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**Capacity Building in Policy Analysis and
Economic Management**

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CAPACITY BUILDING IN POLICY ANALYSIS AND ECONOMIC MANAGEMENT
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I take full responsibility for the views expressed herein.

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1. INTRODUCTION

Capacity building is the continuous and multidimensional process of nurturing the ability of individuals and institutions to undertake quality policy analysis and economic management. Planning for capacity building must of necessity incorporate the challenges of a complex and continuously changing national and international environment.

1.1 The Premises

Capacity building in policy analysis and economic management is addressed on the basis of four premises:

That changing conditions in Tanzanian society and in the world economy require a greater capacity for policy analysis and economic management. Policy analysis has been a monopoly of government, but under political and economic liberalization it calls for the participation of various stakeholders in the economy.

That capacity building as a process deals with multifaceted issues and therefore requires a multidimensional approach. A clear elaboration of various aspects of capacity is needed to facilitate the proper design of the process.

That substantial lessons can be drawn from the experiences of policy analysis and economic management over the last three decades.

That the capacity building process must be continuous, which means it must be sustained.

1.2 The Process

Policy analysis, as one of the pillars of sound economic management, refers to the sequential process of identifying problems, analysing them, formulating appropriate policy options to solve them and articulating these options clearly. From there the process moves on to deciding which options to take, implementing these choices and finally evaluating the implementation process. Capacity building in policy analysis requires instilling or enhancing the ability to manage this sequential process. Specific action steps are needed to enhance the ability to:

Identify problems: This means establishing the causal factors of the problem, which may be systemic, i.e., inherent within the system; individualistic, i.e., within actors in the system; or exogenous, i.e., caused by external shocks.

Analyse problems: Solving a problem requires assessing and understanding the problem in terms of its magnitude, causes, complexity and effects, in order to facilitate the formulation of appropriate solutions and establish a good order and priority for applying the solutions.

Formulate appropriate policies: This involves identifying and measuring the impact of various proposals and policy options as solutions, assessing trade-offs, and weighing alternative solutions to problems that more often than not are complex. It is a process that

is done under conditions of uncertainty, competing and sometimes conflicting interests, and constrained time frames.

- *Present policy options*: The policy options have to be presented to policy makers for approval and action. The rationale and objectives of each option must be very clear, so that policy implementers are persuaded to carry out the policies. Strengths and weaknesses of the various options need to be spelled out, and specific courses of action that are relevant and applicable given the prevailing social, economic and political situation should be recommended.
- *Make policy decisions (policy making)*: Selecting the course of action, taking into account all the considerations given above, must be done in good time. It is important to avoid long lags that might render ineffective policies that otherwise would be appropriate.
- *Implement the policies*: This involves a careful planning and sequencing of actions that need to be carried out.
- *Evaluate the outcome of the implementation process*: This refers to taking stock of the relative success or failure of the policies to achieve the aims for which they were designed. For either outcome, it is useful to analyse, on one hand, the extent to which the success/failure of the policy is attributed to limitations in the policy itself, reflecting the strengths/weaknesses in the process, and, on the other hand, to assess the extent to which the implementation of the policies contributed to the outcome.

Failures in policy implementation may arise from several angles. The policy itself may be the wrong instrument for addressing the problem; the policy may have been appropriate for a previous problem under previous conditions that may be different from new conditions. The implementation of the policies may have caused problems that were not anticipated. Or the supervision and preparation at the implementation stage may have been inadequate.

Lessons from policy implementation should be used to make the necessary modifications and improvements in the process of policy analysis and economic management. In occasions of success, concerted efforts should be made to sustain the situation and to duplicate these efforts in other areas where they may be relevant. As for the event of failure, an evaluation of the limitations that may have occurred in any of the phases of the process is needed, strategies must be reviewed, and the policies should be revisited where necessary.

1.3 Policy Analysts and Economic Managers

Policy analysis and economic management are distinct but interactive and interdependent processes. Policy analysts are not necessarily economic managers, and the persons in each position have to be equipped with requisite skills to carry out their functions, as well as to interact successfully with one another.

