Possible Insert - "The Economics of Disintegration: Tanzania 1982-83"

Page 10 - After Para 2.

In early June Tanzania announced a 20% devaluation - almost certainly as the first step in phased exchange rate adjustment. This appears to have been part of a revised counter proposal to the Fund following its team's May visit, not an action agreed with the Fund. The 1983-84 Budget speech implied very low wage and price increases until mid-1984 with levels then contingent on progress toward restoration of output (especially in manufacturing) and government revenue, ie on progress in agreeing and drawing under a Fund-Bank-bilateral donor package.

The Economics of Disintegration: Tanzania 1982-83

Time Runs Out: The Economy Runs Down[1]

1982-83 was the most disastrous year economically which independent Tanzania has ever faced. Constant price GDP fell at least 5% (8% per capita). Adjusted for terms of trade losses *per capita* purchasing power of national output fell about a third between 1977 and 1982. Effective purchasing power of salary earners fell at least 60%, of minimum wage earners and small scale self employed about 50% and of peasants about 15%. (Ironically Tanzania has become the first African country with average peasant household consuming power above that of the minimum wage but by a fall in the latter, not a rise in the former.[2])

Contrary to popular impression[3] very little of this has been offset by aid increases. Concessional external finance (excluding technical assistance) in 1974 was Sh 1,400 million, in 1977 Sh 1.900 million, in 1981 Sh 3,500 million and in 1982 perhaps Sh 3,200 million. Deflated by the Tanzanian price index the series would read 1,400-1,250-1,300-800 million; the last on a population over one quarter larger. Thus the real per capita fall in aid was about 50%.

Cuts in the basic Recurrent Budget between 1978 and 1982 have been of the order of 15 to 20% at constant prices or up to a third in per capita terms. However, rapidly rising service and parastatal reconstruction costs plus the higher security expenses necessitated by the Amin invasion and its consequences and only gradually being cut back have both kept the tax burden high and prevented reducing government bank borrowing below 10% of Gross Domestic Product.

Foreign exchange shortages have forced cuts in manufacturing output of about 50%. Capacity utilisation has declined from 60-70% in 1977 to 20-30% in 1982 with the 50% increase in capacity quite unutiliseable. Equally seriously they have cut imports of agricultural inputs below the levels needed to sustain output of key crops, of drugs to less than half the basic medical service requirements and of spares and replacement equipment for almost all sectors (notably transport and water) below that needed to maintain the existing capital stock.

Not surprisingly the falling availability of goods has resulted in severe shortages. Given the government deficit (largely the result of short falls in revenue from domestic manufacturing as its output and profits fell) and the attempts to limit minimum wage earner and peasant income losses by minimum wage and grower price boosts, inflation is over 30% and probably approaching 40%. The opportunities for smuggling, illegal foreign exchange transactions, price gauging, hoarding and bribery have increased markedly - as have the numbers in both the public and private sectors taking advantage of them. That, together with the failure of major efforts - including harsh austerity - since 1979 to turn the economy around has sapped public morale and self confidence as well as belief in the capacity of the state and Party to cope. While the late 1982 coup attempt seems to have related to cuts in the armed forces budget (with resultant retrenchment of and loss of promotion prospects for officers) and the interest of a few businessmen in bank-rolling a change of regime, it too is symptomatic of additional strains flowing from the malfunctioning economy.

A sombre study by the International Labour Organisation and the Jobs and Skills Programme for Africa written in late 1981 bluntly poses the threat in its title: Basic Needs In Danger[4]. It shows substantial 1961 - late 1970s gains in provision of basic services, in literacy, in life expectancy, in real worker and peasant incomes together with overall institutional and programmatic progress to about 1977. It also shows a rapid reversal in the economic foundation for these gains from 1979 on and a real danger of their total loss.

1977-1982: What Steps to Disaster

What are the causes of the rapid decline from 1977 when Tanzania had a trend GDP growth rate of over 5%, external reserves equal to five months imports, an overall food surplus, a record recurrent budget surplus and had clearly overcome the 1973-75 drought - food price - oil price crisis to the dismal 1982 situation and trend? If a checklist is all that is wanted there is considerable agreement: external including East African Community breakup, drought from 1979 on, 50% 1977-1982 terms of trade fall, Amin's invasion and subsequent Uganda liberation and security involvement; internal - agricultural policy including prices, storage, procurement, parastatal efficiency, foreign exchange allocational efficiency, lag in constructing an overall emergency/structural adjustment programme comparable to 1974-76, 1961-1980 lack of an articulated and operational export development strategy, government and NMC bank borrowing inflating the money supply. There are some disagreed points but the debate is really not at that level but at an ideological and/or systemic and at a dominant cause level.

The one line of argument is that Tanzanian socialism - especially villages and parastatals - are inherently inefficient and that a reversion to colonial (or at least pre-Arusha Declaration) strategy would cause recovery in the short run by attracting external finance and in the long by raising exports. This is fairly clearly the IMF, World Bank (with exceptions toward giving external shocks almost equal weight) view shared by many business analysts[5] and conservative or former radical[6] intellectuals[7].

This view suffers from its explaining too little or too much. Why did Tanzania overcome the 1973-76 crisis? Why was the first decade of transition to socialism a success on most objective as well as equity and basic needs criteria? Why did parastatals in several years generate operating surpluses of over 6% of Gross Domestic Product (and why do the profitable half still generate substantial surpluses)?

