FISCAL, MONETARY AND ASSOCIATED POLICY IN PRACTICE: Some Reflections From An Enterprise Perspective

By Reginald Herbold Green

Our own reality - however fine and attractive the reality of others may be - can only be transformed by detailed knowledge of it, by our own efforts, by our own sacrifices ...

- Amilcar Cabral

A man who has inherited a tumbledown cottage has to live in even worse conditions while he is rebuilding it and making a decent house for himself. In the same way Tanzania has to accept the existence of problems which are created by the very fact of trying to convert the colonialist and semi-capitalist economy we inherited into a nationalist and socialist economy.

- Julius Nyerere

The tree that grows
There splendidly alone ...
Is Africa, your Africa. It puts forth new shoots
With patience and stubbornness puts forth new shoots.
Slowly its fruits grow to have
The harsh, strong taste of liberty.

- David Diop

National Frames and Enterprise Actions

Fiscal, monetary, price and foreign exchange policies are inherently macro (economy wide) not micro (enterprise controllable). This is true even when the role of the state is quite limited - the individual enterprise (unless it is so large as to dominate the entire economy or to lead a cartel which does so) still faces patterns and positions largely beyond its direct control. Planned state control - whatever its theoretical or practical defects - can make the nature of the framework easier for an enterprise to comprehend and to relate to, thereby increasing its room for manouvre. It may also make it easier to identify what changes are likely to be made on what basis - a point of some importance since enterprises in almost any system are regularly seeking to achieve alternatives in the macro framework as well as ways of adapting themselves to it.
The relationship between macro policy frameworks and enterprises is problematic both on the enterprise and the state side. Tensions are inevitable - in the absence of adequate information and understanding massive confusions and substantial contradictions vary from endemic to epidemic.

Any enterprise will wish to see macro policies altered to facilitate meeting enterprise goals eg a bottle manufacturer will seek to show that price control on bottles is unnecessary because the purchasers have real bargaining power while a bottle buyer might argue the reverse. Any firm seeking to meet a cash flow gap (whether from increased current assets, fixed investment or an operating deficit) will want relaxation of credit control (reduced intervention) and lower interest rates (increased intervention). There is no general rule of wanting less or more intervention - the general rule is of seeking action (whether intervention or the reverse) benefitting the enterprise.

However, enterprises cannot readily do without a macro policy framework. If there were no import licensing or credit allocation in Tanzania, a rapid breakdown of production, very rapid inflation (by some per cent per day not per year) and almost total absence of imports (with unpaid suppliers on "strike") would ensue. It is in each enterprises' interest that its proposal for allocations are favourably treated but not that total allocations are unmanageably high, let alone that the Credit and Foreign Exchange budgeting mechanisms be scrapped. Even with respect to taxation there are mixed interests. State spending creates purchasing power, trained personnel, social stability, infrastructure - all vital to enterprises. Unless this expenditure is covered by taxation and/or foreign grants and soft loans competition for savings rises and if the domestic borrowing is too great both a credit famine and an instability of prices which increases enterprise problems arise. Therefore, it is in enterprise interests that taxation in general covers recurrent spending, and that public backed pension and provident cash flows be substantial, however much individual taxes in their impact on enterprise or
employee cash flow may be seen as detrimental to meeting enterprise objectives whoever sets them.

Enterprises need states - at least normal capitalist and socialist enterprises do. The Uganda or 1979-81 with magendo as the dominant sub-mode of production is a vivid demonstration of what the absence of a functioning state with operational economic policies means.

But the interaction is two way. States - if there are to be growing volumes of real resources to allocate (including to allocate to state revenue via taxation and borrowing) - need enterprises. Policies which hamper enterprise performance - unless they have compelling gains in other direction - are counterproductive. To approve external borrowing to build a factory producing an important product, deny it imports of raw materials to operate and import the product is a nonsense from a state as well as enterprise (macro as well as micro) point of view. A sales tax rate that wipes out the market for a product is not just a disaster for the enterprise; it is a negative contribution to achieving budgetary balance. Mechanisms for import allocation which are so uncertain, short term or delayed as to prevent forward production planning hamper enterprises but also other policy (eg price setting which depends integrally on capacity utilisation projections) and overall volume of production.