Policy Analysts

The first four elements of the policy analysis process (i.e., problem identification, analysis, policy formulation and presentation of policy options) presuppose the skills of a policy

analyst. These skills are founded on the ability to research, synthesize and weigh various policy alternatives. They also require creativity and imagination, effective communication, and insight into the practical, political and bureaucratic options. Persons with such skills can be found in many areas related to policy making, in various government departments, formal training institutions, academic as well as non-academic research institutions, and, of late, certain NGOs and private consultancy firms with a vested interest in policy related research.

Economic Managers

Making policy decisions and overseeing the implementation of those decisions are the tasks of economic managers, who need to be politically sensitive and well versed in the principles of public administration and task management. Such skills should be prerequisites for ministers, principal secretaries, and heads of departments and parastatals.

The Interaction

Policy analysts and economic managers interact at several points. The interaction is often at its highest during the stage of presentation of policy options for decision making. Policy analysts well equipped with skills in analysis, synthesis and creativity confront the task of presenting their policy options clearly and persuasively to economic managers. Economic managers, for their part, should be able to grasp these options and make informed choices and decisions as to which policies to implement.

The process of capacity building entails enhancing the capability of both the policy analysts and the economic managers and putting into place a smooth and efficient institutional mechanism through which these groups can interact.

2. THE CHANGING ENVIRONMENT FOR POLICY ANALYSIS AND ECONOMIC MANAGEMENT

The demand in Tanzania for more informed, more participatory and more precise policy making has increased in the past decade and a half. Moreover, the environment in which policies are made is generally one of continuous and rapid change. Recently these changes have been even more rapid and more far-reaching. Individually and interactively, the changes demand constant review of the way in which individuals and institutions carry out their activities and businesses. The challenges are enormous, as individuals and institutions alike must devise mechanisms and build capacity to cope with an increasingly dynamic environment.

The domain of economic management has expanded to encompass, more rigorously, the demands for continued macroeconomic stability, faster supply response and enhanced efficiency of resource use. The dual transitional processes of economic and political liberalization have not only generated their own high demands for changes in the way of doing business; further complications have arisen from the effects of the interactions of the two processes. Five main recent developments that have influenced the conduct of economic management and policy formulation, analysis and implementation can be identified:

- The transition from controlled and interventionist to open, market-oriented economies.
- Intensified challenges from the changing world market conditions and rapid technological advances.
- The transition from closed political regimes operating along patron–client networks to more open and liberalized political systems that allow for a more explicit articulation of interests of various groups in society.
- Donor attitudes that increasingly promote the recipient's ownership of policies and development strategies as one way of enhancing aid effectiveness, broad-based accountability and transparency of policy actions.
- The increased influence of the media in bringing policy issues into the public domain and enhancing public scrutiny of policy performance.

These changes can be categorized as internal (national) and external (international). It is important to bear in mind that both types of change have considerable implications for the kinds of capacities that are needed in policy analysis and economic management. Good policy analysis and economic management should take into account both categories of changes.

2.1 Internal Changes – Towards Economic and Political Liberalization

Simultaneous changes have emerged on the economic and political fronts that are altering social organization and interactions, as well as the approach to policy analysis and economic management.

Economic Liberalization

The rapid transition to a more market-oriented economy requires an about-face in the regime of policy influence. Direct controls give way to eliciting market responses indirectly via incentive instruments. The demand for in-depth knowledge of the ways in which different markets function in specific Tanzanian contexts has increased. In the new policy environment, economic management must contend with the dual task of making both the government and the market function more effectively and efficiently. This situation generates demands for more information and a greater capacity for collecting, analysing and using the information for policy analysis and economic management.

Occurring simultaneously is the shift from a public sector led economy to a private sector led economy. The weakening position of parastatals has meant the dilution of a major source of information for reviewing the performance of sectors previously dominated by the parastatals. Reliance on indirect sources of information has increased, exerting demands for a skill profile that emphasizes the generation of policy advice on the basis of new and less direct sources of information. Here, the challenge is to create a strategic division of responsibilities between the public and the private sectors that is pragmatic and flexible, and relevant to the prevailing situation. In this context, one issue that is missing—and which urgently needs attention—is public–private sector partnership. Under the new circumstances it is expected that the government will explore avenues in which it can contract out analysis to parties outside the

government. Arrangements could be made to borrow people from the private sector to work for some time in the government (as is done in other countries).

