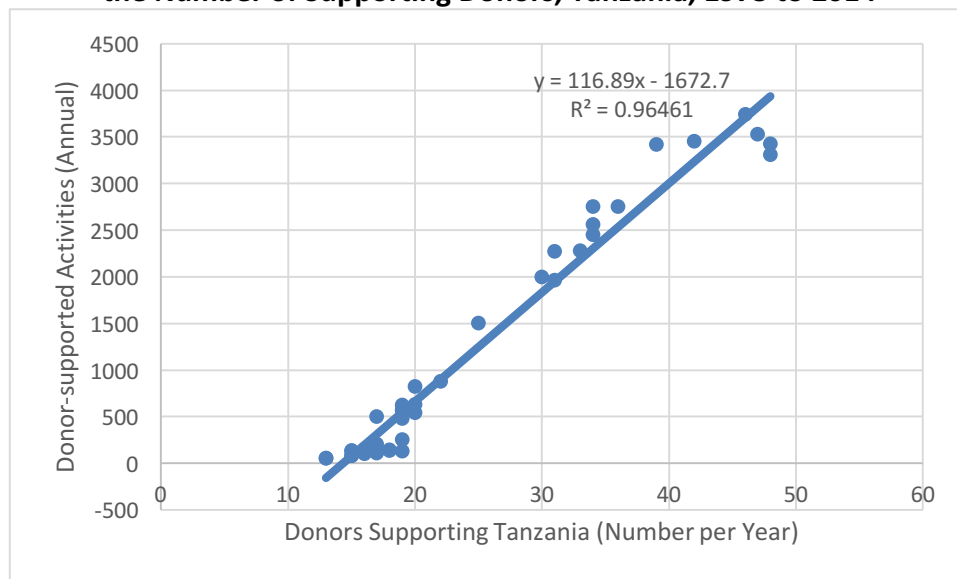
Donor supported activity proliferation is examined further with the aid of Figures 2.16 and 2.17. Not only has the overall donor effort obviously scaled up in Tanzania but so to has the efforts of individual donors on average. The level of ODA received by Tanzania per donor has increased from \$38 million to \$75 million. The bureaucratic culture within donor agencies can be such that scaling up in a partner country involves funding more activities, with country programs not only being bigger financially but bigger in terms of the spread of funding across activities, doing more with more, so to speak. Has this driven the activity proliferation evident from the data presented above? If we look at the average number of activities supported by donor (as shown in Figure 2.14), the answer would appear to be no. The number of activities supported by donors has increased by 17-fold between 1973 and 2014, which is far less than the above noted 69-fold increase in the number of activities. It is at best only part of the story. This is consistent with the scatter plot shown in Figure 2.16.

While the scatter plot shows an empirically weak statistical association between the number of activities and the average financial size of donor programs in Tanzania, the association is actually negative: more aid per donor is associated with less activities funded per donor. The answer would instead primarily lie in the growth in the number of donors supporting Tanzania, as Figure 2.17 strongly suggests. The conclusion that more donors means more activities is hardly surprising of course. But this outcome can be avoided, through such behavior as providing aid in the form of budget support or through delegated co-operation, where new donors instead of funding their own unique activities fund those of donors already operating in Tanzania through delegated co-operation modality. This behaviour can clearly limit the extent of activity proliferation and in turn the additional burden on the partner country.

**Figure 2.16: Scatter Plot of Number of Donor-supported Activities and Average ODA Levels by Donor, Tanzania, 1973 to 2014**



**Figure 2.17: Scatter Plot of Number of Donor-supported Activities and the Number of Supporting Donors, Tanzania, 1973 to 2014**



## 2.4. Swedish ODA to Tanzania

### 2.4.1 ODA Volume

As mentioned in Chapter 1, there is a long history of aid from Sweden to Tanzania, with bilateral aid from the former to the latter totally \$US7.01 billion, or 8.4 percent of total Swedish bilateral ODA, between 1962 and 2013. This deems Tanzania the largest recipient in volume terms of Swedish bilateral ODA over this period. Sweden ranks third among Tanzania's ODA donors between 1960 and 2013 in terms of volume. The World Bank IDA and the United Kingdom are the top and second ranked donors, respectively, over this period. Sweden provided more ODA to Tanzania than any other donor during the period 1960 to 1996. Sweden dominated Tanzanian ODA receipts in the 1970s, being the top ranking donor in terms of volume in every year from 1971 to 1979. Sweden provided 16 percent of total ODA to Tanzania during 1970 to 1979. As such it was a key player during the Expansion Phase discussed above.

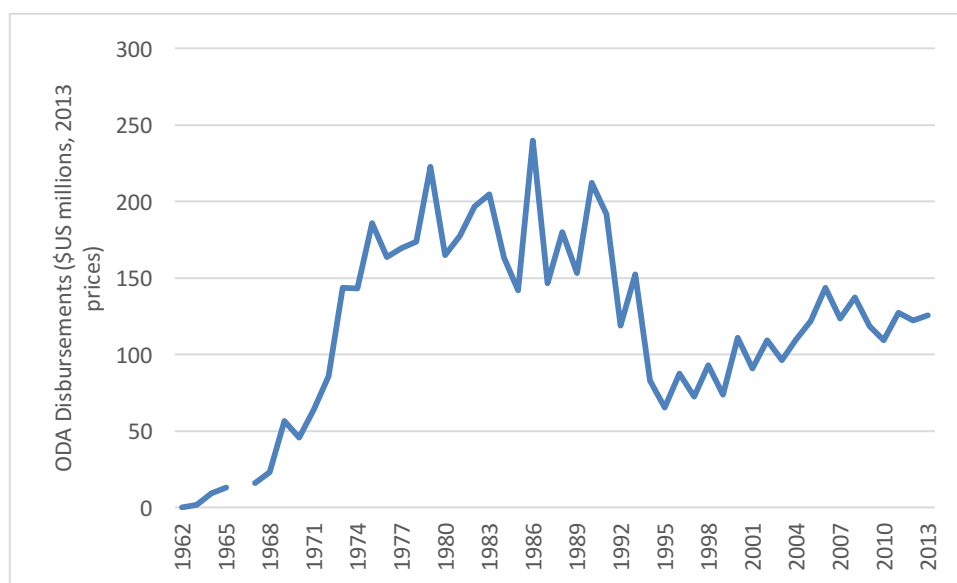
Swedish ODA to Tanzania fell during the Contraction Phase (see Figure 2.17), but rose sharply in 1986 to reach its highest ever level, of \$240 million. From that year it commenced to trend downward, falling to \$65million in 1995, with the overall empirical characteristic of development co-operation between Sweden and Tanzania during the Adjustment Phase is appreciably declining ODA. Since 1995 Swedish ODA to Tanzania has trended up and was \$125 million in 2013.

The share of Swedish bilateral ODA in Tanzania's total annual ODA receipts is shown in Figure 2.18. This share followed a strong upward trend from 1963 to 1973, when the share of Swedish in total ODA to Tanzania peaked at 29 percent. The share from 1973

trends downward. While Swedish ODA volume trended slightly downward from the mid- to late-1980s onward, the declining share is primarily due to increased ODA from other donors, the United Kingdom and World Bank in particular during the Adjustment Phase mentioned above.

If there is a single feature that characterizes Swedish ODA allocation to Tanzania it is its year-on-year variability, especially from the early- to mid-1980s onwards.<sup>23</sup> There could be valid developmental reasons for this, but it is reasonably well established in aid policy and research circles that year-on-year variation in ODA receipts if not largely anticipated by the recipient, so that variability is associated with unpredictability, results in lower ODA effectiveness than would otherwise be the case.<sup>24</sup> Predictability is important if aid is to be aligned with recipient country development efforts, as both the Paris Principles and AQEF recognize.

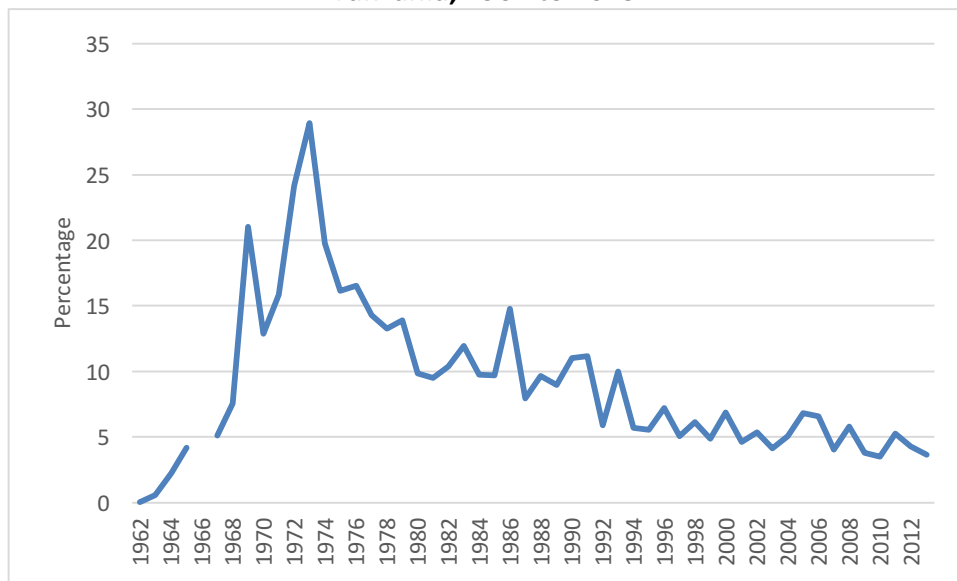
**Figure 2.18: Swedish Official Development Assistance to Tanzania, 1962 to 2013**



<sup>23</sup> A well known measure of variability is the coefficient of variation. The coefficient of variation for Swedish ODA to Tanzania from 1983 to 2013 is 0.33. That for total ODA to Tanzania over this period is 0.30.

<sup>24</sup> See, for example, IMF (2007) and World Bank (2007). Lensink and Morrissey (2000) provide empirical evidence that aid instability reduces the positive impact of aid on growth in recipient countries.

**Figure 2.19: Swedish Share of Total Official Development Assistance to Tanzania, 1962 to 2013**

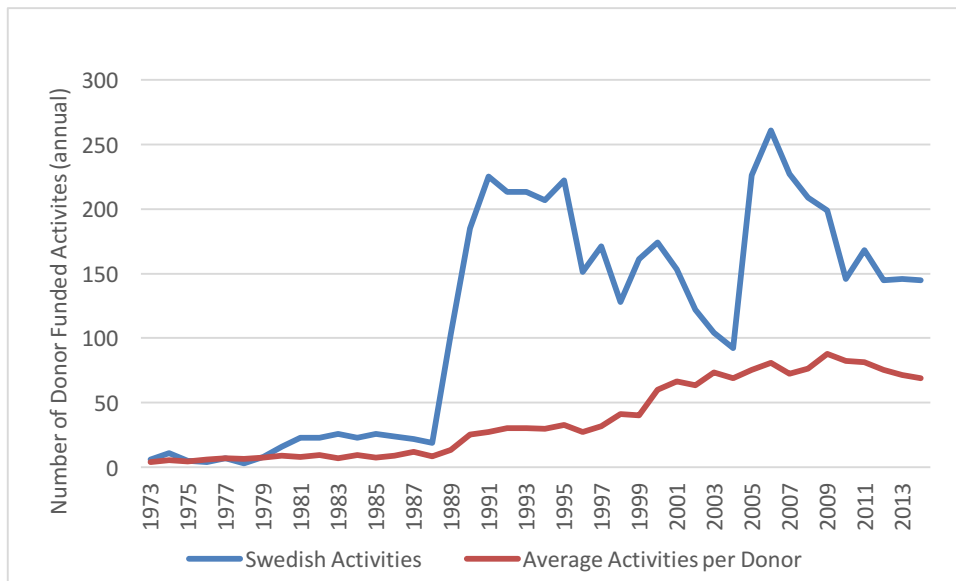
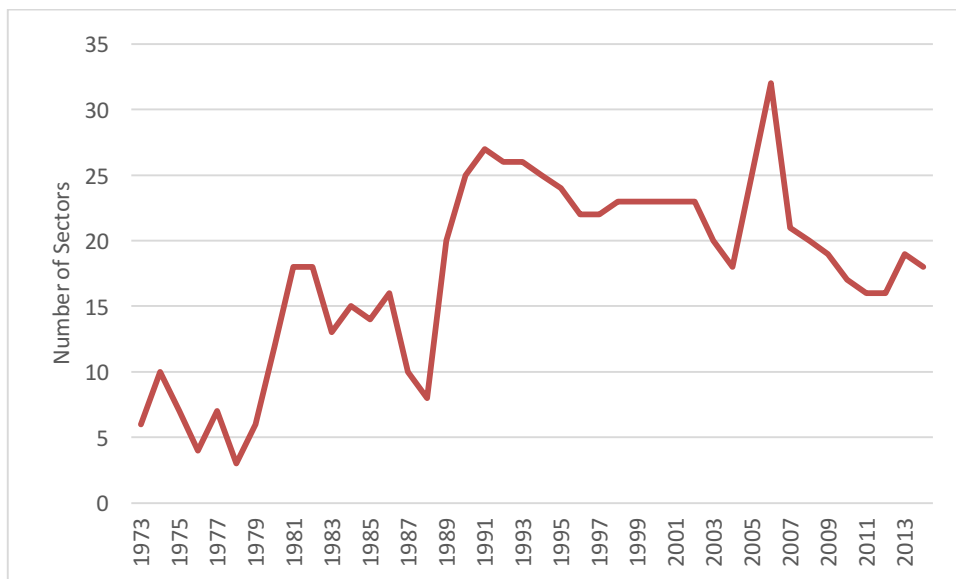


#### 2.4.2 Proliferation and Fragmentation

The number of activities funded by Swedish ODA each year in Tanzania is shown in Figure 2.20. For each of comparison the donor average of this variable (already shown above in Figure 2.14). Sweden funds more activities than donors do on average in Tanzania. There has also since the late 1980s been considerable year-on-year variation in the number of activities it funds. Between 1973 and 1988 no more than 26 activities were funded in any one year. In 1991 221 activities were funded. This fell to 92 in 2004, but then jumped to 261 activities in just two years, in 2006. In 2014, Swedish ODA-funded 145 activities in Tanzania. These numbers are uncomfortably high, and as mentioned, well above the donor average in Tanzania, making an already bad situation worse given the very large number of activities funded and donors present in this country.<sup>25</sup>

Sweden's sectoral involvement or presence has also varied markedly over time, and from the late 1980s follows a similar trend to the number of activities it funds. As shown in Figure 2.22, Sweden's sector presence has varied from three to 32, in the years 1978 and 2006 respectively. Since the late 1980 the variation in this presence such that in 1989 Sweden was involved in eight sectors, in 1991 this had risen to 27, reasonably steadily fell to 18 in 2004, spiking at 32 in 2006, and then falling back to 18 by 2004. This is not to deny that Sweden might have made significant investments in some sectors by remaining in them over long periods of time, but overall the data in Figure 2.22 might suggest a lack of focus in the Swedish ODA program.

<sup>25</sup> Simple statistical analysis the same that depicted in Figure 2.16 suggests that the increases in Swedish-funded activities appears not to have been driven by an increase in the annual levels of ODA to Tanzania.

**Figure 2.20: Swedish-funded Aid Activities, Tanzania, 1973 to 2014****Figure 2.21: Swedish Presence in DAC Sectors, Tanzania, 1973 to 2014**

The number of sectors in which Sweden has provided support in Tanzania is useful information, but arguably more important is the relative emphasis Sweden has given to these sectors as indicated by the share of funds it has allocated to each. The key question here is whether the Swedish ODA program in Tanzania has addressed pressing development needs. As noted above, this relates to an attribute of aid quality and in

turn effective aid, as defined by the AQEF. We do not seek to answer this question just yet, instead providing information on the focus of the program from 1962.

### 2.4.3 Sectoral Focus

Information on the sectoral focus of Sweden's development co-operation with Tanzania is shown in Table 2.1. Sectoral foci of development co-operation programs are of course a function of the corresponding country strategy. Summary of Sweden's development co-operation country strategies in Tanzania are provided in Box 2.1.

A feature of Swedish ODA during the early decades was its support for Tanzania's industrialization efforts. This is reflected in ODA funds allocated to education and industry, which dominate the sectoral focus of Swedish ODA to Tanzania until the late 1980s. Thirty-two percent of Swedish ODA in the 1960s was allocated to education and 38.8 percent of it was allocated to industry during the period 1985 to 1989. A closer look at support provided to the education sector shows that it was of a technical nature focusing on adult education. Essentially it involved training adults in areas of competence required for a more modern, industrialised economy. Swedish support for industrialization is also consistent with Swedish ODA coded under the Other Commodity Assistance sector, which comprised 26.9% of ODA provided during the period 1980 to 1984. This assistance involved financing the importation of capital goods. Swedish support for the modernization of the Tanzanian economy is also reflected in project level funding. Some of the better known projects funded by Swedish ODA from the mid- to late-1970s were the well-known Kidatu Power Station and the Mufundi Paper Pulp Plant (Government of Sweden, 2013). In the mid-1960s Sweden funded the Electrification Project implemented by the Tanganyika Electricity Supply Company. This appears to have been one of the largest funding allocations provided under the Swedish ODA program in the 1960s.<sup>26</sup>

A major change in the orientation of the Swedish ODA program in Tanzania occurred in the adjustment period. Concerned about the impacts of high inflation and cuts in Tanzanian government expenditure on areas including health and education, Sweden played an active role in arguing for debt cancellation and the protection of social expenditures (Government of Sweden, 2013). Sweden's concerns regarding debt were evident well before the Adjustment Period, dating back to the mid- to late-1970s. As is evident from Table 2.1, 13.8 percent of Swedish ODA during the period 1975 to 1979 was allocated to the Action Relating to Debt sector, as a result of the provision of grants to reduce Tanzanian debt. During the Adjustment Period Sweden provided further funding aimed at debt cancellation, although not of the relative magnitude as in these earlier years. What is evident from the Adjustment Period is an ongoing emphasis on

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<sup>26</sup> We note that some of the early sectoral classifications on which the data in Table 2.1 are based seem to be rather fuzzy or opaque. By this it is meant that the Electrification Project would be expected to be allocated to the Energy Sector, whereas it was allocated to Industry. We also note that the percentage breakdown of Swedish ODA for the entire period 1962 to 2014 should be interpreted with care, as it is based on current price as opposed to constant price data. This obviously understates real shares allocated to sectors in the earlier periods.

