BEGINNING TO REBUILD OR BUMPING ALONG THE BOTTOM: TANZANIA ECONOMY 1984-85

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Real Progress

The Tanzania economy in 1984-85 behaved like a person who has been struggling in quicksand for what seems an eternity. One foot had reached hard ground and a few shaky tentative steps on the long journey to safety taken. On the other hand the tide of import constraints and shortages still threatened to rise further and suffocate it. These ambivalent characteristics were summed up in Finance Minister Msuya's measured, determined but hopeful Budget Speech[1] and in the reaction to it: "Budget of cautious optimism"[2] versus "Little to impress the IMF"[3] (not that it appeared designed to do the latter).

In 1984 for the first time since 1979 or 1980 Gross Domestic Product in constant prices appears to have risen (the dubious initial 1983 increase announced having apparently been corrected to a decline).[4] True, the figures by sector appear somewhat shaky but the key one - a 2.5% increase in agriculture is backed by reduced need for food imports over 1984-85[5] and by data on export crops.[6] True too, 2.6% is below the 2.8-3.2% probable true population growth rate[7] and leaves constant price output per capita some 17½%-20% below 1978 and national purchasing power (adjusted for terms of trade losses down by at least 30-35% per capita. However, 1983 did mark a reduced rate of decline and 1984 a slight turnaround.

Equally crucial, 1984-85 seems likely to be the first year of generally good crop weather since 1977-78. Only the Lake region (Mwanza-Shinyanga-Mara) still seem to have been in the grip of drought or badly distributed rainfall. Food imports are expected to decline further[8] - indeed to levels suggesting maize self sufficiency. Perhaps more critical, retail prices of food actually declined - against the normal seasonal trend - early in 1985[9] as merchants and hoarders reassessed the supply situation and trend. A continuation of this pattern could have major positive effects not only on nutrition but also on morale and especially on urban morale which has been much worse hit over 1981-84 as real urban incomes plummeted both absolutely and relative to rural.

The 1984/85 Budget outturn was also positive in two senses: recurrent revenue sharply exceeded targets and the recurrent deficit covered by bank borrowing was both 20% lower than targeted and down 30% in real terms (marginally in nominal terms) on 1983/84.[10] Similarly domestic credit formation remained around 15% (half of inflation) indicating continuation of the highly restrictive monetary policy begun in 1981.

Imports - the clear choke on capacity operation and rehabilitation - rose 11.2% in nominal terms to $981 million in 1984 reversing a steady decline since 1979.[11] Of this perhaps one third represented price increases, one third "no forex" imports of consumer goods and one third general import expansion. How the imports were financed is less than clear - exports did not rise nor did payments arrears (now semi stable at a revised estimate of $360-400 million for about a year).

<u>But Continued Weakness</u>

On the negative side, the most serious result was the stubborn failure of exports to rise. At $402 million they were 3% down on 1983's $413 and almost 30% on 1979's $564.[12] As in 1981 when a previous export drive raised volume increases (much more modest than in 1981 but welcome after severe 1982 and 1983 falls) offset by price falls. Unfortunately, the latter (and fortunately, the former) seem likely to be continued in 1985. As a result of continued export unsuccess and borrowing to maintain even sub-essential import levels, external debt service (excluding arrears reduction) has climbed to $240 million for 1984 ($262 million projected 1985) from $89 million in 1980.[13] As a direct result the 1984/85 estimate of $925 million operating and maintenance, $280 million investment imports and $260 million debt service - $1,450-1,500 total - required for normal operation and maintenance of existing capacity, restructuring to increase exports and modest productive capacity increases is under one third covered by present or immediately projectable imports. Minister Msuya's Budget Speech[14] and President Nyerere's May economic address[15] both stressed increased export earnings as vital to sustained recovery.

1984 brought no breakthrough on raising external finance for structual adjustment and 1985 prospects are none too good. A IMF programme - seen as a precondition for major new programmes by several sources (including the World Bank and the UK) - seemed no nearer in mid-1985 than in mid-1981.[16] Even more seriously projections of external accounts through the early 1990's suggested that major IMF drawings over 1985-87 followed by repayment over 1988-92 would prevent, not facilitate, external balance recovery given IMF interest rates and repayment periods.

Inflation - as measured by the cost of living index - rose to 36% for 1984 measured on annual averages and 38% on fourth quarter to fourth quarter comparisons.[17] While not surprising given the 40% odd increase in the cost of foreign exchange and of grower prices in 30% in wages, the result is unsatisfactory especially in view of the restrictive monetary and tighter fiscal policy carried out in 1984/85. Food price stabilisation in the first half of 1985 may result in reduced inflation - giving room for badly needed foreign exchange rate and wage adjustments but as of mid-year the situation was unclear.

Manufacturing output declined again by 13% in 1984 taking real output down to under half 1978 levels and to under 5% of total domestic output[18] versus nearly 10% at its late 1970's peak. Until this decline can be reversed the chances for increased goods availability to choke off price increases, provide genuinely real incentives for peasant producers and reduce input bottlenecks to agricultural production and construction are negligible.

