

# A Review of Tanzania's Economic Performance During the Two Decades: 1995 – 2015

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## ABSTRACT

The main objective of this paper is to review Tanzania's economic performance under the Third and Fourth Phase Governments from 1995 – 2015. Its significance is to understand and draw lessons on how reforms started earlier in mid-1980s were earnestly implemented to propel Tanzania's economy from crisis to sustainable high growth path during the two decades. The paper analyses Tanzania's secondary data using tabular and graphical presentation to observe performance trends of key variables. The paper also reviews various literature on Tanzania's reform efforts to put together a narrative about economic performance over time. The findings emphasize importance of economic stabilization measures for stable macroeconomics. Fiscal and monetary policy measures must be supported by government intervention to mitigate adverse effects where external economic environment exerts its influence; for example, when oil and food prices are rising. Reform of public sector by improving public expenditure and public enterprise management to raise efficiency and reduce government budgetary costs is crucial. Privatization of public enterprises done in Tanzania was to implement this reform. Notably, market reforms increase production and productivity, which lead to overall economic growth, per capita income growth and poverty reduction as evidenced in Tanzania. Institutional building to manage and regulate market economy is important lesson from the analysis. Formation of key institutions like Tanzania Revenue Authority (TRA) and regulatory bodies helped the Government to perform important functions like revenue collection and economic regulation. Overall, the paper shows the importance of reforms in improving economic performance as evidenced by high GDP and per capita GDP growth and significant poverty reduction in Tanzania.

## INTRODUCTION

Tanzania got its independence on 9<sup>th</sup> December, 1961. To date, through its unique democratic process, the Country has seen five Presidents assume office in succession in the past sixty years. Each phase of government pursued its economic policies based on political ideology and economic environment at the time and adopted various measures to guide economic performance and to tackle challenges that occurred. The main objective of this paper is to review, albeit in summary, the economic performance under the first two phases of government as a background to the review of economic performance by the Third Phase Government (October 1995 – October 2005) and a more detailed review of recent economic performance by the Fourth Phase Government (October 2005 – October 2015). The interest of focusing the analysis on the Third and Fourth Phase Governments is to understand: first, how reforms started earlier in the mid-1980s were continued and sustained; second, which new reforms and policy measures were undertaken; third, the kind of challenges encountered and actions taken to propel the economy of Tanzania from crisis to sustainable high growth path during the two decades; and fourth, to draw experience from reforms and general economic management to understand factors that influenced successful reforms or failures for future lessons.

Economic achievements of the Fifth Phase Government are not reviewed here as they have been

documented elsewhere (Maliyamkono and Mason, 2020). Similarly, most of the available literature on economic reform in Tanzania are not comprehensive as they cover early years of reform or part of the 1995 – 2015 reform period. These include Kulindwa (2002), Muganda (2004), Potts (2008), Gabagambi (2013); to mention just a few of them. Unless otherwise stated, all real GDP and inflation figures in this paper are in 2015 base year.

To attain its main objective, the paper analyses Tanzania's secondary data using tabular and graphical presentations, while observing and documenting performance trends of key economic variables. The paper also reviews various literature on Tanzania's reform agenda. The theoretical framework that has informed the analysis is based on economic theory and in particular macroeconomic theory as applied to developing economies (see e.g., Jha, 2003; Cornia, 2020).

## **BACKGROUND: ECONOMIC PERFORMANCE DURING THE FIRST AND SECOND PHASE GOVERNMENTS**

The First Phase of the Presidency was under Mwalimu Julius Kambarage Nyerere, the country's founding President from 1961 to 1985. The overall vision of the country at independence was to build a Socialist and Self-reliant State based on available national resources. At that time, Tanzania's economy relied on subsistence agriculture and production of cash crops for export, including mainly sisal, coffee, cotton and tea. Manufacturing was almost non-existent. To ensure that the country builds a strong economic base and most of the major means of production that were under private sector at independence were put under public sector control, the Government nationalized them between 1967 after the Arusha Declaration and early 1970s. To manage a state-led economy, the focus of economic policy changed from market-led to central planning and government control of the economy (IMF, 1999).

Apart from nationalization, the Government undertook massive investments in economic and social projects and programmes including industries, agriculture, transport infrastructure, housing, water, education, etc – to build an asset base of the nation. The change in policy from market-led to central planning crowded out the private sector from participation in major economic decisions, and was not without its consequences. Economic performance was good up to mid 1970s but due to policy shift and various challenges that emerged afterwards, the country's economic performance deteriorated and recorded real growth rates of negative 0.5 percent in 1981 and negative 2.4 percent in 1983 and average real GDP growth of 0.7 percent in the last five years of the First Phase Government (1981 – 1985). Inflation was also high averaging 30 percent in the period (URT, various; BOT, various).

Some of the challenges encountered by the country include falling agricultural export prices in the world market and rising oil prices in 1970s for which the country had no control and war with Idd Amin's Uganda 1978 – 1979 that depleted the much-needed foreign exchange to import raw materials for import-substitution industries. Import-substitution policy proved to be a expensive policy option given the unstable foreign exchange generation from agricultural export crops whose prices were falling. Other challenges include: overvalued exchange rate; lack of external loans because of the country's fall-out with donors especially IMF and the World Bank over key economic reform measures; deterioration of infrastructure due to lack of maintenance; and undercapacity production in industries which led to very serious scarcity of goods (Lipumba et al, 1984).

