

November 14, 1991

## **TANZANIA'S TRAVAIL: LESSONS IN IMPROVING AMERICAN AID TO THE THIRD WORLD**

### **INTRODUCTION**

**Africa's once promising post-colonial era has proven to be a time of economic despair, with conditions in the vast majority of African countries today as bad, if not worse, than ever before. This is the case with eastern Africa's United Republic of Tanzania. Although rich in natural resources and inhabited by an industrious people, Tanzania nonetheless has the dubious distinction of having one of the world's lowest per capita incomes.**

**The blame for Tanzania's poverty must rest, as it does for all countries, on Tanzania itself. Yet blame also must be shared by the Western nations and multilateral financial institutions such as the World Bank and the International Monetary Fund (IMF) that have poured vast sums of money into Tanzania accompanied by equally vast quantities of bad advice and bad policies. The United States, as an aid donor to Tanzania and supporter of the World Bank and IMF, cannot escape blame. The more than \$500 million that the U.S. has given to Tanzania since its independence in 1961 reflects American generosity. This money, however, has been squandered.**

**Aid Paradigm. If there is any virtue to the travail of Tanzania it may be as a lesson in what the U.S. should and should not do with foreign aid. As one of the world's largest per capita recipients of foreign economic aid, Tanzania is a paradigm writ large. This paradigm teaches that economic aid will be wasted and actually contribute to impoverishing people unless the recipient is committed firmly to a market economy. Only market economies effectively can use foreign aid to raise living standards, extend life-expectancies, fight disease, and invigorate agriculture.**

**Tolerating Failed Policies.** To be sure, with much fanfare the U.S. Agency for International Development (AID) and the multilateral financial institutions in recent years ostensibly have been pushing market economic reform in the African countries they have assisted. Yet the economic results have been predictably meager because the criteria of AID, of the other U.S. agencies dispensing economic assistance, of the World Bank, and of the IMF for gauging market reform are far too tolerant of Africa's failed economic policies. The core problem with these policies is state control of the economy.

Curiously, Tanzania is being touted by the international development community as a "success story," and is receiving increasingly generous U.S. and Western assistance, despite its dubious commitment to market economic reform. AID spending for development projects in Tanzania, for example, increased by some 500 percent between last year and this year. Such a rewarding of Tanzania casts serious doubts on whether America's foreign economic assistance policies are serving America's interests and the interests of the long and needlessly suffering Africans.

Learning the lessons from Tanzania's mistakes, the Bush Administration should revise its economic assistance policies toward Africa. In doing so, it should:

- ◆ **Use the Index of Economic Freedom**, a system for evaluating a country's progress in developing a market economy, to determine whether America should assist various countries economically. This would assure that U.S. development funds are allocated to countries where they can be used productively.
- ◆ **Reduce AID's Development Fund for Africa (DFA)**, its main funding account for African development assistance. The fact that AID has increased its spending in Tanzania by some 500 percent from last year to this, despite the Tanzanian government's half-hearted movement toward a market economy, strongly suggests that AID is spending excessively and wastefully in other African countries too.
- ◆ **Eliminate or disregard AID's "Democracy Initiative,"** a 1990 directive to reward political liberalization in recipient countries with economic development assistance. The Democracy Initiative serves only to obfuscate AID's economic development goals and responsibilities.
- ◆ **Develop and emphasize AID projects** that give the U.S. greater flexibility to shift resources among recipient countries. Long-term, capital-intensive projects which greatly reduce American flexibility, as well as American leverage over recipient governments, should be phased out gradually.
- ◆ **Give priority to bilateral, in contrast to multilateral, economic assistance.** Despite their rhetoric, the multilateral financial institutions are far too tolerant of failed statist economic policies. American aid thus should not be funnelled through these institutions. The U.S. can put its development assistance policies in accord with the Index of Economic Freedom, but it is unlikely that it likewise could reform the multilateral financial institutions.

