

THE NEXT STEPS: RECOVERY'S FIFTH YEAR

Perhaps the most important single economic fact about Tanzania today is that 1988 is the fifth year of recovery and that over 1984-88 GDP will have grown almost a fifth from its 1983 trough and over a seventh from its pre-war and recession level of 1978. Per capita GDP is probably still about a seventh down on 1978 but has begun to recover - it was at least a sixth down in 1985. Those data underline a second salient fact, recovery is a long, hard road and while the first steps were taken over 1980-83 no positive effects - even in retrospect - were clear until 1984-85 while even today the pace is unsatisfactory as is the human condition both of a near majority of urban households (less so before 1978) and of perhaps a third of rural (much the same as a decade ago).

The threats to sustaining recovery are only too clear: war bills imposed by RSA, weather and terms of trade, external financial flows, export (earned import capacity growth), sustaining an articulated and not very dramatic nor individually high payoff set of efficiency improving measures, political tenacity in the face of slow gains. The most immediate has been the first - 1987/88 saw costs of the order of \$125-150 million, two-thirds direct or indirect imports, to provide military solidarity with Mozambique (and to thwart RSA's intention to push its armed bandits across the Tanzanian border in force.) The second remains an ever present threat. 1988 is the fourth above average to good harvest year in a row; a lean year (or years) will come sooner or later; 80,000 planned and perhaps 100,000 more unplanned reserve stocks of maize can see off one bad year but not two. Since their sharp falls in 1986 and 1987, the prices of Tanzania's commodity exports have on average firmed a little but some downside risk remains and there are no realistic prospects for sharp trend rises let alone even a two to three year boom.

External financial gross inflows are probably now again in excess of \$500 million - the \$900 (or \$650 to \$800 excluding technical assistance) million annual pledges of 1986-1987-1988 are misleading because of technical assistance and other 'intra-donor' items and because of lags. That is, to be realistic, not quite enough; any serious downturn could halt recovery, especially until a multi year resolution of the unmanageable external debt service burden is achieved (as it was not in 1987 contrary to anticipations). Export increases have been slow with disease (cashew), price falls (coffee),

slow turnaround of rundown production units (sisal) and processing/transport bottlenecks (cotton) all contributing (or, more accurately, subtracting). In any event new exports, e.g. manufacturing, gold, natural gas products are needed - the 1977/87 terms of trade debacle plus the cashew diseases have made the old base permanently inadequate - and here (except for limited recovery on the manufactured side) progress has been even slower.

Efficiency increases have been achieved - from grain marketing through harbour operation to electricity. But the gaps are only too clear, e.g. water, non-SADCC sector transport, agricultural processing, much of industry. Because the specific problems vary, so must actions (e.g. Dar Water has rates about 10% of breakeven level and as a result such wretched service provision and billing system it cannot proceed by marginal to moderately radical improvements from a sound base as could TANESCO in electricity). Further the lead time for results can be long, e.g. for the badly deteriorated non-TAZARA rail lines and the cotton ginneries which have been the object of evidently inadequate rehabilitation efforts for over five years. Thus ingenuity, initial funding injections and tenacity are needed if the gaps - especially in transport and manufacturing - limiting the pace and threatening to block continuation of recovery are to be filled.

The political will problem has probably been overplayed. Certainly 1984-88 policy and performance has critics - but it has demonstrable results and therefore supporters as well. Most peasants are better off; over 1986-1988 the minimum wage's purchasing power fall has been arrested; basic health, education and rural water services have begun to be improved again; more goods manifestly are available (and not always at higher prices); inflation has not risen (indeed it has fallen from the 1984/85 peak). The President, Prime Minister and Minister for Finance have concrete and convincing answers for their critics and no hesitation in making them.

The Party did vote the Minister for Finance off the National Executive (which incidentally has had the MF as a member for a minority of the whole 1961-1988 period) but it also endorsed the 1984-1987 economic strategy and its 1988-1992 projection. The anger of the quasi and extra Party left with Chairman Nyerere's position on economic strategy (indeed with his re-election) suggests that the right view that he has opposed 1984 and 1986 economic strategy initiatives and their continuation is crudely reductionist.

Ironically the greatest political argument once again surrounds the exchange rate. From July 1987 to January 1988 it was floated down nearly 6% a month, even measured against a sinking dollar, from Sh 64 to Sh 94 to the dollar. This was clearly under IMF pressure despite the fact that on the IMF's real value against a weighted basket of trade partner currencies Sh 80-85 to the dollar in January 1988 would have marked a return to 1979-80 when it did not see the shilling as overvalued.

Domestic criticism - and fear of blocking managing the domestic inflation rate down - led to rather erratic 1988 management of the rate but by September it had moved to Sh 104 to the dollar suggesting a return to 20 to 25% a year nominal devaluation to offset Tanzania inflation of 25% to 30% a year, 20 to 25% in excess of a trading partner average of say 5%. The speedup, halt, stop and go pattern with clearly negative impact on political support and inflation control again underlines how counter-productive one instrument focussed policy pressure on Tanzania in respect to exchange rates has been and remains.