The Second Phase of Tanzania's leadership came into office after the stepping-down of President Julius Nyerere in 1985 and the election of Ali Hassan Mwinyi, Nyerere's Vice President as President of Tanzania. President Mwinyi's economic policy direction was dictated by the need to reform the ailing economy, hence the adoption of the Economic Reform Programme (ERP) under the support of International Monetary Fund (IMF) and The World Bank in fiscal year 1986/87. The objective of ERP was to correct structural rigidities

and misalignment of various key economic variables – trade, exchange rate, money supply, fiscal and current account deficits – to conform to a new economic policy direction towards more market-based economy. The government also took measures to improve fiscal management and to reform the public sector to make it more efficient by, among others, privatizing non-performing, poor performing and inefficient public enterprises (IMF, 1999).

These actions instilled confidence in the economy, which started to revive on the side of production and trade, particularly trade liberalization, although they were hurting on the side of social services whose expenditure cut affected the provision of those services. It is on this basis that the Government with support of donors modified ERP at the end of its three years to become Economic and Social Action Programme (ESAP), which took into consideration social aspects of reform. Generally, the reform measures undertaken during this period proved to be painful to majority of people as costs of living increased and at the same time the government lacked enough resources and a resolve to earnestly implement the reforms to fully correct early misalignment of key variables such as exchange rate, money supply, general price level and budget deficit.

Economic performance fairly improved during this phase although there were still many challenges to tackle. Such challenges included low GDP growth, which averaged 3.4 percent during the decade (1986 – 1995) and 2.6 percent in its last five years (1991 – 1995) (URT, various); insufficient revenue collection because of narrow revenue base, poor tax administration, corruption and rampant tax exemptions; and low government expenditure due to low revenue collection and reduced support from donors in protest of the Government's low effort in tax collection and high tax exemptions (IMF, 1999). Other challenges as summarized in IMF (1999) were scarcity of foreign exchange due to low exports; rising debt burden; undercapacity industrial production because of unavailability of raw materials caused by scarcity of foreign exchange; high double digit level of inflation averaging 29.7 percent during ten years of the Second Phase Government; and stress in provision of social services due to inadequate financial resources.

### **ECONOMIC PERFORMANCE: THIRD PHASE GOVERNMENT (1995–2005)**

The Third Phase Government, which came into office in October 1995 under the leadership of President Benjamin William Mkapa, inherited all the above economic challenges and those arising from gloomy world economic performance. To tackle these challenges, President Mkapa gave priority to economic stabilization and reform agenda and took various measures to ensure that economic policies and measures taken through monetary, fiscal, exchange rate and price variables are working properly, his Government also focused on reform of the public sector (Sefue, 2013). Reform of the public sector involved restructuring of public expenditures and improving public enterprise management, ownership and operation in order to increase the efficiency of the productive sector and reduce government budgetary costs. In this regard, most of the privatization of the public enterprises that begun under the Second Phase Government was undertaken during this period (IMF, 1999).

Similarly, the discipline in management of state finances was enhanced and confidence restored among donors by pursuing market economic policies and reforms. Such confidence was critical in the pursuit of debt cancellation from lenders, in particular multilateral lenders, under the Highly Indebted Poor Countries (HIPC) initiative. Under this initiative, Tanzania managed to get debt forgiveness at the tune of United States Dollar (USD) 3 billion out of its total debt of about USD 7 billion in year 2001 (URT, 2000; IMF, 2001). In view of Tanzania's poor state of the economy at the time, the above measures were critical and necessary to undertake to bring the economy to normalcy, while reviving and aligning it with required growth trajectory.

Moreover, the government focused on institutional building to manage and regulate both government and

private sector actions under the market economy. Some of the key institutions that were founded during this period include: Tanzania Revenue Authority (TRA) to manage tax revenue collection; Prevention of Corruption Bureau (PCB) to fight corruption; Tanzania Social Action Fund (TASAF) to empower the poor households to graduate out of poverty and lead economically sustainable life; and Properties and Businesses Formalization Programme (PBFP) or *Mkakati wa Kurasimisha Biashara Tanzania* (MKURABITA) as popularly known in Kiswahili, whose main objective is to empower the poor in Tanzania to access formal financial markets and other services using their properties (Sefue, 2013; Mkapa, 2019).

Other institutions that were also founded include: Tanzania National Business Council (TNBC) to manage business environment for sustaining economic growth through dialogues, consensus building and networking between public and private sectors in Tanzania; Roads Fund (RF) and Roads Fund Board (RFB) to collect and provide adequate and stable flow of funds for maintenance of the road network in mainland Tanzania through road user charges; and Tanzania National Roads Agency (TANROADS), which is an executive agency responsible for the maintenance and development of the trunk and regional road network in Tanzania Mainland.

The country recorded noticeable achievements during the period 1995 – 2005. Economic growth rose in the first five years (1996 – 2000) to an average of 4.2 percent per annum, but grew more strongly in the last five years (2001 – 2005) at an average annual growth of 7.0 percent with highest economic growth of 7.4 percent being recorded in year 2005 (see Table 1; Figure 1).. Because of this economic growth, per capita income increased and inflation declined from 27.4 percent in 1995 to a single digit of 5 percent in 2005. Poverty levels also declined, since as documented elsewhere, a 10 percent increase in Gross Domestic Product (GDP) growth per capita in Tanzania led to reduction of the proportion of the poor by about 4.5 percent (World Bank, 2019). Available data show that incidence of basic needs poverty in Mainland Tanzania declined from 38.6 percent in 1991/92 to 35.7 percent in 2000/01 and 34.4 percent in 2007 (NBS, 2009; 2014). Exports increased, foreign exchange stabilized and foreign exchange reserves increased from equivalency of one month of imports in 1995 to 5.3 months of imports in 2005 (BOT, various).

