



MWALIMU NYERERE'S FUTURE

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THE ECONOMY 2. TANZANIA FORCED TO SIGN - MWINYI

Speaking at the Peasants Day celebrations in Shinyanga on July 7th 1987 President Mwinyi said that people should not lose hope because of the current economic hardships but rather they should face them squarely. Tanzania would succeed in building a strong economy if the people worked hard.

The Government had been forced to sign the IMF agreement because it could not meet its foreign exchange requirements. He said that signs of recovery could now be seen, as evidenced by the availability of clothes, cement and other consumer goods. Although prices were high, at least the situation was better than a few years ago when people had to buy items such as soap at hiked black market prices. "People used to carry money in their stockings because there was a lot of it but very little to buy" he said.

Daily News

THE ECONOMY 3. AN INTERIM SITUATION REPORT

There has been a distinct improvement in Tanzanian economic performance over the year and a half beginning in February 1986. Goods are less unavailable, basic services are under less strain, food prices fell seasonally, and then rose slowly, morale has improved. Over the same period Tanzania has concluded two successive Economic Recovery Programme agreements with the World Bank and bilateral donors, a standby facility with the IMF and two rescheduling agreements of the bulk of its bilateral debt with the Paris Club (OECD governments).

The speed of the shift is related to the atypical background to the international endorsement of Tanzania's structural adjustment and rehabilitation programme. Following a failed 1981-82 programme, when World Bank and bilateral negotiations collapsed after an IMF standby had been negotiated, Tanzania has had three further structural adjustment programmes.

The 1981-82 programme was centred on export rehabilitation. It raised export volume 30% in 1981 but as prices fell 20% the net foreign exchange gain was negligible and unable to sustain the programme. 1983 saw the adoption of the report of the 'Three Wise Men' jointly appointed by Tanzania and the World Bank. In retrospect this was a time wasting digression for all concerned. The report pleased nobody, had no physical or sectoral base and ignored both budgetary and price imbalances.

In 1984 the basic elements of the 1986 strategy (except the rolling exchange rate adjustment component) were put in place. The lag in negotiating international backing resulted from the unfortunate interaction of a slow World Bank response and the approaching elections.

As a result, as of early 1986, Tanzania had had three years of positive GDP growth behind it; a relatively stable (25 to 35% range) inflation rate, falling government bank borrowing, bank credit growth in the 15 to 20% range and a number of efficiency reforms (eg. in crop pricing and marketing) plus an agenda for rehabilitation and re-utilisation of capacity. What it did not have - and could never get from the export and infrastructural base - was the foreign exchange to

finance imports to put the rehabilitation exercise in high gear. One element in achieving the latter was a shift to regular, moderate adjustments of the exchange rate. It moved from about Shs16 to the US dollar in February 1986 to Shs32 in June. After a 25% devaluation to Shs 40, adjustments were made to offset Tanzanian inflation and to slowly bring the effective rate back to late 1970's levels. By mid-1987 the rate was around Shs 62 to the dollar which had itself fallen 25%. In terms of the pound (a less unstable currency) the change was from about Shs 20 in early 1986 to Shs 104 in mid-August 1987.

The devaluation has had limited inflationary impact. The changes up to June 1986 were largely absorbed into the actual retail prices which valued imports at something nearer the parallel rate (currently Shs 190 to the pound - Editor) rather than the official rate. Since then however, the portions of consumption linked to imports have risen about as rapidly as the number of shillings needed to buy a dollar. 1986/87 Cost of Living increases are of the order of 30% overall but probably 50% plus on the two fifths of goods and services with significant import content.

The relatively good price trends are related to the good 1985 and 1986 harvests - the first good ones since 1978. Food prices actually fell in the second half of 1986 and rose perhaps by 10% during 1986/87. Similarly the fall in world oil prices in 1986 helped dampen the impact of devaluation on transport costs. The good harvest allowed of the establishment of a grain reserve of perhaps 100,000 tons. If the 1987 crop year has been average, which seems likely (several good, several normal zones and only the Kilimanjaro and coast regions having suffered) food scarcity should not hamper recovery or affect inflation in 1987/88. The key problems will be the restoration of manufactured output levels (now perhaps 35% of those in 1978) and the halting of the erosion in real wages. The 1987 minimum wage increase is 30% and the target for inflation in 1987/88 is from 20% to 25%.

Whether these goals can be achieved depends on how fast and how fully the agreed foreign resource flows arrive. Normal time lags from agreement in principle through detailed negotiation, procurement and delivery have meant that, as of mid-1987, external support for the recovery programme has played little part in economic improvement although it has helped to restore morale.

In 1986 GDP is estimated to have risen by 3.6% led by agriculture and services. The 1986/87 target of 4.5% should be attained.

The external side of the programme is - unusually - built around the accumulated minimum import requirements for current sectoral production and rehabilitation targets. It is well designed, has been well received and should have begun to pay off by the April/June 1987 quarter.

To date, IMF targets have largely been met. The Recurrent Budget deficit (certain grants being included as recurrent revenue) was over estimated largely because of late financing of 1985/86 overruns and defence bills related to solidarity with Mozambique. Excluding the former, domestic government bank borrowing fell dramatically to Shs1.2 billion. If it is included, the level was Shs3.4 billion compared with a target of Shs 2.5 billion. Total bank credit rose about 20% of which 60% (Shs 5.3 billion) went to enterprises. The overrun was related to a sharp rise in cotton production, delays in processing and

transporting, exacerbated by falls in world prices and the rather unexpected acquisition of the 100,000 ton grain reserve. In this context credit ceilings were renegotiated with the IMF during the first half of 1987.