Macroeconomic Aggregates: On The Up and Up?

In 1987 constant price Gross Domestic Product rose 3.9% about the same as 1986's 3.8% but both above the (probably overestimated) assumed population growth trend of 3.3% and the 1984-1985 average of somewhat over 2%. If - as seems likely - growth rises to 5% odd in 1988 and - as is less certain - remains there in 1989-1991 then the targetted Economic Recovery Programme 1986-1991 rate of 4.5% will be attained.

The sectoral makeup of growth also improved in 1987 with agriculture at 4.4%, manufacturing at 4.2%, transport at 4.5%, commerce at 4.8% and energy and water at 7.5% - rates which suggest that the 3.9% is an underestimate as real levels of most government services (largely estimated on employees not output in GDP accounts) rose and the use of crop purchasing year data pushed low 1986 purchases of several export crops into 1987 and the higher 1987 figure into 1988.

Current price Gross Domestic Product in 1987 was in the vicinity of Sh T 230,000 million. If one uses an average exchange rate of T Sh 64 = \$USA 1, that gives \$140 per capita - a sharp fall. However, this is the result of dramatic exchange rate changes over 1986-1987 and the moving average estimates of the World Bank putting the figures in the low \$200's is more realistic as an order of magnitude and the constant domestic price figures are better as orders of change, especially as current price GDP at least through 1985 and to a lesser extent since was seriously underestimated especially in respect of food crops for which official prices were used even though higher market ones were collected and used in Cost of Living estimates and as inputs into policy formulation. 1987/88 saw some improvement in the statistical process of GDP estimation but substantial question marks remain.

In 1987 Fixed Capital formation fell 5.5% in constant price terms to slightly over 27% of GDP. However, that follows a 1986 rise, is quite high by Sub-Saharan African standards and is well above a plausible capital stock wear, tear and termination estimate of 10-12% of GDP.

The decline was complex in makeup. Civil engineering fell sharply because several large infrastructural projects were completed in 1986 or early 1987. Machinery and transport equipment appear to have stagnated or fallen which contrasts oddly with import statistics unless import prices (in foreign currency terms) for the former rose by 20% or more. Building material imports fell in real and stagnated in nominal terms but increased domestic production allowed a 27% growth in building construction concentrated in private sector housing and small to medium scale commercial structures.

The macro record justifies Minister of Finance, Economic Affairs and Planning C. D. Msuya's June 1988 Budget Speech assertion:

the implementation of the ERP has in general been on track. Although it will take time for actions taken to bear substantial visible results there are indications that steps taken have contributed to the initial successes observed...

and his warning:

the implementation of the ERP has also faced problems. It is important to examine them seriously and carefully with [special attention to] foreign exchange availability, Government Budget, Credit creation and Pricing.

Budget Balances And Balancing; Plan Perspectives

In 1987 the CCM Congress adopted a 1987-2002 Party Programme restating the goals of self-reliance and transition to socialism with 1987-1992 Party Guidelines for the first of four development plans within the Programme period concentrating on reconstruction and encompassing/extending the 1986-1989 Economic Recovery Programme. In practice the 1988-89 Annual Plan and Development Budget are the first to take full account of the Guidelines which were adopted after the 1987-88 Budget albeit their preliminary formulations informed it to some extent.

In 1987-88 Recurrent Expenditure was budgeted at Sh T 60,100 million and Development at Sh T 17,300 million for a total of Sh T 77,400 million. Estimated actual outturn just before the close of the financial year was Sh T 61,800 million recurrent and Sh T 15,100 million Development for a total of Sh T 76,900 - just under 100% in current price and probably 95% in real terms (as the Budget assumed 25% inflation as opposed to 30% odd actual).

The net overrun on Recurrent spending was dominated by about Sh 1,250 million Supplementary Estimates for military solidarity with Mozambique and driving back South Africa's armed bandits (the so-called Renamo) from the Tanzania border. Apart from that the use of contingency votes did cover virtually all unprojectable cost overruns including those from higher domestic inflation (30% vs 25%) and foreign goods inflation (13.5% in foreign currency terms vs 5% and about 60% from devaluation versus 40-45%) than were expected at the time of the 1987-88 Budget Speech.

Recurrent Revenue rose to Sh 46,800 million about 2% above estimates but the recurrent gap to be filled from foreign loans and grants plus bank borrowing rose from Sh 13,500 to Sh 15,000. Higher than expected devaluation may have offset lags in foreign fund disbursement but it seems likely that final domestic bank borrowing will have been Sh 1,000 to 1,500 million instead of the nominal 263 million budgeted. However even the higher end of that range is down from Sh 1,700 million in 1986-87 and Sh 5,600 million in 1985-86 - in constant price terms over 80% down on the 1985-86 figure. The snag in this quite real record of sustained progress toward fiscal rebalancing is that foreign funds account for about 20% of the Recurrent and - less seriously - over 70% of the Development (Fixed Capital) Budget or 30% overall.