### **Box 2.1: Summaries of Sweden-Tanzanian Development Co-operation Country Strategies**

Over the years Swedish-Tanzanian development co-operation has engaged almost all sectors of society, including education, health, water and sanitation, environment, energy, infrastructure, natural resources, private sector and budget support. Although the modalities have changed from projects over to programmes and today's general budget support, the Swedish support has from its very inception been linked to government priorities, and in coordination with government institutions.

Documents and agreements from the **early 1960s**, show that Sweden was aiming at supporting Tanzania based on its own priorities as laid out in the 1964-1969 five years national plan. Agreements between the governments of Tanganyika and Sweden on individual projects were entered before that, ie. in 1962 for the Nordic-Tanganyika Centre in Kibaha. In 1964, Sweden decided to support the sectors of education, agriculture (including fisheries), and industrialization (electrification) from the national 5-year plan.

In the **1970s**, Sida introduced "country programming" giving commitments to projects in Tanzania over several years and covering a range of sectors in particular education and industry. In the mid 1970s, Sweden started to allocate money to import support, to counter increasing balance of payments problems. Within industrialization, Sweden supported both through government support and through twinning arrangements with Swedish small-scale industries. In addition, Sweden and Tanzania embarked on a long lasting collaboration in the energy sector, which began with the construction of the Kiatu hydro power station followed by other hydro power plants.

The **1980s** saw economic reforms, as Tanzania had been in a difficult economic situation for years. In combination with deteriorating external conditions, the situation got worse in the 1980s and IMF and other donors pushed for economic reforms and deregulations. At first, the Tanzanian government rejected the SAP, and Sida supported them in doing so, but later changed its position and supported the economic recovery programme introduced in 1986.

At the beginning of the **1990s**, Swedish assistance was increasingly concentrated on support for the balance of payments and government budget, and the linkage of Swedish aid to further reforms in the economy continued. The overriding objectives of Swedish assistance since the 1990s have been economic growth, equity, and environmental conservation. This has entailed increased prominence to governance, human rights, media and the promotion of gender equality.

The keywords for the strategic focus areas in the **2000s** are Pro-poor growth, human resource development and democratic development. This was also the time when the role of the private sector started to be recognized. Even then, in a similar way as today, the challenges focused on how to transform high economic growth to a better way of living for the majority of the population. Sida scaled up its support to rural electrification within the energy sector in this period also.

In the **2010s**, the current strategy (2013-2019) is structured around three result areas and it highlights economic growth for poverty reduction, private sector development and human rights and transparency as key elements for democratic society. Civil society and the private sector are becoming more important partners in the co-operation. As a strategy document, it is much shorter than previous strategies and it furthermore differs from previous strategies in setting forth quantitative targets including 10,000 people who have completed vocational education and training find employment and at least 300,000 people to gain access to electricity.



**Table 2.1: Sectoral Allocation of Swedish ODA to Tanzania, 1962 to 2014**

	Percentages										
	1962	1970	1975	1980	1985	1990	1995	2000	2005	2010	1965
	to 1969	to 1974	to 1979	to 1984	to 1989	to 1994	to 1999	to 2004	to 2009	to 2014	to 2014
General Budget Support					1.9	8.2	4.2	25.1	57.2	40.8	18.0
Education	32.3	14.8	17.1	16.2	18.5	2.0	13.5	19.7	4.9	2.0	12.9
Industry	17.8	5.6	18.2	27.4	38.8	6.9	2.4	0.2	0.3	0.1	12.7
Energy		1.4		3.9	0.6	1.2	3.5	9.2	13.1	17.3	9.6
Government & Civil Society		1.7	14.8	2.5	4.9	2.8	8.5	12.9	1.7	22.2	8.7
Other Multisector		1.7	0.1	3.5	9.4	5.8	7.5	11.2	5.8	3.6	6.5
Other Commodity Assistance			13.2	26.9	7.7	11.2	0.7				6.1
Water and Sanitation	1.7	3.4	13.6	7.3	1.3	11.5	7.9	1.4	0.2		5.3
Agriculture & Forestry	1.4	16.5		6.8	1.5	15.3	6.9	1.7		3.9	4.9
Health		12.4		2.4	2.4	3.3	3.7	4.3	1.0	3.5	2.7
Transport & Storage		1.9	0.4	0.3	6.8	3.8	0.3	0.2			2.1
Communications			0.6	1.5	1.3	4.9	6.9	1.2	0.6	0.3	2.0
Banking & Financial Services			6.3		3.2	1.4	0.7	0.5	1.9	0.1	1.8
Action Relating to Debt			13.8			0.4	3.6				1.3
Other Social Infrastructure & Services		4.8		0.7	0.7	1.7	1.8	1.8	1.9		1.1
Business & Other Services					0.4	0.5	0.8	2.7	1.3	1.9	0.9
Unallocated & Unspecified			0.2	0.4	0.6	1.0	0.5	1.8	1.7	1.4	0.9
Population & Reproductive Health								5.6		0.2	0.7
Emergency Response			1.7	0.3	0.5	0.4	2.0	1.5	0.3	0.1	0.5
Mineral Resources & Mining					1.3	0.3	0.7				0.3
General Environmental Protection						0.6	0.3	0.3	0.2	1.1	0.3
Food Aid		9.5	1.6	0.6							0.3
Trade Policies & Regulations			0.2	0.7	0.1	0.5	0.7	0.7	0.5	0.9	0.2
Fisheries	38.8					0.4	0.7	0.5	0.6		0.2
Other								0.5	0.3	0.7	0.1

Education, but also with an increased emphasis on the Health and Water and Sanitation sectors, as is shown in Table 1. There was also an increased emphasis on Agriculture and Forestry, with 15.3 percent of Sweden's ODA to Tanzania being allocated to this sector between 1990 and 1994. No other sector was allocated as much Swedish ODA.

The period from 2000 is dominated by the rise of budget support. General budget support jumped from 4.2 percent of Swedish ODA to Tanzania in 1995 to 1999 to 25.1 percent in 2000 to 2004, and to a massive 57.2 percent in 2005 to 2009. During 2010 to 2014 it constituted 40.8 percent of Swedish ODA to Tanzania.<sup>27</sup> ODA spending on Government and Civil Society sector and the Energy sector constituted 22.2 and 17.3 percent of this ODA, respectively, during 2010 to 2014.

#### **2.4.1 Evaluations of Swedish ODA to Tanzania**

Sweden has long had a reputation for being a donor with a strong poverty focus, putting poverty reduction ahead of other objectives. Carlsson (1998), for example, wrote that “to raise the standard of living of poor people ... is the supreme, and contested, objective of Swedish aid, which has survived 35 years of international development”. While Carlsson wrote this more than a decade ago, the poverty orientation is still emphasized in subsequent documents and policy statements, including in the new Tanzania Development Co-operation Strategy announced by Sweden in 2013.<sup>28</sup>

Despite this strong focus there is relatively little knowledge on the impact of Swedish ODA on poverty reduction or its possible drivers in Tanzania at the country program-wide level. This is not to say that evaluations of particular programs or projects have not looked at these impacts. For example, Katilia *et al.* (2003) found that the contributions of Swedish forestry aid to poverty reduction in Tanzania were difficult to assess, and that until the 1990s poverty reduction was not really explicitly addressed in most of the Sida-assisted forestry projects.

To our knowledge, the only country program-wide evaluation of development co-operation between Sweden and Tanzania over time is that of Adams *et al.* (1994). Adams *et al.* examined this co-operation for the period 1966 to 1992, looking most closely at the period from 1980. The evaluation was primarily concerned with the impact of Swedish ODA on Tanzanian economic growth and its determinants. It also made some attempt, albeit limited given the paucity of requisite information, to evaluate the impact of this ODA on equity and in turn poverty reduction. Adams *et al.* made the point that it is not possible to disentangle the impact of Swedish ODA on economic growth in Tanzania from the growth effect of the overall donor effort in that country. This is particularly valid point. Aid is one of very many potential drivers of

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<sup>27</sup> As is pointed out below in Chapter 3, general budget support was suspended in late-2014 owing to a corruption scandal. This primarily accounts for the reduction in the percentage share of Swedish for budget support between 2004 to 2009 and 2010 to 2014.

<sup>28</sup> In Government of Sweden (2013, p.3) it is stated that the “new development co-operation strategy between Sweden and Tanzania focuses on sustainable growth for poverty alleviation”, while at the same time trying to reduce a reliance and aid and increasing the roles of trade, investment and “political and cultural collaboration”.

growth and during the period examined by Adams *et al.* Sweden was one of many Tanzanian aid donors. To be able to draw conclusions regarding the impact of Swedish aid on growth in this country one would need to be able to identify the counterfactual (what growth in Tanzania would have been in the absence of Swedish aid) and that is not possible methodologically. The Adams *et al.* evaluation did, however, draw conclusions of sorts about the overall impact of aid to Tanzania over the period under consideration. That conclusion was that it is “hard to argue that aid had a very positive effect on growth” in Tanzania, and that any growth that had been achieved being due to factors other than aid (Adams *et al.*, 1994 p. 156).

On the determinants of growth in Tanzania, Adams *et al.* were able to identify a number of possible effects of Swedish aid. It was observed that Sweden had made a positive contribution to human capital formation through its support for education in the 1960s and 1970s, although these achievements were not sustained in later years. Sweden also supported reforms during the Adjustment Phase, in particular through support for public administration. On the negative side of the ledger, Sweden was thought to have contributed to lower growth through its early attempts to support industrialization, which “did not fare well” (Adams *et al.*, 1994 p. 154), by indirectly supporting up to the mid-1980s a development strategy in Tanzania that proved to be unviable largely due to its inward looking economic policies (and by implication, with a possible bias against agriculture in which the majority of the poor lived) and in the early 1980s by, it was thought, making it possible to delay economic policy adjustment by being reluctant to join the donor critiques of earlier policies.<sup>29</sup>

Adams *et al.* (1994) have much less to say about impacts of Swedish aid on poverty. What is pointed out is that early Swedish support for agriculture could have raised the welfare of the rural poor, which as mentioned constitute the majority of Tanzanians living in poverty. Yet it was thought that these benefits would not have been sustained owing to the economic problems of the 1980s.<sup>30</sup>

It is instructive to conclude our discussion of evaluations with some further observations not specifically about Swedish aid to Tanzania, but on the overall donor effort in the former. As was pointed out above, the activities of any one donor, and the development results it can realistically achieve, will ultimately be influenced to varying degrees by the broader aid environment in the country in question. Put another way, the overall donor effort in any country will be part of the broader enabling environment faced by all

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<sup>29</sup> There is widespread support for the negative view of early Swedish attempts to support industrialisation in Tanzania. Thorkildsen (1988), for example, argues that creating and assisting industries within the parastatal sector was often akin to “watering white elephants”.

<sup>30</sup> Adams *et al.* (1994) provide a number of forward looking recommendations. One concerns absorptive capacity, which Adams *et al.* seem to define in a very similar way to the AQEF. In this context, they point out that Tanzania lacked the administrative machinery to handle aid effectively and called for the need to provide aid in a way that is “administratively simple and does not over burden the apparatus” (p.162). They also point out that in the early 1990s Tanzania had to deal with over 50 donors and more than 2000 aid projects. This lends weight to the concerns voiced above regarding donor and activity proliferation in Tanzania.

individual donors. The observations are those provided by Edwards (2012). Edwards asks whether Tanzania is a success story and if bilateral and multilateral aid donor agencies can validly claim to have played a role in this success. Edwards argues that from 1995 Tanzania looks like a success story. Its GDP per capita has grown significantly and faster than the average for sub-Saharan Africa, inflation has been kept in check, social program expenditure has increased markedly and the relationship with the donor community has been cordial and constructive. Edwards further argues that donors can validly claim to have played a constructive role in this period.<sup>31</sup>

Yet Edwards (2012) takes a very different view if one looks further back in Tanzania's history. He states that the Tanzanian economy:

collapsed completely in 1980-1985, and that it took many years (about a decade) for it to find its stride and begin to recover in earnest ... the disintegration of the economy was the result of misguided policies and of a remarkable inability to change directions even in light of overwhelming evidence of failure ... international aid organizations and aid agencies in the advanced nations were accomplices in generating [this] collapse (Edwards, 2012, p. 43).

## **2.5 Tanzanian Government Policy in Context**

### **2.5.1 Preamble**

There is a large literature on Tanzanian policy and development since independence and the discussion here does not attempt to be comprehensive in coverage. There are various ways to sub-divide into periods but a useful starting point is the four Presidents: Julius Nyerere, 1964 to 1985; Ali Hassan Mwinyi, 1985-95; Benjamin Mkapa 1995-2005 and Jakaya Kikwete 2005-15 (John Magufuli was elected and took office in November 2015). Studies of economic performance mostly adopt similar broad periods, although depending on the issues of interest the cut-off years vary and sub-periods are considered. The first six years of independence under Nyerere (1961-66) were distinct, with an open market-oriented economy without specific allocation of foreign exchange, price regulation or import duties, although export taxes (mostly on agriculture) provided revenue and the period included the First Five Year Plan (1964-68); economic performance was modest, agriculture dominated and the manufacturing sector remained very small. This ended in 1967 with the emergence of a state controlled economy with inward looking policies until around 1986, after which adjustment gradually restored a market economy with effect from about 1996. In broad terms, economic performance was weak or worse for about the first 30 years after independence (perhaps excluding the first half of the 1960s) and sustained growth has only been observed since the mid-1990s.

Edwards (2012: 11-12) is a useful reference point in distinguishing six different phases of aid. The first three were under Nyerere: 1961-67 with low and declining aid; 1967-80

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<sup>31</sup> Writing more than a decade earlier, Bigsten et al. (2001, p. 341) conclude that "aid has unquestionably had a major [positive] impact on the reform process in Tanzania"

from the Arusha Declaration to the major economic crisis of 1979/80, a period of rapid expansion of aid (especially from Nordic donors); and 1981-85, when there was a large decline in aid given the impasse between the government and IMF over economic reform. The period of President Mwinyi is divided into two phases: 1986-91, a period of economic adjustment with low but stable aid; and 1991-95, when reforms stalled and aid declined in the face of another impasse between the Government and donors. The final phase is the period since 1996 when reforms began to take effect, growth recovered and aid increased. As Edwards (2012: 38-39) notes, the Helleiner Report (1995) was instrumental in restoring good relations and paving the way for government-owned reforms with donor support.

The discussion in this section omits the very early period (up to 1967) and divides the policy narrative in three phases: 1967-80, state control and African Socialism (*Ujamaa*); 1980-95, economic crises and erratic reform; and 1996 onwards, sustained reform and the advent of growth. The major macroeconomic issues are addressed but as these have been reviewed in detail in many other studies (e.g. Edwards, 2012), the focus is on sector policies in agriculture and industry.

### **2.5.2 1967-80: State Control and African Socialism**

The vision of African Socialism was to promote structural economic transformation from an agriculture-based to industry-based economy based on self-reliance. The Arusha Declaration initiated a period of state control over the major sectors of the economy, especially agriculture (with monopoly government marketing boards), manufacturing and services (banking, international trade and retail were controlled by state agencies); administered prices replaced market prices in most sectors and the government controlled the allocation of foreign exchange. Many private sector firms were nationalized and new state owned enterprises (SOEs) were established under the Second Five Year Plan (1969-74); these SOEs were at the core of manufacturing until the 1990s (Szirmai and Lapperre, 2001). The public sector share of manufacturing increased during the 1970s and 1980s given the ability of SOEs to attract funding for investment (James, 1996).

The policy orientation was to promote local firms using local materials with simple labour intensive technologies (Skarstein and Wangwe, 1986), consistent with inward-looking state control of the economy. Economic performance was reasonable until the early 1970s although manufacturing performance remained weak. Despite achieving little, the Second Five Year Plan was followed by the twenty year Basic Industries Strategy (BIS, 1975-1995) aiming to promote industrial growth, structural change and employment generation, applying the aim of self-reliance promoted in agriculture to industrialisation. The series of economic crises in the 1970s derailed implementation of BIS (Lall and Wangwe, 1998), in part because of lack of resources and in part because of macroeconomic failures associated with the inward-oriented policies. The focus on industrialisation to drive structural transformation was a failure during this period.

At the other side of transformation, agricultural policy also failed. The 'villagisation' policy under *Ujamaa* moved rural populations into new villages to encourage socialist-

oriented production supported by co-operatives. Initially there were some promising indicators as the area under cultivation and use of chemical fertilizer increased which, with expansion of extension services, supported an increase in food production. However, the combination of drought and increased input prices resulted in declining production by the mid-1970s (Isinika *et al*, 2005: 198). Thus, from accounting for some 60% of GDP in the 1960s, agriculture fell to 40% in the early 1970s; the share rose to about 45% of GDP by the early 1980s but that was due more to the stagnant economy rather than agricultural productivity (World Bank, 1994: 4).

The co-operative system was replaced (in 1976) by parastatal crop authorities that were responsible for production, processing and marketing with uniform pan-territorial producer and food retail prices. The burden of price controls and marketing costs fell on export crops as food crops were somewhat protected by subsidies to ensure low prices for consumers; although the implied low producer prices were a disincentive there were opportunities to sell food at higher prices on parallel markets. The overvalued exchange rate exacerbated these distortions by creating a bias in favour of imports and implicit taxation of exports (Isinika *et al*, 2005: 202). Although it was one of the main objectives, the parastatals were ineffective in stabilizing prices and imposed extensive distortions and disincentives, especially for remote (and poor) regions with high transport costs and low marketed output. The parastatals were very inefficient and became a financial burden resulting in a return to co-operatives in the 1982 Co-operative Act (but the co-operatives remained under state control).

The overall effect of these policies on agriculture can be illustrated using the World Bank's concept of the nominal rate of assistance (NRA) 'defined as the percentage by which government policies have raised gross returns to farmers above what they would have been without the government's intervention' (Anderson and Masters, 2009: 11). Distortions imposed a high burden on Tanzanian agriculture with negative NRAs (i.e. domestic prices considerably below the competitive world price), averaging -80% for export crops (with only sisal better than -50%) and -55% for import-competing crops such as rice and maize over 1976-84 (Morrissey and Leyaro, 2009: 319). Put another way, policy distortions (especially overvaluation) represented an implicit tax on export crops, exceeding 70% for coffee, 80% for cotton and 90% for tea, and exceeding 50% for major food crops.