Agricultural policy remained basically inconsistent and in many respects unsound. The 1984 for 1985 price increases averaged 40%[19] nominally to offset inflation and the removal of input subsidies. However, in the absence of any real prospects of increased consumer manufactured goods or agricultural input supplies, these increases are at present the strongest inflationary engine in the economy - ironically all the more so for officially purchased crops given increased output with a return of good weather. Initial 1985/86 price announcements suggest a 25% average[20] which may do something to damp down inflation - especially if there is good weather in 1985/86 which would largely eliminate the parallel market in grain and hold price increases for the wide array of food products not officially purchased at nil to very low levels.

Similarly the reintroduction of regional co-operatives, restructuring of primary societies and switching of functions from Crop Authorities (restyled Marketing Boards) to co-op unions has arguably been the most botched of all Tanzanian agriculture institution shifts. As a result total marketing costs seem likely to increase up to a third in real terms between 1984 and 1986 unless the working party headed by Minister of State, A. H. Jamal, can define and secure enforcement of controls over co-op budgets and cuts in Marketing Board overheads and personnel; measures clear to meet strong co-op, Ministry of Agriculture and Marketing Board resistance. Already the slippage has resulted in a Sh.500 million 1984/85 marketing body deficit contravening clear 1984 directives.[21]

Finally, the 1985/86 Budget is complete only on the fiscal and perhaps the export incentive side. On these it is positive - continuing austerity, holding out some promise of a real cut in the recurrent deficit (as revenue is very cautiously estimated and all key expenditure items seem plausibly estimated, unlike transfers to local government in the 1984/85 Budget[22]) and reordering export and import rules in a way likely to increase recorded - and perhaps discourage smuggled - exports.

However, three key issues are not covered, i.e. postponed:

a. wage increases to limit the ongoing one third annual erosion of real wages from price increases;
b. retail grain price increases to offset the 1984 for 1985 grower price increases which came into force in July;
c. exchange rate adjustments to prevent re-emergence of large deficits on crop exports (probably to Sh.24 or 25 to the dollar).[23]

Deferral of the second and third is expensive because the deficits will pile up until these changes are made and cannot be reversed unless higher increases than those which would have been necessary in June are made subsequently. Similarly the food and forex price increases cannot possibly be made without a parallel, at least partly offsetting wage change. Unfortunately with the passing of the normal Budget timing of such changes, deferral until after the election seems likely - a lag likely to entail severe inflationary and public sector deficit costs and to threaten the continuation of the deflationary credit policy of 1981-84.

Thus 1985-86 prospects are clouded and ambiguous - although that is in itself a distinct improvement on the mid-year prospects of the past four years. The key questions will be whether:

a. import expansion can be sustained and used to increase domestic manufactured goods production;

b. exports can be raised in dollar value (not just quantity) terms;

c. price changes deferred in the 1985/86 budget are made in time and degree adequate to avoid retrogression on the fiscal and monetary fronts and continued over 30% inflation;

d. the 1984/85 agricultural output increase is at least 5% extending across export as well as food crops and 1985/86 is an average or better year in terms of weather (and pests/diseases);

e. progress can be made on longer term export rebuilding and restructuring - e.g. the Kilamco fertiliser complex, a Bank Structural Adjustment Programme or its equivalent, a major increase in bilateral structural/rehabilitation finance.

Positive answers to a majority of these questions would mean 4 to 5% real growth in 1986 (and perhaps 1985) and illuminate a possible, if still difficult and slow, road to recovery. Negative answers to all or almost all would lead to a return to the 1979-83 downward spiral from a much worse initial position.

Liberalisation, Incentives, Efficiency, Equity

Over 1984-85 a series of campaigns were continued, initiated or turned into ongoing programmes in continued efforts to divert resources back into legal channels, curb profiteering and increase incentives for official exports and return flows of imports.

The anti-economic sabotage[24] campaign was concluded as such in 1984 with future cases to be handled by the normal court system. A total of 4,363 arrests were made over 1983-84. Of 3,685 cases disposed of by the end of 1984, 863 resulted in convictions by Tribunals or other judicial bodies, 385 in Tribunal acquittals, 741 in police and 1,086 in Regional Committee discharges.[25] Total seizures of currency and property via official procedures[26] seem to have been of the order of $5 million. The convictions and seizures do indicate a serious effort - the number of releases and acquittals an independent and careful judicial process.

However, as a means to reducing prices of shifting production and sales to open channels the campaign was not a success. Shortages were - and are - too great for a greater chance of arrest to wipe out illegal trading. Indeed 1983-84 illegal price movements suggest that the effect of greater risk was to raise, not lower, prices. The effect on parastatal employeee honesty - or at any rate circumspection - is harder to assess. Lower diverted flows of goods may help account for the higher prices.

The main purposes of the campaign were moral and political - to reaffirm state concern about probity and opposition to profiteering/corruption and to attack what was - and is - widely hated as an exploitative social evil. The latter factor probably explains why the the large scale, long distance parallel grain market did not feature prominently in the campaign - high parallel market grain prices in the context of drought are not seen as being of the same degree of evil as import/export/currency profiteering.

