Aid Dependence and Policy Ownership
The Tanzanian Experience with Lessons from Bangladesh

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In the early phase of decolonisation and after the end of the Second World War, foreign aid in the way of external resource flows, was seen as the panacea for the development and transformation of the Developing Countries (DC). Aid was then deemed necessary for bridging the savings-investment gap and the import-export gap. The post colonial States presumed that the Advanced Industrial Countries (AIC) would provide aid to bridge the twin gaps not only out of a sense of moral obligation but were also motivated by the Keynesian orthodoxy of that time, that export of capital as aid to the DCs, would also stimulate and sustain the development of the AIC economies themselves. This shared vision of a mutually beneficial partnership between the
DCs and AICs, has over the years, dissipated itself. While the donors have developed in their minds, a sense of deep disillusion over the limited transformatory impact of three decades of aid flows to the DCs, the DCs on the other hand have a growing feeling in their minds that the aid relationship has forged new patterns of hegemony by the North over the South which has compromised the sovereignty of Third World States (TWS) and eroded the legitimacy of their regimes.

A new school of thought has emerged amongst social scientists from both North and South which argues that aid has become part of the problem and not the solution to the development needs of the DCs. There is an element of aid fatigue now rife within most donor countries and pressure has been mounting to bypass the State in delivering aid to identified target groups within the countries. This deterioration in the aid climate, has encouraged aid bureaucracies to become more assertive over the terms on which aid should be offered which is further compromising both the capacity for governance within DCs and aggravating tensions in the donor-recipient relationship.

It is in Africa where this sense of unease with the aid relationship has become particularly aggravated and where growing aid dependence is juxtaposed against a deteriorating economic situation. A massive inflow of donor resources and growing exposure to donor advice has failed to reverse this deterioration in the state of their economies, for a great number of African countries. As the numbers show, among Low Income Countries (LICs) in Africa the external balance of 19 out of 22 countries has deteriorated between 1970 and 1993. Moreover, comparing the figures between 1965-80 and 1981-93 for low income African countries, 13 out of 22 countries showed a deterioration in growth performance, 12 out of 26 countries showed a deterioration in export-growth rates and 7 out of 9 countries faced a reduction of their manufacturing growth rates. This process of de-industrialisation was further affirmed by the fact that, as between 1965-70 and 1992-93, the share of value added from manufactures in the GDP deteriorated in 11 out of 20 African countries.
This paper addresses the sources of this deterioration in the aid relationship by examining the pathology of aid dependency and donor policy in the specific context of Tanzania. In doing so, this study juxtaposes the specific experiences of another aid dependent Third World country, Bangladesh, with very different geographical, historical, demographic, social and cultural configurations, for purpose of comparison and contrast with Tanzania, in order to obtain a broader perspective to our specific inquiry into the dynamics of aid dependency.

**The Concept of Aid Dependence**

Aid dependency can be conceptualised as a structural phenomenon which derives from the incapacity of the economy to react to external shocks. In an increasingly interdependent world of more open economies, external shocks impact more severely on structurally undiversified economies which are particularly characteristic of the LICs. External dependence has thus emerged as a consequence of this state of structural atrophy. Aid dependence has however to be seen in the wider context of external dependency. Thus, aid dependence for a country today, must be situated within the changing structural features of its economy and society, as well as its interface with the global trading system. This increased vulnerability of many DCs to external economic forces has, in turn, led to a loss of autonomy over their management of their economies which has compromised the political authority of many Third Word regimes. This erosion of domestic authority has accentuated the crisis of governance which was part of the original problem of aid dependence and now remains a critical factor in its perpetuation.

Looking at aid dependence in both Bangladesh and Tanzania as a structural phenomena, we may note that Bangladesh, has managed to somewhat diversify its economic and export base in recent years. It has built up a sizeable market for its export of Ready-Made Garments (RMG) and migrant labour. This has served to moderately reduce its dependence on aid but has still
left Bangladesh vulnerable to trends in the global economy which impact on its key exports and has done little to make its policymakers less dependent on the donors for policy guidance. In contrast, Tanzania's economy remains largely undiversified even today which leaves it more vulnerable today to the fluctuations in aid flows than it did in the 1970s when its commodity exports still provided the major part of its external earnings, whilst its dependency on the donors for policy advice has attained narcotic proportions.

Foreign aid, in many DCs, provided by donors to finance development, has indeed not been very effective, particularly in the LICs, in contributing to the transformation of their economic structures. In many cases aid did not translate into investment and in fact became an important source for financing current consumption both on the private and public account. The move by donors to provide free foreign exchange under the aid budget, in the form of import support programmes, may have contributed to a deterioration in the efforts of the recipient countries at domestic resource mobilisation as well as to generate domestic exports. Aid flows, particularly in their current forms, thus carry the potential of aggravating the budgetary as well as the external resource gap. Programme lending, which was built around the introduction of donor driven agendas for policy reform, has in practise, tended to erode the capacity for effective governance apparent in the weakened efforts at domestic resource mobilisation by aggravating the loss of ownership over domestic policy making. Weak governance has thus become in-built in the aid relationship. The availability of aid to finance current consumption has thus inadvertently encouraged new forms of budgetary indiscipline and erosion in the capacity for mobilising domestic savings. In this environment of growing aid dependency, public officials find it more profitable to negotiate aid inflows rather than mobilising domestic resources or to monitor project implementation and improve the management of completed projects.