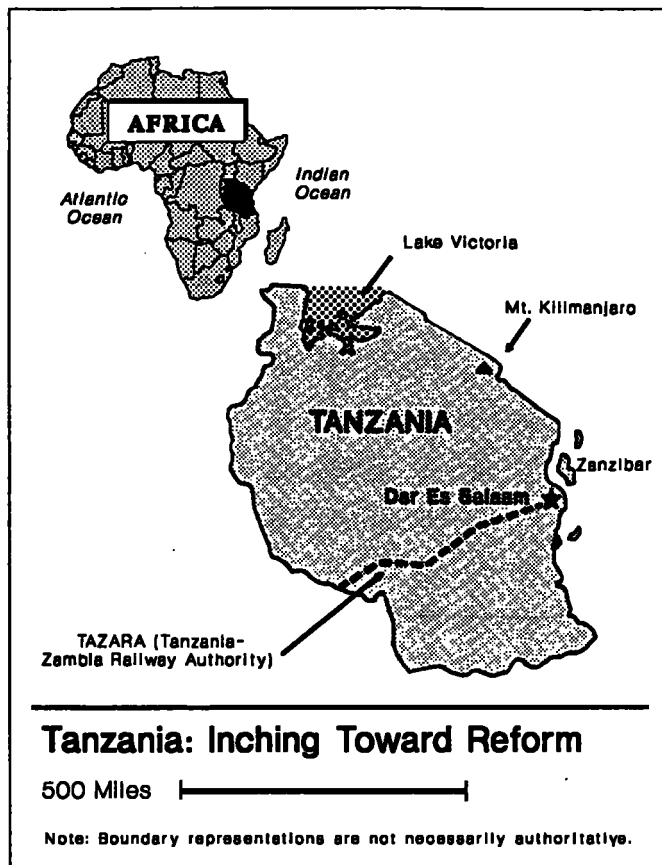
## TANZANIA'S TRAGEDY

Known as the *mwalimu* or teacher, Julius Nyerere long dominated Tanzania, the union of mainland Tanganyika and the nearby Indian Ocean island of Zanzibar. He became prime minister, an office he later transformed into the presidency, of Tanganyika at its independence from British colonial rule in 1961. Three years later, Zanzibar, which gained its independence from Britain in 1963, united with Tanganyika, creating today's Tanzania.

In the style of Africa's other post-colonial "Founding Fathers," Nyerere brooked no political dissent. While his rule was less severe than that of many other African regimes, it nonetheless featured political prisoners, a state-controlled press, and a state ruled by one party, the *Chama Cha Mapinduzi* or Revolutionary Party, known as CCM. Like many African nations, Tanzania now is contending with previously dormant democratic pressures. Tanzania's slow-paced and tentative movement toward political liberalization has coincided with Nyerere's gradual withdrawal from public life.

Nyerere relinquished the presidency to Ali Hassan Mwinyi in 1985, but only last year resigned his powerful CCM chairmanship. "Re-elected" to the presidency in an October 1990 "yes/no" referendum, Mwinyi has commissioned a study of possible multi-party political reform for Tanzania. This cautious official response to internal and external democratic pressures also includes a slight loosening of press restrictions and an opening-up of the CCM to wider public participation. While promising, this tentative move toward reform has no certain outcome. Even if Mwinyi would want his reign, which is limited by the constitution to two five-year terms, to culminate with a truly democratic selection of his successor, CCM-centered resistance to this would be fierce.

**Nyerere's Economic Legacy.** Nyerere's most enduring legacy has been economic. In 1967, he issued his now famous Arusha Declaration, named after the northeast Tanzanian city where it was proclaimed. As the framework for Nyerere's "African socialism," the Declaration promised Tanzania's 12 million



### Tanzania: Inching Toward Reform

500 Miles

Note: Boundary representations are not necessarily authoritative.

citizens improved living standards and greater national self-reliance. These goals would be achieved, stated the Declaration, by the Tanzanian government taking ownership of Tanzania's principal means of production, creating agricultural collectives, and redistributing wealth along egalitarian lines.

The Arusha Declaration embodied the socialist principle that redistributing wealth is more important than creating wealth. The Tanzanian government would redistribute Tanzania's wealth largely by spending it to expand social services.

The heart of Nyerere's African socialism was the agricultural collective, or the *ujamaa* village. Tanzania was and remains an overwhelmingly agrarian country, with the agricultural sector accounting for almost 50 percent of its gross domestic product (GDP) and 80 percent of its export earnings, and employing over 90 percent of its labor force. The Tanzanian government nationalized all land by 1971 to develop the *ujamaa* villages, which were farmed communally.

Besides promoting *ujamaa*, or Tanzanian "family-hood," the villages were said to offer advantageous economies of scale. The Tanzanian government, having also nationalized virtually all industries and services by 1974, would be able, it was claimed, to provide efficiently the tools, seed, credit, and other farm necessities as well as the full range of social services that Nyerere promised if Tanzanians lived and worked communally.

## 1990 TANZANIA DATABOX

**Official Name:** United Republic of Tanzania

**Capital:** Dar es Salaam

**Head of State:** President Ali Hassan Mwinyi

**Head of Government:** same

**Area:** 363,950 square miles, about twice the size of California

**Population:** 25,970,843

**Gross Domestic Product:** \$3.13 billion (1988)

**Per Capita Income:** \$160 (1988)

**Economic Growth Rate:** 3.6% (est.)

**Inflation:** 25.0% (est.)

**Total Foreign Assistance:** \$1 billion (est.)

**External Debt:** \$5.1 billion (1989)

**U.S. Investment:** -\$15,000,000 (net withdrawal of capital)

**Total Exports:** \$311.8 million (1989) -- coffee, cotton, sisal, cashews, meat, tobacco, tea, diamonds.

**Exports to U.S.:** \$36.4 million

**Total Imports:** \$716.8 million (1989) -- manufactured goods, machinery and transport equipment, crude oil, food.

**Imports from U.S.:** \$18.4 million

**Defense Budget:** \$223.4 million (1985)

**Total Regular Armed Forces:** 46,800

**Source:** Michael Johns, *U.S. and Africa Statistical Handbook, 1991 Edition*, The Heritage Foundation; The Economist Intelligence Unit, *Tanzania, Mozambique, No. 1, 1991*; and from other sources.