Various reforms have attempted to articulate appropriate policy measures (e.g., interest rate levels and exchange rate determination) to accommodate these changes. However, there remains the more difficult task of carrying out institutional changes that will, to some extent if not absolutely, delineate the boundary between the public and private sectors. A pluralistic institutional structure should enable the state to play its role of creating a favourable environment and efficient infrastructure to foster the efficiency of productive enterprises.

The process of devising this symbiotic relationship between the public and the private sector is made more complex by the fact that the division does not simply end at the respective responsibilities of the state and private sectors. It moves along the full continuum of division among central authorities, local governments and local communities, as the state gives way to the private sector. The argument for decentralization is based on the premise that development initiatives and basic services (e.g., water supply and primary education) are best managed at the local level. The aim is to enable ordinary people to take charge of their lives and to make communities more responsible for their own development.

Political Changes

Political change has emerged in the form of democratization and political liberalization. Members of society have greater freedom to articulate their positions on a wide range of issues and hence make an impact on policy analysis and the policy-making process. Under the new multi-party politics political parties are free to articulate a variety of positions and policies. In addition, social groups such as elements of the private sector, the civil society, youths and women are better poised to articulate their interests. This has all been accentuated by the significant increase in freedom of the press, which has facilitated more active media involvement in the process of bringing policy issues to the public domain, enhancing public awareness and facilitating greater public scrutiny of policy performance.

It is becoming politically costly to make policy mistakes and to ignore the views of these various groups, which are slowly but surely gaining the strength and ground to affect the policy process. It is increasingly clear that in this new socio-political environment policy making is no longer the monopoly of the government. There are perceptions among the various groups of stakeholders, such as the business community, traders and farmers' associations, that their views have not been adequately incorporated into the policy-making process.

Clearly, greater attention should be paid to devising appropriate ways in which all actors can be given the opportunity to present their views on policy proposals so that their insights can be incorporated into the process. There is a need therefore to increase the ability of the state to manage and mediate diverse interests, which are a natural result of groups that are different in nature, size and the degree of pressure they can exert on the policy process.

A study conducted by the African Economic Research Consortium (AERC) on the policy process in eight countries in Africa made some interesting conclusions. The study found that the various actors emerging as important participants in the policy process had a common problem—their own in-house capacity for policy analysis was very limited. They relied on tapping the capacities of institutions outside the policy domain (e.g., universities, research

institutions and, more recently, national policy institutes like ESRF). Given the circumstances, capacity building has to address the challenge of enhancing the ability of the government to manage the interests of these various groups and at the same time enhance the capacities of the groups to locate their own interests in the context of broader societal interest.

2.2 External Changes

On the international stage, a multitude of changes is rapidly opening the world market to competitive forces. Customers increasingly demand adequate and timely delivery of quality goods. Globalization is increasing—albeit controversially—hand in hand with regionalization. Recent years have seen the formation of new trade blocs (e.g., NAFTA and Pacific Rim) and the strengthening of existing ones (e.g., European Union). Although these blocs have been instrumental in facilitating competitiveness, they also signal the existence of protectionism within their memberships. It is becoming increasingly difficult for those outside of these blocs to penetrate these markets.

The advance of science and technology is having profound effects on almost all spheres of life. Production conditions are continuously changing to allow a more efficient, cost and resource saving production process. The advancement of information technology has facilitated rapid information, money and commodity transfers across the globe. National borders are fading away as it becomes easier for the effects of these changes to percolate through national frontiers. The challenge is to instill in both individuals and institutions the ability to read the signals from the changing world, to recognize the implications of the changes and to make the necessary adjustments to cope with change. Effective accommodation of change implies the ability to forecast, assess and tap the benefits of change while at the same time minimizing the resulting costs.