1988/89 Recurrent Expenditure is estimated at Sh T 90,272 million - about 47% above 1987-88 estimates in nominal terms and - allowing for 25% domestic inflation, wage increases and foreign exchange price rises about 17.5% up in real terms. There is a clear effort to begin to break the underfunding bottleneck holding back services - and especially infrastructure maintenance and repair - to estimate regional and local government as well as defence costs adequately and to provide finance for a national grain reserve and to provide a substantial contingency fund (Sh T 9,736 million or nearly 11% of the total) to meet unprojectable or unexpected cost rises.

Domestic Recurrent Revenue - after Income Tax reductions and Tariff restructuring but before new revenue measures - was estimated at Sh 62,670 million up by about 22% nominally and down perhaps 2 to 5% in constant price terms which may suggest cautious estimation or inadequate attention to price rise impact on indirect taxes. After Sh T 1,800 million new and raised taxes and charges and Sh 5,750 million from enhanced collection (largely of income tax) the recurrent revenue estimate stood at Sh 70,212 million or 50% nominal and 20% odd constant price above 1987-88. This suggests that the Minister's stated intent of reducing tax, charge and fees relative to GDP from their 1987-88 ratio of 23% (normal by industrial economy standards but high by SSA and almost twice that of some least developed economies) applies only to those who paid their 1987-88 taxes without evasion and intended to be is more than cross-cancelled nationally by tighter collection.

The continued emphasis on the latter is interesting because since the beginning of GDP recovery Tanzania has raised real domestic revenue significantly each year and contrasted to many other SSA systems has relatively efficient collection. Simplification of customs rates from 20 to 7 (over a 0% to 100% range for basic items through luxury consumer goods with production inputs plus medical and educational materials in the 0% to 25% range) is primarily a tidying up back to the limited category (5 basic ones) of 1980 from the miscellaneous special case accretions which were tacked on over the intervening 7 years, as will be the parallel exercise in respect to Sales Tax slated for 1989 implementation.

The new/enhanced charges and rates for 1988-89 (apart from the old standbys of beer and soft drinks) are partial inflation catch ups on fees set in nominal

terms. (Unfortunately water charges do not appear because Dar es Salaam Water is now a corporation and despite electricity and chemical bills each wildly in excess of total revenue appears to lack the Treasury's ability to ram through revenue increasing measures!) In respect to road tolls a pattern of tying new posts to major rehabilitation work - on stretches of the Great North Road from Zambia and the Dar-Arusha trunk route - is evident. On secondary school fees the increase is coupled to a firm statement that remission will be available to any child whose parents cannot pay - a promise which in the past has been relatively effectively honoured.

After use Sh 19,500 million of external funding (21% of Recurrent Estimates) the domestic bank borrowing estimate stands at Sh 600 million or well under 1% of the Recurrent Estimates. The Development Estimates of Sh 28,400 million are up by 39% nominally and somewhat over 10% in constant price terms on the 1987-88 probable outturn. Finance is apparently envisaged to be Sh 2,500 million non bank domestic borrowing (9%) and Sh 25,900 million external (91%).

The 1988-89 Plan provides - at financial projection level - for investment of Sh 48,115 million of which 59% is in the Development (Capital) Budget including regional and council investment and loans/equity injections into parastatals. Sh 19,715 million is estimated to come from enterprise and household own resources and banking system loans. This implies about 25% private investment dominated by housing and commercial premises with smaller transport, construction industry and other directly productive investments.

Sectorally the Plan (and Capital Budget) allocate 41% (42%) to directly productive, 30% (34%) to infrastructural, 10% (19%) to social service - primarily health and education) and 19% (5%) to other services dominated by housing (public administration). Assuming a 5% growth in real GDP this would seem likely to raise the Gross Fixed Capital Formation to Output ratio to about 30% of GDP (at least in constant price terms). With foreign net resource transfers at perhaps \$500 million (Sh T 55,000 - 60,000 million) that implies domestic saving of the order of 10 to 12.5% of GDP, unsatisfactory but well up on its mid-1980s low of around 5 to 6%.

External Imbalances And Gapmanship

Tanzania's external balance is fragile for three reasons. First, with 1987 imports of goods \$1,092 million and exports \$347 million only net transfer receipts in excess of exports are able to keep the gap plugged. Second, exports are not rising rapidly remaining static over 1986-87 with main commodity proceeds falling over 20% for price and volume reasons balanced by rises in manufactures, secondary commodities and minerals. Third, the 1987 import level of \$1,092 million (only 4% up nominally and down perhaps 6 - 8% in volume terms on 1986) includes \$125 - 150 million of consumer goods and perhaps \$50 - 75 million defence related elements not included in the \$1,200 million minimum imports for efficient rehabilitation and operation of the economy so that the shortfall is of the order of 20%. Compared to the 1983 situation, however, imports are up over 35% in nominal terms (and perhaps 15% in real) and external transfers are up markedly albeit exports have (largely for price reasons) actually declined falling over \$90 million to 1985 before rising over \$60 million thereafter.

On a fiscal year basis the trends are slightly more encouraging. The 1986/87 level was \$355 million and 1987/88 is estimated at \$388 but even here main commodity exports showed a fall of \$44 million whereas exports of manufactures rose \$32 million (the whole net gain) and of minerals and secondary commodities by \$44 million.