Heritage InfoChart

The *ujamaa* village plan was extended slowly and voluntarily until 1974. Then the pace aggressively was accelerated with Tanzanian government coercion, including forced relocations of Tanzanian farmers. By 1976, over 90 percent of the 11 million rural Tanzanians lived in 8,269 *ujamaa* villages.

The Tanzanian government took control of agriculture with a complex web of state-owned monopoly enterprises, including cooperatives that provided farm supplies and marketing boards that purchased and distributed crops. Such organizations are known as parastatals—a state-owned and operated monopoly. Tanzanian parastatals were the sole authorized purchaser and marketer of all Tanzanian crops.

The Tanzanian government's monopolization of agricultural distribution forced the private sector Asians and Europeans who traditionally performed these services out of business. This meant that only one price was offered to Tanzanian farmers for their crops. For export cash crops this price was the world price minus the parastatals' handling and marketing costs. Food crop prices were set by the Tanzanian government.

The result: the Tanzanian government soon dominated almost all economic transactions in Tanzania. By 1974, virtually all industries and services, including banking and insurance services were state-owned. Exclusive mining rights, for example, were granted to the Tanzanian Gemstone Industries (TGI), a parastatal created in 1974. By 1974 the Tanzanian economy had become more socialist than many of the east European communist economies. The Tanzanian government had "vanquished" capitalism, which it branded as a colonial-era evil.

Nyerere's African socialism was applauded by leftists around the world. Western governments lionized Nyerere as a visionary and poured over \$10 billion of aid into Tanzania between 1967 and 1986.

## LESSONS IN FAILED STATIST ECONOMICS

Whatever Nyerere's intentions, the results of his African socialism policy were quite clear by the early 1980s. Throughout the 1960s, Tanzania's GDP growth rate was healthy, between 5 percent and 7 percent.<sup>1</sup> By the early 1980s however, Tanzania's GDP growth rate had fallen to close to zero.

The demise of Tanzanian agriculture sealed Tanzania's economic doom. Throughout the 1970s, as free market economists could have predicted, plantations became dilapidated, processing equipment grew obsolescent, and storage and transport became inadequate. By the late 1970s, Tanzania was importing 78,000 tons of grain annually, double the level of Tanzania's pre-*ujamaa* days. Tanzania's cash crop exports fell in volume by 36 percent between 1970 and 1980.

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<sup>1</sup> An annual GDP growth rate of at least 4 percent to 5 percent is recognized by the World Bank as the minimum required for Sub-Saharan countries to avoid food shortages, provide jobs, and raise living standards modestly.

Whereas Tanzania enjoyed a trade surplus before the 1967 Arusha Declaration, it was suffering a chronic trade deficit by 1980. Tanzania's artificially high state-set exchange rates, designed in part to promote Nyerere's goal of national self-reliance, contributed significantly to this deficit by deterring potential importers of Tanzanian goods.

The trade deficit also depressed agricultural production as imported consumer goods, which were a major incentive for farmers to increase their production, disappeared from Tanzanian shops.

Tanzania's infrastructure, meanwhile, eroded and its roads became some of Africa's worst. Tanzania's industrial sector, one of Africa's smallest, similarly deteriorated. Having claimed all mining rights, the TGI proved unable to mine profitably many of the country's mineral resources.

Today Tanzania owes the West some \$5.1 billion and depends upon donors to fund approximately 40 percent of its national budget. In fact, between 1967 and 1983, Tanzania more than doubled its dependence on foreign aid. Nyerere's vision of national self-reliance has proven a farce and Tanzanian living standards are tragically low.

Tanzania's economy deteriorated despite the massive amount of foreign aid pumped into it, a trend confirming that foreign aid was wasted in Nyerere's socialist economy. Although AID recognized that the Tanzanian government gave precedence to ideological dogma over economic considerations, American aid nonetheless was funneled continually into Tanzania.

## FOREIGN AID PAYS FOR OVER 40% OF TANZANIA'S GOVERNMENT BUDGET (1990-1991)

Billions of Tanzanian Shillings

<b>TOTAL EXPENDITURES:</b>	<b>206.00</b>
Recurrent Expenditures	160.00
Including:	
Main Government Funding	49.82
Ministries	17.12
Regions	7.70
Municipalities	2.66
District Councils	13.15
Development Expenditures	46.00
Production	10.12
Economic Services	20.56
Social Development Service	11.12
Administration and Other Services	4.13
<b>TOTAL REVENUE:</b>	<b>206.00</b>
Tax and Other Domestic Sources	117.10
<b>FOREIGN AID</b>	<b>85.65</b>
New Bank Loans	1.80
New Taxes and Fees	1.41

Source: *African Research Bulletin*, Economic Series, July 31, 1990.