Whether the return to the normal court system will mark an end to economic sabotage emphasis or be coupled with higher police - Attorney General's - magistracy concentration on these offences is unclear. The basic problem has never been lack of laws nor has it been judicial and prosecutorial corruption. It has been fourfold: lack of competent prosecutors (and their concentration on cases involving violence in committing crimes); police concentration on violent crime and lack of expertise on economic offence cases; an overloaded court system and a reluctance of the magistracy to take non-violent economic offences very seriously. Whether the campaign will lead to lasting reprioritisation of resources within the first three constraints and a recognition by the judiciary that economic sabotage - espeically on external trade and currency linked cases - threatens national economic security is unclear.

In the second half of 1984 an attempt was begun to encourage the return of illicit trade - especially smuggled imports - into open channels. Several steps were taken:[27]

a. allowing certain goods (in practice basic and semi-amenity consumer goods) to be imported fairly easily if no foreign exchange had to be remitted from Tanzania;

b. waiving price controls in respect to such imports;

c. raising customs duties on imported consumer goods.

By early 1985 on the order of $30 million of imports had been brought in under these provisions. Supplies of amenity and semi-amenity goods (including soap and cooking oil) were more (or at least more visibly) available and at prices below 1984 illegal market peaks. Customs collections rose sharply. However, several problems emerged:

a. markups from tax paid import cost to retail seemed to range from 400% to 700% (and by no means always totally declared for income tax purposes);

b. virtually no production inputs were imported - even by firms who had idle production capacity but used the no forex import facility to bring in finished consumer goods;

c. the import and price decontrol provisions in effect legalised one side of a previously wholly illegal smuggled export/smuggled import circuit and by so doing made smuggled exports (to get forex for no forex imports) more attractive absolutely and relative to legitimate ones;

d. consumers and commentators saw the price increases as legalised rip-offs - "Well, you can bring the stuff. Repeat you can bring the stuff and proceed to rip us off, Okay".[28] as one columinist put it;

e. both commentators[29] and - in private - reputable businessmen warned that no forex imports were in fact almost totally financed by smuggled exports not by genuine repatriation of assets held abroad.

These results posed a dilemma for the government. The public did welcome the added availability of some goods and the pressure on a few domestic prices they led to even if many items were beyond the pockets of most of them. But they also resented the apparent legalisation of profiteering and the suspected increase in export smuggling. The government on reflection was appalled at the disincentive it had given to official secondary exports and realised that their precipitate 1979-84 decline might well relate to increased smuggling, and decreased incentives for officially recorded exports, more than to actual production declines. Further, the $40-50 million a year apparent flow level of no forex imports suggested a much higher level of export smuggling than previously estimated.

As a result in May[30], President Nyerere announced changes which were detailed in the subsequent Budget:[31]

a. all reputable firms and individuals would be licensed to handle non-traditional exports;

b. the exporter could keep 50% of the proceeds in forex available for imports;

c. these could include consumer goods of specified types as well as production inputs and spares for his own or other businesses.

The results remain to be seen. The evident purpose is to make legal exporting more attractive and <u>de facto</u> to create a limited "auction" window for import licenses financed by the additional official exports with exporters selling imports to whatever consumers or producers feel a particularly urgent need to procure them without waiting for them to flow through official channels.

Socialism: Retreat Or Regrouping?

A series of critiques of the public sector by President Nyerere in April and May[32] were variously interpreted as recanting on socialism, redefining public/private sector boundaries and seeking to increase public sector efficiency by cutting back demands on its limited resources and/or getting it out of small businesses not praticable to operate well on a centralised basis.

The first interpretation is hardly consonant with Mwalimu's intentions - nor with what a majority of the CCM Central Committee would endorse. Nor would it be popular - frustration with public sector weaknesses and/or corruption in Tanzania is basically because it is preceived that the public sector could do better, indeed that it did over most of 1967-78. Similarly while small businessmen are not viewed as class enemies nor large businesses which are seen to pay and charge fairly condemned for being private or mixed, relative equality of incomes is widely seen as important and both profiteering businessmen and corrupt public sector collaborators are widely and deeply hated. At a mass response level the President is leaning against the wind in arguing that the public sector is too large and that cutbacks in its scope as well as improvements in its internal efficiency are needed.

In fact both Tanzania's reputation for being anti-private business and the degree of current changes are underestimated and the commitment by many leaders (including the President who once said, when speaking of the public sector, that for a socialist in a poor country waste was a mortal sin) to efficiency in terms of avoiding waste of resources. Except for brief populist outbursts - never fully representing state policy - private business has never been discouraged as such and since 1976 has clearly been encouraged. Since 1980 $300 million odd of private foreign equity investment has indeed been attracted - almost all unfortunately to oil exploration which has not struck oil to date - while the largest single economic project pursued doggedly since 1980 is the $500 million export oriented natural gas/fertiliser project which has always been conceived as a joint venture.