This deterioration in governance capacity has prompted the ascendancy of the donors in influencing the macro-economic direction of the economy. This
process has further accentuated the already pro-active role of the donors evident in the micro-management exercised by them at the project level. The erosion in domestic governance capacity has contributed to the weak impact of donor driven policy reforms in many LICs. This phenomenon, in the 1980s era of programme based lending had, we have noted, not yielded particularly satisfactory economic results in many DCs. Paradoxically, this poor development performance has led to an even more visible presence for donors in the DCs rather than a process of withdrawal and rethinking. The growing hegemony of the donors over the policy design and direction of DC economies has made Third World governments feel increasingly disconnected from the reform process. The political leadership in many LICs has thus appeared to their citizens to be subordinated to the ideological agendas of the donors and local bureaucracies appear to be embedded in relations of intimacy both with donors and business. This has contributed to the corruption of the state through its gradual privatisation. This symbiotic deterioration in both governance and the economy during a period of enhanced aid flows in support of donor driven policy reforms, has exposed the aid relationship to discredit and possible attrition within the donor countries. This process has generated demands in both donor and Third World countries for a fundamental rethinking of the aid relationship itself.

This paper reviews Tanzania's overall aid relationship within the above conceptual framework. The paper draws upon Bangladesh's experience with aid so as to broaden the empirical foundations of our analytical construct used in this study.

The Macroeconomics of Tanzania's Aid Dependence

Upto the mid-1980s, Tanzania had maintained a capacity to finance its development budget though this capacity declined progressively from the 1970s. Whilst aid financing of the development budget fell from 33% to 28% between the first half and the second half of the 1960s, it gradually rose to 55%
between 1980-85. Aid in the pre-1985 period also played a much less significant role in underwriting the recurrent account deficit. In the case of Bangladesh, throughout the 1970s and 1980s, aid continued to finance over 70% of the development budget, rising in some years to over 90%.

From 1986 onwards, aid finance came to exceed Total Development Expenditure (TDE) in Tanzania, rising from 120% of TDE in 1986, when the Government of Tanzania (GOT) accepted the first of the Economic Reform Programs (ERP-1) designed by the Bretton Woods Institutions (BWI), the World Bank (WB) and the International Monetary Fund (IMF), to 170% in 1993-94. There is however evidence that some public revenues were channeled to finance some development expenditure which was then compensated by the diversion of aid resources to finance a growing share of the recurrent budget.

Aid to Tanzania in the form of Commodity Import Support (CIS), from the 1970s, was designed to service the fuller utilisation of installed productive capacity, and to generate counterpart funds for financing domestic government expenditure. These counterpart funds were not always forthcoming as many parastatals who drew upon the CIS did not deposit counterpart payments with the exchequer. This CIS programme was overtaken by the Open General Licence (OGL) system which was designed to make the import financing system more market oriented. But this redirection of the system of programme aid only extended the failure to make counterpart deposits, from the public to the private sector, where private beneficiaries used the CIS as a form of unsecured loans to finance their commercial imports.

Notwithstanding the failure to fully realise counterpart payments, the CIS, in fact, began to play a growing role in financing Tanzania's recurrent budget deficit as between the pre and post-ERP period. Consequently the share of recurrent expenditure in total expenditure showed an increasing trend whilst development expenditure declined both in absolute and relative terms. This failure to expand the productive base left little scope for diversification of the economy. The share of aid going to industry fell to 8% by 1993, indicating that
budget allocations to this sector declined drastically in the 1980s. Aid thus did little to arrest the process of de-industrialisation in Tanzania and to break out of the structural atrophy which characterises the economy today.

The access to aid funds also helped to finance current expenditure in Bangladesh. This process contributed, from the beginning of the 1980s, to a progressive deterioration in the TDE/TPE ratio which held good until very recently (1993-95). Though in Bangladesh, unlike Tanzania, this rise in the share of current expenditure cannot, to the same extent, be ascribed to the changing structure of aid flows.

Aid to Tanzania has also contributed to sustain a consumption boom through the free flow of imports, without any corresponding surge in the import of capital goods (net of a transport equipment, in real terms). This owes to the fact that the use of aid to underwrite the CIS has been accompanied by a donor driven agenda for rapid import liberalization through the ready availability of foreign exchange under the OGL. This process has flooded the domestic market with imported consumer goods. This trend has undermined the viability of many local industries which had, in the last decade and a half, been nurtured under a protective trading regime. This protected market had contributed to eroding the competitiveness of local industries who were thus left quite incapable of withstanding competition from liberalised imports and particularly from the increasing volume of illicit, untaxed imports. As a result many local industries have had to close their doors or to reduce their capacity use. This process of import liberalisation has not only fed an import surge but has thus contributed to the process of de-industrialization in Tanzania. In such a regime aid has underwritten trading, mostly in the form of consumption goods imports, at the expense of domestic production. Since the introduction of the ERP, the trade gap has thus witnessed a rapid growth. A trade deficit of 27.6% of imports, during 1971-75, rose to 69% of total imports during 1991-94. Evidence shows that the increased availability of aid contributed to the
accentuation of the trade gap without improving the productive capacity or diversifying the productive structure of the economy.

The increase in the share of recurrent expenditure in TPE and the share of consumption related imports has exposed Tanzania to a gradual decline in its rate of gross domestic savings (GDS) in relation to GDP. The decline in the growth rate of GDP has been paralleled by a decline in the external resource gap/GDP ratio. This downward trajectory of the GDS holds good even if we take into consideration the activities of the ‘second economy’. The deterioration in Tanzania's GDS and the rise in the external resource gap parallels Bangladesh experience in the 1980's. However in recent years Bangladesh has managed to reduce its external gap through expanding its export earnings which has served to somewhat improve its GDS.