Edwards (2012) argues that donors are in part to blame for the policy and development failure of 1967-80 because they supported the 'African Socialism' policies initiated with the Arusha Declaration. These policies were a failure: *Ujamaa* was not popular with farmers and there was no growth in agricultural production; the effective taxation of agriculture, especially through an overvalued exchange rate (a major failing of macroeconomic policy), exacerbated this; and inefficient SOEs became a burden on the budget. While these arguments are true, it is perhaps too easy to criticise Tanzanian policy in this period and the donors who provided support with the benefit of hindsight. Although growth was poor, Tanzania had a relatively good reputation on human development, especially in education. There was a clear failure in policy implementation, especially in agriculture and industry. However, the economy was

subject to a series of major shocks during the 1970s. Macroeconomic stability was undermined by the severe drought in 1973/74, with an impact on food prices, and by the 1973/74 and 1979/80 oil price rises, the foreign exchange implications of which were exacerbating by declining world prices for cash crop exports. The collapse of the East African Community (EAC) in 1977 and the very costly 1978/79 war with Uganda exacerbated pressure on the budget. The overvalued exchange rate (for which Tanzania was no exception at that time) illustrates the failure to adapt to the external economic environment. Policies were misguided and ineffective but may have appeared desirable at the time and donors were supporting policies that the government owned.<sup>32</sup>

### **2.5.3 1980-95: Economic Crises and Erratic Reform**

The economy was in crisis at the beginning of the 1980s with shortages of food and foreign exchange, an increasing black market premium (due to resistance to devaluing the exchange rate), deteriorating terms of trade, capital flight and unsustainable deficits. Edwards (2012) is primarily concerned with macroeconomic policy and concentrates on this period, demonstrating the disastrous consequences of Tanzania's unwillingness to devalue in 1979 and implement broader liberalisation to reform the economy. There was little appetite for economic reform, macroeconomic performance was weak, manufacturing stagnated and investment declined. The budgetary cost of the failure to devalue was high; for example, costly subsidies for export crops through higher nominal producer prices (paid by state marketing boards) and lower export taxes to compensate producers for the low world prices. There was a sustained impasse between the government and multilateral financial institutions (MFIs) and the economy stagnated during 1980-82.

A series of reforms were initiated from 1982 under the Structural Adjustment Programme (SAP). The primary focus was on macroeconomic reforms to liberalise the exchange rate to address the persistent overvaluation and distortions associated with multiple official exchange rates; tax reforms to increase revenue and reduce the increasing budget deficits and rising debt; and tighter monetary policies to limit inflation. These reforms had limited success: over 1982-86 real growth recovered to almost two per cent per annum (exclusively due to growth in agriculture); the current account deficit was reduced to 3.5% of GDP on average (from 8.2% in 1980-82); and the budget deficit was reduced from an average of 14% (1980-82) to 8.5% of GDP by cutting expenditure. However, inflation increased from an annual 28% on average in 1980-82 to 32% on average and external financing declined (Morrissey, 1995: 641-2).

Macroeconomic performance remained weak and the government accepted the necessity of implementing more significant reforms demanded by MFIs (especially the IMF) and this was made somewhat easier when Mwinyi replaced Nyerere as President in 1985; two Economic Recovery Programmes (ERPs) followed in 1986-89 and 1989-1992.

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<sup>32</sup> Edwards (2012) acknowledges these shocks but argues that they had such a severe impact because of the fragility of the economy due to poor policies. Tanzania was not unusual in policies or the weak economy in the 1970s, at least by African standards, but arguably faced more severe shocks than similar countries.

These included measures to promote industrial development through export-orientation (encouraged by devaluation, a shift towards market-determined exchange rates, export promotion and import liberalization) and public enterprise reform (gradual privatization). Tax reforms to simplify the system and reduce import duties, sales taxes and marginal income tax rates were implemented over 1985-92. The maximum tariff declined from 750% (with numerous rates) in 1986 to 60% (six standard rates)<sup>33</sup> in 1988 and 40% (four rates) in 1992. The number of sales tax rates was reduced and the maximum fell from 60% in 1989 to 30% in 1992; and the maximum rates of income tax were reduced from 75% in 1986 to 30% in 1992 (Morrissey, 1995: 644). These reforms improved the tax structure and revenue/GDP ratios remained stable or increased slightly in the 1990s.

There was some recovery over 1986-90, with real GDP and manufacturing growth by about four per cent per annum, agriculture growing at about five per cent per annum, and an increase in external financing. Although tax (especially tariff) revenue increased, expenditure rose more rapidly and the budget deficit increased to almost 12% of GDP while the current account deficit spiraled to almost 16% of GDP (Morrissey, 1995: 642). The reforms were not extensive or deep and macroeconomic instability emerged again in the early 1990s at a time when almost all bilateral donors (even Sweden) had shifted to supporting market-oriented reforms (Edwards, 2012: 34-35). Tanzania needed donor support but to secure it had to adopt further reforms, which did not occur until after 1995.

Agriculture performed relatively well in Tanzania in the 1980s; from 40% in the early 1970s agriculture increased to about 60% of GDP by the early 1990s (World Bank, 1994: 4). Throughout the period from 1981 to 1992 agricultural GDP rose at a faster rate than real GDP, especially in the early 1980s. Food crops, especially cereals during 1976-85, persistently outperformed export crops that were discouraged by declining world prices: real export prices for coffee, cotton and tea in 1990 were less than half their value in 1984 (McKay *et al*, 1999). This improvement is attributable to ERP reforms liberalising agriculture through price decontrol (for food crops from the mid-1980s), devaluation after 1985 (compensate exporters for declining world prices) and privatization of marketing - 'in 1985 private trade supplied 50% of maize to Dar-es-Salaam, by 1992 this figure had increased to 80-90%' (Isinika *et al*, 2005: 205). Food crops benefitted more than export crops as shown by estimated NRAs improving from averaging -80% in 1985-89 to -66% in 1990-94 for export crops but -16% in 1985-89 to 10% in 1990-94 for import-competing crops such as rice and maize over 1976-84 (Morrissey and Leyaro, 2009: 319). The implicit tax of 50% in the late 1970s was transformed into an implicit subsidy of 14% for maize and two per cent for rice (the two most important imported food crops) in the early 1990s. The reduction in implicit taxation of exports was less pronounced, remaining over 80% for cotton and about 90% for tea although it fell from 70% to 44% for coffee.

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<sup>33</sup> Throughout we refer to the number of standard rates but in practice there are many more applied rates.



McKay *et al* (1999), based on data up to the early 1990s, find that farmers were responsive to prices; in particular, food crop production increased as food prices rose relative to export crop prices (with a long-run supply elasticity of unity). Liberalization of agricultural markets and higher producer prices encouraged production supporting agricultural sector growth. However, the extent of the production response was constrained by the lack of investment in infrastructure and measures to improve marketing, or access to inputs, credit and technology. Although at a slow pace, through the early 1990s agriculture, manufacturing and the economy improved.

### **2.5.2 1996 to the Present: Sustained Reform and the Advent of Growth**

The reform process initiated in the 1980s and continued in the early 1990s was often unwilling and frequently lacked sustained implementation but was deeper and sustained in the late 1990s and this ushered in a period of growth. Indeed, 'since 1996, Tanzania has done much better, in terms of economic growth and macroeconomic stability, than the average Sub Saharan country' (Edwards, 2012: 6). A series of reforms were important: fiscal consolidation that increased tax revenue and supported improvements in public financial management; continued trade liberalisation and regional integration through East African Community; sustained privatisation; a market-oriented exchange rate and sound monetary policies in the Bank of Tanzania supported macroeconomic stability (Edwards, 2012: 40-42).

In the 1990s, further tax reforms reduced the maximum tariff from 40% (with four rates) in 1992 to 30% and three rates by the end of 1990s, and an increased proportion of goods were subject to zero tariffs (mostly agricultural inputs such as fertilizer). The liberalization was erratic as the average tariff increased from 19% in 1995 to 22% in 1997 before falling to 16% in 2000 (Jones *et al*, 2011: 327). Other trade policy reforms removed import restrictions and improved incentives to export (removing export taxes and devaluations under the liberalized exchange rate liberalization increased producer prices). The Common External Tariff under the East African Community (EAC) implemented in 2005 had three standard rates of 0, 10% and 25% and effectively reduced tariff rates in Tanzania. Value Added Tax (VAT) replaced the sales tax in July 1998 with two rates, zero on exports and a standard rate of 20% on all other non-exempt goods (reduced to 18% in 2008/09). These reforms were effective and tax revenue as a share of GDP increased during the 2000s.

While reforms implemented through the 1990s paved the way for improved macroeconomic management not all measures benefitted agriculture. The removal of subsidies for agriculture in 1994 combined with increasing input prices to reduce profits and production (Isinika *et al*, 2005: 209). Debates on subsidies focused on fertilizer (the Government reintroduced fertilizer subsidies on a limited basis in 2003) although use is very limited: fewer than 15% of farmers used fertilizer in the late 1980s, almost all for maize in the Southern Highlands (where production increased in the 1990s), coffee in Kilimanjaro or tobacco in Tabora (Cooksey, 2003: 72).

Liberalization of marketing boards in the 1990s was important for exports, notably coffee and cotton (the two most important export crops). In the case of cotton,

producer's share of the export price increased, marketing improved and ginning capacity increased, although taxes were high and there was little growth in production (Baffes, 2004). Cashew nuts showed more promise as improved marketing efficiency was associated with production growth (Poulton, 1998). Liberalisation of coffee marketing reduced marketing margins and increased the producer's share of the export price from 50% to 90% (Temu *et al*, 2001: 207-8), although declining world prices weakened performance in the early 2000s (Cooksey, 2003: 76).

Despite liberalization, especially in the exchange rate, estimated NRAs remained significantly negative for exports overall, averaging -52% in 1995-99 and -49% in 2000-04. There were significant variations: implicit taxation remained around 70% for cotton and 90% for tea, implying high sector inefficiencies, and was only completely eliminated for coffee and sisal, although neither was effectively subsidised (Morrissey and Leyaro, 2009: 319). Thus, although exchange rate liberalization eliminated the black market premium by 2000 'exchange rate reforms did not translate fully into a reduction in distortions to producers in all crops' (Morrissey and Leyaro, 2009: 325). The situation for food crops was mixed, with maize again facing a tax, 28% in 1995-99 falling to one per cent in 2000-04, whereas rice received subsidies of 25% in 1995-99 and 17% in 2000-04 and wheat benefitted from a subsidy increasing from 76% to 95% (Morrissey and Leyaro, 2009: 319). Overall, since the late 1970s, only coffee, sisal, wheat, rice and sugar saw implicit taxation eliminated (with subsidies for the foods) so for many crops significant distortions remained due to 'high transport costs, marketing inefficiencies and prices paid to farmers' (Morrissey and Leyaro, 2009: 325).

The manufacturing sector remained small, as a share of the economy and in terms of employment, but benefitted from reforms. Although gradual and concentrated in primary production (cash crops and mining) and brewing, privatisation gathered pace and SOEs accounted for fewer than ten per cent of manufacturing firms by the mid-2000s (URT, 2009). Small and medium enterprises (SMEs) dominated manufacturing: 'enterprises with fewer than ten employees account for 97 per cent of all manufacturing enterprises [in 2007] and ... most are family-owned firms with less than five employees' (UNIDO and URT, 2012, p. 16). This indicates the nature of private sector dynamism – growing but on a small and often semi-formal scale. Nevertheless, the manufacturing sector is showing some growth and improvement in competitiveness; success of reforms in creating a more stable macroeconomic environment and better government policies such as trade liberalisation and privatisation have played a role (UNIDO and URT, 2012, p. 19).

## **2.6 Core Drivers of Poverty Reduction in Tanzania**

### **2.6.1 Preamble**

Trends in poverty have already been presented above, in Section 2.2.2, but in order to identify the core drivers of poverty reduction it is important to briefly examine the underlying data in more detail. An important factor in analysing the drivers of trends in poverty in Tanzania (on which almost all analysis begins from the early 1990s) is that alternative data sources provide differing, and sometimes conflicting, evidence. The

World Bank \$1.25 a day POVCAL data suggests that overall poverty reduction achievements have been quite good, from a headcount of 72% in 1992 down to 44% in 2012, implying that poverty fell by almost 40 per cent over some 20 years. The national poverty line derived from the Tanzania Household Budget Surveys (HBS) suggests much lower levels and declines in consumption poverty: over the same 20 years poverty fell by only 27 per cent, from 38.6% in 1991/92 to 28.2% in 2011/12, with intermediate values of 35.6% in 2000/01 and 33.4% in 2007. There was effective poverty reduction between 2007 and 2012: the poverty headcount (on basic needs) fell from 34% to 28% whereas extreme poverty (using the food poverty line) fell from 12% to 10% (World Bank, 2015: 2).

Although both are derived from the HBS data, differences in construction (in particular the conversion to PPP US\$ for international \$1.25 a day comparisons) imply that the World Bank and national levels would not be the same, although one may expect the trends to be more similar. The principal reason for divergence is likely to be the underlying use of different price deflators for calculating real consumption poverty over time. Arndt *et al.* (2015) provide a comprehensive analysis of poverty trends in Tanzania since 1991 with particular focus on the 2000s, especially from the 2007 to 2011/12 HBS (the period also addressed in detail in World Bank, 2015) and show that differences in the price deflator used explain much of the difference between consumption poverty rates derived from national accounts as against survey (HBS) data, and are also relevant to differences between HBS and PPP US\$ poverty estimates. A number of results and findings are of particular relevance in understanding the determinants of poverty reduction:

- The 1990s was a period of low growth and little poverty reduction. Using national accounts per capita private consumption actually fell, although the HBS suggests a reduction in headcount poverty of 7.5%. Growth improved from around 2000 and, using HBS data, poverty fell by almost six per cent over 2000-07 and 15-18% over 2007-12 depending on adjustments for changes in how consumption was measured in HBS 2011/12 (Arndt *et al.* 2015: 4-5).
- There were considerable spatial variations in poverty reduction, with declines more pronounced in urban areas, where wage employment played a role, rather than rural areas; the absolute number of rural poor declined and although some cash crop incomes increased rural poverty reduction was largely due to reductions in inequality (it was the poorest quintiles that experienced real consumption growth) rather than growth (World Bank, 2015: 45-50). The significant reductions in poverty were in DSM; reductions in other urban and rural areas were much lower (Arndt *et al.* 2015: 10).
- Irrespective of the data source used, the growth elasticity of poverty is very low at no better than -0.8 using national accounts, although using average nominal household consumption from HBS the elasticity is -1.3 over 1992-2001 rising to -3.5 over 2007-12 (Arndt *et al.* 2015: 5). 'Economic growth measured by changes in HBS consumption per capita appears much lower than growth in GDP. Real GDP per capita grew at an average annual rate of 3.6 percent over the period 2007 to

2012. Conversely, household consumption per capita in the HBS increased at only an average annual rate of 0.9 percent between 2007 and 2011/12 (World Bank, 2015: 39).

- The fundamental reason for the low elasticity is very low growth in household consumption (hence minimal poverty reduction); the relatively high GDP growth since 2000 is in components other than private consumption (Arndt *et al.* 2015: 4).
- The use of different price deflators explains much of the difference in poverty estimates and the poverty estimates derived from HBS (compared to national accounts) are probably the most reliable (Arndt *et al.* 2015: 8).
- Improvements in non-monetary indicators of deprivation were generally good over 1991-2012 (Arndt *et al.* 2015: 17). Most indicators of living standards (such as quality of housing and ownership of modern assets) and human development improved during 2007-2012 (World Bank, 2015: 5-12).

The fundamental reason for slow poverty reduction was that real private consumption increased slowly, due to household incomes increasing slowly relative to consumer prices. Even the relatively high growth since 2000 had limited impact on private household consumption and hence on reducing poverty. This is not unique to Tanzania: 'The difference between the estimates of the growth elasticity of poverty found with the different measures of economic growth is quite common in developing countries, but it seems to be larger in Tanzania. This is due to the discrepancy between the price deflators used to convert nominal GDP and household consumption values into real terms' (World Bank, 2015: xvi).

The principal drivers of poverty reduction in Tanzania are the factors associated with increasing real private consumption: i) increases in household incomes (especially in rural areas as increases in urban areas are mostly benefiting the non-poor); ii) trends in consumer prices, especially of food; and iii) redistributive effects of government spending (in practice only relevant for non-income poverty). The first two of these are the explanation for the limited achievements in poverty reduction since 1991, and the poor performance of agriculture is the major factor. We address all three in turn.

#### *Drivers of Private Income*

About 85% of the Tanzanian population in 1990 was defined as rural, for the vast majority of these agriculture was the primary source of income, almost 60% of these were below the poverty line, some 77% of their expenditure was on food and over 40% of food came from home production (World Bank, 1994: 45-8). Growth in agriculture, especially food production, makes a major contribution to the income and welfare of rural households, and hence is central to any poverty reduction strategy. The Tanzanian problem is that growth, and especially labour absorption, in agriculture has been limited whereas the sectors that have grown rapidly are relatively capital-intensive, with the exception of employment-generating construction. 'The nature of growth in Tanzania has not created sufficient productive employment for the rapidly growing population. The capital intensive bias of growth has meant it has absorbed only a handful of the 700,000 additional workers who enter the domestic labor market every year. The shift in

labour toward more productive sectors has not been fast enough' (World Bank, 2015: 37). Given the significant population growth, and improving enrolment in education, this 'jobless growth' phenomenon is a major reason why growth is not translating into dramatic poverty reduction.

Agriculture dominates the Tanzanian economy: even in the early 2000s, the sector was the source of some 90 percent of income for the poorest quintile and just under two-thirds of the income of the richest quintile, so sector growth is especially critical for the poorest households (IFAD, 2002: 4). The importance for the richest quintile (mostly in urban areas) shows that the benefits of expansion in agriculture are not limited to rural areas. Agriculture (especially export crops) has major linkages to the non-farm sector through the trade and marketing chain: export crops generate far greater demand, employment and income opportunities than manufacturing because of non-farm linkages, even for urban areas (World Bank, 2000: 151-2). For the early 1990s it was estimated that increasing rural incomes is up to four times more important for reducing poverty than expanding urban incomes, a reason why growth in DSM did little to reduce overall poverty (World Bank, 1996: 77).