The public sector cutbacks concentrated on:

a. small business not suitable for large enterprises - e.g. 'denationalisation' of municipal butchers in the 1970's;

b. shifts from centralised to decentralised (e.g. co-op primary society) activity partly to increase flexibility and reduce costs (a hope not backed by evidence of probable attainment) but also to increase peasant power;

c. opening avenues for medium scale savings to be invested in areas either not priorities for state funding allocations or not threatening to public sector economic leadership - most notably the May 1985[33] _de facto_ repeal of the ban on medium and large scale private property rental except for government, party and public enterprise leaders;

d. selling off very badly run public enterprise units - notably the worst run down sisal estates[34] - albeit sometimes with little regard for the causes of their problems, e.g. in this case a horrible economic environment leading to private sector output falling as fast as public and a horrendously weak (by Tanzanian public sector standards) management from 1974 to date.

These in fact do not add up to any abandonment of public economic sector leadership albeit they are intended to encourage private sector activity in areas seen either as peripheral but not undesirable (e.g. middle and upper income housing), important but beyond present public sector capacity (e.g. abut a third of public sector sisal estates) or suitable only for small scale enterprises (by definition private, co-op or village).

The efficiency thrust has been centred on specific institutional reforms, on shifting crop marketing to smaller and (hopefully) more participatory bodies, and on general reviews of possible state and public enterprise cost savings headed by Minister of State, A. H. Jamal.[35] The latter seem to have identified about 8% overemployment (27,000 of 350,000 odd) in government and somewhat more (perhaps 10% of 200,000) in public enterprises. Assuming equal potential savings on other items (e.g. economising on transport, reducing material wastage and spoilage) this suggests total potential efficiency gains of Sh.1,500 million.

Unfortunately, these gains - which are not such as to suggest massive, easily remedied inefficency of more than say Sh.250-500 million (1-2% of government and parastatal turnover) - will be hard to achieve. Managers, workers and parent ministries (notably Agriculture) of weaker parastatals clearly are opposing them.[36] Initial government past reductions seem likely to be limited to 12,000[37] albeit reducing replacement hiring could provide an additional reduction of 3-5,000 annually without actual firings.

Part of the problem is Tanzania's traditional reluctance to fire except for serious improper action or total incompetence. Senior officials and managers responsible for nonfeasance or misjudgement - as opposed to gross malfeasance

- tend to be transferred or given another chance (by no means always successfully, the 1973-74 NMC debacle was presided over by the same general manager as the 1970-72 STC debacle), a tolerance which does not encourage workers councils and the trade union to go along with lower level retrenchments even when they accept in principle that they are needed.[38]

1985's Currency Exchange

At the end of July Tanzania suddenly recalled the Sh.100 note (nearly 90% of value of note circulation). Notes could be exchanged up to Sh.10,000 and balances above deposited in bank accounts useable for normal transactions but subject to government inspection (e.g. by tax officers).[39] The apparent purposes are:

a. to trap Tanzania notes illegally held abroad (which may in fact not be considerable);
b. to open legal - but profiteering - trading to tax surveillance;
c. to raise the costs and difficulties of illegal (or illegal export/legal import) business.

How effective the exercise will be remains to be seen. At a cost, note holders can readily hire people to change for them (as happened on a huge scale in a somewhat comparable Uganda exercise). The result of tax inspection will raise costs of operations and may either cause reductions in their scale or price boosts to cover the new costs - not as some commentators suggessted[40] halt them altogether. They will reduce the advantage of illegal versus legal exporting but will also relative to totally illegal operations. The interpretation as a reversal of liberalisation[41] is either untrue - it is a logical part of making legal export/import business subject to income tax more attractive relative to the no forex import route - or misreads the liberalisation which was always seen as an efficiency oriented, bottleneck reducing tactic within a public sector led economy not a reversion to capitalism in any general sense.

Progress on increasing efficiency of the worst functioning sector - agricultural marketing - has been limited. While Crop Authorities assertedly saved over Sh.600 million[42] by cost cutting exercises in 1984-85, they adopted (without the required Treasury approval) budgets allowing 25-55% unit cost increases and ran up Sh.500 million in unplanned deficits[43] despite clear instructions to operate at breakeven or better.

Problems Of Co-op Restructuring

The Co-operative restructuring (primary society) and reestablishment (regional unions, national union, co-op bank) gathered speed over 1984-85 with several regional unions beginning full operation but also appeared remarkably ill thought out and executed given the two years lead time since the decision to reestablish in 1981-82. A series of problems have arisen:

a. whether to encourage single village primary societies or revert to multi village ones - a straight Party, old co-op management fight with peasants in most regions (not Arusha, Kilimanjaro or parts of Kagera and Mwanza) on the single village side but on occasion coerced into multi village units;
b. how to choose co-op union and national staff - again a Party, old co-op management battle largely won by the latter with limited reference either to peasant wishes or the logic of transferring competent Crop Authority staff to the unions;
c. semi multi vs single channel marketing, i.e. primary society freedom to sell to Regional Trading Companies, processors and