Further what is the ideological content of the major policy errors? 1978 overliberalisation of imports was carried out under Fund and Bank pressure. The relatively lax 1977-78, 1978-79, 1979-80 Budgets were authored by a conservative Minister of Finance. The faulty 1975-1981 price relativities and failure to monitor agricultural parastatals were carried out by an autonomous expatriate run agency - Marketing Development Bureau - funded and recruited by the World Bank. These seem to be conservative not socialist and technical more than ideological errors (except for the contracting out of key agricultural policy which was arguably neo-colonial).

From this point of view greater efficiency and austerity matter - Tanzania cannot expect a repeat of the 1976-77 terms of trade recovery nor a

$2,000 million additional aid injection over 1983-1987. And it must both consolidate and restore existing exports and development to break the present foreign exchange noose strangling production. However, the dominant causes of the downturn are the external ones (perhaps 75%). Much of the internal inefficiency comes from the impossibility of allocating rationally when the minimum essential levels of scarce resources are simply not available and the need to engage in day to day juggling to stave off collapse.

That broadly speaking is the Tanzanian view but also that of the ILO/JASPA team[8], of a number of academic analysts and of several informed journalists.[9] Even the view of the joint Bank/Tanzania expert advisory group - the "Three Wise Men" (Gerry Helleiner, Ernst Michanele and Cran Pratt)[10] is rather closer to the second than to the first reading. In respect to the question of pre-1978 monetary policy it is confirmed by an independent study suggesting that in most years over 1965-77 and for the period as a whole Tanzania increased money supply less than the amount consistent with overall balances of payments equilibria.[11] The second view is unfortunately almost grimmer in its implications than the first. If external factors have been dominant and have exacerbated domestic inefficiency, then there is no easy (and perhaps no) domestic course of action that can, by itself overcome the crisis. Substantial 1980-82 tightening of economic management from its 1978-79 laxity has only "bought time" to cite the title of an early 1982 evaluation and one which - correctly - hinted that, that time might be running out unless the external context improved (which it did not).[12]

The Economic Sabotage Campaign

The most dramatic economic policy initiatives of 1982-83 came in March/April 1983 with a massive anti-economic sabotage campaign.[13] This involved over 1,000 arrests between March 25 and April 19[14] and the introduction of legislation validating special tribunal trials, draconic penalties, validation Party and vigilante searches, arrests and property seizures and suspension of other economic crimes legislation by the President to bring such activities within the Tribunal's ambit for a period of one year from March 1983 with a possibility of six months extension.[15]

The problems aimed at were increasing foreign currency black marketing, smuggling, price control violation, hoarding, bribery and - consequentially - tax evasion. While made possible on their present scale by objective shortages, they were (correctly) seen both as worsening the shortages and undermining confidence in public policy.

Initial arrests - totalling about 300 - seem to have centred on senior Party and government officials, parastatal managers and substantial private sector businessmen. Whether this remains true after the Presidential appeal for all Tanzanians to seek out and denounce economic criminals[16] is less clear. The President specifically indicated the purpose of the campaign as being to catch the major crooks who were most able to avoid arrest and conviction but whether such individuals or petty price control violaters and runners for foreign exchange racketeers are more likely to be denounced by the man in the street or woman in the shop is unclear.

The reasons given for short circuiting the standard legal procedure - all of the offences listed (with the exception of hoarding Tanzanian currency notes which appears to be seen as a proxy test of other "black economy" transactions including tax evasion) are already covered by legislation with draconic penalties - turn on the difficulty of securing evidence adequate to convict major offenders and the tendency for courts to impose trivial sentences. The Tribunal - not bound by normal rules of evidence and with broader powers of confiscation though much more limited (5 years versus up to 14 under other Acts) imprisonment powers as well as no appeal to the High Court - has been established to avoid extended use of preventative detention on a large scale against economic threats to national security[17] (as was done with 500 foreign exchange operators in 1975-76 and with perhaps 100 to 200 assorted "economic sabotage" suspects in 1981-82).

The limited public reaction was positive - "enterpreneurs of adversity" (or wingless, two legged vultures) are not popular in Tanzania. Assuming the operation is seen to convict most major offenders and to avoid dragging in thousands of either innocent persons or marginal offenders (the fate of the 1969 cattle thief campaign which - except for the tribunal - had rather analagous origins and approaches), it will remain popular. Its impact on government reveunue, foreign exchange availability and access to goods at legal prices would be positive but marginal, the gain would primarily be in enforcing that all shared in the costs of the economic crisis rather than profiting by it.

Whether that outcome is likely is quite another matter. Mass denunciations will clog the Tribunal - even sitting in panels of three, its nine members can hardly try the April 19 backlog of 1,000 plus cases (let alone the probable May level of 2,000-3,000 when they start work) in less than 3 years if they make any serious effort to consider evidence. Further with such numbers of cases either extended detention or frequent conviction of innocent persons and petty offenders are only too likely. Perhaps worse the system seems far more open to corruption and setting of grudges than the events even assuming absolute integrity of all Tribunal members. Such results would rapidly turn popular enthusiasm into very damaging cynicism.

A further problem is that given corruption and/or overcharging upstream from them and low turnover many retail merchants cannot survive at legal prices. That fact plus fear of "conviction by accusation" led to a substantial number of shop closures denounced on April 19 by the Minister of Trade.[18] It has also led to apparently substantial destruction of evidence - especially Tanzanian currency[19] albeit that in itself is mildly useful in reducing inflationary pressure and operating as a self imposed fine.