As discussed above, despite many national policies and sector strategies, Tanzania never achieved a sustained improvement in agriculture. Weak macroeconomic conditions were a factor during the 1990s. The potential gains from liberalized marketing after 1993 were never realized, in large part because average real exchange rate appreciation of one per cent per month for most of the remainder of the 1990s reduced incentives to exporters - real producer prices for export crops fell by between 25 and 70 per cent (World Bank, 2000: 141-3). Mitchell and Baffes (2002) show that the increase in export values over 1990-97 was lost by 1999 (with especially poor performance of cotton) so that export earnings from major crops were only 10% higher in 1999 than in 1990 (in marked contrast to increases from a similar crop mix of over 50% in Ethiopia, Kenya and Uganda). The failure to address structural weaknesses in agriculture compounded the adverse macroeconomic environment. In particular, high transactions costs associated with high transport costs and marketing margins and weak contract enforcement discouraged private sector involvement in 'all but the most lucrative agricultural opportunities' (World Bank, 2000: 153). However, land reforms have provided some benefits to the poor. 'Ownership of agricultural land, particularly large plots, improved substantially for poor households' (World Bank, 2015: 6). The gradual implementation of the 1999 Land Acts replaced informal institutions with more transparent formal processes for land administration and although the benefits were unevenly distributed one effect was to improve women's access to land (Pedersen, 2015).

Morrissey and Leyaro (2009), in their analysis of the bias in agriculture policy in Tanzania over 1976-2004, show that despite reforms implemented since the late 1980s, a number of cash crops became less competitive in the 1990s due to serious deficiencies in marketing and productivity. Observed improvements in incentives tended to be confined to food crops and the level of distortion remained reasonably high for cash crops up to the early 2000s. Food crops benefitted more than export crops: an implicit tax of 50% in the late 1970s became an implicit subsidy of 14% for maize and two per

cent for rice in the early 1990s whereas implicit taxation of export crops remained high. As producers seem to respond to the relative price and incentives for food crops compared to cash crops, with high relative price elasticity for food crops (McKay *et al.*, 1999), one expects increasing food crop production to contribute to poverty reduction. However, the increase in food production at the aggregate level has at best been muted and the impact on household incomes, hence on poverty reduction, has been limited. In part this is because there has been no sustained improvement in low productivity, reflecting very low levels of fertilizer use or technology adoption (in turn reflecting low access to credit). It is also because increasing consumer prices offset household gains in real incomes, especially as the majority of households are net purchasers of food. It is the more commercial farmers that benefit from increasing producer prices and production but these were not poor to begin with.

Although Tanzania may have lacked what Edwards (2012) terms a ‘technopolis’ there was no shortage of agricultural and industrial development plans and strategies, with most being drafted by Tanzania without external influence. The problem lay in the failure of implementation, often due to a lack of resources, so policies uniformly failed to achieve the structural transformation from an agriculture-based economy to an industrial economy or to generate adequate growth in wage employment. Growth in manufacturing has only emerged quite recently and even this is concentrated in small or even micro (household) enterprises unable to provide formal wage employment growth to keep pace with the increasing labour force (especially urban youth). These are perhaps the fundamental reasons for low poverty reduction: private consumption can only grow in real terms by generating income-earning opportunities. This has not happened in agriculture, the sector in which the majority of the population derive their livelihood (and the majority of the poor are in rural areas), or in manufacturing, where employment is necessary to accommodate the growing urban population. These sector failures are the drivers of the failure to reduce poverty significantly.

The problem has been the structure of growth as agriculture as a sector has barely shared in the improved economic performance. Although agriculture remains the largest contributor to export earnings, by the early 2000s mineral exports (mostly gold) increased to almost 20% of export revenues and services grew even more rapidly. Tourism broadly defined has become a major sector of the economy, accounting for almost 40% of export earnings in the late 1990s (the share has declined subsequently as mineral exports increased) and it is estimated that employment in tourism almost trebled in the 1990s (Kweka *et al.*, 2003: 338). Tourism has marginally higher output, employment and labour income multipliers than manufacturing and although they are not particularly large it is a sector with high linkages to the economy (Kweka *et al.*, 2003: 342). However, employment in the hotel and restaurant sector (the sector considered as corresponding to tourism) is concentrated in urban and coastal areas so growth may not have a large impact on poverty reduction at a national level. Mining exports (mostly gold) have relatively low linkages and employment potential so growth may not have had a discernable impact on poverty.

In brief, growth did not translate into commensurate increases in real private consumption and hence poverty reduction because: i) growth was limited in agriculture and rural areas; ii) growth in output was not matched by growth in employment and labour incomes; and iii) mining was the most dynamic export sector but had weak employment and other linkages with the economy. 'Tanzania has made significant economic progress, and the macroeconomic position is largely sound. That said, many poor households have not benefitted from the recent growth, which has largely been driven by non-labour-intensive sectors. The task of broadening the growth base is key to translate exceptional growth into poverty reduction' (World Bank, 2015: 38).

#### *Drivers of Price Inflation*

Differences in the measure of inflation used to adjust trends in household income are a major factor explaining differences in poverty estimates from alternative sources. Comparing 2007 and 2012, national accounts and HBS give similar estimates of average nominal per capita consumption; the differences in derived poverty estimates arise from the use of different price deflators. 'Whereas in nominal terms the two consumption measures correspond reasonably well, when expressed in real terms, there is little correspondence between them and they imply completely different growth and poverty scenarios' (Arndt *et al.*, 2015: 7). Various analyses suggest that the CPI and national accounts deflators are downwardly biased (the CPI seems to underestimate food price inflation in particular). In contrast, because the HBS uses survey prices and weights it provides consistently higher estimates of inflation. As these are based on observed prices of the consumption goods used to measure income (as household expenditure) the HBS poverty estimates are likely to give the most accurate information on trends in real consumption (and attach greater weight to the consumption basket of poorer households compared to the CPI). One limitation is the use of a single national deflator which probably underestimates inflation in rural areas and perhaps also for poorer households. 'It is certainly plausible that poor households may have faced higher inflation overall [over 2007 to 2011/12] given the greater share of food in their consumption baskets combined with the fact that food price inflation was higher' (Arndt *et al.*, 2015: 15).

Turning to the issue of price rises and especially food prices, Leyaro *et al* (2010) show that real price increases over 1990-2007 reduced average household welfare by 20% of 1991 income, with a greater loss for the rural poor (27%) compared to the urban non-poor (5%). Tariff reductions went some way to offset the welfare losses for all households, especially in the 1990s, although the urban poor (more likely to consume imports) benefit more than the rural poor from measures that reduce import prices (as tariff reductions can offset the effect of increasing world prices). The richest in urban areas suffer least from food price increases but for all rural quintiles the losses were in excess of 20 per cent of 1991 income.

Food prices were the principal price factor limiting growth in real private consumption and hence in poverty reduction. This is likely to have had a severe impact following the increase in world food prices in 2007-08. Although increases in domestic food prices

benefit producers these are more likely to be non-poor households. Poor agricultural households are likely to be net purchasers of food and experience lower increases in nominal incomes. As production for home consumption is not fully captured by measures of household consumption, there could be unmeasured improvements in real consumption. On the other hand, actual food price inflation faced by poorer rural consumers may be greater than national inflation. Urban households are the least affected although food price inflation prevents further reductions in the already low levels of urban poverty.

### *Drivers of Public Spending*

Public expenditure is perhaps the driver most amenable to donor influence insofar as aid affects the level and allocation of government spending, especially the share to social sectors (discussed further below). Public spending is unlikely to have a direct observable impact on income poverty but improved access to public goods and services increases household welfare and reduces non-income dimensions of poverty. Even if the incidence of spending is regressive, so richer households derive a proportionally greater benefit, poorer households are likely to benefit. There is evidence that increases in spending on social sectors (health, education and sanitation) contributes to human development at a country level (Gomanee et al, 2005) and may even reduce income poverty (Mosley et al, 2004). Over the past 20 years donors have increased emphasis on social spending, both through aid financing and conditionality associated with poverty reduction programmes. Tanzania is no exception.

Whilst adjustment policies in Tanzania during the 1980s may have addressed macroeconomic instability, they tended to be associated with a decline in social expenditures (because of the need to reduce budget deficits) and deterioration in many social indicators. Gross school enrolment fell from 42% in the 1980s to 33% in the 1990s and life expectancy fell from 54 to 48 years, reflecting the impact of AIDS (ESRF, 1999). As the incidence of spending is regressive, richer households benefit proportionally more from health and education spending (Castro-Leal *et al* 1999), reductions in spending during this period are likely to have affected poorer households most. Given the absence of comparable poverty data in the 1980s it is not possible to verify that poverty increased.

The Poverty Reduction Strategy Paper (PRSP) adopted in 2000, based on the National Poverty Eradication Strategy, encouraged the government to consider the impacts of economic policies on the poor, and to identify policy areas requiring actions targeted at the poor. This was replaced by (perhaps more accurately continued as) the National Strategy for Growth and Reduction of Poverty (NSGRP), known by the Kiswahili acronym MKUKUTA, from the mid-2000s but the basic strategy remained the same. In recognition that 'poverty is largely a rural phenomenon' (URT, 2000: 6) the PRSP attached high priority to agriculture, especially smallholder farming and agricultural exports, and investment in rural roads to assist agriculture. However, as with sector strategies discussed above, this had no obvious impact.



The PRSP proposed increasing social sector spending to improve access to education (particularly by abolishing fees for primary education) and health care. This was implemented and social sector spending increased from about 30% of total spending in 2000 to around 40% by 2007. This delivered benefits as primary school enrollment increased significantly from below 60% to above 80% between 2001 and 2007, although it had dipped somewhat by 2012, while lower secondary enrollment increased dramatically from below 10% in 2001 to about 25% in 2007 and 50% in 2012 (World Bank, 2015: 8). Infant mortality (per 1000 live births) fell from 68 in 2004 to 51 in 2010, while child mortality fell from 112 to 81 (World Bank, 2015: 9). The PRSP also proposed increasing finance for the provision of social protection but this does not appear to have been implemented. Donor aid was important for increasing social spending, initially through Sector Wide Approaches in health and education, increased coordination of sector focused project aid and sector basket funding from 2000. As implementing a poverty reduction strategy is a good indicator for receiving budget support aid (Clist et al, 2012) it is perhaps not surprising that budget support, especially from the UK and World Bank, averaged around a third of aid in the 2000s.

Basket funding, especially budget support, helped the government to coordinate and manage aid inflows and minimize adverse effects of fragmentation (such as duplication). The growth in social sector spending suggests the PRS and donor support were effective in increasing 'pro-poor' expenditure. Good relations with donors began to fracture around 2007 following corruption scandals, a slowing of reform effort and poor performance in reducing poverty. Following another corruption scandal in 2012, donors reduced or suspended budget support, although most concurrently increased social sector aid. The suspension of budget support reflects a general move away from that form of aid by most donors. As there is no evidence that budget support was ineffective the move away seemed to be primarily for political reasons, often to meet domestic public opinion (Molenaers et al, 2015), rather than because of expected leverage on recipient governments. Donors are only likely to give budget support to recipients they trust to use the funds effectively, especially for social sector spending (Clist et al, 2012), and corruption scandals undermine this (even if there is no evidence that aid was misused). Increasing pressures on donor budgets since 2008 has made aid more vulnerable so Tanzania needs to do more than demonstrate that spending has increased; it must show that spending is effective. This is difficult if poverty reduction is the criterion as spending itself does not reduce income poverty, even if poor households benefit.

### **2.6.2 The Broader Dimension of Inclusive Growth**

The previous section considered only the core drivers of poverty in Tanzania, but this is within the broader context of whether the pattern of growth and policies promote sharing the benefits of growth so that the poor benefit at least proportionally. 'Inclusive growth has been defined as output growth that is sustained over decades, is broad-based across economic sectors, creates productive employment opportunities for a great majority of the country's working age population, and reduces poverty' (Samans et al 2015: 1). The literature on drivers of change or inclusive growth and poverty

reduction includes a wide variety of factors, although most does focus on growth, productivity, agriculture and manufacturing (Whitfield, 2012). The World Economic Forum reviews the literature on growth, inequality and development and assesses various approaches to defining and measuring inclusive growth in devising a set of indicators, noting that whether 'economic growth broadens improvements in economic opportunity and living standards is influenced by an interdisciplinary mix of structural and institutional aspects of economic policy' (Samans et al 2015: 7). A structural factor that has received specific attention is international trade.

Trade is one of the most important economic factors determining how the pattern of growth affects poverty reduction. McCulloch *et al* (2001) detail the links between trade and poverty through effects on production, prices, employment and government revenues and how these then impact on households and hence poverty; Winters *et al* (2004) provide a comprehensive review of the evidence on the effects of trade on poverty. The first issue on the production side is to identify which sectors experience a change in sales (an increase due to increased exports or a decline due to import competition) and assess effects from the sectors to the economy. Output multipliers capture the effect of a unit increase in demand for the output (production) of a sector on the demand for the output of other sectors in the economy? If sectors with high multipliers benefit from increased exports, the aggregate benefit for the economy is enhanced. On the other hand, if sectors with high multipliers are the most likely to face import competition, the adjustment costs for the importing economy will be greater.

Kweka *et al.* (2003) show that output multipliers will rank manufacturing sectors higher than primary sectors because the former demand inputs from the latter (specifically, multipliers relate to backward linkages and are higher the greater the share of intermediate inputs in total inputs). For example, growing crops requires some equipment and services inputs from other sectors, but has far less demand for the output of other sectors than textiles and manufactured foods (which demand considerable intermediate inputs). Many export products have low output multipliers because they are primary sectors, with the important exception of coffee and cotton processing sectors that demand significant inputs from agriculture, business services and machinery. Employment multipliers, in contrast, are typically highest in agriculture and services and lowest in manufacturing. This serves to illustrate the point that the aggregate impact on the economy will tend to be greater in sectors with higher value added. Primary exports benefit households supplying factors to produce them, but adding stages of processing spreads the economic benefits wider (although one would have to allow for the possibility of domestic processors offering producers prices lower than the potential export price). A shift into exports of new products that require more processing and/or packaging would broaden the economic benefits. Furthermore, if linkages are greater (higher multipliers) the benefits spread to more households and are more likely to contribute to poverty reduction.

The trade liberalization reforms implemented in Tanzania from the 1990s had economic effects on (a) trade flows, especially intra-regional; (b) consumer prices of affected products; and (c) production, incomes and employment opportunities in affected

sectors. To trace the effects to the poor, the unit of analysis would be the household as producer and consumer. From the perspective of households as consumers, trade is generally beneficial in reducing the prices of imports and the products of import-competing sectors. The poor gain to the extent that they are employed or earn incomes in sectors that benefit and insofar as trade fuels economic growth. Domestic producers may lose from import competition that reduces prices and earnings. The owners of factors supplied to sectors facing increased competition will suffer a reduction in income.

The effects of trade on output and production have been positive as export sectors have gained. While traditional exports are more susceptible to world prices, and hence performance is volatile, non-traditional exports have grown significantly in recent years although this is primarily in mining which has low linkages to the economy. There is little evidence that import liberalisation has adversely affected food crop producers, as import prices have not fallen in any consistent manner. This is due to a combination of factors: tariffs on foods remain relatively high, devaluation increases the prices of imports, and natural barriers confer significant protection. The challenge for future trade policy is to sustain and consolidate these gains. In respect of traditional (cash crop) exports, the major concern is declines in world prices. Producers should aim to increase productivity, requiring investment in new varieties and technology, and to upgrade quality (e.g. aiming for niche markets such as organic coffee). In respect of non-traditional exports, the need is to continue diversification, upgrading quality (to link into global marketing chains) and, where possible, adding processing to increase domestic value-added. In Tanzania such benefits do not appear to have been realised in agriculture and among processors and traders. Hence, rural poverty remains high and the poor are predominantly in rural areas, dependent on agriculture. This reinforces the general point that trade has direct effects only on those engaged in commercial production and trade-related activities. The poor, especially the chronic poor, are marginalised from such activities, and therefore derive no direct benefits from trade policies.

Samans *et al.* (2015: 8-13) classify achievements in inclusive growth according to seven pillars and provide brief profiles with a rating on each pillar for data around 2012 on a large number of countries. Tanzania is included among the low income group of countries and achievements in each of the pillars are relative to that group (Samans et al 2015: 38 and 48):

- Education, training and developing the skills of workers to provide equality of opportunity. Tanzania has improved access to education, with average achievement within the low income group, although quality is limited and there is a need to provide more equitable access especially in secondary school (Samans et al 2015: 48).
- Employment, wages and labour productivity are the core determinant of incomes in non-agriculture sectors. Tanzania is commended for a relatively high female participation rate but there are clear needs to improve the quantity and

quality of employment through secure jobs with higher productivity (Samans et al 2015: 48). The improvement in education is one factor to improve productivity but the rapid labour force growth puts achieving the two pillars in conflict as too few jobs are being created to absorb the more educated youth entering the workforce.

- Asset building for households and small businesses. Tanzania has low inequality relative to low income countries and ranks in the top quintile for asset building, although the growth is from a low base. World Bank (2015) illustrates the growth in ownership of modern assets and improvements in the quality of housing.
- Financial intermediation, in particular expanding access to credit and encouraging saving, is central to private sector development. Tanzania has a below average rating for financial intermediation; cost and limited access to finance has been consistently reported as a major constraint to firms and much of the private sector growth since 2000 has been in household enterprises (with low levels of family or kin funding).
- Reducing corruption is a particular concern to donors and, as noted above, cases of corruption have been a factor in the withdrawal of general budget support. Tanzania's rating is about average for low income countries. There is little evidence of corruption in public spending and in 2007 Tanzania ranked as the joint highest among SSA countries in a Public Expenditure and Financial Accountability (PEFA) assessment (Shaffer, 2012: 41).
- Investment in infrastructure and provision of basic services, especially health, is an area of weak achievement and Tanzania ranks in the bottom quintile. The major weakness may be investment in physical infrastructure, where corruption in expensive public procurement contracts is an issue. There have been fairly steady achievements in health outcomes over the last decade or so.
- Fiscal transfers promote equality and inclusiveness by redistribution through taxes and provision of social protection to help the least well off. Given a relatively weak performance in raising tax revenue and the lack of any social protection, despite the stated intention in the PRSP (see above), Tanzania ranks in the bottom quintile of the low income group.