Table 1: Tanzania: Various Macroeconomic Variables (1995 – 2015)

Year	GDP 2015 prices (TZS Million)	Real GDP Growth (%)	Real GDP per Capita (2015=100) (TZS)	Inflation (%)	Exports (US\$ Million)	Imports (US\$ Million)	GDP per Capita (US\$)
1995	29,039,280.6	3.6	1,057,045.8	27.4	1,265.1	2,139.0	171.1
1996	30,258,158.0	4.2	1,071,001.8	21.0	1,372.2	2,166.5	200.9
1997	31,261,965.3	3.3	1,073,507.8	16.1	1,246.6	1,948.2	240.2
1998	32,505,623.2	4.0	1,082,816.5	12.8	1,191.1	2,337.4	256.8
1999	34,048,331.6	4.7	1,100,271.1	7.9	1,201.8	2,210.4	259.3
2000	35,711,077.8	4.9	1,132,175.4	5.9	1,361.0	2,050.0	265.6
2001	37,762,654.1	5.7	1,148,368.8	5.1	1,766.7	2,209.7	315.5
2002	40,467,802.0	7.2	1,204,950.9	5.3	1,899.7	2,143.9	321.6
2003	43,254,506.5	6.9	1,262,922.0	5.3	2,168.6	2,659.2	340.2
2004	46,640,598.4	7.8	1,322,459.5	4.7	2,615.3	3,457.6	363.7
2005	50,077,954.6	7.4	1,383,471.6	5.0	2,948.3	4,204.9	390.6
2006	53,451,896.3	6.7	1,424,388.5	7.3	3,271.4	5,113.4	381.3
2007	57,272,689.0	7.1	1,495,713.3	7.0	3,899.9	6,274.3	562.0
2008	60,460,828.0	5.6	1,531,636.0	10.3	5,110.8	8,674.2	693.5
2009	63,715,039.0	5.4	1,566,122.9	12.1	4,713.8	7,556.1	710.1

<b>2010</b>	67,766,605.8	6.4	1,616,789.2	5.5	5,806.0	9,054.4	749.3
<b>2011</b>	73,123,222.3	7.9	1,693,870.7	12.7	6,733.3	12,035.6	784.8
<b>2012</b>	76,882,497.1	5.1	1,762,335.2	16.0	7,907.5	12,678.0	896.0
<b>2013</b>	82,466,519.0	7.3	1,832,283.8	7.9	7,773.9	13,517.6	986.1
<b>2014</b>	88,210,423.1	7.0	1,899,585.4	6.1	7,991.5	13,566.1	1,038.9
<b>2015</b>	94,349,315.6	7.0	1,968,965.2	5.6	7,800.3	12,472.2	991.7

Source: Bank of Tanzania (BOT) (2020)

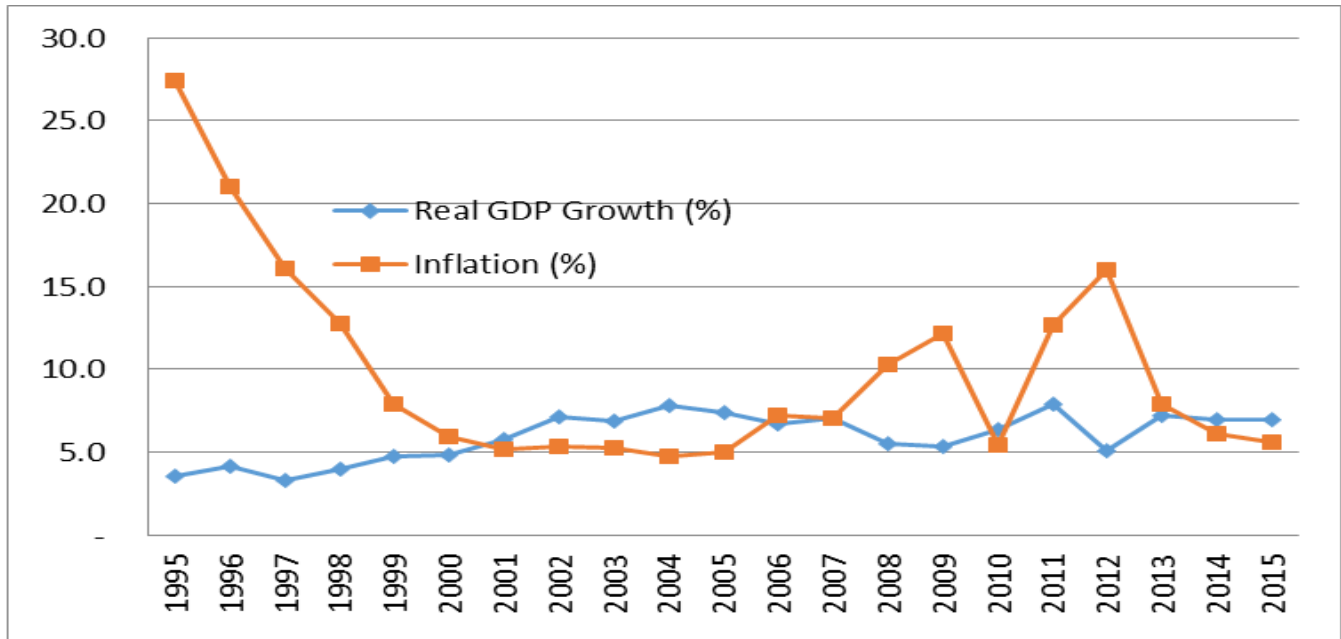


Figure 1: Real GDP Growth (%) and Inflation (%) (1995 – 2015)

