TANZANIA AND THE IMF: ROUND FIVE*

1979 In Historic Context

The breakdown of Tanzania's 1979 negotiations with the International Monetary Fund, the consequential resignation of Minister of Finance Mtei and President Nyerere's New Year speech to the Diplomatic Corps attacking the IMF for political and ideologically based manipulation attracted substantial publicity. Somewhat ironically, subsequent events culminating in 1980/81 - 1981/82 Compensatory Facility and Standby (Higher Credit Tranche and Witteveen Facilities) totalling about £100 million have passed virtually unnoticed except in Tanzania. What has happened? Has Tanzania done a U-turn? Has the IMF? Are Tanzania/IMF relations now on a harmonious course or are the September 1980 agreements only a truce?

The history of Tanzania - IMF relations has now had five stages. Until 1974 Tanzania had not drawn on Fund facilities, albeit it had used (and partially reconstituted some Special Drawing Rights - SDRs). Relations with Fund country report missions (which visit all members every two or three years) were good partly because any dialogue was a free exchange not conditioned by potential Fund sanctions. Over 1974-1975 Tanzania used its Gold and First Credit Tranche and drew heavily on the Oil and Compensatory Facilities.

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*This article is based on data and statements which have been made public in scattered, and in some cases hard to trace, speeches and releases. It is not based on data available to the author as a Tanzania Treasury consultant and is in no way an official Treasury record or statement of position.

As all were 'low conditionality' facilities and Tanzania was clearly both hard hit by exogenous events (drought, oil price, grain price) little divergence of views arose.

Over 1976-1977 a draft Standby Agreement was negotiated but never implemented. Tanzania believed its credit ceilings did not take world inflation into account adequately and would prevent recovery of production. The debate petered out because the coffee boom removed Tanzania's need to draw.

With the collapse of the coffee boom - and the imprudently extensive 1978 import liberalization partly made on IMF/World Bank advice - round four opened with Tanzania seeking to redraw the partially repaid First Credit Tranche and secure additional (soft) Trust Fund Credits. Distinct differences of opinion surfaced with the Fund apparently pushing for 25% devaluation and sustained import levels while Tanzania saw the former as both inflationary and bad for income distribution and the latter as unsustainable.

The Amin invasion and the beginning of the 1979-80 oil price explosion worsened Tanzania's position. A modest devaluation early in 1979 led to modest facilities but a March 1979 proposed Standby Agreement was never agreed. Negotiations continued through October when an IMF team's presentation of their proposed conditions for a major standby agreement led to a dramatic and acrimonious breakdown.

Crisis to Accommodation

Following the breakdown it is known that President Nyerere addressed a letter to the Managing Director of the Fund and received a reply in rather placatory terms, both denying that the Fund had ideological biases or political motivations and suggesting that either proposals had been misinterpreted as conditions or the Fund officials had exceeded their brief. (An almost complete change of personnel on both sides distanced the 1980 negotiations from the 1979 debacle.) A series of communications and discussions ensued leading to a reopening of negotiations in May, completion of negotiations in August and IMF Board approval in September.

The IMF found itself in a somewhat more difficult position than in many negotiations. Its reputation as the unreformed Scrouge clearly disturbed it as did the open breakdown of talks with both Tanzania and Jamaica. Further both UNDP's Dell Report and the Brandt Commission Report had been highly critical of its criteria, procedures and lack of sensitivity. Finally Tanzanian Finance Minister Jamal was Chairman for the upcoming 1980 Annual Joint Meeting of the Boards of Governors of the Fund and Bank.

Tanzania's position was also difficult - draconian foreign exchange allocation cuts had drastically reduced manufacturing output and hampered almost every production and service sector. Despite the cuts, arrears on commercial payments had risen to approach £100 m. and substantial repayments of earlier IMF drawings would fall due in 1980/81. While by May Tanzania had shown it could hold out for a time without IMF facilities and had raised substantial balance of payments support finance, the external balance position was only too obviously untenable

Points at Issue

The 1979 breakdown - judging by the President's statement and standard IMF terms - turned on eight points. Prior devaluation (25% asked, Tanzania convinced any devaluation at that stage would worsen matters). Substitution of (higher) interest rates for credit budgeting. Reduction of constant price recurrent expenditure (apparently especially on health and education). Reduction of real wages by a continued wage freeze. Liberalisation of import controls allowing in more imports on a less selective basis. Dismantling of price controls. Improvement of economic efficiency (a difference on definition and method with the Fund emphasizing 'free market' and consumption reduction approaches Whatever the Fund intended, the proposals would have meant dismantling planning and repudiating the strategy of transition to socialism. They would also have worsened income distribution, worsened the trade deficit by more than the Fund credit provided, accelerated inflation, increased inequality of income distribution and reduced marketed food production - hardly a recipe for economic recovery even in orthodox capitalist terms.

1980 Programme

The outcome of the 1980 negotiations on these points can be deduced partly from press statements but more from what Tanzania has and has not done. Tanzania has neither devalued nor stated any intent to do so as opposed to reviewing its exchange rate policy and practice. The 1980-81 Budget was largely determined before any of the IMF negotiations and voted before the final round. The Budget is tight and includes tax measures to reduce the Recurrent deficit from

Sh 1,650 m. to under Sh 350 m. but these are in accord with the fiscal prudence which has always characterised the present Minister of Finance. Social services are notably not cut.