There is a positive but weak link between aid and GDP growth deriving from the low productivity of aided projects. Whilst aid may have had a rather modest impact on Tanzania's fluctuating economic fortunes up to 1985 there is little doubt that much of the revival in growth since 1986 can be attributed to the significant improvement in aid flows. This ready availability of aid may have masked the positive or negative contribution of the reform process to the state of the economy.

In actual practice during the period of reforms and generous aid flows after the ERP, Tanzania's economy, placed in historical perspective, performed less impressively than may have been expected, in terms of its GDP growth rates, agricultural and manufacturing performance. Aid and reforms also failed to stimulate any surge in exports. Merchandise exports averaged only $431 million a year between 1990-94 compared to $527 million, in the pre-reform 1976-80 period.
Realizing Structural Change

(a) The Economic Structure

There was little in the way of structural change realised in the Tanzanian economy which could contribute to its diversification. As regards the structural change in the manufacturing sector, its share in GDP deteriorated from 13% in 1976 to 5% in 1993, and its share in exports fell to 14% of total exports in 1993, compared to 28% in 1981. The real value of investment in manufacturing was considerably lower in the 1990s than the late 1970s. The increase in aid through the CIS, targeted to improve capacity use, amongst its other uses, thus did not make a great deal of difference to the manufacturing sector. The manufacturing sector is today faced with the problem of lack of effective demand, due both to the poverty of the population and to excessive competition from manufactured imports, which continue to come in freely under the OGL system.

Tanzania's inability to diversify its production capacity and its export structure imposed both a balance of payments constraint on its growth as well as exposed such growth to a high degree of instability. The poverty of its rural economy and the import constraint arising out of its weak export base, has over the years, undermined the Basic Industrial Strategy (BIS) which underwrote Tanzania's industrialization drive in the 1970s.

Both Tanzania and Bangladesh initially attempted to diversify their economies through development of the manufacturing sector, including some investment in both intermediate and capital goods. Though their strategy did initiate some industrialisation, including diversification of its export base, the diversification of the manufacturing base was constrained by the smaller size of their domestic markets. The assumption by the planners, in both Bangladesh and Tanzania, that rapid domestic growth would generate a growing market for more capital intensive industries was not sustained by experience. Bangladesh has however been more successful in diversification of its manufacturing and export base than has Tanzania. Bangladesh has in the
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process managed to reduce its external dependence due to the development of an entirely new export industry, Readymade Garments (RMG), which, along with migrant remittances, has led to a significant growth in export earnings, inspite of a decline in the export earnings of its once dominant jute industry. In contrast, lack of diversification in its export base, has left Tanzania, in 1995, as dependent on primary commodity exports as it was during its pre-independence era. The demand and price of traditional commodity exports are moving downwards in the global market. Thus lack of export diversification has been responsible for the stagnation in Tanzania's export earnings over the last two decades which has perpetuated both aid dependency as well as the vulnerability of the Tanzanian economy to external shocks.

Tanzania has for over a decade been in chronic deficit even in its recurrent budget. This has kept its development process much more externally dependent than even Bangladesh's, which can today finance a larger share of its development budget than it did a decade ago. The decline in the proportion of Tanzania's development budget, which is underwritten from domestic sources, severely abridges the control retained by the host government over its development priorities, leaving it hostage to the priorities of its aid donors. Lack of control over the size and composition of its development programme has left the GOT with little control over the direction of its economy. The GOT has been persuaded by the BWI to prepare a Rolling Plan and Forward Budget (RPFB) for Tanzania for the period 1994-95 – 1996-97. The RPFB as it has emerged, seems to be taken, in toto, from the Policy Framework Paper (PFP) negotiated by the GOT with the BWI and thus closely approximates the WB's own notion of Tanzania's strategic priorities. The fact that, even in 1996-97, Tanzania will be dependent on donor financing of its recurrent budget, suggests that the donors will set the agenda for both short and long term development priorities in Tanzania.

The prevailing orthodoxies which condition donor thinking on development policy do not include any initiative to diversify the Tanzanian
economy. Since there has been little growth in the Tanzanian economy in the last decade, it is hardly an attractive place for Direct Foreign Investment (DFI), which in the last five years has been virtually negligible. Thus Tanzania cannot even look to DFI to diversify its economy to compensate for the failure of aid to do so. Bangladesh has also been very unsuccessful in drawing upon DFI to diversity its economy, which, in 1993-94, amounted to only 1.3% of total external resource inflows into Bangladesh. The DFI route to economic diversification does not appear, at this moment, to hold much promise for the LDC's.

The Social Structure

Realising structural change is not just a question of changing the structure of the economy but depends on the social structures which drive the forces of economic change. We need to look at these forces to understand the constraints to structural change in an economy. Both in Bangladesh and Tanzania, in the post-colonial phase, the State came to play a paramount role in the direction of their respective economies. This ascendancy of the State owed, in so small measure, to the fact that the embryonic or even non-existent indigenous bourgeoisie in these countries were largely incapable of filling the economic spaces vacated by the departed expatriate business community. In this environment, the pro-active or *demurgic* State emerged to fill up the entrepreneurial vacuum. The weaknesses of its native bourgeoisie is now constraining Tanzania's efforts to downsize the State through a process of privatisation. There is very little in the way of an African bourgeoisie at hand today in Tanzania to take over the divested parastatal sector. The main beneficiaries of a GOB driven policy of privatisation remain, the Asian community who had traditionally been dominant in business in Tanzania, and in recent years, some foreign capital largely originating from ‘white’ South Africa.
Though the process of indigenisation of the Tanzanian economy through nationalisation had not been particularly successful due to the weak performance of the parastatal sector, a policy of privatisation could today become counter-productive if it resurrects local fears over the restoration of Asian dominance over the economy. Moves to counteract public perceptions of Asian domination by bringing Africans into business, will need to explore more structural and institutional rather than policy based solutions which may demand a more pro-active role by the State. If any further Asianisation of the Tanzanian economic space remains politically unacceptable in democratic Tanzania, then, in the absence of more innovative rethinking over the role of the State, structural atrophy remains a likely prospect for Tanzania. The Asian community, which remains the principal instrument for initiating a process of new private investment in local industry, remains today more inclined to opt for trade rather than investment in industry, The Asian's investment behavior still remains influenced by the nationalisation of their assets in the wake of the Arusha declaration. In an import liberalised economy which has already led to the closure of many Asian owned industries and with the growing African fears over the revival of Asian dominance, Asian traders are hardly likely to be encouraged to transform themselves into Tanzanian industrialists.