Note: 1 U.S. Dollar = 195 Tanzanian Shillings (February 11, 1991).

Heritage InfoChart

The following AID projects in Tanzania demonstrate how foreign aid is wasted and actually contributes to impoverishing people in countries lacking a market economy:

☞ **Collectivizing Villages.** Despite the economic shortcomings of the *ujamaa* villages, not to mention the troubling fact that many Tanzanians were forced into them, AID directly supported the villages with several development projects, including the Arusha Planning and Village Development Program. This program sought to upgrade village health services, irrigation, and crop storage. *Ujamaa* villages have been a catastrophe for Tanzania. The relocation of Tanzanian farmers directly disrupted and reduced Tanzanian agricultural production, requiring Tanzania to spend its scarce foreign exchange on food imports, starving its agricultural, manufacturing, and transport sectors of essential manufactured imports.

The major flaw of the *ujamaa* village, however, is that like any collective it denies the individual an incentive to work harder and increase production. This primarily is why Tanzania's farm output fell so markedly. Yet AID's Arusha Planning and Village Development Program was designed as American support for the *ujamaa* village. And while the AID program also sought to promote village enterprises, it did so by assisting the Tanzanian government's central planning and control of the economy.

☞ **State-Controlled Agriculture.** AID's Agricultural Marketing Development Program gave the Tanzanian Ministry of Agriculture and several of its cooperatives such technical assistance as accounting and marketing research. In effect, therefore, American programs strengthened Tanzania's state control of agricultural marketing, including its price-setting capabilities. AID actually decided, in fact, that state-set prices could be used effectively to increase Tanzanian agricultural production. In reality, of course, state-set or non-market prices were a factor that significantly depressed Tanzanian agricultural production.

Lacking any market competition and staffed with corrupt CCM party members, the agricultural parastatals were tremendously inefficient. The prices that they set and then forced Tanzanian farmers to accept were so low that farmers lacked incentive to increase crop production. One result was that Tanzania's agricultural parastatals became short of working capital. AID tried to remedy this shortage with its Agricultural Credit Project, which granted the Tanzanian Rural Development Bank (TRDB) some \$3 million to loan to agricultural cooperatives. In extending this American-funded credit, the TRDB gave priority to *ujamaa* village cooperatives.

☞ **Regulated Cattle Market.** The Tanzanian Livestock Marketing Company (TLMC) parastatal, established in 1974 as the monopoly buyer of Tanzanian cattle, denied Tanzanian cattle herders access to the world market and its higher prices. The wholesale price that TLMC offered to pay cattle herders routinely was well below the world wholesale price for beef. Nyerere apparently wanted TLMC to buy cheap beef so that prices of food would be low for urban consumers. Urban unrest traditionally has been the most serious threat to African regimes. The TLMC's monopoly thus denied Tanzanian cattle herders, and the Tanzanian economy, wealth that could have been generated through more profitable interna-

tional beef sales. An accomplice in this was the U.S. AID's Livestock Marketing and Development Project assisted in creating the TLMC, with the goal of helping to establish an effective and efficient livestock marketing system.

☛ **Pork-Barrel Highway Project.** AID's Tan Zam Highway Project to upgrade the link between copper-producing Zambia and Tanzania's capital and major port, Dar es Salaam, was begun in 1970. Millions of Western foreign aid dollars were spent on this, even though Tanzanian transportation was becoming increasingly inefficient because of corrupt and inefficient trucking parastatals. Western efforts to improve this and other Tanzanian roads continued even after the Tanzanian government essentially stopped maintaining its roads.

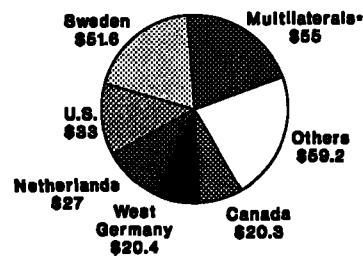
The above four examples typify America's approach to Tanzania. To be sure, an AID document written in 1975, following the *ujamaa* village program's most coercive stage, reveals AID's concern with some of Nyerere's more radical economic policies. Yet AID continued with little change in direction. AID apparently took comfort in the rationalization that its programs were "policy neutral." In fact, AID projects directly supported Nyerere's socialist policies, including *ujamaa* villages and state price-setting.