Source: *ibid*

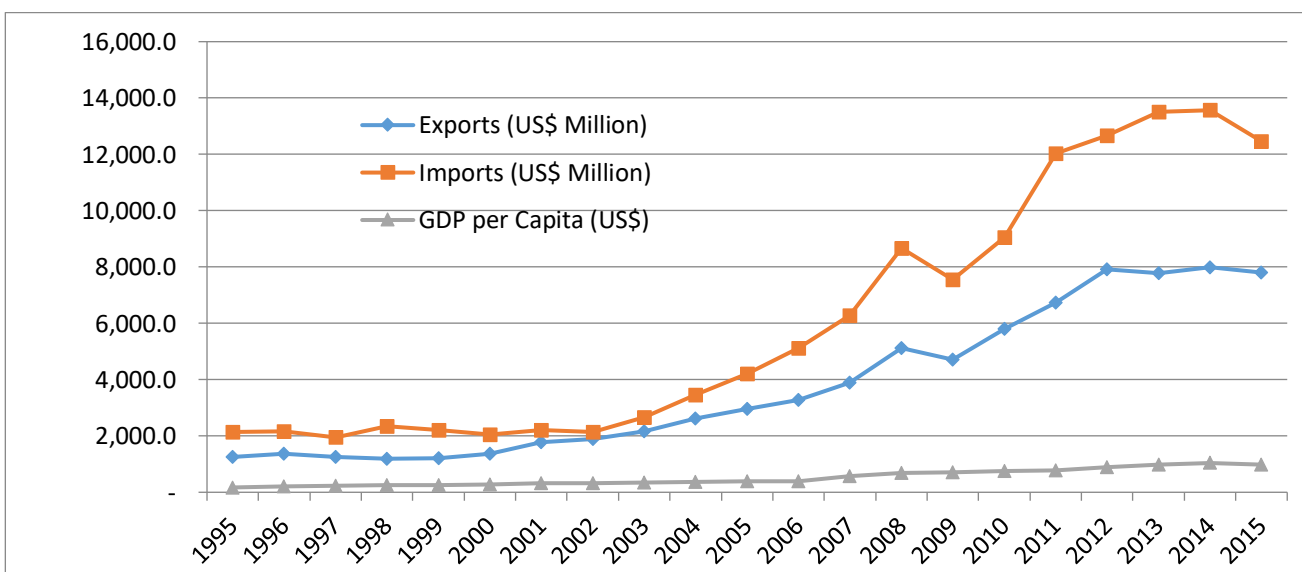


Figure 2: GDP per Capita, Exports and Imports (1995 – 2015)

Source: *ibid*

It is also during the tenure of the Third Phase Government that Tanzania prepared its National Vision 2025 and launched it in year 2000 (URT, 2000). This important document outlines aspirations of Tanzania as a nation in the period of 25 years (2000 – 2025). The three principal objectives of the Vision 2025 include, first, achieving quality and good life for all; second, good governance and the rule of law; and third, building a strong and resilient economy that can effectively withstand global competition. The thrust of these objectives is to attain a sustainable development of the people in a Tanzania with the following attributes: a high quality of life for the people; peace, tranquillity and national unity; good governance; an educated society with an ambition to develop; and competitive and growing economy for the benefit of all people.

Main challenges that remained and these included, among others, low per capita GDP, low resource mobilization compared to expenditure needs, high trade deficit because of low export values compared to imports, and low levels of investment partly due to weak private sector (Table 1; (BOT, various).

### **ECONOMIC PERFORMANCE: FOURTH PHASE GOVERNMENT (2005–2015)**

The Economic Direction of the Fourth Phase Government was articulated by His Excellency Jakaya Mrisho Kikwete, fourth President of the United Republic of Tanzania, in his speech to inaugurate the 9<sup>th</sup> Parliament in November 2005 after the 2005 Presidential and Parliamentary elections. President Kikwete outlined ten Promises that represented socio-economic aspirations of the Fourth Phase Government and Tanzania in general (URT, 2005).

The Promises, which aimed at achieving the aspiration of Better Life for Every Tanzanian included maintaining peace, harmony and unity among Tanzanians; maintaining and sustaining achievements made under the Third Phase Government; continuing the fight against poverty, ignorance and illiteracy with new spirit, new speed and new energy; ensuring that good governance, accountability, rule of law and fight against corruption are effectively championed by the Government; and strengthening capacity of the Government to protect peoples' lives and their property. Others are to ensure that Tanzania's borders are safe; there are good relations with all nations and international and regional organizations; interests of special groups are taken care and safeguarded (i.e., women, youth, children, old people, disabled and orphans); environment is protected for future generation and sustainable development; and sports, culture and entertainment are promoted.

Although in the speech the President did not mention any aspired economic direction, implicitly the economic aspiration was embedded in the broader aspiration of Better Life for Every Tanzanian, which was interpreted to have two intertwined meanings. One meaning related to availability of better economic and social services (roads, energy, water, health, education, etc); and the second meaning related to improvement of peoples' incomes to afford necessities of life which improve their wellbeing. In this regard, the Government was to formulate and implement policies, plans and strategies that were aligned with the goals of the National Vision 2025, the objectives of the Party Manifesto and the ultimate objective of achieving better life for every Tanzanian.