To cope with the dynamic internal and external environment, individuals and institutions alike are challenged to think globally (and regionally) and to act locally.

3. ASPECTS OF CAPACITY BUILDING

Capacity development involves the issues of creating the capacity, effectively mobilizing and using existing and newly created capacities, establishing ways to bridge the gap between existing and required capacity, and sustaining the capacity over time. The evolution of the demands for policy analysis has implications for the full range of these issues. For example, the need to eliminate wasteful duplication of research and foster coordination across institutions engaged in policy research and policy analysis deserves greater attention.

3.1 Creating and Sustaining Capacity

The creation of effective institutional capacity rests on a strong training foundation that facilitates a rapid learning process and enhances the adaptability required for dealing with the

dynamic environment. Such a foundation is needed both formally in training institutions and informally in on-the-job training, and can be complemented by establishing various forums and other opportunities for policy dialogue.

For example, professional networks and associations may provide opportunities for professionals to interact and so facilitate policy debates and a peer review process at national, regional and international levels. In the long run this enhances the quality of the work and research undertaken by these professionals, and broadens the range and increases the depth of skills for policy analysis and economic management. It also increases the capacity and confidence of the professionals.

Such initiatives have been taken at the regional level (e.g., the African Economic Research Consortium, AERC, in Nairobi) and the national levels (e.g., the Economic and Social Research Foundation, ESRF, in Tanzania) to complement traditional research and training institutions and professional capacities. These initiatives can provide the link between research and policy communities and enhance the dissemination of research results and other relevant information to more diverse groups of people.

Another component of capacity building is autonomy at various institutional levels such as central economic management institutions (e.g., Planning Commission, Treasury and the central bank), line ministries, local governments, and research and training institutions in the government and non-government sectors. This type of autonomy does not mean that these units operate in isolation; rather, it means the different policy analysis and economic management units (line ministries, central economic management units and think tanks, local government levels, research and training institutions) have the freedom to carry out objective analyses that incorporate effective consultations, interaction within and between these units, and cross fertilization of ideas with other organizations.

The national responses still largely lack comprehensiveness and the necessary coordination to rationalize the use of available capacities in policy analysis. There is need for a specific strategy for strengthening the capacity for policy analysis at the national level. Such a strategy should consider five elements:

- Augmenting existing capacities in policy analysis through appropriate formal training programmes and enhancing dissemination capabilities (e.g., economic journalism) for research results to reach a broader audience.
- Instilling professional confidence for rigorous and credible analysis.
- Putting in place an appropriate incentive structure for encouraging the retention and fuller use of available capacity.
- Enhancing professional exchange and interaction among professionals and between researchers and policy makers.
- Coordinating and keeping up-to-date a data base of the existing capacity and research outputs to avoid wasteful duplication of efforts.

3.2 Using Capacity

Efficient and effective use of existing capacities is an important aspect of capacity building. Efficiency involves taking stock of existing capacities, identifying gaps in the capacities, and reducing chances of duplication. Effective use of capacities requires a conducive environment politically, economically and socially.

A Conducive Political Environment

Good governance and good leadership are essential to the process. Good governance requires accountable state officials, officials who selflessly pursue the economic well-being of the society by striking a strategic balance between institutional/national and personal interests. Good governance entails transparency in government procedures, transactions, investment decisions, contracts and appointments. This not only keeps the system honest but also creates an informed public, hence increasing the people's broad participation in the policy-making process.

The rule of law must be adhered to by government and its citizens. This implies that individuals, government and institutions alike should be subject to rules and regulations that are understood by all in the society.

Good leadership prevails in a situation where managers set standards for their staff, which means that both managers and staff must have clear expectations of work to be done. Staff must be encouraged to perform well and held responsible and accountable for results. In such an environment merit is rewarded and bad performance sanctioned.

A Conducive Economic Environment

Favourable working conditions and appropriate incentive structures together will, first, encourage people to be more productive and, second, prevent all forms of brain-drain. Inadequate salaries direct public—and private—officials to such unprofessional forms of behaviour as demanding/collecting bribes and misappropriating public funds. In short, an unfavourable environment creates incentives to do jobs in ways that are inconsistent with the national and/or institutional interest.