institutional buyers - especially in their own regions - and to handle short distance transport (an approach favoured by several economic ministries and - presumably - primary societies) vs requiring primary societies to sell only to unions and the latter to Marketing Boards (backed by Agriculture and the union managements);

d. cost control since the interim structure of state setting of grower prices with primary societies and unions then setting their own charges subject to nominal approval by an understaffed and non-financial section of the PM's office followed by a similar self serving exercise by Marketing Boards rubber-stamped by Agriculture seems a sure recipe for higher marketing costs leading to higher consumer prices, tax payer subsidies to export Boards and/or recurrence of marketing body and debts (of which about Sh.5,000 million had been transferred to the Treasury in 1981 and 1984 to clear out the past backlog and provide a base for enforcing financial discipline - with some success in National Milling over 1982-84).

While a working group under Minister Jamal was set up to try to sort out the financial issues and the President intervened against imposition of multi-village co-ops, the whole exercise remains problematic in results. It seems as likely to increase costs as to control them, to substitute (recreate) co-op management dominance over peasants for Crop Authority control as to increase participatory processes and to harden one channel marketing inefficiencies as to reduce them.

In general the consolidation of research and extension in agriculture has failed to yield substantial results to date (either on better services or lower costs). Nor have other problems been significantly overcome beyond Agriculture's reverting from a 1976-80 policy (under Marketing Development Bureau technocratic 'expertise') of holding down export crop prices to one of urging maximum grower price increases whatever the inflationary consequences and with little attention to real (inputs, transport, prompt payment, applicable extension advice) obstacles to output increases. Presumably as a result, 1985 saw a change in Principal Secretary with the veteran administrator, Ernest Mulokozi, brought back from Ambassador to Brussels to the Ministry.

Price Policy: Reform To Hiatus

1984/85 price policy falls intc twc halves - an active pursuit of reduced distortions in 1984 and a postponement of decisions in 1985. In 1984 a devaluaton of nearly 30% was made to achieve - at least in intent - breakeven on agricultural exports, agricultural price increases were keyed to expected inflation and the cost to growers of ending input subsidies, large wage and smaller salary increases were made to offset (at least in large part) expected inflation including ending the last food subsidy, that on maize meal.[44] While these measures did contribute to raising the rate of inlation, they also reduced price distortions and, especially, the producer/consumer subsidy burden on the Treasury thus strengthening fiscal and monetary policy.

In 1985 the budget dodged wages and exchange rates as well as basic food prices. This may have been in part general election year unwillingness to take unpopular decisions. However, it also reflects the continued negative influence of IMF demands for large inital devaluations. The Treasury is known to want small devaluations to adjust for excess inflation and maintain a rate consistent with breaking even of export crop trade while providing incentives to growers - a rate which in mid-1985 would have been Sh.24 or 25 to the USA$.[45] Once output recovery (and good weather) reduced inflationary pressure it wanted phased adjustment to a rate comparable in price adjusted terms to 1979, probably about Sh.35 as of mid-1985. The IMF demanded a Sh.35 rate at once and a Sh.50 rate (to offset the massive increase in inflation and adjustment to Sh.35 at one leap would cause) by December.[46] The combination of Treasury attempts to negotiate a viable rate change pattern and of opposition to any rate change in reaction to the IMF's demand for a huge one seem once again to have prevented any action as has been true repeatedly from mid-1981.

The experience of Uganda where large initial changes have led not to stability but to a 99% devaluatoin (Sh.7 to over Sh.600 to the $) over 1981/85 has hardly encouraged a plunge in the dark. Similarly Zambia's experience with prolonged use of IMF credit which has led to a quarter of its export earnings now being mortgaged to service past high interest, short maturity IMF drawings has given rise to doubts that a large iMF drawing - as opposed to a small one to seal an agreement and encourage other softer, longer term financial flows - would be prudent. On this too the IMF apparently disagrees - surprisingly given the incompatibility of 9%, 6 year borrowing with Tanzania's external balance prospects and its problems with its large scale, long continued lending in SSA where at least Sudan, Zambia and Liberia are in de facto default totalling about $200 million on total outstandings of about $1,000 million (vs Tanzania's nearly current position with less than $50 million remaining to be repaid).

What price decisions were taken at or around budget time were cautious - 20 to 25% increases on sugar and some export crop producer prices for 1985-86[47] and an increase in depositor and lender interest rates.[48] The former is, in part, an anti-inflationary gamble on continued good weather and the latter a mildly inflationary step unlikely either to increase savings or redirect lending substantially but equally unlikely to do much harm. The dominant 1985 change in price trends may be in food where the improved weather should limit increases in products with dispersed marketing (e.g. cooking bananas, potatoes, fruit, vegetables, eggs, livestock) and sharply reduce the gap between official and parallel prices for maize and - less certainly - rice.