The overall effect of the campaign - however dramatic - is likely to be at best marginally positive (mainly on the morale side) and at worst seriously harmful. The need for more effective action against economic sabotage has been clear for at least three years; the means chosen are much more problematic.

Economic Policy: In Search Of A Workable Package

1982-83 economic policy was composed of three strands: seeking to reduce resource use and increase efficiency to survive in the immediate future; exploring toward medium term strategy - programme - policy packages; attempting to negotiate for additional external finance until export can be raised from under 50% to over 70% of imports consistent with import levels which do not force steady declines in output.

President Nyerere's CCM keynote address of October 20 1982 painted a detailed, self critical and grimly accurate picture of economic decline.[20] As its title, "Accent on discipline, efficiency", implied it concentrated on domestic failings and what could be done to reverse them. This did not represent a change either in the sense of noting mistakes being new or of a retreat from the position that the root causes of the post-1977 decline were external. However, it did represent a major change from his relatively optimistic late 1980 projection of 18 months hard slog followed by recovery[21] (a projection which baffled a number of Tanzanian analysts who saw 36 months as the minimum if Fund and Bank agreements hold up). It held out no hope of substantial recovery in less than five years - halting decline even at a high cost in enhanced austerity was its message. Equally its stress on domestic action represented a growing scepticism that substantial additional external resources would be available on acceptable and workable terms and conditions. That scepticism is the result of the breakdown of the 1980 IMF agreement, the failure of the 1980 and 1981 attempts to negotiate Structural Adjustment Programmes with the World Bank, the clear themes of inegalitarianism and unleashing capitalism with few restraints in 1981-82 World Bank publications and pronouncements, the 1981-82 impasse on IMF negotiations, the evident unwillingness of bilateral aid agencies to back any Tanzanian programme not endorsed by the Bank and Fund and the Bank's backing away from the "honest broker" report of the Tanzania Advisory Group appointed by the Bank and Tanzania to review Bank and Tanzania Structural Adjustment proposals and come up with an independent synthesis or alternative.

The bulk of TAG's proposals were accepted by Tanzania and published as <u>Structural Adjustment Programme for Tanzania</u>.[22] Their basic thrust was discipline and efficiency within or in better implementation of the existing strategic framework (including the stillborn 1980 SAP and the somewhat imperfectly articulated 1981-83 National Economic Survival Programme). The Report appears to have been relatively thin in terms of concrete projections, policies or projects - surprisingly so given the eminence and numbers of its "Three Wise Men" and Secretariat. Indeed the <u>Implementation Schedule</u>[24] outlining next steps - which was a major element in policy making and review in the second half of 1982 - was in many ways a better articulated and more impressive document.

The NESP - after a relatively good start - especially on export expansion - in 1981 became increasingly ill articulated, non-operational and over-optimistic in the first half of 1982.[25] It was then subsumed in the SAP.

In respect to agriculture three major policy initiatives were launched over 1982/83. The first was the reestablishment (probably with a different power structure given their village base) of regional cooperatives as a means to decentralizing agricultural procurement, transport and sale.[26] However, exactly what they were to do and over what time scale they would take up such responsibilites remained unclear. The second was a - rather vague - food self sufficiency strategy launched by Minister Machunda[27] focusing attention on farm inputs and practices. The last - and most important - was the National Agricultural Policy Study[28] chaired by Professor Mbilinyi which turned out what is arguable the best overall review of agricultural performance, policy and opportunities prepared in the past decade - despite, or perhaps because, of having no expatriate members. Its recommendations seem likely to form the basis for complex and substantial policy changes in 1983/84.

Leadership Changes

Both the 1982 National Executive Committee elections and the 1983 Cabinet reshuffle in March changed key economic personnel. Speculation on their meaning in left-right terms, however, seems rather wide of the mark.

In the case of the NEC, the chief loser was Minister of Planning Malima who was barely returned to the Committee at the third round of selection. Notable winners were Paul Bomani - returning after over a decade as Ambassador to Washington - and Finance Minister Jamal (at the time in Toronto recovering from open heart surgery). The Party Congress - like the President - seemed to be questioning Malima's judgement and apparently reckless overoptimism, not his views on political economic theory and strategy. The two "winners" have a reputation for relative economic cautiousness, prudent financial management and negotiating skill in common, but otherwise are not normally seen as particularly similar in political economic outlook.

The Cabinet reshuffle turned on an illness, a recovery from illness and the need to strengthen the economic ministerial team. While recovering well, Minister Jamal was in no position to take up the day to day Treasury grind and was moved to Minister of State in charge of economic strategy while Prime Minister Msuya reverted to Finance Minister (where he had an economically - albeit not politically - successful tour over 1972-1975). Former Prime Minister Sokoine, now recovered from the uncontrolled diabetes that sidelined him in 1980, returned as Prime Minister while Bomani re-entered the Cabinet at Mines. Agriculture Minister Machunda (himself brought into the Cabinet early in 1982 to attempt a major sectoral policy shift) was reinforced by the appointment of Presidental Special Assistant (Economics) Mbilinyi - who chaired the Tanzanian National Agricultural Policy Review - as Principal Secretary. Again it is hard to see any ideological line in the shifts - basically they were imposed/made possible by health considerations and beyond that the goal was fairly clearly tighter economic management.