The basic 1987/88 arithmetic was exports of goods \$388 million, \$600 million external resource transfers, \$250 million "own forex" and supplier credit imports, debt service \$150 million, imports \$1,185 million and other net services and transfers inflows plus errors and omissions of the order of \$125 million. Assuming - as estimated - that half the \$250 million represent key imports in the target of \$1,200 million and that defence imports not implicitly included are \$50 million then there is a shortfall of about 16% with \$1,010 of \$1,200 million key rehabilitation, operation and capital goods imports actually achieved.

1987 terms of trade outturn was poor. In exporter currency terms industrial economy prices for exports to Tanzania rose 13.4% over 1986 and oil by almost 20% (albeit after an over 40% decline in 1986). Main commodity export prices - dominated by coffee - fell on the order of 25%. In 1988 the likely result

is one of slightly moderately import price rises and lower export price falls but still deterioration.

With external debt - including visible and invisible trade arrears of perhaps \$700 million - of the order of \$5,000 million Tanzania is clearly a "debt distressed low income economy". Before rescheduling, the total interest and principal payable plus a 20% rundown on commercial arrears would come to the order of \$550 million or 150% of exports.

The 1986 Paris Club rescheduling (arrears plus 1986/87 instalments of bilateral loans and guaranteed credits from Western states) with five year's deferral of 97.5% and payment of those sums over five years from 1991 gave limited breathing space and no more. The sought 1987 agreement to roll forward 1987/92 payments for a longer period (say to 1997/02) and to stretch out repayments as well as reducing interest rates proved non-negotiable despite a Mozambican precedent. As a result more or less 'condoned' arrears on bilateral debt built up in 1987/88 with renewed negotiations on a more permanent solution anticipated about the end of 1988.

Tanzania has been among the more outspoken and clearly articulated African countries in seeking a general solution - including a guideline setting African/Creditor conference - to African external debt crises. It has endorsed the initiatives - e.g. by the UK Chancellor - leading to the Venice Summit proposals for longer rescheduling, lower interest and/or partial writeoff. The South Commission - led by CCM Chairman and past President Julius Nyerere - has made this issue one of its priority areas for study.

1986/87 Consultative Group pledges (almost all grants and very soft loans) excluding technical assistance totalled \$660 million and 1987/88 \$740 million (with semi-pledges of a slightly higher magnitude for 1988/89). In 1986/87 \$450 million was utilised (64%) and in 1987/88 \$490 million (66%). While a smaller lag/leakage than most, that use ratio is unsatisfactory and Tanzania is holding discussions to identify procedural ways and means of raising it to 80 -85% (especially as some of the worst lags have been on import support loans).

The significant sources of external support for Tanzania remain highly diversified including all major OECD Members, the World and African

Development Banks, Switzerland, Saudi Arabia, Iran and several socialist states plus major UN agencies including ILO, IFAD and UNICEF. This in part offsets very limited access to commercial credit (inevitable given payment record and arrears levels). On that front a revolving credit for petroleum was negotiated with commercial banks but only via an escrow agreement securing it on coffee export proceeds.

Export promotion - from devaluation and foreign currency retention and other "Export to Import" schemes - has appeared to begin to yield results outside the main commodity exports. It is to be bolstered in 1988/89 by re-instituting a more workable duty drawback on goods used in exports and by ending the "own forex" import licence scheme which clearly operated primarily as an incentive to smuggled exports and related exchange control dodges and on the import side had a bias (even after tighter regulation) to amenity consumer goods including de facto saloon cars disguised under the rubric "extended cab pickups".

Tanzania continued to be active in SADCC albeit its technical unit and articulated leadership in the Industrial and Trade sectors allocated to it was criticised for showing erratic zeal with limited professional backup. The proposed SADCC raised resources for national import to export revolving funds should, when achieved, substantially help Tanzanian export capacity especially in manufacturing and secondary commodities.

In the transport area SADCC has clearly helped sharpen Tanzania's planning, fundraising and implementation for those links falling in the SADCC Programme of Action. TAZARA (with an over \$60 million USAID grant), Dar Harbour and TAZAMA Pipeline were notable beneficiaries during 1987/88. The Central Corridor Group (Tanzania - Burundi/Rwanda/Zaire/Uganda) appears to have continued to play a parallel catalyzing role on lake transport and terminals albeit less so on the connecting Tanzania Railways lines. The UNCTAD supported transit traffic documentation simplification and coordination efforts neared successful completion in 1987/88 in respect to all of Tanzania's SADCC, Central Corridor and PTA links. Tanzania's PTA membership remains marginal to its international and regional economic policy (Kenya and Uganda links and trade/clearing agreements are primarily bilaterally negotiated) although, as noted in the Budget Speech, it hopes it will make a positive contribution to enhanced regional trade.

Growth And Grouping In Agriculture

Tanzania's food production growth rate clearly remains on the 3.5 to 4% trend which has characterised the whole period since independence. Equally clearly annual results are heavily dependent on weather.