Furthermore, it contributes to brain-drain of massive proportions as frustrated professionals in search of suitable remuneration packages opt to work either in foreign countries or in fields where their expertise may not be used efficiently. Recruitment and promotion should be based on merit and competitiveness to encourage professionals to remain in the country and in their professions—in so doing the nation retains local capacity and uses it effectively.

A Conducive Social Environment

The support and acceptance of the civil society form the backdrop for effective capacity building. Important social actors, e.g., political leaders, bureaucrats, legislators, business people, religious leaders, labour leaders and others, must be convinced of the value of the capacity being put into place. Their support or pressure for capacity utilization can have a positive effect on capacity building.

Local or Foreign Capacity?

Side by side with initiatives in capacity building, awareness and propagation, there has been increasing recourse to technical assistance (TA) from outside the country. Foreign technical assistance is disturbing for at least three reasons:

- Its funding is exogenous to the recipient country, thus impairing internal accountability.
- It is increasingly more expensive.
- It is inconsistent with the policy intentions and pronouncements of recipients and donors alike.

Studies have shown that only 5% of all consultancies are undertaken by local consultants, while 95% have been contracted to foreign consultants. There is a need to identify, locate, enhance and use more fully the existing local capacity before we rush off to engage foreigners. One way of harnessing the use of foreign consultants for enhancing local capacities is to encourage local participation or partnerships with foreign consultants on various projects or consultancies.

4. THE EXPERIENCE OF TANZANIA IN CAPACITY BUILDING FOR POLICY ANALYSIS AND ECONOMIC MANAGEMENT

A review of the history of capacity building in Tanzania shows that it has gone through several phases. In the earlier period of policy analysis and economic management a common culture of expectations was one of the driving forces in capacity building. Over time, however, this force progressively waned. The challenge is how to rebuild the common culture of expectations as a guide to capacity building efforts. Similarly, there is a need to build a culture of expectation between clients and those who are doing the analysis. In addition, there could be a lead institution for capacity building for ad hoc considerations—in other words, taking a systematic approach to locating the capacity.

4.1 The Colonial Legacy

During the first few years of independence (1961–1967) the demand for policy analysis was modest, mainly because the economy was largely left to function on the basis of the straightforward rules of the game inherited from the colonial administration. The new administrators were preoccupied with project appraisal type of policy analysis, which is not too demanding. This period was therefore characterized by dependence on external policy analysis, a scenario reflected in the three-year plan (1961–1964) based on the colonial government's preparation for independence.

Groundwork for development programmes had been readily prepared by multilateral institutions at the request of the colonial government. Africans were hardly included in the

process of policy formulation and analysis—the first five-year plan (1964–1969) was largely prepared by a group of expatriate economists. As days went by, there was faint support in policy analysis issues from young economists joining the civil service.

4.2 The Arusha Declaration

The Arusha Declaration in 1967 introduced a new approach to development programmes based on the principles of socialism and self-reliance. This aspiration featured gradually in the second five-year development plan (1969–1974) in which the role of the public sector in the management of the economy was extended. The kinds of capacities in policy analysis required were those that suited the imperatives of a public sector led economy and an economy largely managed through administrative resource allocation. The 1970s saw a shift in the role of foreign experts, from taking the lead to being advisers. Local economists began to take the reins in policy analysis and economic management.

Policy and decision making shifted to the ruling party as can be seen from the five-year plans introduced during this time. For instance, while the first five-year plan (1964–1969) was formally presented to the Union Parliament, the second five-year plan (1969–1974) was presented to the TANU (ruling party) conference before it was tabled in Parliament. The monopoly of politics was fulfilled by co-opting the organizations of the civil society into the party machinery and by making the party—rather than Parliament—supreme. There was no middle position.

The relationship between the government and the party developed into two parallel systems of policy making and policy analysis. The problem is that while the party was supreme, it was weak in the analysis of policy. The party took over policy making but lacked policy analysts. In fact, some politicians simply used the party to pass through policies for implementation without first weighing their implications for resources or for the local capacity to implement them.