"Here We Go Round The Mulberry Bush" - IMF and Bank Programme Negotiations[29]

1982 and early 1983 were filled with consultations and negotiations on a major facility and a structural adjustment programme between Tanzania and the IMF and World Bank respectively. However, these generated more heat than light and as of May 1983 showed no particular signs of reaching agreement.

The disagreements are basic - Tanzania (and a number of independent analysts) rejects much of the data, the calculations, the analysis, the policy proposals and the ideaology of the Fund and the Bank. Given its disastrous experience when it took their advice eg on import liberalisation in 1978 and on letting an autonomous expatriate body financed and staffed by the Bank set agricultural prices and oversee agrilcultural parastatals over 1975-81 it does not have a particularly high opinion of their forecasting or of their technical competence. Oddly enough this has not effected Tanzania negotiations with the Bank in several other sectors - energy, water, transport - where past performance has led to a more positive view of Bank competence and of congruence of its advice with Tanzanian goals.[30]

The Fund has apparently pressed for a maxi devaluation, doubling interest rates, ending food subsidies, holding wage increases to 20%, raising grower prices by 25 to 50% in real terms.

Tanzania's formal counterproposal - submitted in February 1983 - probably includes phased devaluations totalling perhaps 30-40% over two years, marginal interest rate increases, minimum wage adjustments near the 1983 inflation rate (there was no raise in 1982) and 1984 grower prices adjusted at about the 1983/84 inflation rate. This is roughly the advice the Bank/Tanzania Tanzania Advisory Group gave it (indeed the Bank apparently believes a maxi-devaluation would be unwise). On the whole its technical and analytical work seems superior to the Fund mission's and its argument that the Fund proposals would push inflation to over 100% a year valid.

With the Bank there are three main differences. First the Bank insists on a Fund facility as a precondition for actual Structural Adjustment Programme negotiation. Second it apparently does not view the TAG's structural adjustment proposals as a satisfactory via media between its own proposals and Tanzania's, even though the group was set up precisely for that purpose on the Bank's initiative. Third, there are very major divergencies on priorities within agriculture based on very different selections of data and analysis. In particular Tanzania views 25 to 50% real grower price increases (which would require 40 to 50% cuts in wage, salary and urban informal sector real incomes) as manifestly impossible until output recovery - especially in manufacturing to provide incentive goods and agricultural inputs - has been restored.[31]

Agriculture and Industry In Decline

Agricultural and industrial performance since 1979 has been dismal.[32] The former has declined by perhaps 10% and the latter by 50%. Common causes have included massive reductions in foreign exchange availability for critical inputs (eg leading to a 1982 resurgence of coffee berry disease which had been controlled over 1972-75 and held at bearable levels over 1976-81 by heavy copper sulphate application) and worsening transport. In the case of agriculture these have been compounded by four years of poor crop weather (1979-82) following four relatively good ones (1975-78) and the 1975-81 rundown of agricultural parastatal (probably excepting the Coffee Authority) efficiency.

Both of the common factors worsened in 1982 while the weather did not improve (albeit it shows signs of doing so for 1982). While the deterioration of several parastatals may have been halted - by reassertion of government supervision over them after its disastrous 1975-1980 delegation to the Marketing Development Bureau and by heavy emphasis on their paying farmers promptly and in cash[33] - no significant overall recovery or even thoroughgoing institutional reform as a base for recovery was achieved.

In agriculture (and industry) special emphasis was placed on expanding domestic production of implements (a second plant opened and work on a third began)[34] and on reducing fertilizer's dependence on imported raw materials (via a phosphate mine).[35] Extension services were reorganized under the Ministry and Regions ending their partial decentralisation to Crop Authorities with a view to achieving better communication of more relevant advice and demonstration and reducing the apparent 50% overstaffing of the total extension service (largely with personnel who are at best farmer worst than average peasants with little subsequent training). Price increases were made for 1983 but given fiscal resource and goods to buy constraints were mostly in the 10 to 20% range, well below inflation but well above the nil increases in wages and salaries.[36] Emphasis on prompt, cash payment was seen as a more practicable method of increasing financial incentives. In one sense uniform grower prices for several staple food crops were abandoned in 1982. However, the approach was not one of adjusting for transport cash (which would wipe out production and peasant cash incomes in two or three present food surplus regions) but of paying more in regions/districts believed to be ecologically suitable for specific crops. Unfortunately, in practice, this may raise the average transport cost (the key defect in uniform pricing) because the ecologically suitable regions tend to be further than average from the largest single market (Dar es Salaam). As of 1983 intra regional trade in food is being opened to RTC, Co-op and Village sales subject only to paying growers the fixed price as a minimum and charging not more than the ceiling into mill, wholesale and retail prices. This will - in a good weather year - probably increase grower and reduce consumer prices in food surplus regions but this result is unlikely unless and until both 1983 and 1984 have good weather and thus restored food output levels.

Industrial policy centred on beginning studies of efficiency in foreign exchange use to seek to get more shillings of output out of available imported input finance. Related to this were studies of what direct substitution for imported inputs was possible. 1983 textile Forex allocations and the Tanzania Breweries commissioning of a malt plant to use local barley[37] suggest that some progress is being made.