Bangladesh, too at the time of its liberation in 1971, inherited a weak entrepreneurial class since the local economy was largely dominated by an expatriate business community. The sudden withdrawal of these expatriates from Bangladesh on the eve of independence left behind many untenanted businesses which were taken over by the State which lead to an overriding presence of the State in the ‘modern’ sector of the economy. However, in contrast to Tanzania, Bangladesh was able to develop some local entrepreneurial capacity by the end of the 1970’s, which spearheaded its own process of structural transformation through investment in the RMG sector. The smaller size of enterprises in the RMG industry makes fewer demands on entrepreneurial skill and resources since external markets had been largely
guaranteed, due to the quotas available to Bangladesh under the Multi Fibre Agreement (MFA). Such a guaranteed market may not survive when the MFA is phased out in the next decade as a consequence of agreements reached under the Uruguay Round of trade negotiations. Given the lack of backward integration of its RMG industry, Bangladesh is much less equipped to compete with the larger more diversified cheap labour economies of India and China in a quota-free trading environment.

Whilst the rise of a private sector, around the RMG sector, presented few problems, the privatisation of state owned industries in Bangladesh remains far more problematic. Over 50% of enterprises privatised in recent years remain closed and many more are in bad shape. Indiscriminate faith in privatisation as a panacea for stimulating the economy could thus be misplaced, if local entrepreneurial capacities remain incapable of taking over such enterprises and running them more efficiently than the public sector. Thus, an industrial policy which is dictated by the available capacities of the private entrepreneurial class and donor-imposed inaction by the State, could turn out to be a recipe for structural atrophy or at least retardation of the pace of structural change, in both Tanzania as well as Bangladesh and indeed, in most LICs.

**The Role of the Aid Relationship**

*Phases of the Aid Relationship*

The unsatisfactory outcomes from the provision of foreign aid has contributed to the deterioration in the aid relationship. It is therefore appropriate to now examine this relationship. Tanzania’s aid relations may be divided in three phases, each with some element of overlap:

i. The first phase may be characterised as the period of local ownership, where the GOT largely influenced the tenor of relations with the donor. Donors felt privileged to give aid to Tanzania and did not dream of attaching conditionalities to their aid. This was a period when, after the
Arusha declaration, even the WB, along with other donors, embraced the vision of Mwalimu Julius Nyerere, of self-reliance for Tanzania. The donors gave full support for the GOT’s plans for alleviation of poverty and grass roots development, shared their commitment towards industrialisation and invested heavily in public sector industrial enterprises designed for promoting self-reliance. This radical vision of development was however far from universally acceptable, at that time, to the very same donors who were then so enthusiastic about Tanzania's development design. In contrast to the treatment of Tanzania, during the 1970's, Bangladesh's attempt to pursue an agenda of state-led growth, also in the early 1970s, was exposed to much harsher treatment by the donors which eventually led to deceleration in aid disbursement and withholding of food aid, which precipitated a famine and eventually the fall of the regime committed to agendas far less radical than those in place at that time in Tanzania.

ii. The second period, around 1980-86, may be seen as a period of confrontation between the GOT and the donors as to who was in charge of the aid relationship. Even though the Tanzanian economy performed poorly in the late 1970's and donor's became sufficiently emboldened to press for policy changes, the GOT declined to accept any ideologically driven conditionalities attached to their aid. The GOT then believed that as Tanzania's economy had been exposed to severe exogenous shocks, its access to aid should be non-conditional. This stance of Tanzania was, to a small extent, similar to the case of Bangladesh, when the then Prime Minister of Bangladesh, Mujibur Rahman, refused aid offered on conditions deemed to be prejudicial to Bangladesh's strategic interests. This defiance led eventually to a contraction of aid flows and severe strains on the economy. Tanzania, however, faced up to the crisis with the donors between 1983-84, by carrying through its own economic recovery programme (ERP). This programme eventually became the basis for the
renewal of its relations with the donors by 1986 when the World Bank underwrote what was known as the first Economic Recovery Programme (ERP-I). In contrast, Bangladesh, after a change of regime in 1975, embraced without demure, the policy prescriptions of the aid donors, and has remained, ever since committed to faithfully accept all policy advise originating from the donors.

iii. The final phase of Tanzania's aid relationship associated with the post ERP era is one of donors, particularly the BWIs, in the ascendant and Tanzania in the role of taker of aid and policy direction. In this period, the BWI's seal of policy approval was the principal determinant of renewed ODA and loan rescheduling, since all donors had accepted the authority and wisdom of the BWI in setting the direction of Tanzania's reform programme. In this period, even the Nordic countries, who collectively remain the major source of aid to Tanzania, were reluctant to challenge the policy leadership of the BWI and remained disinclined to promote a search for alternative, or more autonomous development strategies for Tanzania. In this respect, donors have over the last two decades, also left the direction of policy reforms in Bangladesh to the BWI. The BWI's hegemony over the direction of development policy in Bangladesh, thus remains no different from its ascendancy in Tanzania, though it has been in place for very much longer in the former country.