4.3 The Reform Era

The years 1980–1985 can be characterized as a period of economic crisis and vigorous policy debates. The crisis of those years was characterized by deficits in the current account and in the budget, inflationary pressures, and shortage of goods. Intense discussions took place within the government and local academic institutions and among individual groups with different viewpoints in policy analysis. While some claimed that the crisis was endogenous to Tanzania's development, another group was all out to defend what they saw as a threat to the principles of the Arusha Declaration. The debate in the 1980s was essentially a debate that pitted those who saw the crisis as being within the Arusha Model against those who maintained that the crisis was exogenous to the Arusha Model. That is, the differences were between those who wanted policy change in favour of market-oriented economic management and those who advocated the deployment of administrative controls in economic management.

This debate was in some sense an extension of the debate between the Government of Tanzania and international financial institutions following the collapse of the stand-by agreement. Emerging also in the period was a close collaboration between policy analysts and

policy makers in government, and with economists in academic institutions. Academicians were also being incorporated into policy discussions, which was expected to enhance the prospects for reaching an agreement with the international finance institutions (IFIs).

The adjustment efforts of the early 1980s such as National Economic Survival Programmes (NESP, 1981–1982) and the structural adjustment programmes (SAPs, 1982–1985) were designed to preserve the development model that prevailed in the late 1960s and 1970s.

A major attempt to solve the crisis was made in 1982 by the Advisory Group Report, which proposed a major departure from the model. The government, however, picked only those points that did not affect the essentials of the development model. This left the macroeconomic model intact. The structural adjustment programme that was adopted between 1982 and 1985 proposed to protect vulnerable groups and the parastatals; this in effect meant that in operation the SAPs left the Arusha Model intact. Many aspects of price and market distortions, as well as inadequacies of the incentive system, were not addressed.

There was also the influence of some economists who had gone abroad to study in the 1970s and 1980s and who were now returning to find the model in deep crisis and bereft of its moral high ground. These economists were quite vigorously engaged in the debates. For example, it was evident that income distribution had become more unequal, the price control system was breaking down, import control was increasingly becoming a rent-seeking way of life, and imports and the incentive structure were becoming less conducive to raising productivity in agriculture, industry and other sectors.

Between 1983 and 1985 there was a broad base for policy dialogue in the form of economic policy workshops, which were attended by university staff, government officials and business people. This forum produced background material for the economic recovery programme (ERP). While the debate was in progress, certain pragmatic steps started to show in the form of the partial liberalization of imports such as pick-ups and other imports purchased by what was called own funds. There was also some relaxation on the fixity of the exchange rate. These initiatives were, in a sense, responses to the difficulties the Arusha Model was going through. It was obvious that the model did not contain ways to generate resources for its own survival. The policy debate of the early to mid 1980s was sparked by the economic crisis and was dominated by economic analysis and hence by economists. Other interest groups in society played a limited role in the policy debates and many policy issues did not receive adequate attention.

The period 1986–1995 was one of economic reforms based on agreements with the IMF in August 1986. The momentum in harnessing local capacities continued for some time after 1986. Participants in the Capacity Building in Economic Analysis and Economic Management workshop held by ESRF in November 1995 revisited the positive role of the team of local experts in the Interministerial Technical Group of Officials (ITGO), who articulated, designed and coordinated the implementation of the economic recovery programme (ERP).

Workshop participants recalled the ITGO as an institutional arrangement through which local capacity was innovatively deployed, energies were pooled, participation and a sense of ownership were promoted, and a broad-based exposure and experience were attained on the basis of continuity and sustainability. They noted, however, that starting in the late 1980s and early 1990s the ITGO arrangement waned. Policy analysis and economic management has

since been left largely to those who were instrumental in influencing aid inflows, i.e., multilateral and bilateral donors. Local ownership of development programmes and the policy agenda has slipped to a very low ebb, and the period has witnessed a decline in local participation and capacity in the area. Government was much more concerned with mobilizing aid and satisfying aid conditionalities. Little emphasis was placed on policy formulation and analysis rooted in local expertise. At most, local capacities have been asked to react to proposals by the various donor agencies rather than to formulate development programmes.