An 'effective' paper economic policy pattern so constructed as to create major general obstacles to enterprise activity is effective only on paper. In practice it is self defeating. So, of course, is a paper policy which does not include checking to see how enterprises are acting in relation to it. That leads to catastrophes like the 1976/80 NMC performance whose impact on food availability, foreign exchange shortages and credit allocation tightening has imposed very heavy costs on all other enterprises - again illustrating that lack of supervision and control over enterprises in general may very
well be deeply injurious to the interests of most enterprises.

**Getting, Spending, Budgeting: Fiscal Policy and Practice**

At the most simple level the purpose of public expenditure is to meet politically identified priority programme costs in social services (20%), security (20%), economic services (45%) and administration (15%) on recurrent and capital (misleadingly termed development) account while that of public revenue is to cover recurrent expenditure and debt service with a moderate transfer to capital account.

In each case the goals are substantially more complex. On the expenditure side they encompass providing basic public services (primary and adult education, preventative and basic curative health, pure water) to all Tanzanians in the foreseeable future (1990), building up and maintaining infrastructure (including secondary, vocational and tertiary education) to facilitate growth of production, financing a portion of production expansion and sustaining the administrative capacity needed to implement and the security capacity to protect these goals. Wages and salaries policy cannot be separated from government expenditure policy both because a third of the recurrent budget is wages and salaries and because the government scales in practice determine the parastatal and heavily influence the private sector levels and structures.

The 1980/81 and 1981/82 allocations to subsidies and parastatal transfers in the recurrent budget relate to the goal of strengthening the financial base of several key units in the parastatal sector, and of preventing either their functional collapse or inordinate burdens on the poorest Tanzanians, while the exercise is carried out.

On the revenue side the basic goal of covering true recurrent costs and debt repayment from recurrent revenue (met in each year from 1961/62 through 1978/79, except 1974/75 when recurrent proper and the bulk - but not 100% - of debt service were so covered) is qualified by a number of considerations.
as to how to raise the revenue:

1. progressiveness - ie higher percentage overall tax burden on higher incomes and higher on urban than on rural (achieved overall but not necessarily for some parts of the private sector nor - by definition - for illegal incomes);

2. feasibility of administration - ie reasonably fully and uniformly recoverable from all potential payers (moderately well met with some improvement over time via simplification of taxes and strengthening of staff);

3. consistency with incentives to produce (probably reasonable overall but distinctly problematic with respect to certain specific taxes eg historically with sliding scale export taxes).

Since independence the proportion of government expenditure to GDP rose rapidly to the 30-35% range (20-25% recurrent, 10-15% capital) by about 1970, and then fluctuated in that range with declines in crisis and recoveries in less constrained years. Revenue followed the same pattern through 1978-79, but has since lagged badly as a share of GDP leading - together with security expenditure increases - to massive (Sh 1,500-1,750 million per year) recurrent deficits.

The unsatisfactory post 1978 position does not relate substantially to runaway real resource use by normal recurrent expenditure. Indeed since 1977-78 real government recurrent spending (excluding defence and parastatal weakness related payments) has been cut back each year. The 1981-82 savings on defence and defence related costs have been swallowed by the need for continued NMC related sembe subsidy and debt consolidation payments, and new allocations to bridge Airways and Railways transition to viable cash flows and capital structures.

On the revenue side the problem arises out of the interaction of the foreign exchange crises, the domestic manufacturing sector and the tax structure. The
largest source of revenue (about 40%) is sales tax on domestic manufactures. These require - on average - 20% of pre tax ex-factory price in foreign inputs and spares. With the sector now constrained to operate at 35% of capacity (as over 60% in 1976-77 and before 1974) and absolute output dropping, the sales tax yield for 1981-82 is likely to be Sh 2,000 million below what it would be were another Sh 1,000 million available for direct industrial input imports. Precisely because the sales tax excludes basic food (for progressivity and administrative reasons) and is concentrated on goods whose consumption rises faster than real income when real income increases, it is more generally vulnerable in a period when real average consuming power per capita falls (as it has for urban Tanzanians since 1974 and for rural since 1977-78).

There is no way to balance the recurrent budget by tax increases on current output levels. Nor can Sh 1,500 million in recurrent expenditure cuts be achieved. Something can be saved on running down the defence establishment levels created to face specific Portuguese and Aminite threats, but further cuts on social and economic services would risk their total collapse while maintenance and parastatal restructuring expenditure is imprudently low. The key constraint is foreign exchange - whatever its other problems (and they are not trivial) the manufacturing sector could produce 50 to 75% more if it had the imported spares and production inputs.