By mid-1988 this had led to up to 200,000 tonnes maize carry-over stocks (say 50,000 working level, 80,000 official reserve, 70,000 surplus) with another crop in excess of consumption levels expected. This poses a series of problems (seen before in 1976-78 when several good harvests came in succession). Storage is inadequate and stock losses rise (exacerbated by the importation about 1980 of the greater borer beetle from New Orleans); storage costs on inter-year reserves are high and cannot realistically be met by a commercially oriented grain marketing enterprise; export proceeds are below grower price plus transport, storage and financing costs. Added to this is the fact that no rational importer wants greater borer beetles and certifying any stock as totally infestation free poses problems - otherwise \$12 - 15 million from up to 100,000 tonnes sales to food aid buyers in support of the Mozambique emergencia programme would probably have been possible.

NMC has been cut back to a buyer of last resort, intra year stockholder and exporter/importer and procurement channel for Dar es Salaam. Co-operatives are now the first recourse buyers and largely provision the rest of the country (albeit short distance and some North-Lake trade remains in private trader hands). Albeit bedevilled by limited co-op transport and by credit ceilings flowing from the IMF agreement which do not allow prompt payment in good years, the new decentralised structure works better and perhaps at lower cost than the monolithic NMC did and the co-op segments apparently break even or generate net revenues.

However, the reduced NMC functions - except provisioning Dar - are inherently loss making. Interyear storage is expensive and intended to fill shortages in bad weather years not profiteer on them, so needs to be government financed (as is now for the first time provided in the 1988/89 Budget). Exports are also natural loss makers because the appropriate grower price is one linked to import - not export - parity and export proceeds are, therefore, unlikely to recoup more than 50 - 65% of total costs.

Industrial and export crop marketing faces even more severe problems. Credit constraints (and inflexible forward planning not rapidly altered to meet actual purchase levels) have prevented elimination of payment delays. Combined co-op and board costs remain too high - probably because Board pruning back to fit reduced functions has been inadequate and regional co-op managers are not in practice accountable either to their members or to the government as a result of the way the regional co-ops were reintroduced over 1984-86. Inadequate (deteriorated) vehicle fleets, road conditions, rail capacity, processing plant (especially in ginning) and storage capacity add to the bottlenecks. The greater availability of inputs - including tools and fertiliser - is proving useful as is the easier availability of food and consumer goods. But overall there is no pretence that the situation or the trend is satisfactory. This is especially true as while real price increases ahead of inflation were possible over 1986-88 because of devaluation that means is shrinking as the need to devalue does and further real grower income gains must come from lowering processing, transport, marketing costs and raising production/productivity. 1989 grower price increases can be of the order of 20 - 30% (except where world prices are falling) but that is barely above inflation. Maize price increases in 1988 for 1989 will be less than 20% (as in 1987 for 1988) given their satisfactory level relative to import parity and the almost unmanageable surplus position.

In fact 1987/88 purchases (largely 1987 albeit for most crops these will appear in 1988 GDP) of main export and industrial crops gave some ground for cautious optimism. Cotton reached a record 84,000 tonnes (vs 36,000 in 1985/86) while on others increases ranged from 2% (tobacco) to almost 50% (cashew nuts). But except for cotton and marginally coffee the absolute levels were in no way satisfactory ranging from under 20% (cashew and sisal) to 80% (tea, tobacco) of past peaks. In the case of Zanzibar the clove position - like cashew affected by disease and ageing was even worse - leading to a suspension of both external and domestic debt service.

Key Bottlenecks - Transport And Manufacturing

Transport and communication net value added rose 7.5% in 1987. Tazara increased tonnage and showed a profit as did the Port of Dar es Salaam. As noted SADCC and Central Corridor related rehabilitation projects moved

forward. The lorry rehabilitation project pioneered by EEC was complemented by a Federal German one. Rehabilitation began on key segments of the Great North and Dar-Arusha trunk highways.

But the overall position remained grim and in respect to Tanzania Railways it was by no means evident that the deterioration in roadbed and equipment and the linked erosion in carrying capacity had yet been turned around despite a decade of efforts. Import priority for fuel and spares had had a marginal positive impact but credit limits (especially for smaller hauliers), the Railways' very parlous financial position and a fall in lorry imports to 1,040 in 1987 from 1,530 in 1986 pushed in the opposite direction.

That the problem is perceived is not in doubt. Nor is the Tanzanian professional and planning competence to identify key problems, projects and policies. However - partly because road construction and much of road maintenance is not under Ministry of Transport control while Railways Corporation planning appears weak on prioritisation and phasing - doubts must remain whether a coherent strategy with phased priorities exists or is being implemented systematically outside the SADCC Programme of Action sub-sector of Tanzanian transport.

For industry an ERP target of 60% capacity utilisation (more than doubling 1985 output) exists with an increasing number of specific priorities. 1987 output rose over 4% (even on the downward biased GDP estimates which suggests 6 to 7% actually achieved). Import support has been focussed on this sector - especially inputs into basic consumer and agricultural input production.