The Promise number two, which states that the Government will "maintain and sustain achievements made under the Third Phase Government", implicitly outlined economic policies and measures that were being implemented by the Third Phase Government that would be continued and its implementation intensified by the Fourth Phase Government.

### **Economic Achievements in the First Five Years: 2005 – 2010**

During his speech to legally dissolve the 9<sup>th</sup> Parliament of United Republic of Tanzania on July 16, 2010 at

Parliamentary Hall in Dodoma, President Kikwete revisited the promises he made while inaugurating the Parliament on 30<sup>th</sup> December, 2005. He also articulated key economic achievements for the country during the past five-years (URT, 2010).

On a key promise by the Government in 2005 to ensure that in five years it champions economic growth, transforms the economy into modernity, and reduce poverty while improving the life of every Tanzanian, the speech outlined significant achievements that weren't recorded despite various challenges of implementation, some of which were unforeseen earlier. In general, the Government managed to take measures to improve economic policies, legal framework and regulatory environment in line with the envisaged development objectives as outlined in the discussion below.

One of the challenges that affected implementation is drought that hit the country in years 2005-2006 and in doing so affected production, especially in agriculture, industries and power. As a result over 3,700,000 people faced hunger and Government took various actions to ensure that no one died. As regards industrial production, unreliability of electricity due to reduced power production from drying hydro dams, especially Mtera dam, lowered hours of production and output. To alleviate the problem, the Government resorted to other sources of power including diesel and gas-fired generators. These problems were alleviated following good rains in 2007 and 2008, which filled the dams and supported agricultural production leading to increased food reserves.

Other challenges that affected the economy apart from drought and power shortages were world fuel price increases and slowdown in global economic growth. To mitigate these challenges the Government took measures to protect and sustain the economy, in particular through injecting TZS 1.7 trillion for the purpose of mitigating the effects of global financial and food crises and providing resilience to the economy.

In general, recognising that economic growth was key to transformation of peoples' lives, the Government implemented economic measures that helped to stabilise macroeconomic fundamentals, increase power supply, increase agriculture and industrial production, improve business environment, attract foreign direct investments, and ensure availability of social services. These measures, which were supported by parliament and development partners, provided resiliency to the economy and led to average real economic growth of 6.2 percent during 2006 – 2010 and increase in real GDP from TZS 50.1 trillion in 2005 to TZS 67.8 trillion in 2010 (BOT, 2020; Table 1 and Fig. 1).

Most of the macroeconomic indicators, except inflation, were stable. Exports increased from US\$ 2,994.9 million in 2005 to US\$ 5,806 million in 2010, leading to increase in foreign exchange reserves from US\$ 2,210 million in 2005 to US\$ 3,948.0 million in 2010, which were capable of funding imports for 5.3 months (Table 1; Fig. 2). This level of reserves was enough to ensure compliance with the statutory requirement of the East African Community (EAC), that is, reserves should be able to fund *four* months of imports. However, the challenge was how to increase trade balance caused by increase in imports from US\$ 4,204.9 million in 2005 to US\$ 9,054.4 million in 2010 (Table 1; Fig. 2). Imports increased by 115.3 percent while exports increased by 96.9 percent. This situation called for deliberate efforts to increase production for export.

Admittedly, it was difficult to control inflation in the period, and in particular beginning 2007 because of global increases in fuel prices and food price increases caused by drought of 2005, 2006 and 2009. World petroleum prices increased from US\$ 52 per barrel in December 2005 to US\$ 88 in October 2007 and highest price of US\$ 147 in July 2008. As a result, inflation increased from average of 5 percent in 2005 to annual average of 12.1 percent in 2009, before declining to 5.5 percent in 2010 due to improvement in food supplies and actions taken by Energy, Water and Utilities Regulator (EWURA) to ensure retail prices of petroleum products were not manipulated upwards (Table 1).

In the area of revenue collection, the Government recorded success as revenue increased from a monthly average of TZS 177.1 billion in 2005/06 to TZS 390.7 billion in 2009/2010. As a result, the Government was able to increase its budget from TZS 4.13 trillion in 2005/06 to TZS 11.6 trillion in 2010/11 and reduce its dependence on donors from 42 percent in 2005/2006 to 28 percent in 2010/2011 (MOF, Various). The Government also took measures to enforce discipline and proper use of Government resources, including strengthening the Office of the Controller and Auditor General (CAG) and requiring Government officials to adhere to Government regulations on expenditure and procurement management.

Increased investments are crucial for economic growth, employment generation and poverty reduction. In recognition of this, the country took various deliberate measures to improve business environment so as to ensure that investments increased particularly in tourism, industry and agriculture. These measures included formulation of policies and legal and regulatory frameworks that were more business friendly. The system of resolution of commercial disputes was also improved by strengthening the Commercial Court. Moreover, a system of ensuring that quality and standards of goods and services were observed and fair competition adhered to were bolstered by strengthening capacity of institutions responsible – that is, Tanzania Food and Drugs Authority (TFDA), Tanzania Bureau of Standards (TBS) and Fair Competition Commission (FCC) (URT, 2010).