Exposure to a decade of BWI-led reforms in Africa has, however, led to a new phase of concern over the protracted stagnation of the reforming economies, including that of Tanzania. In the mid-1990s we are witnessing yet another phase of donor fatigue. The aid relationship has patronised two successive development paradigms, the State-led and the market driven reform process. The outcome from both these models failed to impress the aid donors who have become progressively more disillusioned with the aid relationship. However whilst the earlier strategies in Tanzania were largely homegrown, the inadequate results yielded by the BWI reform agenda put in place over the last
decades, derive from a far more donor-driven reform process than was hitherto the case. Thus donor hegemony in the development arena in Tanzania today is total, with very little domestic ownership over the reform agenda or even the development process. This loss of ownership has to some extent delegitimised the Tanzanian State, which has in turn compromised the reform process and contributed to the perpetuation of aid dependency. A similar, more durable loss of ownership over its policy agenda, over the last decade characterises Bangladesh's relationship with its donors. This has persisted even in the 1990's when Bangladesh's aid dependence was less severe than in the 1980s. It is thus important to review the impact of the BWI agenda on the economies of Tanzania and Bangladesh to understand the nature of this deterioration in the aid relationship.

The Outcomes of the Reform Agenda

The main features of the outcome of the donor driven reform process in both Tanzania and Bangladesh are summarised below:

i. The BWI, through their escalated volume of programme loans, actually contributed towards aggravating imbalances on both the budgetary and external account which has hardly contributed to maintaining fiscal discipline. Whilst this perspective applies more strongly to Tanzania, it also captures the impact of aid on fiscal management in Bangladesh, particularly in the 1980s.

ii. Monetary restraint remains a valid objective of reform. The growth in money supply, over the last decade, has in fact been quite restrained in both countries. In Bangladesh the demand for money in the 1980 remained largely driven by the increasing demand for credit from a growing private sector at a time when the role of the public sector in the economy was being downsized.

iii. Financial sector reforms have run into serious difficulties in both countries as there has been little headway in recovering defaulted loans
from both the public and the private sector. This indicates that imposing financial discipline in both countries demands more than just agreeing to a package of externally designed reforms and needs to address issues of governance which largely influences the degrees of discipline in the management of the financial system and promotes a default culture amongst borrowers.

iv. Exchange rate reforms have served well to reduce the distortions in the economy as well as minimising the enormous scope for public and private rent seeking. But the fact that such policies have had a favourable impact on promoting exports remains debatable. In Bangladesh, at least, export growth has tended to be influenced strongly by the fluctuating levels and composition of global demand as well as supply side diversification which influence its export capacity.

v. The liberalisation of imports may have become counter-productive in both countries through its negative impact on private industrial investment and by undermining the viability of a nascent industrial sector. In Tanzania, it may be held responsible for the de-industrialisation of the local economy, leading to export stagnation and hence perpetuation of aid dependence.

vi. The liberalisation of price controls made public institutions in Tanzania more sensitive to commercial considerations. But it may have done more harm than good to the poor and small farmers in both countries, if price control is viewed as a distributive decision and not just an issue of economic efficiency.

vii. Civil service reforms have barely touched the fringe of the problem due to the reluctance in both countries, of electoral aspirants operating in a plural political system, to challenge the collective strength of civil service unions. Thus donor driven administrative reforms remain an unopened
Pandora’s box where sensitive and democratically mandated solutions will have to be endogenously designed and politically marketed.

viii. As regards public enterprise reform, the BWI have committed themselves to its whole-sale replacement by the private sector. This commitment to downsize the State sector, whatever be its level of performance, has led to a serious deterioration in the morale of public sector employees. As a result the quality of the public servants and the sustainability of public institutions has degenerated exponentially in both countries. Many of these public servants, while awaiting their golden handshakes prior to retrenchment or disinvestment, occupy their time in largely predatory activities, which may have accelerated the deterioration in the performance of the state sector.

Aid Conditionalities

The very notion of conditionality derives from the belief that the host country is unwilling and/or unable to undertake a proposed set of reforms. In fact, the attachment of such conditionalities of reform to an aid package, from its very conception, serves to erode the sustainability of the reform process. The reform process in both countries has thus become a largely donor-driven process with little local ownership over the process. Conditional aid agreements are thus increasingly coming to depend on the institutional imperatives of both sides: from the bureaucrats of the aid agencies who negotiate the aid so as to convince their masters that they have persuaded recipients to embrace reforms; from the recipient country bureaucrats who want to ensure that an aid agreement has been concluded which brings millions of dollars into the country. Thus commitment to a set of conditionalities has little to do with their appropriateness for the country and owe more to the private agendas of the bureaucrats. The end result of this collusive bureaucratic compact remains the continuing spectacle of default over conditionalities in both countries. In Bangladesh, for example, aid disbursements under various aid agreements are
periodically suspended either at the beginning, or after the first or the second tranche disbursement.

The Ascendency of the BWI in Setting the Policy Agenda

In the case of Tanzania most donors, including the Nordics, have let the WB and IMF take the lead in setting the conditionalities through their programme loans. In Bangladesh, the BWI and ADB have not only become the main agents for the design and enforcement of conditionalities but attempt to persuade bilateral donors to sign on to particular conditionalities, thereby enhancing the leverage with Bangladesh, attached to the BWI designed conditionalities.