Most of the policies made in late 1980s were less complex pronouncements related to reducing price distortions and relaxing controls. Subsequently, however, the need for capacity to analyse and manage reforms increased, and by the early 1990s questions began to be raised about the local capacity for policy analysis. The 1990s saw the beginning of a reassessment of the role of local institutions and individuals in policy analysis and economic management.

During the 1986–1995 period there has been greater room for policy dialogue, but the capacity for policy analysis and economic management has been limited by several factors. First, there is a shortage of high quality and experienced professional staff in key ministries. Second, the recruitment policies in the civil service have not given adequate attention to merit and excellence. Third, the civil service is composed of a high percentage of primary school leavers (70%) and the better educated and experienced staff engage in crisis management, which reduces their effectiveness. Fourth, some of the graduate economists are ill equipped in technique and economic analysis, and arrangements to upgrade their skills through on-the-job training or in-service training have not been put in place; where skills existed they have been eroded.

5. SUSTAINABILITY OF CAPACITY BUILDING

Sustainability means creating and maintaining the capacity to analyse, adapt to, initiate and manage change. For this to happen, there should be local ownership of the development agenda and the policy research agenda. Local political authorities and research institutions must be involved in the design, creation and implementation of the development agenda and of systematic policy research and analysis. This will facilitate mechanisms to cope with change in good time and hence reduce the prevailing tendency toward crisis management, which is not only costly but also erodes fragile capacity to carry out systematic policy analysis and economic management.

Sustainability of capacity building requires:

- *Demand for policy:* Increasing the demand for policy analysis by local experts and institutions is a necessary condition for sustainability of capacity development. The demand for policy analysts will largely be determined by economic managers and policy makers at high levels. As the demand for policy initiatives from within the local community increases, local funding should acquire an increasing proportion of total funding requirements so as to enhance ownership of the development agenda and promote self-reliance in policy analysis and economic management. The severe shortage of local funding

has brought the donor factor with its conditionalities. As long as there is a strong dependence on external sources of finance, we will have a long way to go because donors insist on instituting their own reporting systems, which complicate further the already serious problem of weak coordination of the reform programmes. A commitment to meet the costs of quality research on the part of the government, institutions and individuals with vested interests in this area must be made to ensure continual financing of the operation and in so doing sustaining effective capacity.

- *Supply of policy analysis:* This should entail creation of new capacities, enhancement of existing capacities to suit changing circumstances, and putting in place working conditions that are conducive to more effective mobilization and use of existing capacities.
- *Institutional set-up:* The institutions (within or outside government) that carry out policy analysis can best perform their tasks if they are imbued with managerial effectiveness, commitment and complementarity among them. Currently, policy analysis is fragmented, which has implications for institutional effectiveness. The capacities of local institutions are too scattered; there is a need to bring them together and create a critical mass that can work more effectively. The implication here is that policy analysis should be managed more effectively and in a more integrated manner. To ensure this, there is need for networking in the policy analysis exercise and for integrating the approaches adopted in such an initiative.
- *Vision and cultural expectations:* There must be a renewed social compact to form the basis for coordinating policy analysis and policy actions. The articulation of a clear development vision is required to provide a consistent framework within which policy analysis and economic management can take place in a sustainable way.

6. CONCLUSION

The changing conditions in Tanzania's society require, first, that there be broader participation of the different groups in the policy-making process and, second, that the state recognizes this and takes the necessary steps to incorporate the views of these stakeholders. Care needs to be taken to put in place mechanisms that mediate the diverse interest groups in a way that guards against any single group pushing its interests at the expense of those of others. There is a need for policy dialogue among these various groups and between these various groups and the government.

An institutional arrangement that facilitates such communication will increase the individuals' and institutions' ability to understand, discuss and reach some form of consensus on their different viewpoints, and hence to perform quality economic analysis and economic management. Additionally, the shift from a centrally planned economy to a market economy, occurring simultaneously with the move from public sector led development to a private sector led development, calls for a reorientation in the way policy analysis and economic management are approached.