Debt And External Balance Considerations

Both as Tanzania's President and as OAU Chairman, President Nyerere has laid heavy stress in 1985 on the weight of Africa's external debt burden. The fact that it is the heaviest of any region relative to output and exports, that it cannot be paid on time and that for many countries there is a real choice of de facto default or starvation because debt service and food import bills cannnot both be met, bulked large in speeches on his farewell visits to Europe[49], and his calls for an OAU Summit concentrating on economic affairs (the first normal Summit to do so since the 1980 Lagos Economic Summit was a special meeting). His argument has not been that African states wish to or should default but that they can pay only if more time, softer terms and more new assistance to sustain and restructure production are provided. These terms appear prominently in the 1985 OAU "Addis Ababa Declaration" as does the call he has made for a joint conference of African states and major creditors to discuss ways and means of achieving rescheduling and refinancing.[50]

The basic external balance position worsened in 1984. Exports fell 3% to $402 million - probably about a 5% price fall offsetting a 2% quantity increase.[51] With 1984/85 export crop production up 44% for sisal, 6% for coffee, 8% for cotton, 28% for tobacco, 43% for pyrethrum, 27% for tea and 3% for cashew nuts,[52] 1985 physical exports should be at least 10% up over 1984 but price changes could well wipe out the gain at foreign exchange earning level.

The 1984 import level of $981 million - still well below the $1,250 million estimate[53] for relatively full maintenance and operation of the existing economy and achievement of adequate investment to raise productive capacity 5% a year - is well above twice export proceeds. Adding debt service of over $240 million (probably not all met) gives a total of $1,220 million. Subtracting net invisible earnings of $100 million maximum plus gross loan and grant inflows of perhaps $500 million leaves over $200 million unaccounted for and raises doubts as to whether 1984's import levels are sustainable.

Export incentives received central attention in the Budget (albeit not the Development Budget or Annual Plan).[54] They centred on:

a. retention - in the form of import authorisation - of varying percentages from 10 to 50 of foreign exchange proceeds (highest for non-traditional and somewhat less for main crops and for manufactures);

b. continued attempts to build up semi-balanced trade and credit (countertrade) agreements with other Southern and Eastern African states under SADCC and PTA umbrellas;

c. incentives to local sales for foreign currency (e.g. to aid contracts, duty free shops, visiting ships);

d. strengthening tourism (in conjunction with external partners including Ismaeli financial institutions) and small scale mining.

Two major related developments were the (late) commissioning[55] of the pulp and paper mill at Sao Hill which should generate up to 30,000 tonnes of exports and $30 million of foreign exchange earnings when its 60,000 initial capacity is reached and progress toward completion of engineering and financial arrangements for the Kilamco natural gas to ammonia and urea project which should within three years of completion yield over $100 million in net foreign exchange earnings as well as in tax revenues plus parastatal profits.[56]

Transport and infrastructure rehabilitation and operation made some progress in 1984/85. Finance for rehabilitation and improvement of Dar es Salaam harbour[57] and of Tazara were largely secured. Less clear progress was made in respect to the Tazama oil pipeline to Zambia and Tanzania Railways.[58] EEC's vehicle rehabilitation project was extended and expanded.[59] Both Tazara and Tanzania Airways turned in their first ever annual operating profits for 1984.[60] TANESCO made progress on extending the national grid, completed engineering and financing requirements for its next main hydro unit and firmed up its financial base by a 50% rate increase.[61]

Budgetary Outturn Progress And Projection Potential

The 1985/86 Recurrent Budget estimates[62] total Sh.23,360 million up from Sh.18,119 million 1984/85 estimates and Sh.20,674 million estimated actuals. The 15% increase on 1984/85 estimated actuals is less than the general rate of inflation but, in the absence of a wage increase (which presumably would necessitate tax measures) may be attainable. This is especially true because the 1984/85 increase of Sh.2,500 million odd over estimates came 60% from underestimates of the transfers needed to local government (Sh.2,447 million versus Sh.972 million budgeted), a mistake apparently not repeated in 1985/86 where Sh.3,500 million odd has been budgeted. In addition contingency at over Sh.2,000 million is above 1984/85 levels despite the presumptive absence of a wage increase element in the 1985/86 figures.

Recurrent revenue for 1985/86 is estimated (after tax changes) at Sh.19,912 million - vastly up on the 1984/85 estimate of Sh.15,028 million but much only marginally up on the Sh.18,000 estimated actual especially since it includes Sh.1,292 million in net new tax revenue. This would appear to give room - as in 1984/85 for collections well in excess of estimates. Therefore the recurrent deficit/bank borrowing requirement of Sh.3,448 million may well be overestimated and a nominal as well as a larger real reduction on 1984/85's Sh.2,674 million (itself down in real and nominal terms on the 1983/84 actual and 1984/85 estimates) is possible.

Tax measures involve modest cigarette, soft drink, spirits and beer increases in specific duties (actually by less than inflation), a highway road toll (in the case of Dar routes collected by a surcharge on fuel tax), a number of simplifications and incentives involving reductions in some indirect taxes and in direct tax on co-ops and partnerships and a 4% payroll levy (half offset by abolishing the 1974 Workers and Peasants Housing Levy while continuing use of the over Sh.1,000 million collected as a revolving fund). The abolition of the production development funds which since 1974 earmarked some tax revenue for capital expenditure in specific industries will also boost recurrent revenue albeit eliminating an equal source of finance for financing capital spending.