The BWI have acquired a certain primacy in their influence over the development agenda of the GOT by playing a role as aid coordinator and through their monopoly over the documentation prepared for the aid consultative meetings. Their position has been strengthened by the ascendancy of the WB to the position of lead donor to Tanzania in the 1990s. Even though it accounted for only 16% of total aid in 1990-92 and for 44.5% of all CIS/OGL aid in the 1988-94 period. The WB has been able to use the aid provided by SIDA and other bilateral donors to further leverage their reform initiatives in Tanzania. In this respect the lead role of the BWI in defining and monitoring the reform agenda in Bangladesh remains similar to the role it plays in Tanzania. Most bilaterals, including the Nordics, are quite willing to cede responsibility to the BWI in giving direction to the reform process. The problem with this approach to aid coordination by the BWI is that both the design of the reform and the evaluation of progress are vested with the staff of the BWI, and thus tend to be heavily weighted by their world view and analytical framework.

Issues of Ownership

In Bangladesh attempts have been made to develop an alternative perspective to the Bank's dominance over the development discourse, in such organisation
as the Bangladesh Institute of Development Studies (BIDS) and the Centre for Policy Dialogue (CPD). The CPD has been publishing an independent review of Bangladesh's development (IRBD) which was launched in 1995 with a review of the BWI driven experience with economic reforms. The report is the first effort to provide an endogenous source of information on the economy, with sufficient ballast to challenge the interpretations of the BWI, on the status of their reform programme in Bangladesh. This is now available not just to policymakers and civil society in Bangladesh but also to others donors who can now draw upon an alterative source of analysis of Bangladesh's development.

The GOB, as well as the GOT have, for all practical purposes, lost control over their development priorities. In these circumstances, the complete autonomy of each donor over their own projects has now intruded into imposing their own programme priorities over both countries. The inability of both the GOB and the GOT to set their own development priorities has made it difficult to coordinate aid at the micro level. Ceding of authority by all donors to the BWI to set the macro-economic policy agenda does not extend to ceding leadership over sectoral or project level aid. The GOB and GOT development programme is thus made up largely of an uncoordinated set of projects, aggregated under the *Rolling plan*. Such an approach to development leads to lack of coordination in the use of project aid. This has resulted in wasteful use of aid, through duplication of effort and institutional proliferation. However minimal efforts at aid coordination both within the government, with and amongst even its donors, could lead to substantial savings of aid which could in fact enhance the volume of resources delivered directly to the poor.

**The Terms of Aid**

Both the GOB and GOT, as least developed countries, have accessed a large share of their aid on soft terms. The easy terms on which both countries access aid is however not without a price. Notwithstanding the softening in the terms of aid, the sheer volume of aid being delivered in both countries has raised the
weight of their respective debt burdens. In 1994, whilst Bangladesh's debt burden rose to 54% of its GDP, Tanzania's debt/GDP ratio in 1993 stood at an incredible 313%. The end result of this build up in the accumulated aid burden of Tanzania is to be found in the divergent trends in their debt service ratio, which in 1993-94 was 25% of its earnings. In contrast Bangladesh's debt service ratio has come down from 28% in 1985 to 12% in 1993-94.

Another cost of ‘soft’ of aid is the costs that accrue out of aid tying. In 1986, a BIDS study on aid to Bangladesh estimated that between 1971-83, Bangladesh lost about $728 millions as a consequence of aid tying through the added costs of aided commodity imports. The costs of tied aid for projects are however higher in Bangladesh than that for commodity aid. In Tanzania the estimates of untied aid come to half of all aid disbursed so that they too have paid a price for such aid. The main cost of ‘soft’ aid however remains the leverage it provides to donors to dictate the policy agenda, design and management of their aid. There is thus a trade-off between ‘soft’ terms and ‘hard’ conditionalities.

The Role of Technical Assistance

In Tanzania the share of Technical Assistance (TA) to total aid has increased from 26% in 1988-85 to 42.6% in 1993. In Bangladesh the share of TA is close to a fifth of all aid inflows. Such a heavy investment in TA in Tanzania has not been free of hazards as has also been the case in Bangladesh. This TA is, however, playing a counter-productive role in both Tanzania and Bangladesh because it undermines domestic capacities, distorts the skill market and erodes ownership over domestic policy. For many years, TA programmes, have turned both Tanzania as well as Bangladesh, into a happy hunting ground for expatriate consultants, whilst the best of the engineers, economists, doctors and other professionals have migrated out of these countries, leading to both capacity and institutional attrition.
Here Tanzania is slight better off than in Bangladesh in retaining its best people at home. However, for Tanzania as for Bangladesh, the price of keeping top professionals at home is to see them absorbed into the domestic consultancy market, sustained by donor-driven programmes of TA. Such TA-driven consultancy may in fact contribute to a misallocation of scarce resources in each country since the best skills in each country remain invested in writing consultancy reports which are largely unread by the GOB or GOT. All this time invested in donor-driven consultancy work has a high opportunity cost in time diverted from teaching responsibilities, supervision of research or in contributing to the domestic debate on policy making within Bangladesh and Tanzania. Diversion of a country’s best talents from leading the development debate, further contributes to loss of ownership over technical services by the recipient country.

In both Bangladesh and Tanzania the new approach of the donors appears to be to coopt influential, technically qualified bureaucrats, as consultants to contribute in designing the donor’s policy agendas for each country. This co-option of senior bureaucrats into the service of the aid donors is not without its political problems where the same officials are then expected to negotiate the merits of the same policy recommendations made by the donor, to which they have been party as consultants to the same donor.