### **2.6.3 The Role of Donors in Poverty Reduction**

The ways in which a donor such as Sweden can support the objectives of poverty reduction include targeted donor projects; budget support; or support for policy and implementing poverty reduction strategies.

#### *Project Aid*

Donors typically retain control over delivering some proportion of aid by financing and managing projects, perhaps in partnership with government agencies. Donors are likely to deliver a larger share of their aid through projects where they believe that the recipient has limited administrative capacity to monitor public spending (and ensure that aid is spent as donors intended) and/or to implement policies effectively. If they retain control the donors can try to ensure the project is targeted on benefitting the

poor. Individual aid projects that provide public goods and services (such as health care, clean water or education) can increase the welfare of poor households even if there is no effect on income poverty.

Discussion of poverty is often in terms of measures of income compared to a monetary measure of consumption needs, whereas welfare refers more broadly to the multidimensional nature of poverty. Two households with the same level of real income will have the same poverty status relative to a given poverty line but, for example, if one has access to health and education that the other does not that household enjoys higher welfare. Thus, donor projects can target increased financing of public goods and services to improve household welfare. Although there may be no observed impact on income poverty headcount measures, households benefit from improved access to services and there is a contribution to (multidimensional) poverty reduction, especially given the high correlation (at least at the national level) between measures of income poverty and of welfare (Gomanee *et al.*, 2005).

### *Budget Support*

If donors have trust in the recipient, such that conditionality is effectively stating the aims of a shared pro-poor strategy (Mosley *et al.*, 2004) and both agree on the allocation of spending and the public financial management processes, budget support is appropriate (Clist *et al.*, 2012). This may be general budget support, perhaps with spending priorities defined in an associated Poverty Action Fund (PAF), or support targeted on particular sectors. The important feature is that the recipient retains considerable control over spending, so the donor must have confidence in recipient systems, especially monitoring and evaluation (M&E) processes. Donor support, especially to the budget, is more effective when donors align their aid management procedures with recipient's policy and institutional frameworks and when donors coordinate among themselves, especially if giving budget support together. Unfortunately, 'donors still rely overwhelmingly on their own institutional apparatus; they are slow to harmonise with other donors; and they hardly ever align with the M&E apparatuses of recipient countries' (Holvoet *et al.*, 2012: 750).

As noted above, Tanzania has made relatively good use of donor budget support, in part because the spending priorities of the PRSP were consistent with donors' spending objectives and because it had relatively good public financial management and M&E processes in place. Among 20 SSA countries rated for PRSP M&E processes, Tanzania is among the best for the quality of evaluation plans and M&E activities and among the few that at least acknowledge the need for accountability (Holvoet *et al.*, 2012: 754-5). By SSA standards, Tanzania has made considerable effort to improve the administrative capacity to monitor spending and to collect the data required to evaluate the impact on the poor. For these reasons it has been a good candidate for budget support, or at least for sector support.

### *Support for Policy and Implementation*

One clear lesson from Tanzania's poor experience with achieving the objectives of agriculture and industrial policy strategies is that administrative capacity for implementation is crucial. Implementation capability is essential for effective poverty reduction. Although a strategy (PRSP and MKUKUTA) has been in place for 15 years this offers no guarantee that objectives will be achieved unless an effective administrative process exists. Poverty Monitoring and Assessment Systems (PMAS) aim to collect the data required to track achievements. Tanzania 'completed one of the earliest and best PMAS framework documents [and] became a model for others' (Shaffer, 2012: 37). Donors certainly considered PMAS to be important and expected recipients to establish them although the donors do not seem to have provided significant support. Holvoet *et al.* (2012) note that donors have emphasized the importance of M&E to support PRSP implementation but have offered little effective support for or engagement with the processes in recipients.

The main success of PMAS was to collect useful, albeit limited, data but the administrative structures in Tanzania have not supported effective use of the data and information to inform decision-making so the PMAS 'have not succeeded in systematically channeling information back into the policy process' (Shaffer, 2012: 45). In effect, Tanzania has prepared the strategy and set in place the structures and procedures to collect data to monitor expenditure and evaluate activities but has not established the capabilities to utilize the M&E to inform policy developments. Donors could usefully offer guidance and administrative support at this stage, although donors can be part of the problem. The effectiveness of recipient M&E is weakened by having to maintain dialogue with multiple donors, often with their own distinct systems, who have limited coordination with each other, even when on joint committees. Both within government and between donors with each other and government there are multiple similar systems but 'conflicting interests drive these parallel processes which makes coordination an inherently difficult task' (Shaffer, 2012: 41). If a donor is to provide effective support, it must be to enhance recipient systems, aligned with existing recipient processes (and most importantly not creating another parallel system) and directed at improving the ability to use M&E activities to improve implementation.

Tanzania has demonstrated the ability to design a poverty reduction strategy with strong M&E and PEFA systems. On many criteria, it has good achievements by SSA or low income country standards (Holvoet *et al.*, 2012, Samans *et al.*, 2015). With the financial support of donors, especially budget support, there have been achievements in reducing deprivation, improving a variety of health outcomes and increasing free access to education, all of which have improved the welfare of poor households and may even have contributed to reducing headcount poverty. This at least further implies that overall support to Tanzania in the past decade has been quite effective.

## **2.7 Conclusion**

This chapter has covered a rather large breadth of material relating to aid and development processes and outcomes in Tanzania over the six decades. Rather trying to summarise this coverage, we conclude this chapter with some comments on the key

drivers of poverty reduction that donors would seem to have been well placed to address over these decades and, in broad terms, how these drivers can be addressed. The commentary is not intended to be fully comprehensive its coverage of these drivers, but those that would appear to be most pressing based on the discussion of the later sections of this chapter. Referring back to the AQEF, this discussion will inform later analysis of whether Swedish aid has addressed pressing development needs in Tanzania, insofar of drivers of poverty are concerned.

Not all of the poor in Tanzania live in rural areas. But most do, and this has been the case for the entirety of Tanzania's post-independence history. Private incomes of the poor have shown low growth over many decades. This is the case generally but particular for the rural poor, and is considered to be a prime reason why the growth elasticity of poverty is low in Tanzania by international standards, the increase in this elasticity in recent years notwithstanding. Inflation and biases against agriculture have made this situation worse. Both of these factors cannot be directly influenced by donors (or at least not without significant difficult), but the policies that lead to them can. It follows that donors that have a focus on rural areas and on policies that promote opportunities for the rural poor can do more for poverty reduction than those that do not. Pro-poor poverty impacts can be further enhanced with support that is pro-growth *per se*. This is clearly not to imply that donors should ignore the urban poor, of course. Clearly, if policy settings are such that macroeconomic performance cannot be sustained over time sustained poverty reduction is a pipe dream.

Another dominant theme emerging from this chapter concerns the ability or capacity of Tanzanian to effectively absorb foreign aid inflows for development purposes, including poverty reduction. As such this capacity becomes a constraint to the ability of aid to contribute to poverty reduction. It follows that donors whose aid delivering is cognizant with the limits of this capacity (either by design or fortuitously) and have effectively sought to build it through the nature of the aid provided, will have made a greater contribution to poverty reduction than those that have not.

## Chapter 3

### Case Studies of Swedish Bilateral Support for Tanzania

#### 3.1 Introduction

Chapter 2 identified three possible ways Swedish aid may have an impact on poverty reduction in Tanzania: (i) through projects that increase the welfare of poor groups (ii) through supporting spending in key sectors (especially social sectors); and (iii) by supporting the Tanzanian government's poverty reduction agenda. This chapter introduces four case studies that highlight Swedish efforts in these areas from a historical perspective.

The first case study reviews the implementation of HESAWA, a long running Water and Sanitation program that aimed to increase the welfare of poor rural families. The second case study reviews Sweden's long running support for energy in Tanzania, which in the beginning aimed to set the foundation for industrialization and economic development and in the latter years focused on improving the welfare of the rural poor. The third case study examines Sweden's support for education, which is the key social sector supported by Sweden. The fourth case study reviews Sweden's support for Tanzania's poverty reduction agenda through the provision of general budget support.

This chapter concludes with a synthesis of the findings of the case studies.

A list of the key informants interviewed in the investigation of each case study is provided in the appendix to this chapter.

#### 3.2 Case Study 1: HESAWA (Health through Sanitation and Water) Program

##### 3.2.1 Background

Sweden's support for Water Supply and Sanitation (WATSAN) has been one of its most long running and significant investments. This support began in 1965 with the provision of SKK 1.45m for the Ismani Valley Water Supply project and ended in 2002 with the finalization of the 16-year HESAWA programme. Between 1970 and 2002, Sweden invested USD 271 million in WATSAN activities in Tanzania (OECD, 2105). As noted in Section A, Sweden's investment in WATSAN, as a proportion of its overall ODA spend, was very high in the early years of its development cooperation with Tanzania, constituting 31.7% of all investments in the period from 1970 to 1974. During these years Rural Water Supply was Sida's largest sectoral investment on a year-on-year basis, higher than education, health and agriculture.

By far the most significant single programmatic investment was the HESAWA program, which, over its 16-year history totaled TZS 80 Billion or SKK 182 Million (Rautanen *et al* 2006). HESAWA began in 1985 as a specific agreement between Sweden and Tanzania targeting rural water supply, environmental sanitation and health education. Access to improved potable water and sanitation facilities was (and remains) low throughout the



country and increasing this was the focus of HESAWA. As noted in Figure 2.7 of Chapter 2 above, in 1990, only 55% of the Tanzanian population had access to an improved potable water source and 7% had access to an improved form of sanitation. Considering the multi-dimensional importance of water and sanitation as the foundation for health, human development and pro-poor economic growth achievements, this long-term partnership between Sweden and Tanzania made sense from the perspective of multi-dimensional poverty reduction.

The aim of HESAWA was to “Improve the welfare of the rural population through improved health education, environmental sanitation, drinking water supply, community participation and capability and capacity building at village and district levels” (IRC 1992, p.ii). The project focused on the Lake Zone of Tanzania, and in particular, the regions of Kagera, Mara and Mwanza, which are adjacent to Lake Victoria, one of Tanzania and Africa’s most important water resources. HESAWA emphasized community participation in decision-making and planning and aimed to build the capacity of villages to plan, implement and maintain improved WATSAN activities. The project aimed to maximize the use of local human resources and capacities with a view to ensuring both effectiveness and sustainability. It included establishing village-level HESAWA committees and accounts, implementing plans for improved water and sanitation developed at the village level, providing training for Village Health Workers (VHW’s) and initiating household-level latrine building programs. Actively promoting and fostering the participation of beneficiaries was a cornerstone of the program and representative of the participatory community development ethos that permeated development activities in the 1980s.

### **3.2.2 Implementation**

Despite its innovative approach, the two formative evaluations conducted during its implementation (IRC 1992; Smet *et al* 1997) painted a somewhat mixed picture with regard to implementation challenges and sustainability of outcomes in particular. The 1992 evaluation reviewed the achievements of HESAWA in the first six years of its operations and sought to outline those issues that needed to be addressed to improve implementation in subsequent phases. In retrospect, the evaluation was quite prescient in its observations about sustainability in particular. The evaluation found that progress with regard to raising awareness and knowledge of the HESAWA model was progressing well, as were the more objective and technical aspects of the program, such as designing technical solutions to water lifting and supply problems. However, some of these solutions were considered too sophisticated and there was some concern that this would lead to subsequent Operations & Maintenance (O&M) issues.

The community participation model, which, as noted above was a cornerstone of the programme, had made substantial progress at the time of the evaluation, but these achievements were not significant enough to ensure that the legacies of the program could last. A particular concern was a lack of support for Water User Groups (WUG’s) during the post-construction phase, in areas like cost recovery and spare parts supply. The evaluation found that there was limited scope for participating WUGs to adapt

technologies to local circumstances, which in the end would have made post-construction O&M much easier. The suite of possible technical solutions was limited. This affected the potential relevance and sustainability of the program.

With regard to relevance, HESAWA focused on improving sanitation through latrine construction and awareness raising, but as the 1992 evaluation suggested this was not a priority for local communities and uptake was very low in the first few years. The evaluation found that, in contrast, there was a demand within WUGs to take more account of the potential economic uses of water supply, which, despite the potential poverty reduction opportunities was not a priority for HESAWA - this was an ongoing critique of the program.

Overall, the evaluation found that the program was having difficulty achieving its more complex goals such as encouraging decentralization and self-reliance, changing health and hygiene practices, strengthening management procedures and encouraging the participation of women in the program. The greatest shortcoming of the program however, was “.... the simple failure to fully think through the post-construction phases at village level and ensure that an adequate structure is in place to allow communities to take on their roles as managers” (IRC 1992, p.5).

The evaluation found that the following issues should be the focus of the next phase of the program:

- 1) Find an operationally effective way to support the community manage infrastructure after it is constructed, particularly in the area of operations and maintenance
- 2) Strengthen management capabilities at all levels particularly financial control
- 3) Merge HESAWA more effectively with the existing government structure
- 4) Strengthen the involvement of women and make this more adaptable to the Tanzanian cultural context
- 5) Promote a broader suite of water uses through the programme, particularly economic uses.

The 1997 evaluation looked at the extent to which the recommendations from the 1992 review were followed up and it made a number of further recommendations that aimed to improve sustainability outcomes. This evaluation found there was a renewed focus on sustainability and decentralisation in Phase III of the program (beginning in 1994) but that many of the chronic problems highlighted in the 1992 review persisted. There were significant efforts invested in decentralisation to districts governments in areas of administration, financial management and planning, and a scale up in human resource development at district levels. Physical infrastructure targets were met in the area of water supply, but 30% of systems remained un-operational due to O&M issues. Progress in the construction of household latrines remained insufficient and well below target. The evaluation suggested that a new approach to the household latrine program was required which was less conditional and based more on raising awareness and encouraging household ownership. This important component of HESAWA remained a challenge 12 years after project inception.

At the village level, awareness of, and participation in, HESAWA had improved significantly due to innovative Participatory Rural Appraisal and School Health programs. However, there were concerns over the sustainability of the program activities for a number of reasons. First, as highlighted in the 1992 evaluation, there was a concern that villagers did not have the choice of simpler, more locally appropriate technologies – little had been done to address this issue in the intervening 5 years between evaluations. There was limited capacity at village level to maintain relatively sophisticated water lifting systems and spare parts were limited or unavailable. O&M costs were affordable but replacement costs jeopardized sustainability. Second, at the institutional level, management (particularly financial management) of HESAWA groups was weak, and there was evidence from phased out villages that these groups had collapsed or had very weak capacity when they no longer received direct project support. There was also a sense of urgency with regard to the transfer of services to the private sector and villages ahead of the planned phase out in 2002. The transfer of construction, logistics, planning and maintenance services from the project to local actors was as the greatest barrier to sustainability in the evaluation team's view.

### **3.2.3 Results**

In 2006, an ex-post evaluation of HESAWA was undertaken (Rutanen *et al*, 2006), which examined the impact of the program three years after its cessation. The evaluation found that HESAWA was a forerunner in operationalizing a number of concepts that were at the fore during the International Drinking Water Supply and Sanitation Decade of the 1980's, these included: integrating health, water and sanitation; introducing cost sharing arrangements; focusing on participation; promoting gender equality; and establishing water user groups. As with the previous two evaluations, however, it highlighted a large number of issues about the sustainability of program achievements.

There were some significant results with regard to physical infrastructure coverage. More than 6,431 new or improved water points were constructed in 1,062 villages during the course of the program serving approximately 1.3 to 1.6 million people, which is a third of the Lake region population. This was indicative of HESAWA's large reach. Unfortunately, due to a range of reasons, only slightly more than one-half of these facilities were fully functional in 2005. Of the remainder, one-fifth were un-operational and the rest were partially functioning. This was considered a very bleak result given the significant investment in construction and rehabilitation that had taken place. Multiple factors conspired to produce these results including: insufficient cost recovery, weak financial management by WUGs, availability of spare parts (only 24% of WUGs had access to spare parts), and the provision of ongoing support services – all sustainability issues which were raised in the initial evaluation in 1992.

On the sanitation side, coverage remained quite low, which the evaluation notes is disappointing considering the fact that sanitation was a cornerstone of the program. The issue with low take up continued through the course of the program and was variable across districts. In total HESAWA, constructed 35,645 household latrines across the three regions, but there were 481,802 households that were not serviced by latrines

who were potential program beneficiaries. Having said that, there is some evidence that hygiene practices improved during the course of the program and survey and qualitative evidence suggests that HESAWA may have contributed to reductions in water borne diseases in some districts, particularly in those areas with deep wells.

With regard to poverty reduction, the 2006 evaluation notes that there is no data to suggest that HESAWA contributed to livelihood improvements at the household level. However, it did contribute to multidimensional poverty achievements in areas like health and hygiene, but it is difficult to quantify these outcomes due to data constraints and the fact that multiple programs contributed to the observed health improvements in the Lake region during the time of HESAWA. It is clear, however, that beneficiaries would have liked to see more of a focus on economic activities in HESAWA, this was a point made by a large range of key informants interviewed by the evaluation team. The Lake region of Tanzania is the poorest region in the country. Kagera is the poorest district in the country and many poor families rely on livestock for their livelihoods. Water shortages lead directly to higher levels of poverty – this was seen as a lost opportunity for the programme. Again, these issues were identified early on in the M&E process.

The lack of a poverty and gender lens was the central critique of a research paper released in 1999, which raised a number of issues regarding power, poverty and inequality (Rugumamu, 1999). This paper suggested that the participatory ethos of the project was insubstantial and that the poor and women in particular were under-represented in decision-making and had limited meaningful input. The participatory model had important outcomes in a number of respects, but as noted by Cleaver and Kaare (1998) meaningful participation was affected by a number of issues. These included:

- 1) the imposition of a functional and organisational approach towards water management and participation in Water User Groups, which sat over the top of pre-existing familial and locally adapted channels;
- 2) the reluctance of villagers to quantify inequality and socio-economic differences through participatory exercises and the complexity around women's activities; and,
- 3) the delegation of work by women of high social and economic stature to those of lower stature.