Power and Energy: Crisis Management and Future Prospects

Energy was singled out by the President as one of the sectors with sound policy and planning and above average performance.[38] At first sight this may appear surprising given petroleum products shortages and consequential power cuts at inland thermal stations idling much of Mwanza, Musoma and Mbeya's industrial capacity even after introduction of priority allocation of supplies (with some results) and rationing of gasoline in Dar es Salaam (with no very evident positive results).

However, the fuel crisis turns on the general foreign exchange crisis. Crude and refined imports - even at sub-adequate levels - are over 25% of imports and well above 50% of exports. Refinery adjustment has increased the useable output per barrel; priority users are being allocated substantial quantities; the petroleum importing, refining, distributing parastatals had 1981 pre-tax surpluses well over Sh 350 million and the central one - Tanzania Petroleum Development Corporation[39] - had the largest pre-tax profit of all Tanzanian enterprises.

A small deferred payment arrangement for oil imports was made in early 1983 with Brazil and a substantially larger one with Iran. Negotiations are believed to be in progress for other such arrangements - possibly including Angola which has indicated its interest in exploring such arrangements with other SADCC members.

Over a longer term the industrial power crisis - and a reduction in fuel imports - is being sought by extending the national hydro power grid to cover almost all major towns from Mbeya in the South to Mwanza and Musoma in the Northwest.[40] Negotiations on finance for Mtera Dam to meet power demand into the 1990s were nearing completion in early 1983.[41] The power corporation - TANESCO - has also succeeded in containing costs and maintaining substantial profits.

Hydrocarbon exploration continued to yield new gas reserves but to fail to find actual oil. Tanzania has, however, managed to keep a growing number of companies interested in exploration and drilling. AGIP-AMOCO hit a substantial gas reserve on their first well at Nuzi Bay south of Mtwara in mid-1982 and are evaluating it before drilling again for oil and/or more gas. EIF-Aguitaine has signed an offshore exploration agreement[42] while Shell and IEDC are continuing seismic and evaluation work and plan to drill in 1984 onshore. Both TPDC's own drilling programme (at Kimbiji)[43] and Petrocanada's[44] (deep offshore) struck gas although only the former seems likely to be of immediate economic value. At the Songo Songo gasfield reserves of 1 trillion cubic feet have been proved and production wells to service the proposed Kilwa amonia/urea plant are largely completed.

However, while the 500,000 tonne (even) Kilamco project continues to make progress on technical, design and financial negotiations fronts[45] its progress has slowed down since the initial 1980-81 negotiations.[46] Ironically though not surprisingly Tanzania's export crisis - which cannot be solved until major (over $100 million a year 6 years after completion comparable to coffee's net export earnings in 1982) new exporters such as Kilamco are brought into being - gravely hampers financing a $600-650 million project.

The Long Haul Back - Transport and Communications

While the transport sector performed even worse in 1982 than previously - with backlog of unshipped exports probably exceeding Sh 1,000 million above normal pipeline levels and recurrent problems in getting to villages to procure agricultural and even more in moving them once procured - some signs of a turnaround were discernible. Since these centred on rehabilitation of railways, parts, highways and vehicles and were largely at design and commitment stage they offered little promise of loosened transport constraints before 1983/84 with full impact unlikely before 1986/87.

Tazara continued to experience both physical and financial problems.[47] The former related to serious landslides on its Southern Tanzanian mountain section, very poor roadbed and rolling stock maintenance (especially in

Zambia) and inadequate traction power. However, at present the line is operating below existing capacity due to Zambia's continued rerouting of cargo via South Africa and reduced imports. Financially Tazara has had both accounting and cash flow losses. The former relate primarily to depreciation; the latter to at least Sh 1,000 million of unpaid bills (largely from the Zambian public sector) and transfers to meet expenses in Tanzania paid into, but blocked by, the Bank of Zambia. The accounting deficit can be solved only by more cargo and the cash flow only by enforcing collection and remitting the money to meet expenses as and where incurred. Repayments to China - initially scheduled to begin in 1980 - will probably be deferred again in 1983.

However, substantial German and Swedish commitments to Tazara have been made over 1982/83 and initial German financed locomotives received and EEC has made initial commitments toward landslide repair and bolstering maintenance capacity. In addition tighter management - including retrieving wagons from shippers, recipients and Zambian Railways more promptly (following their straying as widely as East London and Windhoek) - has improved speed of shipment. Further tentative commitments and a World Bank funded system consultancy review are in the pipeline.

Tanzania'a internal railway system is largely obsolete (dating in many cases to the German period) and has suffered from deferred maintenance and lack of access to adequate rolling stock repair facilities since 1972. Its carrying capacity has fallen from over 2 million tonnes in the early 1970s to perhaps 750,000 in 1982 and passenger traffic from a peak of 4 million to perhaps 2 million.[48]

Substantial assistance is being received from Canada and Germany plus EEC, France, Italy and Denmark to carry out a five to eight year rehabilitation programme. In 1982 the system's first proper rolling stock and traction maintenance depot was completed in Maragaro (ten years after the target date set when East African Railways began building it in 1969/70). With 205 additional wagons, 59 locomotives and 93 passenger cars plus 5 lake vessels (under a Belgian financed programme)[49] the rolling stock situation has also improved.

Given the poor state of the highways and vehicle fleet and the shortage of gas oil to power lorries, railway rehabilitation is critical to moving goods at all. On long hauls it is also up to 50% cheaper than present lorry costs. Tanzania Railway Corporations' late 1980 target of 3.4 million tonnes of cargo and 10.6 million passengers[50] - if achieved - would radically improve ease of movement and reduce real transport costs significantly.