## OTHER WESTERN DONORS

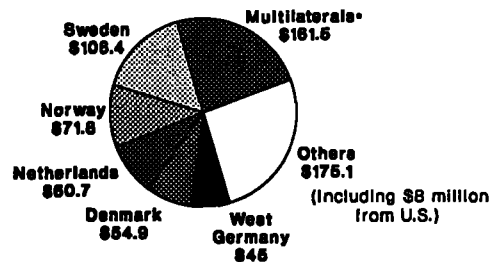
The U.S. was not alone in supporting Tanzania's catastrophic economic policies and programs. All Western donors have supported Tanzanian parastatals. Indeed, many in the West argued that Nyerere's socialism was a superior approach to African development. Such explicit support for Nyerere's socialism was particularly strong among the Scandinavian countries, traditionally Tanzania's most generous donors. Sweden, for instance, pumped millions of dollars every year into the very inefficient Bata shoe factory in Dar es Salaam. While this Swedish generosity undoubtedly gave Tanzanians jobs at Bata, it also allowed an inefficient and corrupt parastatal to continue operating at a mere ten percent of capacity. Such Western support, including

**Sources of Foreign Aid to Tanzania: 1976 and 1986**

(Millions of U.S. Dollars)



Total 1976 Assistance: \$267.1



Total 1986 Assistance: \$675.4

\* Non-government agencies such as the United Nations, World Bank and International Monetary Fund.  
 Source: Organization for Economic Cooperation and Development.  
 Heritage DataChart



that from America, was crucial in allowing Nyerere to continue pursuing radical economic policies that impoverished the vast majority of his fellow countrymen.

Like the communist parties in Europe's former East Bloc, the CCM has used its control over the Tanzanian economy to perpetuate its own corrupt political rule. Unlike the East Bloc communist parties, the CCM always has enjoyed generous Western financial support to do so. The crucial question for U.S. foreign aid policy toward Tanzania is whether party time is truly over for the CCM. Does the CCM still control the economy?

**New Beginnings.** Inheriting an economic emergency, and being more pragmatic than Nyerere, President Mwinyi launched economic reform in 1986. That year Tanzania signed the first in what has become a series of financial agreements with Western donors, the World Bank, and the IMF. Like the World Bank and IMF's structural adjustment agreements with other developing countries, these agreements have framed the Tanzanian government's 1986-1989 Economic Recovery Program (ERP), and its second phase 1990-1992 Economic and Social Action Program (ESAP). These agreements ostensibly have committed the Tanzanian government to move toward a market economy. Tanzania's exchange rate, price controls, and parastatal sector have been some of the areas targeted by the reforms.

When Tanzania's ERP began in 1986, the U.S. was a relatively minor donor, having provided Tanzania with roughly \$60 million in assistance since 1981, an amount well below what Tanzania received individually from ten or so European donors in that time. America's low ranking was partly due to the 1976 Brooke Amendment to the Foreign Assistance Act of 1961, named after former Massachusetts Republican Senator Edward W. Brooke. This amendment suspends U.S. foreign assistance, with the exception of food, to countries that are over one year in arrears on repayment of U.S. government loans. Tanzania fell under Brooke Amendment sanctions in 1983. As a result, AID drastically reduced its activities in Tanzania between 1983 and 1987. This forced hiatus in U.S. aid to Tanzania provided AID with a self-described "clean slate" when the Brooke Amendment suspension was lifted in 1987 after Tanzania rescheduled its debt with Western donors, including the U.S.

AID's "clean slate" theoretically has meant that its spending levels for projects in Tanzania would depend on the Tanzanian government's commitment to its market economic reform course. AID stated that it was wary of once again subsidizing Tanzanian socialism. As such, the matter of how well Tanzania was progressing toward market economic reform featured prominently and extensively in AID planning documents at the time it resumed its activities in Tanzania.

Also affecting AID spending levels in Tanzania was the Mwinyi regime's progress toward democracy. AID's emphasis on wielding its funds to promote democracy abroad has heightened over the last several years. AID's December 1990 "Democracy Initiative," intended to focus and redefine its programs, made it AID policy to include progress in establishing democracy as a factor in determining allocations of AID funds.

## TANZANIA'S "REFORMED" ECONOMY

Despite all the promises about economic reform, Tanzania's economic performance remains disappointing. Tanzania's GDP growth rate for 1990 declined to 3.6 percent from 4.1 percent in 1989. More disturbing is Tanzania's deepening trade deficit, which has mushroomed from \$670.6 million in 1985-1986 to roughly \$900 million in 1989-1990. Given the declining world prices for Tanzania's primary commodity exports of coffee, cotton, sisal, and tea, and the very low levels of Tanzanian manufactured exports, this deficit probably will not improve soon.

The Tanzanian government's inconsistent and half-hearted commitment to market economic reform has led to Tanzania's sluggish economic performance. The Mwinzi regime consistently has resisted IMF pressure to lower the Tanzanian shilling to a more realistic rate of exchange, thus handicapping Tanzania's struggling export sector. Faltering too are reforms to the Tanzanian government's budget, a crucial part of the country's economic reform package. The 1990-1991 Tanzanian government budget continued to feature generous and unaffordable expenditures and subsidies.

Tanzania's parastatals are particularly elusive reform targets. Roughly 400 parastatals still exist; most of them are corrupt and inefficient. This severely undermines the prospects for Tanzanian economic development. Yet it was only last year, after a study sponsored by the parastatals themselves had determined that few were economically viable, that the Tanzanian government announced that it would close or sell unprofitable parastatals. So far, few, if any, actually have been closed or sold to the private sector. As a result, 80 percent of Tanzanian wage laborers continue to work for the state.