Donor-driven consultancy contributes to serious distortions in the domestic market for technical services. It creates the basis for a dual wage system which creates parallel markets for the same skills. As a consequence of the inefficiencies of the global TA system, the GOB and the GOT can today no longer afford the service of the best experts in their own country at the local market price. The local experts, on the other hand, justify their work for the donors by arguing that it is better to influence the donors rather than to waste their time with a government who prefers to listen to the donors rather than to draw upon its domestic professional resources.
It is interesting to note that Tanzania appears to be much better served than Bangladesh in influencing the domestic policy debate through such local organisations as the Economic Research Bureau (ERB) of the University of Dar-es-Salaam and the Economic and Social Research Foundation (ESRF). Attempts to influence public policy have also been made in Bangladesh. In early 1991, under an interim government, 255 of the best professionals were invited to prepare 29 Task Force reports on the state of the economy and policy alternatives. However the work of these Task Forces, went largely ignored by the newly elected government which put its trust in the donor designed policy agenda it inherited from the previous regime. It is to be seen if the recent efforts of the CPD in assembling some of Bangladesh’s leading economists to prepare an annual assessment of Bangladesh’s development and bringing them into contact with policy makers and politicians in a regular programme of policy dialogues, will help to restore its development specialists to the public domain where they can exercise more influence on public policy. However in the absence of a direct commitment by the government, whether in Bangladesh or Tanzania, to draw upon its own professionals and involve them in the policy discourse, such initiatives from civil society will tend to be rather limited in their impact.

Aid and Governance

The emerging resource gaps on budgetary and external account, and capacity attrition in both Tanzania and Bangladesh, remain intimately linked to the quality of governance. In Tanzania administrative performance appears to have deteriorated. This is apparent in Bangladesh also, where both at the central, sectoral and local level, administrative capabilities have eroded exponentially. Whilst the inability to protect real incomes may be at the root of this deterioration in administrative capacities, the problem goes much beyond that to a general breakdown of the chain of command, where accountability disappears and maintenance of discipline becomes impossible. Such a system of governance seems doomed to collapse by implosion to the point where the
State degenerates into institutionalised predation. Here the culture of business, the quality of governance and the political will to change both, remains more central to the resolution of the problem than a donor-driven agenda of policy reform.

The Impact of Aid

Weak governance has inevitably influenced the impact of aid. The WB's evaluation of its aid experience in Tanzania found that returns from most of their projects were below their original expectation. Out of 8 causes identified for this poor performance, 5 of them were defined as governance related. A similar list of explanations could be cited to explain poor project performance in Bangladesh. In fact in an aid dependent society which treats aid as a political resource for private consumption or for use to obtain partisan gain, rather than as a long term investment for realising economic transformation of their country, little effort is invested in managing aid projects effectively. Thus, most of the administrative effort is invested in negotiating aid, much less in implementing aid projects, and the least time is deployed in effectively managing the project once it is completed. This distorted use of administrative time and political priority is a typical outcome of an aid driven system of governance. It is thus not surprising that in both Tanzania and Bangladesh, given the high volume of aid received under programme loans and the weak outcomes from their reform process, the WB's agenda of programme loans cannot be counted as a great success in terms of acceleration in growth or alleviation of poverty.

The Aid Relationship

In thus ceding hegemony to the BWI over its policies, Tanzania and Bangladesh have followed a route now familiar to most LICs, although Tanzania for close to 20 years was in charge of its own destiny, compared to Bangladesh, whose visionary phase lasted but a few years. For the last 15 years in Bangladesh and
since 1986-87 in Tanzania, both the vision and its execution have emerged out of the donor community.

As regards attempts at policy autonomy, it appears that the GOT makes much better use of its professionals to provide an input into the policy making process than does the GOB. However attempts, were made by the new Bangladesh Planning Commission, just after independence, to recapture control over policy making in post-independence Bangladesh, by assembling some of the best professionals in the country within the Commission. But this sense of self-assertion in policy making could not sustain itself in the absence of a strong fiscal effort, underwritten by rapid economic growth and strong political support for such an initiative. In the changed political milieu in Bangladesh after 1975, the ascendancy of the donors was re-established in Bangladesh. The bureaucracy has gradually, but willingly, surrendered its authority over policy formulation to the donors, even though some of them are quite competent to frame policy themselves. This disuse of their professional skills along with the diminution in the exercise of the authority, has made the bureaucracy into receptacles and then transmission agents for donor advice to the GOB. This reluctance of the bureaucrats, both in Tanzania and Bangladesh, to take greater charge over the direction of public policy, has served to weaken the public authority of the political leadership who depends on the bureaucrats for policy advise.

Thus it appears that if, today, Tanzania or Bangladesh were to seek to forge an independent direction in its economic policy, it would find that its capacities for autonomous action have become atrophied by disuse. Once a nation reaches this state of intellectual paralysis, aid dependence evolves from an economic condition into a cultural phenomena which conditions the national psyche.
The aid relationship originates in the nature of the State itself. The nature of the State in both Tanzania and Bangladesh has thus influenced their aid relationship. The absence of political pluralism in Tanzania made the system much less sensitive to the weaknesses of policy or the GOT inclined to take corrective measures against failures of policy implementation. As a result, with the visible deterioration in the Tanzanian economy in the late 70s, the donors emerged as the main challenge to the authority of the State to formulate policy. Again when the BWI asserted its hegemony over Tanzania's development agenda hardly any public debate emerged on the validity of this change in direction. In recent times, however, efforts have been made from the academicians in Tanzania to register some concern over the negative implications of the BWI reforms. In practice, however, the agenda now put in place by the BWI and under implementation by the present GOT, remains without effective challenge, in the absence of any politically backed attempt to design an endogenously conceived reform agenda. At present, the private industrialists in Tanzania who are one of the principal victims of donor-driven import liberalisation, appear to be emerging as a potentially influential force which might back some alternative thinking on the reform process. But the urgency of this group to change the import policy remains weak as long as these same business houses can opt for trade in a more open economy to compensate for the closure of their industrial capacity.