The 1985/86 Development (capital) Budget[63] estimates are Sh.6,828 million about the same as 1984/85's Sh.6,560 million estimate but below the estimated actual of Sh.7,383 million. Like the Recurrent Budget it represents a proposed decrease in constant price expenditure. Financing is proposed at Sh.3,426 million ($200 million) external grants and loans, Sh.1,650 non-bank domestic borrowing and Sh.1,752 million bank borrowing. This would imply Sh.5,200 million total bank borrowing, the same nominal amount as 1984/85 estimates but 30% up on estimated actuals of Sh.4,000 million. However, as noted there is some reason to expect performance to be better than estimates again in this respect. The estimate is for a total bank borrowing equal to 17% of expenditure vs an estimate of 21% in 1984/95 (actual bank borrowing 15% of expenditure).[64]

The annual plan for 1985/86[65] - apparently in practice virtually limited to government and parastatal capital spending - totals Sh.16,187 million. Of this Sh.8,571 million is to come from public enterprise net cash flow, local government own revenue, domestic financial institution borrowing and external loans and joint venture equity. While nominally the first tranche of a 1985/86 - 1989/90 5 Year Plan, the Annual Plan was not presented in the context of forward projections nor contain much policy or analysis except at very general level. The contrast between the two budget speeches was equally stark - Minister Msuya's concentrating on specific analysis linked to related policy measures and Minister of State, Kighoma Malima's a mix of very general - almost academic - analysis with specific capital budget financial data.[66]

Zanzibar - Cloves and Merchants

Zanzibar's economy ran down later than that of the rest of Tanzania partly because it bore no substantial share of the cost of the war following Amin's invasion, partly because clove export prices followed a different pattern than those of mainland exports, partly because its government budget is in practice heavily subsidised by mainland Tanzania and partly because in the 1970's it built up very large foreign exchange reserves held separately from those of the Union. However, since 1982 its economy has also been in decline with mounting problems in respect of clove production and sales; a pattern which continued over 1984/85.

In 1983/84 clove exports fell to 900 tonnes, the lowest since 1978 and under a fifth of previous peak levels.[67] In part this related to the major importer - Indonesia - suspending imports (a ban aparently lifted by early 1985) and in part to increased competition from Madagascar, the Comoros and Brazil. 1984 reorganisation of the clove stem oil plant's procurement pattern to direct purchases from peasant growers was expected to restore a $1 to 1.5 million secondary export loss when the plant closed in early 1983[68], but this is small compared to the up to $35 million earned from clove exports in past good years.

Production problems have centred on aging, disease and low producer prices combined with few goods to buy. In mid-1984 32% price increases were introduced to restore incentives[69] while in March 1984 and again in June 1985, import liberisation and a greater role for private merchants was introduced in an attempt to improve goods availability.[70]

Continuity And Change: After Mwalimu

There has been considerable debate on how Tanzania's economic policy may change when the United Republic's second president succeeds Mwalimu Nyerere. The President himself has made clear he expects no change on basic issues[71], a view which has been stated by Prime Minister Salim Salim as well.[72]

With an economic recovery in progress, little mass support for radical (and possible) changes, either to the right or left, and a high proportion of clearly competent senior economic ministers and managers, major short term economic strategy changes seem unlikely. Indeed a high continuity rate among senior personnel (including economic ministers) is not improbable. One exception is the most senior and long serving Economic Minister, A. H. Jamal, who is retiring. While Water, Energy and Mines Minister, Al Noor Kassum, has said the same, his desire to remain in post to see the petroleum exploration and gas development programmes he has launched bear fruit may result in his staying. Governor Charles Nyirabu, after a dozen agonising years at the Bank of Tanzania, is likely to receive a well earned rest to recuperate from economic shell shock. Minister of Planning, Professor Kighoma Malima, is the least likely economic minister to be retained (just as Minister of Finance, Msuya, is the most likely). His rigid, academic approach to policy has since 1982 led to growing erosion of his policy influence - especially with the Party - relative to that of the hard line pragmatists, Jamal and Msuya. Agriculture Ministry and parastatal changes are likely because of that set of institutions' nine years of continued bungling. 1984 and 1985 production recovery is credited more to weather and to general policy than to the Ministry, let alone most of its parastatals. However, no reversal of the strongly pro-rural bias held to by the Party since 1967 (for a variety of reasons both ideological and pragmatic) which has since 1977 raised average peasant consuming power from about 67% to over 133% of that of the minimum wage (by protecting the former against economic deterioration for better than the latter, e.g. by 180% grower price versus 120% minimum wage increases from late 1974 through late 1984) is at all likely.