The Tanzanian ports are no longer plagued by inability to handle cargo on time. This, however, relates more to volume falls than to capacity improvements. A $70 million Dar rehabilitation programme (basically deferred maintenance) is at final design and finance raising stage[51] while the new railway lake vessels should reduce the Dar and Kigoma port traffic congestion which has gravely hampered rail wagon use. The problem of Zambian cargo arriving without papers and remaining uncleared still plagues Dar es Salaam. Despite repetitive one off special clearance exercises the inability of Zambian importers and their clearing and forwarding agents to cope (there is little uncleared Tanzanian cargo and relatively little for Rwanda, Burundi or Zaire) led to a buildup to 80,000 tonnes backlog by April 1982.[52] A further problem is worsened security and an increase in port area thefts.

EEC has made available Sh 130 million for vehicle recovery and maintenance (spares and equipment).[53] This is the first concrete response to Tanzania's point that spares and repair equipment would be much more cost efficient in restoring bus and lorry capacity than concentration on new vehicles.

Public Finance: The Unclosed Gap[54]

1981-82 and 1982-83 continued the 1978-79/1980-81 record of massive Recurrent Budget deficits which reversed the 1960-61/1977-78 record of unbroken surpluses. Government bank borrowing - basically to cover the recurrent deficit - rose from Sh 3,009 million in 1980-81 to an estimated Sh 4,402 million in 1981-82 and an initially projected Sh 4,371 million in 1982-83. The last two levels exceed 10% of Gross Domestic Product and are virtually half of Recurrent Revenue excluding balance of payments support finance.

Recurrent expenditure rose in nominal terms from Sh 10.045 million in 1980-81 to Sh 13,867 million in 1981/82 to a budget target of Sh 14,144 million in 1982/83. In real terms the increases were of the order of 3% and -12%. However, because debt service (linked to past bank credit and external supplier credits) rose sharply as did payments to cover past and current losses of several weak parastatals there were substantial cuts both in the basic budget for government services and also in real defence spending as the army was cut from a 1979 peak of 80,000 to under 40,000 with a 1983 target of perhaps 25-30,000.

Recurrent revenue from domestic sources stagnated at around Sh8,400-8,600 million. This was despite radically improved income tax collection and substantial increases of indirect tax (both sales tax and import duty) rates. The problem was both general falls in profits and the dramatic falls in domestic manufacturing (the source of over 50% of total tax revenue). No conceivable tax increases nor expenditure cuts could balance the budget without a Sales Tax recovery of buoyancy which in turn would require more manufacturing output which depends on more foreign exchange. Because one shilling of foreign exchange is needed for every five shillings of pretax ex-factory value of manufactures the loss from each forced reduction of that sector's imports of inputs is about Sh 2.5 on sales and company tax - about Sh 4,000 million at 1982 tax rates or approximately the size of the 1981/82 bank borrowing requirement.

By late 1982 the 1982/83 Recurrent Budget was in a shambles. Expenditure was on a path which might approximate - or even be held marginally below - estimates. Revenue however was collapsing ever more rapidly. Major tax increases were taken in January 1983[55] with a goal of Sh 800 million revenue during the 1982/83 fiscal year. Earlier a bill providing for reintroduction of the graduated poll tax aroused great controversy passing the National Assemble by 56 to 54 (implicitly with a larger number not voting or conveniently absent).[56] The purpose of the reintroduction - which is both unpopular and likely to pose major collection problems - is not very clear as at the very low targeted rates it can hardly yield more than Sh 200-250 million even with effective collection. While this might be significant in relation to village and municipal projects it would be less than 1.5% of total government Recurrent and Development expenditure.

Capital budget expenditure was Sh 4,757 million in 1980/83, about the same in 1981/82 and budgeted for Sh 4,816 million in 1982/83 - a 50% real cut over the three year period. Within that total there has been a shift toward rehabilitation and deferred maintenance. New projects are almost totally absent and in late June the Party Central Committee cancelled or postponed over 200 ongoing projects.[57]

External Imbalance[58]

1981's increase in exports by about 20-25% in physical terms and 15% in value to Sh 4,805 million (just over 50% of exports versus 41% in 1980, 48% in 1979 and 42% in 1978) proved unsustainable. The relatively successful (87% of revised target) 1981 export section of the National Economic Survival Programme was followed by a disastrous (barely 50%) performance of Sh 3,600 million in 1982. As export prices increased somewhat this suggests at least a 25-30% volume fall. Even though imports were cut from Sh 9,568 million in 1981 to about Sh 8,200 million in 1982 this reduced the ratio of exports to imports to 44%.

Invisible earnings also reversed their 1981 rise while grants, concessional loans and balance of payments support finance continued to stagnate or decline from their 1979 peak. As a result the 1981 achievement of approximate overall balance with foreign reserve decreases balanced by net payments to the IMF and a tiny reduction in commercial arrears fell apart. Arrears rose to over Sh 3,250 million ($350 million) or 90% of exports and for the first time included substantial seriously overdue government debt service payments while useable foreign exchange reserves frequently were effectively nil.