The Rugumamu report suggested that across the Lake region local elites managed to reap the majority of the benefits from the program, water point location did not consider the labour burdens of the poor, water quality was low, and technical solutions were not geared to the realities of the poor and women. While it is impossible to corroborate the results of this report, it does point to a definite lack of focus within the project on participatory poverty planning and poverty-related resource allocation. Adopting more of a poverty focus at the beginning of the project and transparently allocating resources based on poverty levels, along with more of a focus on supporting

economic opportunities, may have addressed many of the concerns raised in this reports. This critique suggests that local power dynamics and barriers to effective participation (such as those raised by Cleaver and Kaare above) were not addressed appropriately during the program.

While HESAWA introduced a number of new and innovative approaches, reached a large number of people, and produced some significant short-term results, the sustainability of the program achievements was poor and its contribution to poverty alleviation was marginal. A large number of issues conspired to produce this outcome, including the vastness of the geographical area, the lack of specific poverty/economic approaches that could have incentivized people to participate more fruitfully, weak cost recovery, the inability to find sustainable post-construction O&M solutions, ineffective participation, and parallel management structures that led to limited ownership by the Government.

### **3.3 Case Study 2 – Sweden’s Support for the Energy Sector**

#### **3.3.1 Background**

Beginning in 1967, Sweden’s support for the energy sector in Tanzania has been one of its longest running and most significant investments. Between 1974 and 2014, Sweden provided \$502.8 million to the energy sector, making it Sweden’s third highest investment after General Budget Support and Education. Sweden supported a diverse array of energy projects, from the initial feasibility work on the Kidatu Hydroelectric project in the late 1960’s, to the installation of mini-hydroelectric plants, the commissioning of gas turbines, the development of energy policy, energy research, human capital development, institutional support and rural electricity distribution and transmission. Sweden has been integral to the development of energy infrastructure in Tanzania for close to 50 years and has provided more funds to the energy sector than any other bilateral donor. Historically, Tanzania has had very low access to electricity rates. It had no significant electricity generation infrastructure until the early to mid-1970s, rural connectivity rates were miniscule and the electricity that did exist was primarily used to support industry and the industrialization policies of the GoT, policies that, as noted in Chapter 2, were largely ineffective in driving growth and poverty reduction. As a donor, Sweden had significant experience and comparative advantage in the energy sector, and in hydroelectric power generation in particular, it had used that expertise in many developing countries around the world in an effort to set the preconditions for economic development.

#### **3.3.2 Implementation**

As noted in Chapter 2, between 1967 and 1980 the GoT embarking on a period of state and donor-funded industrialization in support the African socialism model of economic development. As noted by senior key informants interviewed for this evaluation, Sida was a strong supporter of this model of economic development and there was strong political solidarity between the Social Democrats in Sweden and Julius Nyerere’s CCM in Tanzania. Swedish officials, other donors, and their GoT counterparts recognised that

energy generation was a significant precondition for an industrialization-led development strategy, and Sweden, building on its comparative advantage in this sector, moved into this sector, slowly at first, but its investments increased over time.

In the 1970s, 1980s, and early 1990s, the majority of Sweden's support to the energy sector was in the form of support for the construction and commissioning of large hydroelectric plants. The largest of these was the Kidatu plant on the Great Ruaha River. Sida invested in three phases of the Kidatu project between 1970 and 1992 alongside the IBRD and its bilateral partners. At the time of its construction, total load in Tanzania was 250 GWH per annum; the plan was to build a plant that could deliver 1300GWH per annum, which could help build the conditions for economic development in line with Tanzania's industrialization policies (Dahlstrom *et al.*, 1997).

The 200MW Kidatu plant was the largest single infrastructure project ever undertaken in Tanzania at that time, and Tanesco (the state owned power company) had absolutely no experience with construction projects of this size. Swedish experts played a major technical role in the design, construction and commissioning of Kidatu, while providing funds (along with others) for its construction. Sweden also played an integral role in the construction of the 80MW Mtera and 66MW Pangani Plants. In total Sweden supported hydropower plants with a total installed capacity of 346 MW, which generated 2000 GWH per year – eight times more energy than what was available in late 1960's.

An evaluation into the energy sector in 1997 (Dahlstrom *et al.*, 1997) found that these hydroelectric projects were delivered on time and within budget and functioned reasonably effectively. The evaluation found that within the context at the time “the two construction projects at Kidatu in building a 200MW power plant for a company without any previous experience in building, operating and maintaining such installations has been quite successful” (p.26). Sweden also led the way with the conduct of ecological and social studies associated with the construction of these projects, which at the time the Tanzanian government had no experience with.

While the actual construction took place efficiently, the 1997 evaluation raised a number of issues with regard to sustainability that have plagued (and continue to plague) energy investment's in Tanzania. The evaluation found that not enough attention was paid to Operations and Maintenance (O&M), developing a long term management regime for the Mtera and Kidatu reservoirs, building institutional and technical capacity within Tanesco, and formulating a strong legal and regulatory framework for the energy sector. There was an urgent need, in the evaluation team's view, to restructure the power sector and the operations of Tanesco in particular. Within Tanesco, there were significant O&M delays (i.e. up to two years to approve spare parts for power plants), very poor financial management, lack of a computerized management system, poor corporate management, and a lack of professional and technical skills. Sweden and other donors had supported the construction of significant hardware (i.e. hydropower plants) but the requisite software (i.e. institutional and human resource capacity) to manage those facilities efficiently did not exist.

In the late 1980s and early 1990s the lack of active O&M led to the degradation of Kidatu and Sweden and other donors had to fund the rehabilitation of that facility. Issues with the management of the catchment also led to significant load shedding and other problems. The GoT agreed to undertake a number of reforms within Tanesco but these were not operationalized for many years – and many still have not been. In the mid-90's Sweden developed a new set of guidelines for its energy sector investments and began to move away from the direct support of major infrastructure. Instead, it began to focus on institutional support, rural electrification, energy efficiency, energy research and the development of legal and regulatory frameworks. A large number of technical assistance projects were developed during this time. Between 1995 and 1999, 30% of Sida's budget was spent on energy sector activities, a huge scale up from previous periods. Sweden moved decisively to address many of the issues that were plaguing the energy sector.

Sweden's most significant investment in the energy sector over the last 20 years has been its support to Rural Electrification (RE). Between 1985 and 2013, Sweden invested SEK 953 million in RE through various modalities, including project support, technical assistance, and capacity building support for the Rural Energy Agency (REA) and direct financial support for the Rural Energy Fund (REF). An evaluation of Sweden's support to RE was published in 2014, which provides a comprehensive overview of this support between 2000 and 2012 (Noppen, 2014). The evaluation raised some interesting and pertinent questions regarding the poverty reducing impact of rural energy investments – a topic that is of significant relevance to this evaluation noting its focus on poverty reduction.

The evaluation found that at the output level Sweden has performed well, indeed, connection targets tend to be surpassed. Sweden has directly contributed to about 20% of all new rural electricity connections since 2006. In the latest Sida results strategy for Tanzania, energy is a priority, and the key performance indicator is “increased access to safe and sustainable energy including the ambition that at least 300,000 people will gain access to electricity” (MFA, 2013). The evaluation found that while results at the output level are commendable, this does not necessarily translate to the achievement of higher-level outcomes in terms of poverty reduction. As noted by Hogarth and Granoff (2015), there are multiple ways energy contributes to poverty reduction in Africa, through direct consumption, increased household income, enhanced community services, employment and the redistributive effects of economic growth. Connectivity on its own, in the absence of multi-sectoral initiatives, may do little to effect poverty rates. The analysis in Chapter 2 highlights the important role that increased rural household income and the redistributive effects of government spending have on the income and non-income dimensions of poverty respectively.

The evaluation found that connectivity itself might not be the most useful metric, indeed households that are not connected can still derive benefits from electrification through improved access to public services and increased employment opportunities, as noted above. This may be more important from a poverty reduction perspective than connecting to a relatively expensive and unreliable electricity network. The evaluation

found that a high proportion of rural households have financial difficulty meeting connectivity costs despite the low tariffs and that the use of biofuel continues to be the favoured form of energy – indeed there is evidence that the use of bio fuels is increasing (see: SEI/Renetech cited in Doppen, 2015).

The 2014 evaluation found that the limited availability to pay, coupled with the low tariffs leads to a lack of maintenance and a lack of capital for new RE systems. The problems with O&M that have been in place since the times of Kidatu continue to persist and there are extensive issues with the reliability of power supplies due to maintenance issues. Twenty-nine percent of households in the evaluation study area said they experienced power outages on a daily basis. In rural areas, commercial energy is scarce, and this, coupled with the unreliability of supply is a major barrier to growth and poverty reduction in these areas.

Sweden has done a lot of work with the REA to address the sustainability issues that underpin these problems. It has supported grid extension and off-grid solutions, shifted its funding from project to program based support (including providing significant funds for the Rural Energy Fund), conducted strong dialogue through the GBS modality, and actively supported renewable energy through institutional development, policy and regulatory framework development and the provision of Challenge funds for pilot projects. Sweden has also provided significant capacity building and institutional support for the REA. This has included strengthening the capacity of the REA to deliver quality submissions to the Rural Energy Board, strengthening contract management and procurement capability, project management, M&E and market development skills. A recent evaluation of Sweden's support for the REA (Danielsson and Zhou, 2011) found that because of Sweden's assistance the REA was better able to deliver on its mandate, there was a well-functioning system of REF utilization, financial management systems were improved as was management and implementation capacity.

### **3.3.3 Results**

Without Sweden's long-term investment and technical support, Tanzania would not be where it is with regard to power generation capacity, nor would its rural population have the access they now have. Between 1980 and 2000 hydropower contributed 100% of the power generation mix in Tanzania (JESR, 2013), many of these power plants were built with Swedish expertise and Swedish funds (amongst others). Non-petroleum based power plants helped shield Tanzania from the fallout from the 1973 and 1979 oil crises, and provided a foundation for the increase in industrial output that occasioned the GoT's Economic Recovery Programmes, which began in 1986 and led to a spike in power consumption. Without these reliable and sustainable sources of power, this would not have been possible. It should be remembered that building energy infrastructure is a long-term multi-generational challenge that took many decades for developed countries to achieve, Tanzania essentially started from nothing in the late 1960s and Sweden's contribution has been significant in this context.



That stated, the situation in Tanzania with regard to the power sector is still somewhat bleak; this sentiment was highlighted in a 2010 evaluation conducted by Sida (Sida, 2010:19):

“Despite substantial investment and many commendable efforts in the power sector for more than 30 years the situation is one of shortage of power, leading to unmet demand, load shedding and unreliable supply of electricity in urban areas and a lack of access to electricity in most rural areas”.

The percentage of the population with access to electricity was 15.3% in 2012 (World Bank, 2012), only eight other countries (all from Africa) have lower rates of access to electricity. Only 7% of rural people (who make up 70% of the population) have access to electricity (GoT, 2012). It is clear that Tanzania has a long way to go with regard to addressing energy poverty. By concentrating its investments in Rural Energy, learning from the past and strengthening institutions, building capacity and policy and regulatory frameworks Sweden can have much more of an impact. Within rural energy financing and programming, an encouraging example of financial sustainability has been identified. As mentioned earlier, the institutions of REA and REF were designed and capacity built with Swedish support. Today, funding for the REF comes from a variety of different sources of which donors account for about 20%, whereas the remaining 80% are covered by government allocations, and levies of up to five percent (5%) on the commercial generation of electricity from the national grid and on sales of fuel (100 TZS per litre) in the country. Noting the problems with dependency and the unsustainability of results in Tanzania, this is an encouraging outcome that Sweden should take some significant credit for.

Tanzania is now moving towards investing in very large-scale thermal power plants utilizing its extensive gas fields. It needs to do this to keep up with the demand associated with high rates of economic growth. The Swedish evaluation conducted almost 20 years ago (Dahlstrom *et al.*, 1997) suggested that there was no wisdom in investing in extensive generation infrastructure if Tanesco cannot maintain the existing infrastructure. The GoT has committed to transforming the power sector and Tanesco (as it committed to do in the 1990s), but this has been very slow and the same types of problems with maintenance, load shedding, tariff interference, lack of private sector involvement etc. plague the power sector today as they have done for 30 years. Sweden and other donors need to continue to use whatever instruments at their disposal, including stronger budget support dialogue, capacity development, institutional support, and promoting private sector investment to influence energy sector reform to ensure the same issues don't continue for another 30 years.

### **3.4 Case Study 3 - Supporting Education Through Project, Program and Budget Support**

#### **3.4.1 Background**

As highlighted in Chapter 2, Tanzania's achievements in education have vacillated over time. Tanzania came very close to achieving universal primary access in the early 1980s,

and in reducing illiteracy rates from 51% in 1980 to 37.1% in 1990 (African Development Bank, 2005, quoted in Sulle, 2013). However, due to the various economic crises in the 1980s, these achievements could not be sustained and enrolment in primary education fell from 92.5 % in 1980 to 69.9% in 1991 and went further down to 63% in 2000 (ADB report 2005 / Ibid). Today, the primary school enrolment rate is back on track at about 98%, but the quality of education (at all levels) is a key constraint, and is therefore the focus of Swedish education support today.

Sweden has supported education in Tanzania since the 1960s. Between 1974 and 2014, Sweden provided \$672.1 million to the education sector, making it Sweden's biggest single sectoral investment (OECD, 2015). Sweden's General Budget Support (GBS) in the period 1990-2014 amounted to \$748.9 million and education was included in that funding envelope (OECD, 2015). From the 1960s to 1980s, Sweden's education support was channeled to adult education, primary education and vocational training. Most of the support to adult education was disbursed in the 1970s, while support to vocational training was dominant in the 1980s. The focus in the 1970s and 1980s was on building the human capital required to support Tanzania's industrialization policies, while also targeting widespread illiteracy. The adult education support was used to establish the Institute of Adult Education and the National Correspondence Institution. Other interventions in the period were the establishment of the "Nordic Centre" in Kibaha, which was an integrated project comprising a farmers' training centre, a secondary school and a health centre. Other examples of the Nordic model included support for the Folk Development and Cooperative colleges. The period also comprised other education projects and programs, for example: the National Literacy Program, the National Library Service, the Tanesco School, girls' secondary schools and special needs education for children with disabilities.

Sector program support for education was provided in the 1990s and 2000s, and Sida invested in the production of textbooks for primary and teachers' education. Sweden was also supported the development and formulation of national plans for both primary and secondary education in this period. In relation to higher education, Sweden has supported research since 1977, mainly through support to individual researchers (initially) and later through capacity building initiatives in research institutions.

Support to the sector peaked in the 1980s, whereas direct support has declined significantly in the 1990s and 2000s. In the current decade, Sida has reduced its direct support to education. In the period 2010-2014, this amounted to USD 9.3 million. While direct support has decreased, it should be mentioned that most of Sweden's financial support for education since the 1990s has been through GBS, complemented by support to civil society organisations advocating for the rights to education, and support to Zanzibar education.

### **3.4.2 Implementation**

The Swedish support to education was fully in line with the country-led human development agenda prosecuted by Prime Minister Nyere after independence. Soon after its independence, Tanzania declared war against what it described as the three

major enemies of national development: ignorance, poverty and ill health. These were seen as serious national problems that needed to be tackled urgently. In recognition of this fact, Tanzania implemented various policies that were intended to promote education as part of its poverty eradication efforts. The first significant move to expand primary school enrolment was the adoption in the 1970s of a Universal Primary Education (UPE) policy. The UPE education policy was implemented during the Ujaama period, when most public services were either freely provided or highly subsidized. Indeed, education from primary school to tertiary was provided free by the GoT during this time. The aim of the UPE policy was to ensure that enrolment in primary schools was extended to every family in order to tackle illiteracy and poverty. Adult education was also promoted to tackle widespread adult illiteracy.

The UPE program faced a severe lack of qualified teachers. The expansion of primary school enrolment caused a high demand for qualified teachers, but unfortunately, they were not readily available in the labour market. This forced the government to use primary school leavers as teachers in primary schools. The repercussions of the poor quality of primary school education were felt at secondary education level and beyond (Sulle, 2013).

A similar observation was made in 1994, when an evaluation of Swedish aid to Tanzania concluded, "Despite the substantial amounts of money put into education by Sweden and other donors plus the GoT, the average education level remains low. Large improvements took place in the first decades of independence, but the current downward trend in education is very worrying. Problems with low salaries and delayed payments to teachers have decreased the status and standard of teaching. There is an urgent need for supplies in the sector" (Adam *et al* (1994, p.42)).

In the 1990s, Sida was very active in the dialogue between the GoT and other DPs about the development of the Education Sector Development Program (Ed-SDP), and it stressed the need for Tanzanian ownership of the programme. During that period, the sector was in need of reform and more resources were required to improve quality and rebuild credibility among parents and children. The development of the Ed-SDP was seen by both the GoT and the DPs as the way to revitalize and fund the system. However, the Sida 2000 Result Analysis from Tanzania (Sida 2000, pg.6) observed that the Ministry of Education and Culture was lacking strong and genuine ownership and that this was the biggest problem for the future, including for the sustainability of the programme. The analysis also found that the need for capacity building was significant, and that there were serious problems balancing internal ownership with external initiatives by donors. The analysis also highlighted the progress towards a sector wide approach. Finally, the analysis highlighted that the sector was still in very poor condition following the economic crisis in the 1980s and that the transition to sector reforms was a necessary, complex and long term task.

In 1994, after more than twenty years of support, Sweden decided to phase out its support to vocational training. As part of the handover, a new Vocational Training Act and Training Authority were established, and a vocational training levy was the main

local source of income. The Vocational Education and Training Authority (VETA) strategic action plan became the basis for the last phase of Swedish support and three regions were identified to create regional, decentralized organisations for demand-driven vocational training. Infrastructure was built with Swedish support to facilitate flexible training in response to demand from local employers. When course fees were introduced the number of girls attending VETA-courses decreased. In 2000, it was observed that “VETA is facing, partly because of the withdrawal of Swedish funds, severe financial problems. Another major reason is the inability to collect the vocational training levy from the employers to a satisfactory level. VETA still struggles and have different internal views about what role to play and it will take time before one really adapt its role as a supporter of vocational training with a flexible and demand driven offer of vocational education.” (Sida 2000, p.6).