**Government Deadbeats.** The troubles faced by the Tanzania Electric Supply Company (Tanesco) parastatal typify the problems created by state ownership of Tanzania's industries. A high-level Tanesco manager in August 1990 acknowledged that the utility would have fewer problems, and the electrification of Tanzania would be increased, if the Tanzanian government interfered less in its operations and allowed Tanesco to function on a normal, commercial basis.<sup>2</sup> The utility's persistent losses, he noted, could be explained in part by Tanesco's inability to cut electricity to government ministries and parastatals that failed to pay their utility bills.

To collect these overdue debts, Tanesco in November 1990 launched "Operation Power Cut." It vowed to cut power to deadbeats. Yet electric power was cut only to Tanzania's struggling private sector operators; service to the Tanzanian government's ministries and parastatals was unaffected.

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<sup>2</sup> *The Economist Intelligence Unit: Tanzania, Mozambique Country Report, No. 4, 1990, p. 14.*

Parastatal debts also tie up the assets of Tanzania's government-controlled banking system. The Tanzanian government finally has recognized that a public sector banking system is not viable and that an injection of foreign capital into Tanzanian banking is essential. But the limited banking reforms to date have failed to generate the capital needed for productive investment and economic growth.

**Meaningless Concession.** Reform also is slow in coming to Tanzanian agriculture. While Tanzanian farmers have been granted greater freedom to market their crops, including the right to sell to private traders, this right is almost meaningless since the Tanzanian government retains rigid control over Tanzania's agricultural marketing and pricing system. The result is low prices paid to farmers, and consequently, low agricultural output, particularly of export crops, which are essential if Tanzania is to begin reducing its trade deficit.

The Tanzanian government has not liberalized adequately the country's mining sector. Having claimed all mining rights in 1974, the Tanzanian Gemstone Industries found itself unable to mine profitably many of the country's minerals. This spurred a thriving black market in Tanzanian minerals. Last December, the Tanzanian government began an enforcement campaign against the unlicensed mining and trading of precious stones and minerals, supposedly by "foreign illegal miners." However, more than 25,000 Tanzanians reportedly were moved from mining regions as part of this campaign.

Such black market activity and official corruption offer two good gauges of the extent of a country's economic liberalization. The more extensive they are, the less liberal is the economy. What these gauges now show: the Tanzanian black market is booming and official corruption is rampant. A booming black market, of course, is also a positive sign. It means that there are hundreds of successful entrepreneurs, bubbling with enterprise and creativity. Free market reforms would channel these entrepreneurial energies into the legal economic sector.

## AMERICAN AND WESTERN DOLLARS CONTINUE TO FLOW

In fiscal 1992, which began this October 1, AID plans to spend at least \$24 million in Tanzania.<sup>3</sup> This current AID spending in Tanzania, close to its total spending for fiscal 1991 (approximately \$23.2 million), represents roughly a 500 percent increase over fiscal 1990, when AID spent approximately \$4.3 million on projects in Tanzania. In addition, AID has slated \$9.5 million to be spent on its Tanzania-Zambia Railroad Authority (TAZARA) Project for fiscal 1992.<sup>4</sup> AID, along with eleven other donors, has assisted TAZARA since 1987. AID spending on TAZARA in fiscal 1990 amounted to \$15 million.

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<sup>3</sup> AID spending figures for fiscal years 1990-1992 are taken from *AID Congressional Presentation, Fiscal Year 1992*. The fiscal 1991 figure is an estimate.

<sup>4</sup> TAZARA project money, though spent in Tanzania, is disbursed through AID's Southern Africa Regional account.

The only thing that would justify this boost in AID spending in Tanzania would be Tanzanian progress toward a market economy. Apparently, therefore, AID is satisfied with the Mwinyi regime's half-hearted economic reform performance. American aid to Tanzania, moreover, has not been limited to AID funds. In March 1990, the U.S. Treasury Department forgave a roughly \$40 million Tanzanian debt owed to the U.S. government. This September, the U.S. Department of Agriculture waived a \$59 million debt Tanzania owed to the U.S. Commodities Credit Corporation, a federal agency. This second public debt relief is authorized by P.L. 480, which aids less developed countries "undertaking significant positive economic measures" with the IMF or the World Bank. In this instance, U.S. foreign aid policy is being shaped by multilateral financial institutions that continually have demonstrated permissiveness toward state controlled economies.

This June, citing "major accomplishments" by the Tanzanian government in reforming its economy, Western donors that belong to the Paris Club Consultative Group announced their backing of the final year of the Tanzanian government's Economic and Social Action Program with grants and loans on generous terms totalling some \$1 billion. This August, the World Bank and IMF agreed to lend Tanzania \$242 million through 1994 on generous terms.

The fact is that under Mwinyi's leadership, Tanzania has done nothing to merit such massive Western and multilateral aid.