The actual levels of imports - even with this degree of imbalance - were down about 45% in real terms from their 1978 peak. In respect to inputs into manufacturing, agriculture, health, education and maintenance of infrastructure the contraction appears to have averaged two thirds readily explaining the 50% fall in manufactured goods production and increased problems in producing import intensive crops and processing or transporting exports.

Regional Economic Cooperation - A Mixed Record

Tanzania's commitment - and attention - to regional economic cooperation has, perhaps surprisingly, been sustained despite continuing economic disaster. Unfortunately, while critical over the longer haul it cannot offer much in the way of extricating the economy from the past 1978 downward spiral.

SADCC[59] involvement continued to progress. As noted above, TAZARA rehabilitation finance at least partly as a result of SATCC priority and support began to be secured. Progress on industrial coordination - was slower but began to pick up momentum and, as a byproduct, led to the convening of a SADCC trade expansion policy ministerial conference in July 1983.

Trade arrangements with Mozambique continued - unfortunately with a continued imbalance of Tanzanian over Mozambican exports which Mozambique could not settle either in hard currency or additional goods.[60] A new trade agreement was reached with Zambia[61] and explorations toward ones with Uganda[62] and Zimbabwe advanced.[63]

Tanzania's stand on the Preferential Trade Agreement formally remained unchanged. It indicated that it was not yet satisfied that PTA was consistent with its other Regional Co-operation Commitments. However, with the phasing out of the Economic Commission for Africa as PTA's managers in favour of a secretariat appointed by and responsible to its member states, a change in tone became evident. Tanzania tended to speak of joining when appropriate implying that ultimately it would become a member.[64]

One barrier to such joining is the unsettled division of East African Community assets and liabilities. Negotiations dragged through their fifth year with some progress but no evident reason to expect an early settlement.[65] The basic disagreement is between Uganda (which believes the less than 20% of net assets allocated to it is too far below the 1/3 - 1/3 - 1/3 principle the EAC espoused while alive) and Kenya (which objects to its proposed 50% odd share in net assets because it also implies accepting over 60% of the external debt of EAC and its corporations). Tanzania's 35% share of net assets and about the same of external debt are probably not unacceptable to it. However, it doubts that all assets (especially in respect to Railways and Airways) in Kenya have been brought to book. While the Kenya-Tanzania differences look soluble, the Uganda-Kenya ones seem likely to drag on almost indefinitely.

The Kagera Basin group (Tanzania-Burundi-Rwanda-Uganda) made little progress in 1982. A UNDP sponsored donors conference was a notable failure and a stunning red herring in the form of a massive rail network made its originally plausible power - irrigation - transport package look ridiculous.[66]

Finally Executive Secretary Ngaiza was arrested as implicated in the late 1982 coup plot. However, outside the Kagera Authority proper transport rehabilitation to serve Rwanda and Burundi via Tanzania did make progress with substantial technical assistance from UNCTAD and pledges of aid to both rail and road rehabilitation or construction projects.

"No Worst There Is None" - 1983/1990 Prospects

The outlook for the Tanzania economy has never been bleaker. Good weather and moderate terms of trade improvement are quite possible but would not, by themselves, even stem the fall in real output. Without more foreign exchange neither output nor export levels - let alone existing capital stock - can be sustained.

On present trends - and with no injection of additional concessional external finance - output will continue to fall 5% a year in real terms until the infrastructure and economic (and presumably social and political) systems break down completely. Because the rate of decline - after a partial stabilisation in 1980 which could not be sustained primarily because both terms of trade and external assistance performed far worse than Tanzania (or anyone else) projected - has tended to accelerate, the breakdown point may not be very far ahead on the present path. The economy is so weak that any drastic shock (whether another coffee price collapse or 100% annual inflation triggered by a devaluation to Sh 25 to the dollar and freeing all prices) is likely to cause such a collapse.

On a moderately optimistic assumption - some terms of trade recovery, reasonable weather over 1983-85, $100 million a year additional concessional finance for two years and $75 million for three more plus $350 million over five years to clear commercial and government debt arrears the results are still daunting. Output might recover to 1980s peak absolute level by 1986 but real per capita national purchasing power would not regain its 1977 peak until 1994 even assuming an average real growth rate of 6% after initial recovery.

To regain 1977 per capita levels by 1986 would - in addition to domestic action and a substantial terms of trade recovery - require about $300 million additional concessional finance for two to three years and $200 million for two more, again plus $350 million to clear arrears. That would imply a $600 million IMF facility, a $250 million World Bank structural programme and $500 million additional bilateral and EEC finance over the period 1984-1988. Which is most unlikely.

The reason forecasts must be so pessimistic is that - even if the 1982 export collapse was partly aberrational - exports need to be at least doubled to allow economic stability and moderate growth at present aid levels. Existing exports - even with sustained rehabilitation - can provide at most a quarter of that. The major natural resource based projects - Kilwa fertilizer and Sao Hill paper - could provide a half but only several years after completion when the $900 million external debt needed to build them has been substantially reduced out of their initial export earnings, ie in the middle 1990s. The last quarter simply cannot be identified with much assurance even in terms of definite products let alone specific projects or time frames.

The time bought by the 1979-80 austerity and economic management improvement and the 1981 export increase programmes is rapidly running out. They did avert collapse - which in late 1979 looked scheduled for mid-1980 - but that bought time seems to be about up with no further domestic means to buy more and no evident likelihood of substantially increased external assistance.