The debt rescheduling programme buys some time. Bilateral principal and interest (including arrears) for 1986/90 have been rolled forward to 1991/99. This is not a permanent solution but, taken together with the recovery programme commitments, results in the most positive import capacity expansion of any major structural adjustment programme.

Tanzania's stubbornness in sticking to its strategy during the 1980 to 1986 IMF negotiations did cost time but it also led to successive refinements of domestic strategies and significant improvements in the conditions surrounding external support. Uniquely among large structural adjustment programmes the Tanzanian programme has a relatively small IMF component (10% odd). Tanzania does not believe that six year money at 8% can be a basic means of financing a six to ten year recovery programme nor to reducing the external debt problem to manageable levels.

The health sector, particularly at rural and urban clinic level, has been substantially though not fully rehabilitated. A Danish/UNICEF project has filled basic drug gaps and related support has allowed for renewed vaccination of young children.

Education faces more problems. Enrollment is falling at primary level even though fees are automatically waived for children of families unable to pay.

The 1986/87 recurrent budget estimated outturn and the 1987/88 estimates show a real increase in health, education and other government spending for the first time since 1978/79. This is a major turn-around if it can be maintained.

The long term weak link in the strategy remains exports. On optimistic projections the present programme might raise exports (including recaptured smuggled ones) from \$400 million in 1985 to \$800 million in 1990. However, with at least \$200 million current account debt service and \$1,200 million imports needed to sustain a 5 to 6% growth rate in output (a rate likely to be achieved in 1987) there remains a current account gap of about \$700million. (Future prospects are discussed in more detail in the article which follows - Editor).

Domestic manufacturing's slow revival seems to be related to lags in disbursement of most import support grants and soft loans. The world Bank and UK contributions are exceptions to this. As a 10 to 15% output recovery in 1987/88 will be crucial to raising GDP from 4.5% to 5% and to achieving the target of a 20 to 25% rise in cost of living (thus making the 30% minimum wage increase translate into a real increase of 5% (the first real increase since 1973/74) this gives cause for concern.

One hazard to the renewed balance of the recurrent budget is the renewed need to provide solidarity forces - of perhaps 6000 - to Mozambique. They have been crucial to reversing the tide of the 'bandidos armados' (MNR) advance in northern Mozambique but they do represent a substantial budgetary burden. It is an unavoidable one. Neither Tanzanian principles, Tanzania's self-respect nor stability and security in southern Tanzania are consistent with failing to avert a collapse of Mozambique's northern provinces into anarchy or MNR rule.

In short, 1986/87 has seen significant economic recovery. This has

been built up from the slow but real partial stabilisation and growth of 1983/85. Funds and a framework for utilising them to sustain that recovery in 1987/88 and 1988/89 are pledged and/or in place.

Reginald Herbold Green

THE ECONOMY 4. FUTURE PROSPECTS

In the years between the wars there was a widespread belief in certain quarters that, with adequate economic support, economies could be both planned and managed by centralised organs of state. The second world war, involving rigorous planning for a limited objective, appeared to lend some colour to this view. But the experience of the USSR and elsewhere has shown clearly that economies are not machines producing predictable results at the press of a button. They are on the contrary profoundly influenced by the decisions and reactions of millions of people. In common parlance these are referred to as 'market forces', though the phrase suggests some anonymous reagent and obscures its real character as the sum of decisions taken by many individual human beings.

The 'rediscovery' of market forces has been a salutary lesson for the planners, but the current popularity of this style of economic democracy has gone too far in some quarters. Market forces, correctly interpreted, are an important prime mover in any economy, a fact that must never be forgotten; but untutored, unguided and unaided by the state they are likely to remain a somewhat anarchic influence incapable of solving the country's most urgent problems.

For Tanzania by far the most pressing and immediate problem is that of the foreign exchange gap. Tanzania is spending abroad three times as much as she is earning by her exports. In 1986 she was \$700 million in the red on her trading account. Even then her imports had been reduced to the barest necessities, much less than would be required by any self-sustaining and developing economy. Development, it must be remembered, almost always makes new demands on the foreign exchange account.

The shortfall in Tanzania's foreign exchange earnings represents not merely a grossly inadequate income from the sale of exports and services to finance the purchase abroad of essential imports, but also insufficient resources for the funding of external debts, including debt service arrears of \$900 million. Fortunately, the debt problem has been relieved for the time being by agreement with Tanzania's main creditors, as indicated in the article above. This concession does not extend to obligations due to the IMF which makes the full payment of arrears a first charge on any new loan - a process known as 'rolling over'. These alleviations provide a valuable respite in the administration of Tanzania's foreign exchange and have the additional merit of removing a barrier to natural trade relations. But it is essential to bear in mind that, unless further concessions are made, the burden of servicing and repayment will reappear in the early years of the coming decade, considerably increasing the obligations that will at that juncture have to be financed by the sale of goods and services.

The debt overhang, though removed from the present economic context, remains a serious threat to future recovery. It is a problem that