To recognize the role of the private sector to participate in joint investments with government, the country formulated Public-Private-Partnership (PPP) policy and enacted a law on PPP with the aim of putting in place systems and procedures that will ensure smooth and efficient PPP. Equally important, the system of dialogue between public and private sector was strengthened by supporting regions and districts to create Regional and District Business Councils (RBCs/DBC) under the auspices of the Tanzania National Business Council (TNBC). DBCs, RBCs and TNBC members come from both the Government and private sector and at national level the President of United Republic of Tanzania chairs TNBC (URT, 2010).

Measures taken to improve business environment made Tanzania to be ranked among top 10 reformers in the world in Doing Business in 2007 (World Bank, 2006). They also propelled growth of investment from US\$ 568 million in 2005 to US\$ 744 million in 2008 before declining slightly to US\$ 550 million in 2009 owing to global financial and food crises and a slowdown in global economic growth.

Despite a good performance, there were challenges that were faced, which are common to many developing countries and affected also earlier regimes. These included rising but still low per capita GDP, low revenue mobilization compared to expenditure needs, high trade deficit due to low export values compared to imports, and low investment (Table 1; (BOT, various).

### **Overall Economic Achievements of Fourth Phase Government: 2005-2015**

Tasks that the Fourth Phase Government promised to undertake in its second term were outlined on 18 November, 2010, during the President's inaugural speech to the new 10<sup>th</sup> Parliament in Dodoma (URT, 2010b). The tasks were basically unchanged from the earlier five years. However, a big emphasis was made on the importance of consolidating the successes achieved in the last five years and those gained since independence while fulfilling the promises made in 2005 but were not accomplished and a need to undertake agreed tasks with *increased new zeal, new energy and new speed*. To achieve those tasks the President charted out 13 priorities of the Government in the next five years (URT, 2010b). The priorities put very high importance on economic aspects of ensuring more investments in the economy, growth of the economy, provision of both economic and social services, and poverty reduction.

The Fourth Phase Government implemented the promises it made in December 2005 and reiterated them in November, 2010, during the ten years that it was in power,. In summary, the promises included, building a



strong and participatory economy, continuing to implement economic reform policies, putting in place strong foundations for economic growth and good governance, and increased employment and poverty reduction. In general various efforts undertaken by the country in ten years paid dividends and managed to stir forward the economy of Tanzania. For example, economic growth during 2006 – 2015 period averaged 6.6 percent (7 percent using 2007 base year) and by 2015, Tanzania was among 10 fastest growing African economies and 20 fastest growing economies in the world.

Gross domestic product in real prices increased from TZS 50.1 trillion in 2005 to TZS 94.3 trillion in 2015 triggering growth in real per capita income from TZS 441,063.0 (equivalent to US\$ 390.6) in 2005 to TZS 1,968,965.2 (equivalent to US\$ 991.7) in 2015 (Table 1; Fig. 2). This growth in per capita income contributed to poverty reduction. Incidence of poverty as measured by basic needs poverty declined from 34.4 percent in 2007 to 28.2 percent in 2011/12 and data indicate that it later declined 26.4 percent in 2017/18. Food poverty declined from 11.8 percent in 2007 to 9.7 percent in 2011/12 and further down to 8.0 percent in 2017/18 (NBS, 2014; 2019). Inflation also slowed down from 12.1 percent in 2009 to a single digit level of 5.5 percent in 2015, owing to various measures undertaken by the Government to ensure increased food supply, stable fuel prices and reduced money supply.

Good performance of the economy and strengthened tax administration led to expansion of the tax base and increase in government revenue collection. Government revenue collection increased from an average of TZS 177.1 billion per month in 2005 to about TZS 850 billion per month in 2015 (MOF, Various). This increase in revenue made it possible to increase government expenditure and reduce dependence on foreign aid and loans. Whereas government expenditure rose from TZS 4.13 trillion in fiscal year 2005/2006 to TZS 22.49 trillion in fiscal year 2015/2016, foreign aid decreased from 42 percent of government budget in 2005/2006 to 15 percent in 2014/2015 and 9.5 percent in 2015/2016.

To ensure prudence and discipline in public resource use and protection of government properties, the capacities of the public sector watchdogs, that is, Public Procurement Regulatory Authority (PPRA) and Controller and Auditor General (CAG) were strengthened and public procurement law and public audit procedures improved (URT, 2015).

Exports improved substantially due to good economic performance, increasing from US\$ 2.9 billion in 2005 to US\$ 7.8 billion in 2015 and in doing so boosting foreign exchange reserves availability to equivalent of 4.1 months of imports. The concern was on trade deficit as imports also increased from from US\$ 4,204.9 million in 2005 to US\$ 12,472.2 million in 2015 (Table 1, Figure 2). Imports increased by 196.6 percent while exports increased by 164.6 percent, calling for deliberate efforts to increase production for exports and to promote those exports.

Adoption of systematic economic planning informed by the long-term Development Vision 2025 is an important milestone by the Fourth Phase Government. In 2010, the Government formulated a Long-term Perspective Plan (2010 – 2025) to guide implementation of the Vision 2025 in 5-year plan horizons for the remaining 15 years of the Vision (URT, 2010c). By July 2015 the Government had entered the last fiscal year (2015/2016) of implementation of the first Five Years Development Plan (2010/11 – 2015/16) and was involved in preparation of the second Five Years Development Plan (2016/17 – 2020/2021). In order to monitor and evaluate government performance in implementation of priority functions and projects, the Government formulated and adopted a “Big Results Now (BRN)” programme (URT, 2013). BRN was a transformational government programme, which sought to adapt the successful Malaysian approach to economic development and improving service delivery. This was a new system of planning, following-up and supervising implementation of government priority activities and projects to ensure that completion or delivery of output is as planned. Initially, the programme covered six priority sectors including Education, Energy, Agriculture, Transport, Water and Government Resource Mobilisation. Later, Health sector and

Business Environment Improvement programme were added in the BRN. Although BRN proved to be beneficial, its weaknesses were introduction of a parallel monitoring and evaluation system within the ministries (ministerial and BRN) and resource constraints which limited implementation of agreed key performance indicators (KPIs).