Notes

1. Estimated from annual Economic Surveys and Bank of Tanzania Annual Report through 1981 and preliminary estimates for 1982.

2. Calculated from 1981 ILO data adjusted for subsequent price and wage changes.

3. eg Marches tropicaux, 22 October 1982.

4. Addis Ababa, 1982

5. eg Marches tropicaux, op cit.;

6. eg Work for ODI and OECD by Jennifer Sharpley.

7. eg Jonathan Power, "Will Nyerere Reconsider?" International Herald Tribune, 18 April 1983.

8. Basic Needs In Danger, op cit.

9. eg R. H. Green, "No Worst There Is None? Tanzanian Political Economic Crises 1978 - ????", Scandinavian Institute of African Studies, Africa Out of Recession Conference, September 1982 (to be published by SIAS).

10. eg Colin Legum, "The West Should Help Africa", IHT, 18 April 1983.

11. G. R. Franco, "Credit policy and foreign assets in selected African economics", Pakistan Journal of Applied Economics, Vol.1, No.2, Winter 1982.

12. R. H. Green "The survival plan that continues to buy time", Guardian, 26 March 1982.

13. See Africa Economic Digest 8, 15, 22 April 1983; Daily News, 7, 16, 20 April 1983; Guardian, 16 April 1983, Observer and Sunday Times, April 24, 1983.

14. Statement by Minister of Home Affairs, Observer op cit.

15. Statement by Prime Minister, Daily News, 16 April 1983

16. Times of Zambia, 7 April 1983.

17. Prime Minister, loc cit.

18. Daily News, 20 April 1983.

19. Observer, op cit.

20. Daily News, October 21-23 1982.

21.

22. See ACR 1980-81

23. Ministry of Planning, June 1982.

24. Government Printer, 1982.

25. See eg _Africa Economic Digest_, 15 April 1983.

26. _Daily News_, 5 May 1982.

27. _Daily News_, 30 June 1982.

28. Government Printer, 1983.

29. See R. H. Green,"Political Economic Adjustment And IMF Conditionality: The Case of Tanzania" in J. Williamson, _IMF Conditionality_, Institute for International Economics, Washington, 1983 and "Imported Inflation, Global Price Changes and Economic Crisis in Tanzania" in D. Seers and S. Griffith-Jones _Imported Inflation_, IDS (Sussex), forthcoming. For a fuller discussion and World Bank _Accelerated Development in Sub-Saharan Africa: An Agenda for Action_, 1981 and IDS (Sussex) _Accelerated Development in Sub-Saharan Africa: What Agendas for Action_ for a broader background to the debate.

30. See C. Payer, _Tanzania And The World Bank_, Christian Michelsen Institute, Bergne, 1983, for a much harsher evaluation of Bank performance in Tanzania.

31. These divergences are clear in the Bank's 1982 Tanzania Agricultural Sector Study (Uma Lele Report) and Tanzania's 1983 National Agricultural Study (Mbilinyi Report).

32. See Annual Economic Surveys and the Presidential Address "Accent on discipline and efficiency".

33. _African Economic Digest_, 3 August 1982, _African Business_, October 1982.

34. _Daily News_, 22 November 1982, _African Business_, October 1982.

35. _Africa Economic Digest_, 21 January 1983.

36. _AED_, 13 August 1982, _Daily News_, 8 August 1982.

37. _Africa Research Bulletin_, 15 September 1982.

38. "Accent on discipline and efficiency" _op cit_.

39. _Annual Report_ 1981.

40. _Africa Research Bulletin_, September 1982, _African Business_, January 1983, _Marches tropicaux_, September 1982.

41. _Africa Economic Digest_, 22 April 1982.

42. _African Research Bulletin_, 15 January 1983.

43. _Daily News_, 7 July 1982.

44. ARB, 15 October 1982.

45. See eg African Business, July 1982.

46. See ACR 1980-81 and 1981-82.

47. See eg Marches tropicaux, 1 October 1982, Weekly Review (Kenya), 18 February 1983, Africa Economic Digest, 15 April 1983, Zambia Daily Mail, 2 February 1983.

48. African Business, April 1983, Radio Dar es Salaam, 24 September 1982, 12 April 1982.

49. Marches tropicaux, 18 February 1983.

50. African Business, op cit.

51. AED, op cit., African Business, July 1982.

52. Marches tropicauz, op cit.

53. EEC Courier, May-June 1982.

54. Largely calculated or estimated from 1982/83 Budget Speech and Africa Economic Digest, 11 June 1982.

55. Zambia Daily Mail, 3 January 1983.

56. African Business, August 1982.

57. See eg Marches Tropicaux, 2 July 1982.

58. Figures through 1981 calculated from Bank of Tanzania 1982 Annual Report, 1982 preliminary estimates.

59. See "Liberation versus Destabilisation: SADCC and South Africa in Confrontation", ACR, 1982-83.

60. See eg Africa Ecomomic Digest, 10 September 1982, Marches Tropicaux, 23 April 1982.

61. See eg Africa Research Bulletin, 15 November 1982

62. African Economic Digest, 27 August 1982.

63. Africa Research Bulletin, 15 January 1983.

64. See eg African Business, March 1983, Daily News, 12 July 1982.

65. See eg Africa Research Bulletin, August 1982; Radio Dar es Salaam , 28 September 1982 (in SWB 29 September 1982); Weekly Review (Kenya), 10 September 1982.

66. See African Business, October 1982.