In the 2000s, Swedish support to the Primary Education Development Program (DEPP) became the most important Swedish contribution in the sector. As mentioned above, the primary education net enrolment rate dropped dramatically in the 1990s. However, this trend was reversed in the 2000s and the enrolment rate reached 90.5% in 2004<sup>34</sup> (Tanzania Country Report 2004). As in the 1990s, the quality of education and dropout rates were still of concern (as it is today). Less than 50% of students passed the primary school leaving exam, and the teacher/pupil ratio increased from 1:41 in 2000, to 1:58 in 2004, reflecting the lack of balance between increasing enrolment and ensuring sufficient supply of teachers, in both quantitative and qualitative terms. Apart from these overall trends, the schools were constrained in relation to receiving funds from central levels, highlighting the need for improved financial management systems.

The 2004 Country Report mentioned that the dialogue between the GoT and the DPs within the education sector suffered from drawbacks in relation to agreed arrangements for cooperation and that there was a general lack of trust and openness, leading to frustrations on both sides. Facing these challenges on the supply-side of the sector, Sida also allocated support to the demand-side through support to CSOs. These CSOs advocated for the right to education, including promotion of people’s active engagement in educational issues at all levels. An example of such support is the Tanzanian CSO HakiElimu (Right to Education), which jointly with the Prevention of Corruption Bureau (PCB) published a booklet with essays on corruption in the education sector.

Despite the longstanding problems within the education sector, there have also been some encouraging developments, especially in higher education, where the enrolment of students has increased significantly, and the number of universities has more than quadrupled since the year 2000.

The recent GBS evaluation shows that since the 2000s, Tanzania has seen strong growth in education funding. In terms of sub-sectors, the higher education sector has experienced the fastest growing share of the education sector budget, although both

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<sup>34</sup> According to the Tanzania Country Report 2004, the net enrolment rate was 59% in 2000, whereas it has been quoted elsewhere (Sulle 2013) to be 63%.

primary and secondary school subsectors have grown in real terms. As a result, Tanzania is now one of the few Sub-Saharan countries which is close to universal primary education, with improvements experienced in access at all levels of education, including gender parity in enrolment at primary level (but not at other levels).

### 3.4.3 Results

The level of access and enrolment rates (in particular for primary education) is one key indicator for results within the education sector. A low level of education can itself be considered poverty, if falling below a given threshold. But there is wide agreement that high levels of education are crucial for both poverty reduction and economic growth, in addition to other benefits such as human rights, gender equality and democracy. Few evaluations exist on Swedish support to education in Tanzania, but, at the time of the writing of this report, a thematic evaluation of Swedish support to education, including in Tanzania has been commissioned.<sup>35</sup>

A report from 1999 on the sustainability of Swedish aid to Tanzania, analyses the achievements and sustainability of the Folk Development Colleges (FDCs) and one vocational training center (Moshi). The report concludes that for the FDCs, “limited tracer studies undertaken indicate that the training has had some impact on the ability of the trainees to secure a job” but otherwise concluded, “the DFCs did not constitute a successful program.” (Lindahl 1999: p.77). The findings for the vocational training center are more positive describing that “Sida support succeeded in establishing a qualitative vocational training centre with unique technical capabilities in Tanzania and in Sub-Saharan Africa” (Ibid, p.84). The report even indicates that several measures for ensuring sustainability of the institution are in place, although still challenged by different factors, not least securing sufficient funds after the phase out of Swedish funds in the late 1990s.

Another report, which analyses the results of Swedish support to education, is a tracer study carried out in 2013 and 2014 among 150 PhD holders who were supported by Sweden. The study shows “A large majority of the respondents and the interviewees reported that they were deeply engaged in research with direct relevance to poverty reduction and the development of Tanzania. They considered themselves to contribute in several ways not only by developing important research results, but also directly in community outreach activities, extension work, public service, consultancies, innovation clusters, and in the creation of entrepreneurs.” (Freudenthal 2014: p.20). A large number of senior officials in the GoT and academics have been supported for postgraduate study in Sweden over the years.

Finally, the recent GBS evaluation made a particular case of analyzing results from GBS in the education sector. In the period covered by the evaluation (2006-2012), the education sector was the highest priority in the MKUKUTA poverty reduction strategy - its share of funds was 21.7% in 2007/08. The evaluation confirms findings from other

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<sup>35</sup> The evaluation involves participation of Stanford University, as informed to the team by the Tanzania Embassy Education Advisor.

sources that primary school enrolment increased in the 2000s, but it also shows that from the early 2010s, enrolment rates started to decline, whereas secondary school enrolment has increased. The case study on GBS reviews the outcomes of GBS support and highlights the fact that spending on education has increased significantly since the advent of GBS arrangements. The majority of the incremental increase in public spending has been in the education sector, which bodes well for the future. Now that access rates are high, the key is to continue to focus on the quality of education provision, something that has plagued Tanzania over time.

### **3.5 Case Study 4 - Supporting Poverty Reduction and Improved Governance through General Budget Support**

As noted in Chapter 2, increasing public expenditure, especially in the social sectors, is one way donors can contribute to multidimensional poverty achievements. This can occur through a variety of modalities including sector and General Budget Support (GBS). SIDA has provided significant funding for GBS in support of Tanzania's poverty reduction strategies. This funding aimed to support poverty reduction while also strengthening government systems, democracy and human rights outcomes, and is indicative of the aid effectiveness approach that has characterised development cooperation in Tanzania since the early 2000s. This case study reviews Sweden's support in this area and discusses the various issues associated with the provision of GBS, its poverty reduction outcomes and its contribution to improving governance and accountability.

#### **3.5.1 Background**

Between 1985 and 2014, Sweden contributed USD 748.9 million in GBS to the Tanzanian Government. This is the single highest investment by the Swedish government in Tanzania. Sweden has been a significant GBS contributor alongside its bilateral and multilateral partners, and has been actively engaged in policy dialogue around GBS prioritisation and the reforms proposed by the GoT. The drivers for GBS in Tanzania came from different sides including a general understanding among donors and recipient countries that too many different approaches and requirements were imposing huge costs on developing countries and making aid less effective. Tanzania is highlighted by several sources as one of the leading countries when it comes to pushing and defining the agenda of GBS and other aid coordinated approaches. As Janus and Keijzer (2015) mention, Tanzania is even considered a "laboratory for innovative approaches in this area."

As noted by Sida officials interviewed for this assignment, the move towards GBS in the late 1990s to early 2000s was driven by SIDA HQ and was representative of a broader shift in aid modality funding that was evident across the agency (and across the development cooperation landscape) from the mid-to-late 1990s onwards. This shift grew out of the aid effectiveness agenda and the transition from 'donorship' to 'ownership'. As noted by key informants it was also linked to debt relief and the wish amongst donors to find ways to ensure domestic funds freed up by debt relief were

targeted towards public spending. As noted by Nilsson (2004) budget support was not a new modality but its importance increased due to donor dis-satisfaction with project aid and its impact on poverty reduction and alongside the increasing focus on donor-recipient partnerships and aid effectiveness.

Key informants interviewed for this assignment described Sida's rationale for the provision of budget support and how previous experiences shaped thinking in Tanzania. Frustrations with the results of long-term project aid and the need to engage with the Government of Tanzania (GoT) in a new way that strengthened government ownership and governance systems was of paramount importance. The Catterson and Lindhal (1999) review pointed to a large number of sustainability issues associated with Sweden's long-term project aid. These included: a lack of financial sustainability of GoT institutions, a lack of human resource capacity within the GoT, a lack of attention to cost-effectiveness during project implementation, a high level of technical ambition within the projects that the GoT would have trouble replicating, and a supply driven focus that constrained good development practice. Direct support for the government through GBS was seen a way to address the ownership and sustainability issues that stemmed from the use of the project modality.

The transition to GBS and Sector Wide support that began in the early 2000s was also a manifestation of a new trust that had formed between the GoT and donors after the long period of protracted conflict in the 1990s. During this period, we also saw an improvement in macro-economic performance and in the implementation of reforms by the GoT, as noted in Chapter 2. Tanzania was in the transition from a donor controlled to an ownership-based partnership and GBS was an important component of that transition. As noted by Weeks (2002) Sida played a dominant role in that transition and continually advocated for ways to promote GoT ownership. However, as noted by Weeks (2002) effective national ownership within a budget support framework, while good in theory was undermined in practice by a number of factors including: underlying conditionalities, links to other aid and policy reform instruments, institutional and human resource constraints, and asymmetry in capacity between GoT and donors and between donors.

The strong push from HQ for budget support, and the high levels of support suggested in country strategy documents, initially caused alarm among some Sida officers in Dar es Salaam. Officials were concerned that the levels (initially envisioned to be between 50% and 70% of annual disbursements) were too high to be absorbed effectively by the Ministry of Finance (MoF) and sector agencies who had limited experience with this modality. Some officials were of the view that a more cautious approach was warranted in these circumstances. It was thought that the scale up of GBS within a weak institutional system with limited real experience with such modalities would cause some problems across the government as it struggled to adjust to this new approach. In contrast, other officials were confident of the aid effectiveness benefits of GBS and worked hard to operationalize the new direction.

### **3.5.2 Implementation**

Tanzania has been a leader in utilizing programmatic aid modalities since its adoption in the mid-1990s of Sector-Wide Approaches in Education, Health, Agriculture and Roads. It was also one of the first countries to introduce a harmonized framework for monitoring poverty reduction budget support, which occurred in 2001. In 2002, this harmonized approach was expanded to include the World Bank's Poverty Reduction Support Credit and 10 Development Partners (including Sweden) signed a Poverty Reduction Budget Support Partnership Framework Memorandum in 2002.

In 2005, 14 Development Partners signed a General Budget Support Framework Memorandum in support of the GoT's National Strategy for Growth and Reduction of Poverty (NSGRP), known by the Kiswahili acronym MKUKUTA. Donors agreed to support MKUKUTA's six priority sectors of agriculture, education, energy, health, roads and water. The overall objective of that support was to contribute to economic growth and poverty reduction in Tanzania through:

- the provision of financial resources for public expenditure
- improved aid effectiveness, ownership, public expenditure and financial management
- improved M&E and mutual accountability
- improved policy dialogue, and
- strengthened budgeting and planning.

A Performance Assessment Framework was developed to review progress on agreed actions and a system of joint annual reviews was instigated. The PAF was based on the actions articulated under MKUKUTA and the priorities, targets and demands of the individual DPs. Sweden took a leadership role in the development of these arrangements, and its Head of Development Cooperation in Dar es Salaam became the Chair of the DP Budget Support Group. Under the direction of the Chair, Sweden sought to forge a balance between promoting ownership and the use of country systems while also seeking to understand the challenges facing institutions on the ground and the context for implementation. Sweden sought to utilize its project-based technical knowledge to assist with budget support dialogue. Its long-term involvement in sectors like energy, education and water helped with this. The aim was to find synergies between the different aid modalities in order to ensure that dialogue was meaningful and grounded in the issues at hand, and not too high level.

Sida officers working in Tanzania also considered budget support a good way to influence political systems, and sophisticated and strategic approaches towards policy dialogue were developed for that purpose. These involved adopting a practical and informed focus that sought to balance high-level dialogue while seeking to address implementation issues in the various sectors supported by Sweden through both GBS and projects (e.g. Energy). Swedish diplomats adopted numerous strategic communication approaches to influence government decision-making in areas as diverse as accountability, corruption, girl's education, private sector development and poverty reduction.



Senior Swedish diplomats interviewed for this evaluation commented on the ethical or values-based approach to policy dialogue adopted in GBS dialogue, which, differed somewhat from the more technocratic approaches adopted by some other DPs. This values-based approach is augmented by Sida's support for a number of CSO's in Tanzania who advocate for accountability.<sup>36</sup> Sida has also played a major role in establishing the Media Council. As Co-Chair, Sweden also plays an active role in the Governance Working Group, which provides a forum for donors to engage with the GoT in the governance-related aspects of MKUKTA, which include public service reform, public financial management, local government reform, anti-corruption, and accountable governance. Sweden has played an active role in supporting local governance reform in particular as it was recognised that economic governance at this level is a challenge that requires concerted attention.

With regard to implementation, the GBS arrangements have been beset by a number of issues, not the least of which have been the various corruption scandals that have eroded donor confidence over the last 10 years or so. Sweden has been a strong advocate of anti-corruption measures in various government, media and CSO forums and has held back GBS tranche payments due to these scandals. It has also been a strong advocate for strengthening the financial management regimes associated with GBS payments. In contrast to some other donors, Sweden has continued to advocate for supporting the Ministry of Finance in its role as the financial watchdog of the government.

In late 2014, Tanzania was affected by a corruption scandal in the energy sector that involved senior public officials colluding with corrupt businesspersons to transfer \$122m from a holding account in the central bank to private accounts overseas (The so-called 'ITPL scandal'). This led to widespread investigations by the Public Accounts Committee and the sacking of three Cabinet Ministers. This follows on from a similar event in 2007 which resulted in the resignation of the sitting Prime Minister. Because of this scandal Sweden and a number of other donors ceased GBS payments in the 2014-15 financial year, and as yet Sweden has not resumed payments. At this point, it is instructive to reiterate the findings of Molenaers *et al* (2015) highlighted in Chapter 2, which suggest that there is no evidence that GBS is ineffective, *ipso facto*, and that any move away from it is primarily political in nature.

### **3.5.3 Results and Sustainability**

An independent evaluation of GBS and Sector Budget Support was conducted in 2012 that examined the performance of these arrangements between 2006 and 2012 (ITAD, 2013). Between 2005-6 and 2011-12, \$5,000 million was distributed to the GoT by donors through budget support arrangements, at an average of \$650 per year. Sweden's contribution was approximately \$200 million during this period making it the second highest bilateral contributor after DFID.

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<sup>36</sup> Entities such as the Legal and Human Rights Centre rely significantly on Sida funds for their work supporting legal aid clinics around the country and advocating for citizen's rights and government accountability at local and national levels.

With regard to public spending, the evaluation found that budget support enabled the GoT to maintain high levels of development spending without resorting to borrowing. Budget support provided an additional \$16 per head of population per annum. Total spending in the six priority sectors detailed in MKUKTA more than doubled across the period, which was equivalent to an increase of 5% of GDP per annum. The majority of the incremental increase in public spending was absorbed in the education sector, which has made an impact in various areas. Between 2005-6 and 2011-12 transition rates from primary school to high school increased from 20% to 54%. The case study on education below highlights some of the significant improvements in key education indicators that have occurred in recent years. A notable finding emanating from the evaluation was the fact that GBS delivered results with an efficiency and effectiveness that could not be expected of other modalities such as project aid, and that the modality significantly reduced transaction costs (compared to projects), while improving predictability. This has helped address many of the aid effectiveness issues surrounding project aid that concerned Sida and informed its decision to provide GBS in the first place.

Tanzania's performance in non-income poverty indicators have been the most impressive. The data shown in Chapter 2 attests to this. There is limited evidence that budget support has contributed to improvements in income poverty and this has caused consternation amongst development partners in Tanzania. There was no improvement in income poverty between the 2003 and 2007 Household Surveys and the transition to a new methodology in 2013 means that poverty improvements are not comparable over time. As noted by Sida officials interviewed for this evaluation, linking budget support to poverty reduction (particularly income poverty) has been somewhat challenging.

While some important non-income poverty achievements have been made, there has been less than satisfactory performance in the areas of policy reform and governance more generally. There have been some improvements in the GoT's Public Financial Management systems, but according to the 2013 evaluation, these modest achievements would not have been significant enough to generate a significant change in the efficiency of public expenditure. Therefore, while the quantum of public expenditure has increased the efficiency of that spending has not. A recent review of the PFM Reform Program in Tanzania (Innovex, 2015) suggests that while reforms are generally progressing well there are some challenges in areas like reform prioritization, reform ownership and maintaining clear distinctions between the PFM cycles at different levels of governance (e.g. national-local governments).

The budget support evaluation found that there have been significant improvements in fiscal and macro-economic policy management over the course of the evaluation period. There were also notable improvements in accountability including a strengthened role for the Public Accounts Committee (which was evident most recently from its role in the abovementioned IPTL scandal), and the introduction of corruption legislation. The evaluation found that targeted support in these areas had been critically important.

The evaluation also found that the complementary technical assistance and capacity building efforts of donors has been less than effective in some areas, and the potential wider effects of budget support on aid effectiveness were not exploited as effectively as they could have been. Donor efforts in these areas lack coordination and long-term commitment. Further, the evaluation found that the contribution of some budget support partners in the area of policy dialogue has not served to generate an open, strategic and problem-focused dialogue, and that donors, as a whole, need to strengthen the effectiveness of their policy dialogue. This point has been recognised by donors and the GoT who are working together to develop new ways to strengthen this instrument in support of GBS (Budget Support Development Partners Group, 2015). The latter point reinforces the importance of Sweden's strategic and values-focused approach, and in particular its determination to ensure its voice is not diffused within the GBS donor community and that it can continue to be a constructively critical partner of the Tanzanian government.

Sida was an early advocate for GBS as it recognised the sustainability issues associated with its long-term project aid – as highlighted by the HESAWA case study above. Its support for GBS has contributed to an increase in social spending, which has, in turn led to achievements in non-income poverty dimensions. The most significant have been in the area of education. Sida has been a strong advocate for anti-corruption and plays a leadership role in the governance agenda. It also works to improve accountability through support for civil society. While donor support through the GBS modality has made an impact in the non-income dimensions of poverty, its role in influencing reform and accountability has been less impressive. Corruption scandals continue to plague the GoT and this has eroded trust. Strategic, policy dialogue, of the type favoured by Sweden, is missing in the broader donor community and more influential, problem-focused modes of policy dialogue alongside targeted capacity building initiatives are required to improve the effectiveness of GBS in Tanzania.

### **3.6 Synthesis of Case Study and Other Findings**

Drawing on the case studies and other information presented in the foregoing sections, this section highlights some emerging themes and issues associated with Sweden's long running development cooperation with Tanzania.