Cement output rose 15% as did jembe (hoe) production while textiles and rubber products showed 20% and 49% rises. On the whole availability of basic consumer goods, agricultural inputs and cement improved. But 4% or even 7% a year is very slow against a target of doubled actual output (and even that would not restore the peak 1978 levels).

The two basic problems appear to be operating inputs plus spares and selective rehabilitation of deteriorated plant and equipment. Certainly transport, water and electricity constraints would reduce output potential if input availability and rehabilitation moved rapidly but at the moment they are rarely binding. Similarly personnel (especially maintenance and other middle

level technical) shortages do reduce productivity; but with skilled numbers about double 1978 and output half they can hardly be the main factor behind poor performance.

1988/89's Annual Plan includes general and targetted import allocation and rehabilitation policies for the sector. The latter include tyres and tubes, fertiliser, leather, shoes, pulp and paper and - for revenue generation and incentive reasons - beer and cigarettes (with steps to fund a new brewery in Mwanza to meet interior demand and to reduce transport costs and losses).

A breakthrough to at least 10% manufacturing output growth rates remains important to Tanzania. That would probably break manufactured price inflation and provide nationwide access (as good weather did for grains in 1986), sharply increase recurrent revenue, raise urban worker morale and peasant incentives and allow continuation of the sector's welcome (if moderate) growth of exports contribution.

Money, Prices and Wages - Some Conundrums

Domestic credit formation rose faster than 20% in 1987/88 - below inflation but above IMF agreement imposed levels. The makeup - as in 1986/87 - was markedly different from the earlier post 1977/78 years. Government borrowing was a moderate proportion and enterprise dominant. However, enterprise borrowing centred on a few crop buyers (NMC, cotton and tobacco in particular) and increases elsewhere look to have been barely adequate to sustain real working capital requirements boosted by domestic and import inflation and (more welcome) higher output.

The credit problem has two aspects. First the targets are too low and too rigid. If enterprises are to rebuild inventories to raise production parallel to rapidly rising import and domestic prices they require substantial increases (up to 40%) in bank credit. Further if crop production responds to policy measures and weather to have credit ceilings which both delay payment for purchases and are broken even by the payments made is self-evidently counterproductive. The problems in inter year grain stockholding, export processing and transport and reviving manufacturing exacerbate the tightness of the ceilings because they delay export recovery of seasonal loans and raise

inventory/sales ratios. To that extent the IMF's non-contextual, non-businesslike abstract academic ceilings are (as in other SSA recovery cases - notably Ghana) in danger of strangling output not choking off inflation.

On the other hand the three main borrowers: NMC, Cotton, Tobacco have real problems. NMC cannot clear stocks fast nor at a profit - the change in 1988/89 inter year stock financing may reduce that problem but it will almost always be there in good crop years. Cotton backlogs and financial gaps resulting from the 1985-1986 world price collapse have combined with output explosions to create a massive financing problem, as have similar delays plus incompetence in selling and losses from deteriorating stocks in the case of tobacco. These financial gaps are inflationary and do need to be plugged. But credit ceilings cannot do it and arguing about them probably distracts attention from cost reduction and pipeline movement speedup measures which could. Cutting grower prices in the face of inflation or simply not buying surplus grain - as apparently suggested by the IMF - hardly seem plausible ways to increase output or food security.

The cost of living index increase in Tanzania - calculated on actual sample shopping baskets - has fluctuated around 30% throughout the 1980s. After a drought related leap in 1984 it was 33.3% in 1985, 32.2% in 1986 and 29.9% in 1987. That is a success in that devaluation from T Sh 16 to T Sh 90 to the USA \$ was managed without increasing the rate of COL climb - partly because good weather damped food price increases. But the margin for devaluation ahead of COL is now narrow - as demonstrated by the late 1987, early 1988 COL escalation when devaluation ran at the unreasonably high rate of 6 to 7% a month from July through December 1987 and the next food price impact is likely to be upward with the next drought.

The 1987/988 inflation target of 25% was missed. Its 1988/89 successor is in the 20 - 25% range. Is it likely to fare better? If the government bank borrowing requirement remains below Sh 2,000 million; net new NMC - Cotton - Tobacco borrowing can be trimmed from Sh 7,299 to under Sh 4,000 million, manufactured output rises at least 5%, there is no drought in 1988/89, 1988/89 forex price increases are in the 25 - 35% range and import support remains on

an upward trend then 20% is attainable. Each of these targets is quite plausible; the problem is that if any one is missed badly so will the COL target be missed.

In 1987/88 peasant producers' real incomes probably rose - perhaps 10% more marketed output and average grower prices up by 20 - 25% suggests small per capita gains. At minimum wage level there was little real change and - even with some income tax adjustments - higher wages and salaries bought less.

The 1988/89 wage changes run from 20% to Sh 1,500 (ca \$14) per month at minimum wage level through 10% (for government employees but likely to be followed by public and many other enterprises) above Sh 6,000 (ca \$56) per month. However, income tax band alterations (with the exemption up to Sh 1,500 parallel to the minimum wage) and rate reductions (from 20 to 75% marginal rates to 15 to 55%) suggest nominal after tax incomes of the order of 25% at all levels. This is a landmark; not since 1974 has Tanzania felt able to make wage and salary increases roughly parallel to anticipated inflation and only from 1986 on has it done so systematically even at minimum wage level.