As regards investment and business environment improvement, measures taken by the country in improving policies, legal and regulatory frameworks recorded positive results. For example, between 2005 and 2015, Tanzania Investment Centre recorded 7,159 projects with value of US\$ 154.274 billion. Among these projects, 49.38 percent were local, 23.41 percent were foreign and 27.18 percent were joint ventures between local and foreign investors. Moreover, 16,000 employment opportunities were created and more revenue collection realized by the Government from these investments (URT, 2015). According to UNCTAD (2020) World Investment Report, in 2015 Tanzania outperformed other EAC countries by attracting foreign investments amounting to US\$ 1,560.8 million, which were equivalent to 47.2 percent of all foreign investments destined to EAC countries.

The Fourth Phase Government accorded high priority to agriculture sector throughout ten years of its tenure. The main objective of doing so was to increase productivity and hence more output to farmers and to ensure reliable markets and prices to their crops so that at the end of the day they earn more and increase their incomes. In 2006, the Government formulated Agricultural Sector Development Programme (ASDP), which outlined opportunities and challenges facing agriculture in Tanzania and suggested ways of harnessing the opportunities and addressing the challenges (URT, 2006). In same vein, the Government came up with other strategies and initiatives in collaboration with agricultural stakeholders, including the private sector, in charting the way forward for the development of the sector. Among others, such initiatives included Kilimo Kwanza (Agriculture First); Southern Agricultural Growth Corridor of Tanzania (SAGCOT); Tanzania Agriculture and Food Security Investment Plan (TAFSIP); Agricultural Irrigation Policy; preparation of launch of Commodity Exchange Market and investment in the new Tanzania Agriculture Development Bank (TADB).

As a reflection of top priority given to the sector, the Government increased the sector's budget from TZS 233.3 billion in 2005/06 to 1,084.7 billion in 2014/15. This increase in budget made it possible to increase fertilizer subsidy from TZS 7.5 billion in 2005/06 to TZS 299.3 billion in 2013/14. The number of tractors also increased from 7,491 in 2005 to 16,412 in 2014 and number of extension officers increased from 3,379 in 2005 to 7,974 in 2014. Similarly, because of the increase in productivity, agricultural food crop production increased from 9.66 million tonnes in 2005 (equivalent to 95 percent of food requirements) to 16.01 million tonnes in 2014, which was equivalent to 125 percent of food requirements in the country. Production of traditional cash crops also increased from 427,738 tonnes in 2005 to 569,054 tonnes in 2014 (URT, 2015).

The Government's objectives, in other agricultural subsectors, namely livestock and fisheries, were also to institute reforms in line with the agricultural crops subsector to modernize these subsectors as well. In order to tap opportunities and address challenges in livestock subsector, the Government formulated and launched the Livestock Sector Development Programme (LSDP) (URT, 2011). Among the achievements recorded, include construction of 1,008 water dams, 2,364 dips, 104 livestock laboratories and digging of 101 deep wells. Further, the Government rehabilitated 370 dams and 499 dips during the period, thus increasing the overall number of working dips from 2,177 in 2006 to 3,637 in 2015. Other successes include: increase in number of livestock extension officers from 2,270 in 2005 to 6,041 in 2014; increasing the number of artificial insemination centres from 1 in 2005 to 8 in 2015, which made it possible for 955,360 cows to be artificially inseminated; increasing milk processing industries from 22 in 2005 to 74 in 2015 and animal food processing plants from 6 in 2005 to 80 in 2015 capable of processing 1.4 million tonnes of food per year; and increasing leather processing capacity from 790,000 pieces in 2005 to 3.78 million pieces in 2014

(URT, 2015).

In the fisheries sub-sector notable successes were also marked. These included: first, creation of a new ministry dedicated to Livestock and Fisheries; second, expansion of training facilities and enrolment of students from 127 in 2005 to 1,215 in 2015; third, increase in the number of extension officers from 103 in 2005 to 540 in 2015; fourth, reduced illegal fishing; fifth, promotion of fish farming, in which the number of fish farms increased from 13,011 in 2005 to 20,325 in 2014; and sixth, increase in revenue earnings from fisheries from TZS 351.6 billion in 2005 to TZS 1.8 trillion in 2013 (URT, 2015). Recognising Tourism as a key sector in generation of foreign exchange, the country invested more resources in the sector, which ultimately grew at an average of 7.1 percent and contributed about 25 percent of foreign exchange earnings between 2005 and 2015. The number of tourists increased from 612,754 in 2005 to 1,140,156 in 2014. At the same time the number of beds rose from 15,828 to 21,929. Also, foreign exchange earnings from tourism increased from US\$ 823.05 million in 2005 to US\$ 2 billion in 2014, while direct employment increased from 32,673 to 686,130 and indirect employment increased from 165,883 to 1,318,109 in the same period (URT, 2015). This also was the period that was marked by rising incidences of killing of wildlife and poaching of elephant tusks and rhino horns but the Government conducted various operations to curb the vices. Investment in industries, in particular manufacturing industries, was remarkable. Industries of both sizes increased from 11,544 in 2005 to 51,224 in 2015, increasing industrial sector contribution to GDP from 6.8 percent in 2005 to 7.3 percent in 2014 and its contribution to exports from 9.3 percent in 2005 to 23.3 percent in 2014 (URT, 2015). As the country is currently implementing the Second Five Years Development Plan, which emphasizes industrialization, more growth in industries is envisaged.