## AID PROJECTS

Since AID resumed operations in Tanzania, its projects primarily have involved transportation, training, health, wildlife management, and family planning. These projects, like their predecessors of the 1970s and early 1980s, are wasteful, if not outright harmful to Tanzanian economic development, because they operate in a state-dominated economy hostile to market forces.

AID's \$46 million TAZARA project, begun in 1987, has been poorly managed.<sup>5</sup> More troubling, TAZARA in all likelihood will not become commercially viable. In fact, at least by 1989, AID had recognized that TAZARA probably would not be able to survive independent of donor support. The problem was that traffic patterns had begun to shift away from Tanzanian railways. With South Africa now shedding its pariah status, Zambia is again sending its goods via South African transport routes, not via TAZARA. TAZARA traffic has declined since 1988, exacerbating TAZARA's already weak maintenance capacity and poor cash generation. All these problems have persisted despite massive donor assistance.

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<sup>5</sup> AID's Office of the Inspector General in Audit Report No. 3-690-91-03, November 21, 1990, highlights poor management and a lack of accountability on the TAZARA project. The audit notes, among other shortcomings, that TAZARA lacked an effective system for ensuring that AID-financed spare parts worth roughly \$3 million were properly accounted for upon receipt and while in storage. The spare parts also were not adequately safeguarded against loss, theft, and unauthorized use.

**Another White Elephant.** The effects of these shortcomings on TAZARA's capacity to date have been masked by donor generosity. At last, however, donor patience is running low, leaving TAZARA's future in question. Donor patience also is being taxed by political meddling. TAZARA, like Tanesco, still is hamstrung by political interference, affecting such fundamental decisions such as rate-setting. So it appears that for all the Western aid that TAZARA has absorbed, the result will be yet another unprofitable Tanzanian government white elephant requiring subsidies, not a vibrant market-driven enterprise.

AID's \$30 million Agricultural Transport Assistance Project ostensibly is to help the Tanzanian government to reduce or eliminate transportation bottlenecks in agricultural production and marketing. This project already has spent some \$11 million, with at least another \$10.4 million slated for in fiscal 1992. It seems to make no difference to AID that the problem with Tanzanian agriculture is the persistence of state control; the problem is not transportation bottlenecks.

An example of donors directly supporting a wasteful, half-hearted Tanzanian reform is the case of the Open General License (OGL). Introduced by the Tanzanian government in 1988, the OGL is a system for allocating the foreign currency required to import goods into Tanzania. The OGL is designed to replace the traditional political method of allocating Tanzania's scarce foreign currency. OGL ostensibly gives priority to enterprises that are best able to utilize foreign currency. In practice, however, Tanzanian bureaucrats demand bribes from potential recipients of foreign exchange, much of it donor-provided. By backing the OGL, foreign aid donors underwrite Tanzanian corruption.<sup>6</sup>

## HOW TO IMPROVE AMERICAN FOREIGN AID

Washington should not be expanding significantly American aid to Tanzania until that country thoroughly reforms its economy. To ensure that American funds in Tanzania and elsewhere are used in ways that help the economy and raise living standards, Washington should:

- ◆ **Use the Index of Economic Freedom to determine whether America should economically assist various countries.**

The Index of Economic Freedom is a system for measuring and evaluating a country's progress in developing a market economy. Among other factors, the Index considers property rights, the extent of economic regulation, size of the state sector, taxation, and trade policy. The 1992 Foreign Aid Authorization bill, if passed by Congress and signed by George Bush, will require AID to use a common standard for evaluating and comparing recipient countries' progress in adopting economic policies that foster individual economic freedom.<sup>7</sup>

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<sup>6</sup> See "Low Marx," *The Economist*, August 24, 1991, pp. 40-42.

<sup>7</sup> Congress may not pass a fiscal 1992 foreign aid authorization bill due to the current version's numerous controversial provisions.

The Index, cited in this bill's report, should be used by AID in making this evaluation and comparison. The results should then be used by all U.S. agencies distributing foreign assistance, including debt relief, to determine how America's scarce development dollars are allocated. Washington's excessive and wasted spending in Tanzania demonstrates that in evaluating economies and allocating American development dollars, Washington needs a firm market economy guide that is much more stringent than those guiding other Western donors and the multilateral financial institutions. Only countries that score high on the Index of Economic Freedom warrant American development assistance.

◆ **Reduce AID's Development Fund for Africa (DFA).**

The DFA is AID's main funding account for African development assistance, contributing approximately 91 percent to AID's fiscal 1992 budget for Tanzania. Though the Tanzanian government's economic reform progress has warranted no reward, AID funding has soared 500 percent in the past year. This strongly suggests that other AID missions in Africa are being excessively and wastefully funded. Yet the House is pushing for \$1 billion for the DFA in fiscal 1992, which is \$200 million more than in fiscal 1991.<sup>8</sup> Curiously, AID requested only \$800 million from Congress. In Africa, where state-dominated economies are common, \$800 million is more than enough money to assist those few countries that would score high on the Index of Economic Freedom.