Credit allocation has clearly not been ended - September 1980 reports from firms were that it had been tightened. Nor have major interest rate changes been announced or suggested as opposed to a Bank of Tanzania study to tidy up the structure of rates mentioned by the Governor of the Bank in April. Price controls have not been dismantled, indeed their importance was underlined in the Budget Speech and by new enforcement efforts (notably at Mwanza) in the third quarter of 1980. Import budgeting and licence allocation remains central to planning and the somewhat larger allocations in 1980 appear keyed to additional resources secured and the need to ease production and transport bottlenecks, not any philosophical change.

Efficiency measures have indeed been taken - e.g., an overhaul of agricultural prices, a restructuring of consumer grain prices, a working group to decentralise and restructure NMC, first steps toward an export development strategy. But all these have had Tanzanian advocates, been based on Tanzanian studies and were begun before May. They may have impressed the IMF - they can hardly be viewed as imposed by it. On wages the IMF officials were met on arrival by headlines announcing a 26% urban (36% rural) minimum wage increase. Again, while the nil salary increase may have met with their approval it can hardly be seen as inconsistent with past Tanzanian policy.

What the agreement certainly involves are quarterly ceilings for government borrowing from the banking system, for total bank lending and for external payment arrears. Given the timing of the final negotiations these must be based on the 1980-81 Tanzania Budget, Credit Plan and Foreign Exchange Plan largely agreed in April. They cannot as targets deviate significantly from these wholly Tanzanian exercises.

However, in practice two complications clearly do arise:

1. IMF ceilings cannot be broken or drawings are halted. Therefore, a Tanzania target which could be eased if external events went wrong becomes a much more rigid and dangerous limit when converted into an IMF 'trigger clause' set on single number not a range;
2. Tanzania's budgeting is annual whereas IMF ceilings are quarterly. Because Tanzania has pronounced, but rather erratic, seasonal patterns in bank lending, government cash flow and foreign exchange inflows, it is likely that IMF ceilings for the September and December quarters could pose problems even were the yearly targets met. In the event the September 1980 quarterly ceilings have apparentl been met.

Resource and Use Parameters

The total facilities negotiated are of the order of £100 million. Of this about £9 million is Compensatory Facility (export shortfalls) and £91 million (£46 million 1980/81 and £45 million 1981/82) Higher Credit Tranches and Supplementary Financing (Wittereen) Facility. Of the £55 million available in 1980/81 (£32 million by the end of 1980) about 1/3 is likely to be used together with allocations within the basic foreign exchange plan to reduce external arrears. Slightly under 1/3 is likely to be used to meet 1980/81 repayments of late 1970's IMF drawings. About 35-40% (£20-22 million or Sh 400-450 million) will be available for additional imports i.e., a 4% boost. While the net direct import gain is small, the arrears needed to be reduced to avoid crippling surcharges on prices quoted to Tanzanian importers while default on IMF repayments could not be allowed because of its repercussions on other sources of finance (especially but not only the World Bank).

Truce or First Step to Agreement?

Tanzania evidently views the 1980 outcome as a truce or an interim arrangement not a real resolution of differences. In the middle of the 1980 negotiations it hosted the South-North Conference on the International Monetary System at Arusha whose 'Arusha Initiative' (Development Dialogue, 1980-2) is sharply critical of the Fund and proposes major interim changes plus a longer term total reconstruction.

In his Chairman's address to the IMF-Fund Governors Minister Jamal argued:

1. change in Fund policies had come, but slowly, grudgingly and marginally;
2. three to five year repayment whether the crisis requiring the drawing has passed or not is unreasonably burdensome;
3. new, low conditionality facilities - e.g., to meet emergency food imports - are needed at once;
4. the overall philosophy of the international monetary system and of the Fund is attuned to short term cyclical fluctuations

of flexible, capitalist industrial economies. Global crises, external shock adjustment processes, structural adjustment and development deficits cannot be fitted into that philosophy;

5. therefore,not only new facilities and flexibility of procedures now,but also a basic structural adjustment of the IMF in the next few years is urgently needed.

To project 1981/82 Tanzania/IMF relations is not easy. In the first place oil price and supply questions weather global inflation rates or grain prices and export prices could make the 1980/81 quarterly targets unattainable.Whether the IMF will renegotiate on a rolling basis remains to be seen - it has in some (not all) other agreements, e.g., those of Kenya and Zambia. If Tanzania meets the 1980/81 quarterly targets, negotiating the 1981/82 set is likely to prove workable but perhaps difficult - Tanzania stresses raising output to close demand/supply gaps and the Fund cutting demand. The basic problem may still be the exchange rate - it is unlikely that any Tanzanian analysis would find a 1982 devaluation to have more positive than negative political economic results but it is quite likely that any Fund analysis (treating reduction in real wages and price increases as either irrelevant or good in themselves and assuming no government spending to reduce the impact on the most vulnerable groups) would reach the opposite conclusion. Whether such a disagreement will lead to another clash, an agreement to disagree without any further credit or an agreement to disagree and release of the second half of the Standby is at present an open question.