Most of the 1987 Nsekela Report on government wages and benefits has now been implemented - by Treasury count 100% on fringe benefits and 65% on wages (albeit in real terms, as opposed to nominal, these appear to be overestimates). In Dar es Salaam a transport allowance of Sh 330 (about adequate if access to public bus transport becomes slightly less slow and problematic) and nationally a complicated rejugling of rent allowances (which may, however, reduce cost to government) were introduced in the Budget.

With improved peasant incomes, a healthier small business climate, more available goods, static real minimum wages and modest health and education provision gains 1987/88 was and was widely perceived to be a good year economically for most Tanzanians. Salary earners were an exception and a disproportionately vocal one although the 1988/89 Budget may cause them to adopt less stridently unbalanced views. As for many it is the third such year of modest gains in a row the 1987/88 outturn has clearly helped rebuild morale, confidence and popular support for national policy and - perhaps - to focus criticisms more precisely on areas of weakness, incompetence and corruption which such criticism may spotlight and make easier to tackle. The

strength of both neo-liberal/'privatise the lot' and orthodox left/'if it moves regulate it' opposition to national strategy appears less today than in 1986 and certainly than over 1981-85.

Political Stability and Political Will

Tanzania is noted for prioritised political will and real tenacity in seeking to follow through on what its political process decides to do. Even those who dislike or disagree with some of the choices made tend to agree on that. Indeed the reason the Bank and bilaterals began substantial funding rises in 1986 (atypical on the bilateral side for the first year of an internationally 'approved' stabilisation and adjustment programme) was precisely because Tanzania had taken hard decisions at least as early as 1984 and stuck to them despite falling external resource transfers and only lagged, limited economic payoff.

That tenacity - and the relative stability of economic policy - rests on a record of nearly 30 years of seeking and achieving Party consensus before major strategic changes while delegating great room for manoeuvre to the government in articulation and implementation. That is a strength with a cost - consensus may be hard to reach because CCM even at leadership level is not merely not monolithic but includes a wider range of political and technical economic viewpoints than any Western European government. After the collapse of the 1980 IMF Agreement, no consensus was reached until 1984 and the failure of that year's changes to get any international support until 1986 almost caused a new breakdown of consensus and might have done so had 1984 and 1985 both been characterised both by speedy economic recovery and some gains on the basic services front.

Contrary to some external (and domestic) opinion, the present strategy has broad political support based on mass perception things are looking up. There are critics (though no longer in key economic ministerial posts) on both the left and right; the Minister for Finance is no longer on the National Executive Committee but the latter has been true for most of the last 25 years and the former has always been the case since Tanzanian political praxis has almost never harried or silenced minorities within the broad Party spectrum nor prevented non-Party criticism by actual suppression (unless it was on or

beyond the subversion borderline in a strict sense). The 1984-86 strategy was endorsed by CCM as was the 1988-92 Plan which continues it; the President, Prime Minister and MF who are seen as its triumvers remain unshaken in office, indeed strengthened by perceived success. The Chairman (Julius Nyerere) who decided there was a broad enough consensus to act radically in 1984 and to a lesser extent in 1985 and 1986 was re-elected and has - if anything - increased the interpretation of the Government's freedom to articulate and implement as contrasted with (or complementing) the Party's right to set strategic goals and guidelines.

Whether Tanzania is 'going capitalist' is a question so oddly phrased (even if often posed) as to elude sensible answers. Tanzania has always allowed a substantial private sector role - indeed it burgeoned over 1975-1978, not always very prudently or efficiently. It has always had a desire to use joint ventures (not always well considered ones) in major new productive enterprises. It was then President Nyerere who repeatedly styled inefficiency and waste as sins in a poor country seeking a transition to socialism. To that extent 1984-88 has been a time of re-emphasising old not setting new priorities even if some of the wording appears to go further than it does (at least to hard line privatisers and quasi material balance planning socialisers). The stress on how to use recovery gains - real grower prices, minimum wages, health and education plus new or restored fixed investment - is hardly new. Helping people on the bottom to move up while using massive education and fixed asset investment to raise the size of the pie dates at least to the Arusha Declaration and it is noteworthy that grower prices, minimum wages and budget parameters have regularly been set at times that prevented their being last minute negotiating points with the Fund or external resource providers. To say external reaction was not taken into account is of course unreal, but to suppose the Treasury merely happened to time its Budget decision so as to present them to IMF, Consultative Group and Paris Club (debt rescheduling) dialogues as parameters rather than variables would be naive.

The Long Road Ahead: Next Steps

1988 should be a relatively good year with about 5% growth, a small reduction of inflation and - perhaps - a more vigorous recovery of industrial output. While external resource transfers are vital, delays in agreeing with the IMF

are now largely a bothersome formality delaying a more formal and permanent debt rescheduling than an immediate threat to continued bilateral and World Bank funding as they were in 1984-86.