◆ **Eliminate or disregard AID's "Democracy Initiative."**

AID's "Democracy Initiative" begun in 1990 aims to reward political liberalization in recipient countries with economic development assistance. Though surely well-intended, the project detracts from what should be AID's sole goal: promoting economic development through support for market economies defined by the Index of Economic Freedom. Supporting democracy may be the appropriate task of the State Department, National Endowment for Democracy and other federal agencies. It is not a goal of development assistance. To make it such a goal dilutes AID's accountability for development progress in the countries that it assists.

Tanzania's Mwinyi no doubt won millions of dollars in American economic assistance by sanctioning a study of possible multi-party political reform for Tanzania. While his action rightly was applauded and richly rewarded, Tanzania's economic reforms have lagged. The Index of Economic Freedom, moreover, will boost democracy, for market-driven economies are the surest route to lasting democracy.<sup>9</sup>

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<sup>8</sup> The Senate came to the 1992 foreign aid authorization bill conference with \$800 million slated for DFA for fiscal 1992. Without a fiscal 1992 authorization bill, at least \$800 million will be spent for the DFA in fiscal 1992 via continuing appropriations resolutions.

<sup>9</sup> Evidence that successful market economic reform must predate democracy in reforming socialist countries appears in Poland, whose October 28 election results bode poorly for the continuation of its new and bold market economic reform program. The Polish people, feeling the sting of this market economic reform program, apparently have signalled their desire to reject it before it has had a chance to succeed.

- ◆ **Develop and emphasize AID projects that give the U.S. greater flexibility to shift resources among recipient countries.**

If the Index of Economic Freedom is to be used by U.S. agencies distributing foreign assistance to determine how America's development dollars are allocated, then the U.S. needs flexibility in its development assistance commitments. A country scoring high on the Index one day, may not score so high the next. The U.S. should be able to respond to such changes. It cannot do so if it is involved in long-term, capital-intensive projects such as TAZARA. The dilemma of whether or not to stop supporting a project in which significant resources already have been invested undermines the credibility of American threats to halt projects, thus minimizing American leverage over host governments. The turbulence of African politics, the specter of the Brooke Amendment forcing AID missions to close down, and a policy of assisting only market economies all point to the wisdom of keeping programs limited to the short term.

- ◆ **Give priority to bilateral, in contrast to multilateral, foreign assistance.**

The World Bank, the IMF, and other multilateral financial institutions concerned with promoting economic development have potential advantages as a conduit for aid, including the clout that a generously supported multilateral organization has in dealing with aid recipients. The trouble is that American influence within these organizations is waning, while that of the Japanese and Germans is growing. Neither Tokyo nor Berlin has demonstrated any commitment to promoting true market economics in developing countries. This has been clear in Tanzania, where Western donors and multilateral financial institutions have been too tolerant of state dominance of the Tanzanian economy. Western and multilateral aid, therefore, merely have propped up the failed Tanzanian economy.

While the U.S. can transform its development assistance policies in accord with the Index of Economic Freedom, it is unlikely that the U.S. could reform the multilateral financial institutions. America thus should give priority to giving aid directly to recipients rather than channeling it through the multilaterals.

## **CONCLUSION**

As one of the world's largest recipients of foreign economic aid per capita, Tanzania is a paradigm of what continues to be wrong with Western approaches to development assistance. Among these shortcomings in Tanzania, one stands out: The market economic reforms urgently needed to correct Julius Nyerere's legacy of economic devastation and make development assistance worthwhile have not been forthcoming. Despite this, America and other donors sink even more development assistance funds into the Tanzanian economy. What may be worse, Tanzania is being hailed by AID, the U.S., the World Bank, and the IMF as one of the African countries making the fastest strides toward market economic reform.

In reality, Tanzania increasingly is becoming a ward of the international donor community. While there undoubtedly are some American "successes" in Tanzania, AID projects that do improve the life of a few Tanzanians, these accomplishments are not self-sustaining.

They would be self-sustaining if Tanzania reformed its economy in a way that scored high on the market-oriented Index of Economic Freedom. The resultant economic growth, not expanded and unaffordable social spending, would allow Tanzania to raise living standards, extend life-expectancies, fight disease, and invigorate agriculture, while freeing the country of its debilitating dependency on Western aid. Continuing to aid Tanzania despite its lack of market economic reform is not a sign of U.S. good-heartedness, it is just foolish policy.

**Bold Reforms Needed.** It is clear in Africa and elsewhere that market economic reforms must be bold to succeed. Until bold market economic reforms are made in Tanzania, the U.S. should limit itself to promoting, with political and not economic support, Tanzanian democracy by encouraging President Mwinyi to continue the long overdue political reforms. U.S. humanitarian aid to Tanzania in life-threatening emergencies also would be appropriate.

America's interests in Africa have changed significantly with the Cold War's demise. There remain valid reasons to assist African countries in developing economically. However, there are no valid reasons to do so inefficiently, or to tolerate the continued wasting of America's scarce economic development dollars by propping up stagnant economies that are not being transformed rapidly into genuine market economies.

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