Mining is another sector, which showed a great impact in the growth of the economy. Mining trailed tourism in terms of contribution to foreign exchange earnings. Review of mining policy, legislation and some of mining contracts; formation of Tanzania Mining Audit Agency (TMAA) to audit mining activities and Tanzania joining the Extractive Industries Transparency Initiative (EITI) improved transparency and contribution of mining companies to government revenue through various taxes, including payment of income tax. These reforms led to improvement in investment and contribution of mining sector to GDP from 2.9 percent in 2005 to 3.5 percent in 2014 and increase in mineral exports from US\$ 655.5 million to US\$ 1.794 billion during the same period (URT, Various). Similarly, formal employment in large mines increased from 3,517 employees in 2005 to 15,000 employees in 2014. Further, local procurement by mining companies increased from US\$ 230.41 million in 2005 to US\$ 536.56 million in 2014. Although mining sector employed a few number of people and hence did not make a big dent in poverty reduction, its contribution to GDP was notably increasing over time.

Among the challenges that the Fourth Phase Government encountered is shortage of power resulting from decrease in power generation from hydropower dams, whose water levels decreased to prohibitive levels. This situation necessitated the country to hire expensive fuel power generators to alleviate the problem of power shortage. The country also embarked on using natural gas to generate power. To transport enough gas from Mtwara to Dar es Salaam, the Government constructed a 532-kilometer pipeline using a loan from China. Accessibility to power, especially in rural areas, got a strong emphasis after formation of a Rural Energy Agency (REA) in 2007 tasked with the role of putting in place infrastructure for distribution of electricity in rural areas. Following this initiative, 4,416 out of a total of 12,268 villages in the country got connected to power by 2015, increasing access to electricity from 10 percent in 2005 to 36 percent in 2015.

One of top priorities of the Fourth Phase Government was to develop infrastructure so as to support investment, improve business environment and ease movement of people, goods and services. In particular, each year the country dedicated a sizeable amount of budget for construction and maintenance of roads of all grades although regional connectivity was a top priority. By 2015, most of the roads connecting regions were already tarmacked or the work was at final stages. In total, 5,568 of trunk and regional roads and 535

of urban roads were tarred and ongoing work consisted of 3,873 kilometers of roads (URT, 2015). As regards roads maintenance, the country continued to set aside funds through Tanzania Roads Fund to cater for maintenance of roads in the country. Collections from fuel levy, the revenue base of the Fund, increased from TZS 73.08 billion in 2005/06 to TZS 866.63 billion in 2015/16 (MOF, Various).

Another great success that Fourth Phase Government has been proud of is a major improvement in the operations and services at Dar es Salaam Port. The Port increased its yearly output from 6.7 million tonnes in 2005 to 14.4 million tonnes in 2014, driven by improved technology, simplified clearing and forwarding procedures and increased working hours (MOF, Various).

## CONCLUSION

The main objective of this paper was to review economic performance under the Third Phase Government and more recently under the Fourth Phase Government. The reason of focusing the review on the Third and Fourth Phase Governments is to understand and draw lessons on how reforms started earlier in mid-1980s after poor economic performance of mid-1970s to mid-1980s were continued and sustained, which challenges were encountered and what kind of measures were undertaken to tackle those challenges. Drawing lessons from earlier reforms is also important for understanding why the economy of Tanzania got propelled from crisis to sustainable high growth path throughout the two decades and therefore sustaining those efforts. The approach used in this paper involved the analysis of various economic data to understand their magnitudes and trends and review of various literature. The analysis shows the importance of giving top priority to economic stabilization measures to ensure that all macroeconomic indicators are in order. It also shows how fiscal and monetary policy measures undertaken proved to work well except in situations where external economic environment exerted its influence; for example, during oil and food prices increases. In such situations, government support is important in mitigating the ensuing adverse effects.

The analysis further, shows the importance of reforming the public sector through restructuring of public expenditures and improving public enterprise management in order to increase the efficiency of the productive sector and reduce government budgetary costs. Privatization of most public enterprises under the Second and Third Phase Governments was in line with implementation of the public sector reform. Increasing production and productivity in various sectors of the economy whose performance improved significantly during the two decades and thus contributing to overall economic growth, per capita income growth and poverty reduction are part of positive results of economic reforms undertaken.

Institutional building to manage and regulate both government and private sector actions under the market economy is another important lesson that emanates from the analysis of this paper. Key institutions such as TRA and various regulatory bodies that were created and strengthened helped the Government to perform certain key functions such as revenue collection and regulation of the economy to ensure that laws and regulations key for proper management of the economy are enforced. Overall, it is noted that economic performance improved as evidenced by high GDP and per capita GDP growth and significant poverty reduction; all driven by prudent management of macroeconomic and sectoral policies.

The analysis of this paper was limited to review of Tanzania's economic performance in two decades in which serious reforms were undertaken. Methodologically, it was also limited to the analysis of performance trends using data of various variables and a narration of events that led to such performance based on review of past literature. A more detailed analysis covering a longer period can be done rigorously to understand socio-economic factors that have been critical and a driving force of such performance.

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