Rapid changes in the market conditions of the world economy and rapid advances in technology pose a further challenge to these interest groups and the state. The challenge is to equip themselves with the ability to recognize and plan in good time, on the one hand, how to make the best of opportunities that may arise as a result of these changes and, on the other, how to minimize the threats.

As we strive to promote quality policy analysis and economic management it is important to realize that building this capacity does not end with the creation of extra capacities. It requires an understanding of the social, political and economic conditions that facilitate the effective use of both newly created and existing capacities. It also requires establishing appropriate means to bridge the gap between existing and required capacities. While capacity-building initiatives are being implemented, the demand for policy analysis has to be filled by recourse to expatriate personnel under technical assistance arrangements. In circumstances where it becomes necessary to import expertise, mechanisms to ensure that it is used in a way that enhances local capacity rather than substitutes for it should be put in place. Local participation and/or partnership with foreign consultants is increasingly being put forward as one of the most effective ways of ensuring that this will happen.

The several phases in the approach to the management of Tanzania's economy are reflected in the policy-making process. An analysis of these phases makes it immediately obvious that there are proper set structures for carrying out policy reviews. The high frequency of changes in the policy process introduces an element of instability and weakens the ability to analyse policy implications. Weak policy reviews make it difficult to identify and correct mistakes, which in turn makes it difficult to learn from experience. There is therefore a need for institutionalizing policy reform, which constitutes identifying the weak points of the operation of both the flow of policy analysis and decision making as far as the policies are concerned, and relating this to government decisions.

There are clear stages in the formal policy-making mechanism in Tanzania. The highest stage is cabinet-level policy decisions, which do not need to be legislated; where legislation is required, Parliament is the highest stage in the decision-making ladder. The formal process is straight and clear. The problem arises when informal channels are resorted to; informal channels are often difficult to manage and more often than not problems arise regarding who made a decision. The clarity of the decision-making process therefore depends on how much of the policy is formal and how much is informal.

Another problem arises when decisions are made and elements who may not like the policy decision opt to drag on the implementation. In fact, this becomes a case of defying the policy decision. One way out is to give policy making centres the responsibility of ensuring that there is monitoring and follow-up in the implementation. Those who defy such policy decisions should face sanctions. In the workshop on Capacity Building for Policy Analysis and Economic Management referred to above, one participant cited a study of un-implemented cabinet decisions that found that many policy decisions made by the cabinet were not implemented. Such issues need to be addressed in order to realize the objectives of good policy analysis and effective policy implementation.

Lastly, capacity building is a continuous process; it is not possible to start and complete capacity development within a set time frame. The dynamic nature of the environment in which policies are made requires that at all times institutions and individuals alike must

upgrade their capacities to deal with change. To cope with such a demand, the process of capacity building must be sustained. The state and various other stakeholders in the policy formulation process must commit to allocating the human and financial resources and, in so doing, to facilitating local ownership of the research agenda. For efficient use of capacity, efforts must be made to ensure that the institutional set-up and general working conditions encourage local experts to stay in their country and in their professions. Training institutions (e.g., the universities), which provide the foundation on which capacities are built, should be strengthened simultaneously with cooperation between these and emerging non-university research institutions so that they can complement each other in the capacity-building process.

Sustainability of capacity presupposes a unanimous development vision through which all development plans and programmes as well as policy analyses and policy actions can be linked and coordinated. Capacity building is a function of demand. A clear development vision will help determine the nature and magnitude of each sector's capacity-building requirements. Without that vision it is easy to concentrate on the specific, isolated demands of an individual sector at the expense of declining capacities in supporting sectors. Yet, without supporting capacity, no matter how advanced the strengthened sector becomes it may well fail to deliver the goods.

It is a synergy; each component reinforces and draws strength from the others. A clear development vision prompts consensus on policy formulation and implementation. Commitment to the vision—and to the social welfare inherent in the process of making the vision reality—demands high calibre capacity in policy formulation and implementation. Developing and sustaining that capacity are crucial elements of the policy analysis and economic management that keep the vision on target.

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