#### **3.6.1 The Paradox of Ownership**

As is well known, ownership is the extent to which developing countries lead their own development policies and strategies, and manage their own development work on the ground (OECD, 2010). While ownership in aid effectiveness parlance is a relatively modern conception it is clear from the data presented in this evaluation that Sweden strongly supported Tanzanian government-driven development policies and strategies from the very beginning of the development cooperation partnership, and that Sweden has been a leader in many aid effectiveness initiatives in Tanzania. However, it is also clear that the longstanding focus on ownership has, in some periods of Swedish aid, been more theoretical than practical, and that the dilemmas of implementation have forced it to adopt a somewhat paradoxical position vis-à-vis ownership.

As highlighted by a number of senior key informants interviewed for this evaluation, a strong commitment to ownership manifested itself very early on in the form of political support and solidarity with the early policies of the CCM. The close relationship between Olaf Palme and Julius Nyerere no doubt laid the foundation for this commitment. For many years up to the mid 1980's Sweden strongly supported the industrialisation policies of the Tanzanian government, policies which, in retrospect have been shown to be ill founded (as discussed at length in Section C). A focus on agriculture may have had more probability of lifting people out of poverty.

Senior Swedish policy makers interviewed for this assignment noted that there was very strong, and at times illogical, support for these policies in the 1970s and 1980s even when there was strong evidence that they were ineffective in achieving economic development and poverty outcomes. It was felt by some observers that too much emphasis was placed on supporting the Tanzanian government's vision for economic development and that Sweden could not act as a critical partner due to the close political relationship. In this instance, the political and subjective drivers of the relationship may have got in the way of a more objective approach. Once this political support for Tanzania's industrial policies was in place there was an element of path dependency to the development cooperation that followed, particularly with regards to economic development projects.

Ownership also includes control over (and accountability for) implementation. It was clear that while Sweden supported the Government of Tanzania's strategic and policy ownership it had increasingly less confidence in the ability of the GoT to manage its own development work on the ground. The initial achievements of the 1960s and early 1970s gave way to a dependency both on donor funds and on technical assistance and projects to implement the 'vision' for economic development. Over time the GoT actually became less capable of implementation. During this period Swedish project aid (and other donor project aid) peaked. And, has been noted by a number of commentators and key informants to this evaluation, this support may have actually worked to delay much needed government reforms. Sweden directly implemented a vast range of projects in many sectors during this time. So, paradoxically, while Sweden supported the strategic and policy aspects of 'ownership', the practical implementation issues and the lack of results led to a hands on approach to aid delivery and the bypassing on country systems, which as noted by Catterson and Lindhal (1999) fostered dependency and led to unsustainable results – as the HESAWA case study highlights.

In the mid-1980s with the advent of SAPs donors also took control of the policy and strategic space, as well as the implementation space. During this period, ownership completely vanished and a period of all-encompassing 'donorship' was ushered in. Throughout the 80s however, Sweden continued to advocate for GoT ownership and even provided sector support (which many other donors were cynical of). As noted in the Education case study, Sweden was a strong supporter of Education Sector Support and advocated for this strongly with other donors, at a time when donor trust in GoT systems was very weak, and tensions between the GoT and donors were high. The tensions between ownership and donorship ended with the advent of the Helleiner

Report 'Domination or Dialogue' and efforts from all sides were made to repair the donor-recipient relationship and adopt aid effectiveness principles.

Sweden was an early leader in this aid effectiveness agenda and continues to strongly support the use of country systems through GBS and its work in energy in particular. While the GBS arrangements are facing some difficulty, as noted by Molenaers *et al* (2015) there is no evidence that the modality itself is ineffective. It is expected that Sweden will continue to support country systems through this modality and other programmatic approaches.

### **3.6.2 Short-run Results versus Long-run Impact**

The HESAWA and Energy case studies raise an interesting point with regard to Swedish aid delivery, and that is the tension that has existed between ensuring results and promoting sustainability. The political imperative to justify aid spending is of paramount concern to donors. This often leads to an output-based focus with regard to results (as opposed to long-term outcomes and impacts). Both the HESAWA and early hydroelectric infrastructure projects were effective in achieving results at the output level: power plants were built on time, large numbers of water points were constructed, and this was done relatively cost effectively. Both cases highlighted significant issues with the sustainability of these results however. In the case of HESAWA, the lack of focus on economic projects affected the take up rate, and the incentive for rural people to be involved, issues with implementation, parallel management structures and ineffective participation also affected the sustainability of outcomes. In the energy space, a lack of institutional strengthening and capacity building affected the sustainability of project outcomes and it wasn't long before energy infrastructure fell into disrepair, alongside deficits in management and planning.

Sweden's investment in rural energy clearly demonstrates that it has learnt from its experience over time. Its long-term, strategic and programmatic approach to providing rural electricity seeks to strike a balance between providing connections (out-put based result), while also strengthening the conditions for the sustainability of those results through strengthening financial, institutional, policy and regulatory framework issues. The financial sustainability of the Rural Energy Fund is an example of significant progress. As noted in the energy case study a key focus of the program should be to foster those complementarities that are necessary to ensure that connected and non-connected householders derive meaningful poverty-reducing effects of electricity. Ensuring that there are real incentives for poor rural people to benefit from electricity connection will help further promote sustainability.

### **3.6.3 Values-based Approach**

Tanzania has for a long time been a heavily aid-dependent country, but this has changed over the last decade. Whereas ODA accounted for around 40% of the national budget in the 1990s and 2000s, the share of ODA in the national budget of 2014/2015 was down to only 15 percent (Janus and Keijzer, 2015). According to Janus and Keijzer, the decline

can be linked to economic growth and growth of the population, and partly to increasing concessional finance from non-OECD sources including China.

As aid to Tanzania is expected to play an even smaller role for the future economy in the country, it raises the question of possible ways and roles for Sweden in its future partnership with Tanzania. The underlying principles for provision of GBS include (among others) commitment to poverty reduction, human rights, good governance and anti-corruption – values that are (and have been so for decades) integral to Swedish aid. Sweden was among the first donors in Tanzania, and remained in the country during the crisis in the mid 1980s, where some other donors pulled out.

According to a report from the Christian Michelsen Institute (Selbervik, 2006), Sweden (and other Nordic countries) has a special relationship with the GoT compared to other donors, a relationship characterized by trust and openness. This can be explained by different factors including the long-term presence in the country, and that Sweden has no colonial ties with Tanzania. Furthermore, Sweden (and Denmark and Norway) has been referred to as “exceptional actors in aid. They do differ from that of most other donors. They often both say and do “the right things.” At the policy level they are embracing coherence, harmonization, and the new aid modalities. Furthermore, Sweden is known for its strong poverty orientation, preference for social sectors, good governance and civil society. Because of this special relationship Sweden is considered well positioned to raise otherwise sensitive issues in its policy dialogues with the GoT.

While the current growth in Tanzania is positive, there is still a way to go for the majority of people to benefit, as the growth so far has tended to privilege the wealthier part of the population and growth has tended to concentrate in Dar es Salaam. To address this overall poverty question, Sweden’s is well positioned to continuously stress the importance of poverty orientation, social sectors, good governance (including anti-corruption) and civil society in securing that growth benefits and services reach the general population.

## Chapter 4

### Conclusion: Has Swedish Aid Contributed to Poverty Reduction in Tanzania?

#### 4.1 Introduction

It is instructive to revisit the key evaluation questions provided by this evaluation's ToR. They are as follows.

- (i) Has Swedish aid contributed to poverty reduction in Tanzania over time, and if so, in what way?
- (ii) What are the important lessons for Swedish development co-operation today?

We attempt answers to these questions by breaking the period of bilateral development co-operation between Sweden and Tanzania into three periods, and using the three above-outlined components of the AQEF combined with the evidence presented in Chapters 2 and 3 to respond to question (i), leaving a response to (ii) until later. The three periods are the Early and Expansion phases (covering the years 1962 to 1982), the Contraction and Adjustment Phases (1983 to 1996) and the Post-adjustment Expansion Phase (1996 to the present).

#### 4.2 Contribution to Poverty Reduction

##### 4.2 1962 to 1982

The period 1962 to 1982, while characterized by good intentions and much optimism, but it is reasonably clear from available evidence that it is two decades of wasted development opportunities. There were of course solid early achievements, especially with respect multidimensional poverty achievements (in health and education), but the economic crisis of the early 1980s with negative economic growth and galloping inflation either saw the reversal of these achievements or a slowing in their rate of increase. While there were a number of factors that contributed to this, most blame is attributed to the development policies of the Tanzanian Government, which were supported by the donor community, including Sweden,

What can be said specifically of Swedish aid during this period? There is clear evidence that it was aligned to the policies of the Tanzanian Government and suggestions that it was harmonized with the activities of other donors, at least insofar as other Nordic donors are concerned. That it was aligned in this way need not necessarily provide but certainly is suggestive of partner government ownership. In this sense Swedish aid scores reasonably well against the Paris Principles and, therefore, the first AQEF component. There is very little evidence of its cognizance with development capacities,

and hence consistency with the third AQEF component, although the Swedish component was relatively very focused, with Sweden supporting relatively few activities and being active in relatively few sectors.

It is the third component of AQEF, the extent to which Sweden addressed pressing development needs in Tanzania, where Swedish aid is seen in a less than positive light. There was a pressing need for more a better development strategy Tanzania for period leading up to the economic crisis. This strategy was not only one that could sustain economic growth, and the broader benefits that it can generates, but one that did not have an inherent bias against the rural sector, on which the living conditions of the vast majority of the Tanzanian poor depended. Mitigating against this was early Swedish support for agriculture. As Bigsten *et al.* (1994) note, this support could have raised the welfare of the rural poor, which as mentioned constitute the majority of Tanzanians living in poverty. Yet it is unlikely that increased welfare levels were sustained owing to the crisis. The same can potentially be said for early Swedish support for education, although we note that focus of this support was vocational training, which in all probability had little benefit from the poor.

Overall, then, did Swedish aid contribute to poverty reduction in Tanzania over the period 1962 to 1982? Put differently, would poverty levels in Tanzania in 1982 been lower than in 1962 in the absence of Swedish aid? The best answer to this question is that in all probability, no. Any success that Sweden may have had in this regard would have been wiped out by the economic crisis. The reason for this lack of success is the inappropriate, unsustainable development strategy of the Tanzanian Government, and supported in one way or another by Sweden and other donor partners. In a number of respects this is an unfair treatment of Swedish aid as it would have been difficult to do anything else. It was supporting a government with which is had close relations, aligning with this government and harmonising with other donors in support of a strategy that at the time was considered by many to be entirely appropriate. But the objective reality is that it failed, and both the efforts of Sweden and its donor partners failed with it.

### **4.3 1983 to 1996**

This was an extraordinarily difficult time for the Tanzanian Government and its donor partners. The enabling environment during this period was such that it difficult to imagine that any bilateral donor could have contributed to poverty reduction, ensuring that poverty would be higher in the absence of it is aid.

While economic growth recovered and inflation few toward the end of this period, education and health levels fell (although the latter was in large part due to HIV/AIDs) and income poverty increased. As much as available evidence presented above suggests, poverty in 1996 was most probably higher than in the mid-1970s and climbed appreciably during this period. Relations with the international donor community were at times bad, aid flows were volatile.



As noted above, in the early years of this period Sweden was not supportive of the reform of Tanzanian policies and on these grounds was criticized for helping delay the implementation of a more long-run development friendly policy regime. It subsequently changes its position, however. Swedish aid flows fell but paradoxically the number of activities it supported and sectors in which it was involved rose appreciably, which is suggested of a program that is not well focused and one that might have placed stress on the absorptive capacity of Tanzanian administrative systems. It did, however, provide support for social expenditures that might have cushioned the impact of the adjustment program in Tanzania.

Case study investigation provides a rather mixed view of Swedish support during this period. Support for water and sanitation resulted in an impressive array of outputs and had a rural focus, although a possible lack of sufficient ownerships has meant that they have not altogether been sustained. While this support does appear to have had some benefits, these have been constrained by a lack of local capacity, and its contribution to poverty reduction seems doubtful. Education support during this period switched to support to primary education. This appears to have had good outcomes, and the extent to which a lack of primary education defines poverty in the education, had positive poverty reduction outcomes as well. Support for energy was efficiently delivered, although a lack of local capacity was problematic. It was focussed on rural areas, although it seems to have had little poverty impact or, if so, impact that is difficult to observe.

Did Sweden contribute to poverty reduction during these challenging years? Taking into account all of the evidence summarized above, Swedish aid: (i) on balance seems to have targeted pressing development needs (its disinclination to support policy reform in the early years notwithstanding); (ii) was not always characterized by partner government ownership and; (iii) was not always cognizant of local capacity constraints. As such it scores well against AQEF component two, but with mixed assessments against components one and three. At best Swedish aid might have made a marginal contribution to poverty reduction, ensuring poverty levels that would have been slightly lower in its absence. This is, however, a highly speculative response and should be treated in this vein.

#### **4.3 1997 to the present**

Years from 1997 were much more development friendly than those preceding them, and the enabling environment for all donors was far superior to that of previous eras. Donor support for Tanzania surged, with it becoming one of the so-called 'darlings' of the international donor community. The proportion of Tanzanians living in poverty commenced to decline, as did the number of Tanzanians living on less than \$PPP1.25 per day continued to rise. The number of Tanzanians living on less than \$PPP2 continued to rise, however. Relations between the Government of Tanzania and

donors, while still subject to the occasional tension, have improved and are more stable. Economic recovery was well under way, with solid growth rates and reasonably low inflation. Social expenditures were much higher than in previous years. Donors are considered to have played a positive role in the turnaround of and sustained growth achieved by the Tanzanian economy.

This is not to say, however, that the years from 1997 are not without significant structural complications. Aid flows have grown dramatically, albeit in a somewhat unstable and possibly unpredictable manner. The number of donors supporting Tanzania has grown appreciably, more than doubling since 1997. With the growth in aid donors has, however, come an enormous increase in the number of donor funded activities in Tanzania. This increase has put significant strain on an already over-stretched Tanzanian administration, which is problematic according to AQEF component three.

Has Sweden contributed to the poverty reduction in Tanzania observed during this period? The short answer to this question is that in all probability it has, concerns regarding the increased burden on the Tanzanian administration, to which Sweden has contributed, notwithstanding. Indeed, there is strong evidence in support of this contention based on the first and second components of the AQEF. The dominant mode of aid delivery from the mid-2000s onward was general budget support. This is entirely appropriate from a poverty reduction perspective if the partner government in question has both the ability and inclination to work towards such reduction. The Tanzanian government had both this ability and inclination during much of the period in question.

Case study analysis of Swedish general budget support since 2005 provides a favorable image of the effectiveness of this support. There is evidence that this support allowed the Government of Tanzania to support social development expenditure while not incurring additional debt. This analysis noted that it is difficult to link general budget support directly to poverty reduction. But there would appear to be evidence of a link. As noted in Chapter 2, the poverty elasticity of economic growth increased appreciably during this period, being estimated at -3.5 percent during 2007 to 2012. If Swedish support enabled the Tanzanian government to maintain expenditure without incurring debt it will, one would reasonably expect, to contribute to higher growth and, in turn, income poverty reduction. And of course maintaining social expenditure will mean that achievements in health, education and the like will be higher than would otherwise be the case, which cannot be bad for multidimensional poverty reduction.

### **4.3 Lessons Learned for Development Co-operation Today**

What can we learn from this evaluation for present day development co-operation today?

We posit four overall lessons. The first three are:

- (i) the paradox of ownership;
- (ii) pursuit of short-run results versus achievement of long-run impact; and
- (iii) the importance of a values-based approach.

To these we add:

- (iv) the primacy of policy and institutional settings.

The first of three of these lessons learned have been articulated in detail in Chapter 3 so (for the purpose of the current draft of this document) we do not add to this articulation now. The fourth of course relates to a hotly debated issue in the aid effectiveness literature. While much of this debate is more about whether it is possible to observe a relationship between policies and institutional performance in the context of a cross country empirical model of aid effectiveness, there are still those that argue that these conditions are not important for donors wishing to pursue a policy of development promotion, including poverty reduction. Clearly, this argument is seriously counter to the Tanzanian experience. Donors do need to work with partner countries to ensure correct policy settings and institutional behavior if they wish to achieve sustained poverty reduction.

### Appendix: Key Informants List

Name	Organization	Position or Relevant Expertise
Gun-Britt Andersen	Swedish Embassy, Tanzania	Deputy Head of Development Cooperation, 1980-84
Maria van Berlekom	Swedish Embassy, Tanzania	Head of Development Co-operation, current.
Arne Bigsten	University of Gothenburg, Sweden	Economist and Tanzania expert.
Anette Widholm Bolme	Swedish Embassy, Tanzania	Democratic Governance Advisor
Steffan Herrstrom	Swedish Embassy, Tanzania	Ambassador, 2007- 10
Helen Kijo-Bisimba	Legal and Human Rights Centre (LHRC)	Executive Director
Inger Lundgreen	Swedish Embassy, Tanzania	Research Programme Officer
Jennifer Matafu	Swedish Embassy, Tanzania	Has held different positions within the embassy (no longer with the embassy)
Eng. Bengiel H. Msofe	Rural Energy Agency (REA)	Director Technical Services
Lutengano U.A. Mwakaheya	Rural Energy Agency (REA)	Director General
Stephen Mwakifwamba	Swedish Embassy, Tanzania	Energy Programme Officer
George M.J. Nchwali	Rural Energy Agency (REA)	Director of Finance and Administration
Boniface Gissima Nyamo-Hanga	Rural Energy Agency (REA)	Director of Market Development and Technologies
Anders Ojlelund	Swedish Embassy, Tanzania	Ambassador, 1989-93
Sven Olander	Swedish Embassy, Tanzania	Regional Adviser Results Based Financing Approaches
Torbjorn Petersson	Swedish Embassy, Tanzania	Head of Development Cooperation, 2004-08
Helena Reuterswärd	Swedish Embassy, Tanzania	Education Programme Officer
Joyce Tesha	Swedish Embassy, Tanzania	Gender and Child rights program coordinator
Samuel Wangwe	Policy Research for Development (REPOA)	(Former) Director of REPOA
Lennart Wohlgemuth	SIDA	Economic Adviser

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