Notes

1. Daily News, 14, 18, 19-VI-85.
2. loc cit, 14-VI-65.
3. African Business, August 1985.
4. See ACR 1983-84. The Budget Speech refers to 1984 as the first increase since 1980.
5. Budget Speech indicates 184,000 tonnes versus 326,000 in 1983/84.
6. Budget Speech.
7. The raw 3.3% 1967-77 annual growth rate is known to be an overestimate of the order of 0.5% but death rates are lower than in 1977 and birth rates may not be, so 3.0% is a probable current propulation growth rate.
8. 1985/86 projections are of the order of 125,000 tonnes but apparently almost all wheat and rice (held to 80,000 tonnes in 1984/85 by forex not demand limitations).
9. Daily News, passim, late February 1985.
10. Budget Speech.
11. ibid.
12. ibid and Minister of State, Kighoma Malima's, Budget Speech, Daily News 14, 16, 17-VI-85.
13. Minister Msuya's Budget Speech, op cit.
14. ibid.
15. Sunday News, 19-V-85.
16. c.f. W. Pike, "Spurning the IMF's shilling", South, July 1985.
17. Central Statistical Bureau.
18. Minister of State Malima's Budget Speech, op cit.
19. See ACR 1983-84.
20. Africa Economic Digest, 20-VII-85.
21. Budget Speech 1985/86 re outturn and 1984/85 re policy directive.
22. Budget Speeches 1984/85 and 1985/86.

23. c.f. Pike, <u>op cit</u>.

24. See <u>ACR</u> 1983-84.

25. "Ulanguzi: Emergence Of A Second Economy In Tanzania", research study by T. L. Maliyamkona, 1985.

26. <u>ibid</u>.

27. <u>Daily News</u>, <u>AED</u>, <u>passim</u>; previewed in 1984/85 <u>Budget Speech</u>.

28. Adam Lusekelo in 19-V-85 <u>Sunday News</u>.

29. e.g <u>ibid</u>.

30. "Mwalimu elaborates on trade liberalisation", <u>Sunday News</u>, 19-V-85.

31. <u>op cit</u>.

32. e.g. <u>Marches tropicaux</u> 21-XII-84; <u>Daily Mail</u> (Zambia) 24-V-85; <u>Times</u> (Zambia) 22 and 24-V-85.

33. "Mwalimu elaborates...", <u>op cit</u>.

34. <u>Daily Mail</u> (Zambia), 29-V-85, 11-VI-85; <u>AED</u> 10-V-85.

35. See e.g. "Tanzania Lays Off State Workers, In Cost Cutting Exercise", <u>New African</u>, April 1985 and 1984/85 and 1985/86 <u>Budget Speeches</u>, <u>passim</u>.

36. <u>Guardian</u> 30-VII-85.

37. <u>ibid</u>.

38. As most council and union leaders appear to do.

39. <u>Guardian</u> 30-VII-85; <u>Financial Times</u> 1-VIII-85.

40. <u>FT</u>, <u>op cit</u>.

41. <u>FT</u> and to a lesser extent <u>Guardian</u>, <u>op cit</u>.

42. <u>Budget Speech</u>, 1985/86; <u>AED</u> 16-XI-84.

43. <u>ibid</u>.

44. <u>Budget Speech</u>, 1984/85.

45. c.f. Pike, <u>op cit</u>.

46. <u>ibid</u>.

47. <u>AED</u>, <u>op cit</u>.

48. <u>Budget Speech</u> 1985/86.

49. Is Africa Responsible (Institute Social Studies, The Hague 13-III-85); Speeches In The United Kingdom (Mansion House, Royal Commonwealth Society, March 1985), Dar es Salaam, 1985.

50. AED, 20-VII-85, 27-VII-85; FT, 19, 20, 22, 27-VII-85; Sunday Times (Zambia), 26-V-85; Times (Zambia), 25-V-85, 10-VII-85.

51. Estimated from Minister Msuya's, and Minister of State Kighoma Malima's, Budget Speeches.

52. Msuya, ibid.

53. ibid.

54. Msuya, Malima, op cit.

55. African Business, op cit.

56. c.f. AED, 27-VII-85; 19-X-84.

57. AED, 3-VIII-85 and Radio Tanzania, 17-XII-84.

58. SADCC (Mbabane) Report, February 1985; PANA, 13-I-85.

59. AED, 3-VIII-85.

60. Radio Dar es Salaam 14-XII-85; Bulletin of Tanzanian Affairs, July 1985.

61. Radio Tanzania, 28-II-85.

62. Budget Speech (Msuya), 1985/86.

63. Budget Speeches (Msuya, Kighoma Malima).

64. Computed from Budget Speech.

65. Budget Speech (Kighoma Malima).

66. Comparison of two 1985/86 Budget Speeches.

67. Radio Zanzibar, 13-VI-84.

68. Africa Research Bulletin, 15-IV/14/V-84.

69. Marches tropicaux, 15-VI-84.

70. Radio Zanzibar, 13-III-84; Africa, August 1985.

71. "Press Conference" (March 1985) in Bulletin of Tanzanian Affairs, Britain-Tanzania Society, No.21, July 1985.

72. Daily News, 11-VI-85.