1989 is more problematic although in the absence of an unexpected terms of trade collapse or - less unlikely - very bad weather or a South African regular army invasion of Mozambique, there is probably more upside room than downside risk. The grain reserves would ride out a moderately bad weather year and a resource inflow breakdown is unlikely.

Thus 5% GDP growth is likely - a very different balance of probabilities than at any time since early 1978. Since Tanzania has had little good luck since then (1985-88's good weather, after all, followed six consecutive years of poor to bad) that says a good deal about economic resilience and coherent, strong (even if delayed by the democratic process' need to reach a consensus) economic policy and priority reordering. The upside potential turns (apart from a rapid improvement in Mozambican defeating of the armed bandits of RSA allowing a sizeable defence budget cut) on reconstruction of weakened transport and of processing and manufacturing units paying off and of efficiency raising reforms lowering strains on the banking system, the budget and the price level. If that happens, then a 6 to 8% growth record is attainable and if such improvements continue such a growth rate is possible through 1991. Even so that would only take real per capita income back to 93 to 100% of its 1977 level.

TRENDS OF SOME IMPORTANT ECONOMIC INDICATORS FOR EXTERNAL TRADE

Table No. 1

(US \$ million)

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88*	1988/89**
1. Exports	585	625	570	369	347	335	317	355	388	438
2. Imports	1,145	1,209	1,079	702	875	950	1,024	1,145	1,185	1,230
3. Trade Balance	-571	-584	-509	-333	-528	-615	-707	-790	-797	-792
4. Trade Balance as % of Exports	97.6	93.4	89.3	114.2	112.2	184	223	222.5	205	181
5. Petroleum Imports	216	300	226	210	233	237	196	168	159	169
6. Petroleum Imports as % of Exports	37	48	40	57	67	71	62	47	41	39

Source: Ministry of Finance, Economic Affairs and Planning

* Likely Out-turn

** Estimates

TREND OF GOVERNMENT RECURRENT BUDGET

Table No. 2

(Sh. million)

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88*	1988/89**
1. Recurrent Revenue	7,759.1	7,934.1	9,977.3	10,600.0	15,465.6	18,000.0	22,321.0	31,096.0	46,829.0	70,212.0
2. Recurrent Expenditure	7,534.4	9,789.0	132,139.0	14,589.3	18,182.0	20,674.0	27,403.0	38,774.0	61,765.0	90,272.0
3. Recurrent Gap	+215.7	-1,885.7	-3,236.6	-987.3	-2,716.4	-2,674.0	-5,082.0	(7,678.0)	-14,936.0	-20,060.0
4. Recurrent Gap as % of Recurrent Expenditure	2.9	19	24	13.6	14.9	12.9	18.5	19.8	24.2	22.2

Source: Ministry of Finance, Economic Affairs and Planning.

* Likely.

** Estimates.

TANZANIA IMPORTS: 1980—1987

Table No. 3

(US \$ million)

	1980	1981	1982	1983	1984	1985	1986	1987
1. CAPITAL GOODS	506.45	568.14	485.25	326.01	346.46	434.28	494.00	543.5
Transport Equipment	131.52	136.85	82.79	64.26	87.74	108.40	123.70	163.8
Building and Construction	93.71	92.37	96.56	79.65	87.96	95.14	108.70	109.2
Machinery	281.22	338.93	305.89	182.10	170.77	230.74	261.60	270.5
2. INTERMEDIATE GOODS	462.15	403.53	433.68	348.99	370.33	400.56	340.96	364.3
Oil	290.20	259.62	269.99	225.57	210.62	223.35	144.96	153.0
Fertilizers	13.45	6.33	5.87	3.90	9.64	8.77	11.00	10.6
Products	138.76	126.74	118.10	93.30	75.53	105.55	73.26	18.0
Industrial Raw Materials	145.88	115.06	144.98	111.08	142.09	156.98	170.00	182.7
3. CONSUMER GOODS	248.16	188.62	191.94	138.03	156.55	162.23	210.00	183.2
Textiles	37.73	23.55	32.09	19.00	19.76	34.32	42.00	27.9
Food	148.78	103.70	108.60	74.19	91.10	77.97	95.00	83.3
Other	61.65	61.38	51.23	44.83	43.69	49.94	73.00	72.0
4. UNCLASSIFIED IMPORTS	1.83	0.75	1.91	1.51	0.61	2.61	2.50	1.0
Total ...	1,218.59	1,161.04	1,112.78	814.54	873.95	999.19	1,047.46	1,092.0
Memorandum Item: TSH/US DOLLAR RATE (AVERAGE)	8.2	8.28	9.29	11.14	15.29	17.47	32.77	64.26

Source: Ministry of Finance, Economic Affairs and Planning.

Sources

- Primarily:
- 1.) 1988/89 and 1987/88 Budget Speeches
 - 2.) 1986 Hali ya Uchumi (Economic Review)
 - 3.) African Economic Digest, 1987/88
 - 4.) African Business, 1987/88
 - 5.) 1986 Annual Report, Bank of Tanzania
 - 6.) 1987/88 Daily News
- Plus interviews.