In a donor-influenced polity, as prevailed in Bangladesh and Tanzania over so many years, there is no tradition of policy debate on development issues or the slightest attempt to build a democratic consensus behind policy reforms, through the medium of such debate both in the legislature and within civil society. In post-democratic Bangladesh, parliament has unfortunately never emerged as an effective arena for policy debate. The scenario in Tanzania is not dissimilar. If a reform process is to be made saleable, a policy dialogue must be put in place, with the initiative coming both from civil society and the
government. In Bangladesh, attempts have been undertaken by the Centre for Policy Dialogue to initiate such policy dialogues. Initiatives such as this, must be made in Tanzania, by using such agencies as the ERB and ESRF.

Experience from the donor's reaction to polls in post-socialist Europe indicates that the donors prefer to put their faith in their own vision of economic reforms rather than the democratic concerns of aid recipients, registered at the polls. Inspite of hostile signals from the polls, host governments are encouraged to persevere with the donor-driven reform process. This sends a confusing message to political leaders in both Bangladesh and Tanzania who are seeking to establish democratic systems in the wake of prolonged exposure to a non-plural political order.

The Issue of Self-Reliance for Tanzania

An agenda for self-reliance for Tanzania calls for more serious efforts to find endogenous solutions which can make fuller use of its available productive capacities and professional skills to add value to its abundant national resources and generate value from its human resources. This implies:

A Rethinking of the Development Paradigm

Reindustrialisation: The present policy of capacity utilisation in Tanzania is perpetuating structural atrophy. This itself is the root cause of its growing aid dependency. Tanzania thus needs to reactivate its production base, through rethinking the pace of its import liberalisation strategy and compelling those parastatals, with a potential sustainability, to operate within the discipline of the market place. Using domestic capacity should thus be accorded the foremost priority for industrial growth and export diversification. RMG industries with a capacity for backward linkages, seem obvious areas for intervention. Investment in value addition, particularly in its mineral sector, holds great potential for promoting structural change through industrialisation, rather than exporting these in a primary form. As regards giving Tanzania's
majority African population a more positive stake in the economy, it needs to be addressed through a more pro-active role of the public sector in broadening equity in the ownership of the enterprises with the prospect of future divestment. This agenda could learn much from the Malaysian experience of extending the control of the *bhumiputras* or local population, over the economy through such state initiatives.

**Governance and Aid dependency**

a. **Governance and development**: The issue of governance needs to be designed to establish the efficiency of public expenditure and enhance domestic revenue mobilisation. Public enterprise reform needs to be considered as part of a wider agenda of good governance to ensure improved performance of parastatals, utilities, health services and the public education system.

b. **Using domestic skills in policy making**: The reform process must draw upon the wealth of professional skills within the country. In this respect the role of the ERB and ESRF can be institutionalised to promote dialogue and policy analysis. They can be commissioned by the GOT for preparing an independent review of the Tanzanian economy every year which can be a key resource of information and analysis which can influence public debate on the state of the economy and the merits of the reform agenda. Local professionals should be used to their fullest capacity so that their work can be put to effective use in policy making and in the political discourse. External expertise should be sought only when it emerges as a felt need articulated by the local experts. Such imported technical expertise should increasingly be accessed from the intellectual resources of the South and particularly neighbors, whose problems are similar to those of Tanzania.

c. **Promoting Political Consensus behind Policy reforms**: Parliamentary Committees headed by members of the opposition and supported by a panel of independent local experts, should scrutinize all reform proposals.
ERB/ESRF should develop a regular schedule of policy dialogues at the level of civil society to help design the reform process and to assess its outcomes. The output of these dialogues should be exposed to public debate at the grassroots level to conscientise the ordinary people about public policy if democracy and the reform process is to be kept sustainable.

d. The role of donors: Donors should be exposed to these policy dialogues at the professional level and constantly exposed to the views of democratic opinion. Again, full public disclosure should be made of public documents prepared by the donors. Donors should allow aid coordination to be the responsibility of the GOT who should convene the annual consultative meetings in Tanzania where they should present their programme and policy agenda to the donors, backed by quantifiable targets against which the GOT's efforts can be evaluated. Some thought should also be given to applying the concept of the development contract which should spell out the policy obligations of the GOT in return for which donors should commit their aid programmes for the financial year, mobilise private foreign investment underwritten by commitments for access to the markets of the aid consortium members.

Conclusions: From Aid Dependence to Self-Reliance

Aid dependence is not just a set of macro-economic numbers, but a state of mind where the aid recipient countries loose their capacity to think for themselves and thereby relinquish control over the direction of State policy. Viewing aid dependency within this perspective calls for Tanzania to take charge of its own policy agendas where the GOT must work out for itself, through a process of democratic consultation, where it is going and how it is to get there. These goals need to be concretised into policy agendas for realising structural change. But above all, an alternative agenda needs to find expression in creating opportunities for local skills, resources and capacities, to be fully
and effectively utilized in the policy making process. This endogenous effort needs to be linked to an ongoing policy dialogue which conscientizes politicians and civil society about policy issues which will determine the future of the country. If Tanzanians cannot draw up and effectively implement plans for their own future, no donor, even with lures of aid or draconian conditionalities attached to it, can serve the purpose. The only conditionality which should be attached to aid offered to Tanzania or Bangladesh is that no policy or aid proposals not developed within the country by local experts and lacking democratic support will be entertained by the donors.

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