Capital (development) expenditure in real terms peaked in 1974. 1980-81 and 1981-82 are marked by sharp falls. Here, however, a case for restructuring exists. Building new units would in many cases seem to have lower priority for finance or foreign exchange than rehabilitating existing ones (eg in the case of trunk roads) and/or securing operating inputs (eg books and drugs ahead of new administration buildings and ministry headquarters). This is an issue at enterprise level too. Texco desperately needs complete reequipment of one mill and substantial reequipment of three. It has a complete mill usable as soon as power becomes available and two more proceeding (badly behind schedule) to completion. It has output constraints related to imported
spares and chemicals. Do its plans for new mills make either macro national or micro enterprise sense at this point? Are not the priorities: reequipment especially at Kiltex-Dar and Urafiki, enhanced spares capacity (whether in Texco or - eg - in National Foundry) and higher imports of chemicals, spares and any operating input which can generate additional exports substantially greater than the import (eg polyester fibre for the Morogoro mill)? To build new capacity for which imported inputs are lacking at the expense of spares and replacement machinery for existing units and more inputs to push them back toward capacity appears an odd choice, either at macro or micro level - a point made in the Survival Programme but far from fully internalised by investing bodies (government, parastatal or private).

Certain aspects of the tax system are of special interest to companies. The first is company tax which at 50% basic and relatively few special provisions is above world average but by no means uniquely high. Depreciation of fixed assets (other than residential and certain other buildings11) is 100% basic plus 25% initial allowance (for a total of 125%) on major new (and potentially overall reequipment) investment in manufacturing and tourism. The 25% is discretionary, but usually granted on cases which fall within the qualifying provisions.

Import duty rates are lower on inputs into further production and on capital goods. They exist at all on these items in practice to serve as an incentive to buy Tanzanian when possible and as a tax on the use of foreign exchange, and in principle also as a means to limit resource misallocation which could occur from import duties only on final consumer goods.12 Shifts in the pattern - to and from zero rating on some inputs and capital goods - have created problems in enterprise forward (or annual for the inputs) planning.

Sales Tax is normally zero on capital goods, inputs into further production (including here the registered dealers' status as well as rates proper) and
exports. For minor inputs or ones not directly embodied in final products tax is often payable, but can in practice be passed on, and is low relative to turnover. Sales tax is basically a consumption tax on a once for all basis (thus registered dealer status). 13.

Exemptions, drawbacks, etc are very limited in number and extent. In practice they are available to some degree to cover initial construction/operation period if there is an initial cash flow problem. Otherwise special rates are related to user - not producer - enterprise needs eg tea chests and safety equipment are zero rated. The first is a simple case of an input (as it happens an input into exports) and the second of interest to minimise costs of protecting workers.

The last two examples illustrate two problems: some tax officers are too concerned with protecting revenue and some companies not very careful at reading relevant legislation. In a case in which tea chests were taxed, the purchasing company's complaints (oddly the selling company did not protest) did not include the key point that there is a specific Sales Tax schedule heading clearly marked Free! Similarly, a leather safety glove and gauntlet company happily paid (or at any rate collected) sales tax at 25% for some years (either from 1969 or its date of initially manufacturing the items) and only protested when the change of rate to 75% in 1980 threatened its sales. Yet the General Exemption schedule covers safety equipment in clear language, and was never cited - even in 1980 when a tax change was sought. 14

Remission, drawback, recovery of indirect tax on exports works badly, partly because it is complex, partly because customs' laudable desire to protect revenue tends to defeat the objective of actual making refunds when due, partly because many enterprises procedures and records are not what they might be, and their export volume does not justify separate systems for export sales. Only the Sales Tax exemption on the export itself seems to work well.
Here enterprises might consider seeking a simplification by approximation procedure—a 2½% or 5% (categorised by product) refund on the FOB value of exports as stated in one of the forms which already must be filed with Customs or the Bank of Tanzania. In most cases this would approximate tax embodied and the procedure would be simple, intelligible and presumably workable.

Overall, from an enterprise point of view, the Tanzania tax system is relatively certain and simple, but also relatively high and enforced. Given marked conditions and the fact the indirect tax costs are acceptable components in calculations for Price Commission purposes (and the return on assets formula subsumes a 50% basic company tax) the tax burden is shiftable reducing this disadvantage.

Arguably taxes borne by enterprise employees cause more problems than those directly on the firm. Expatriates are a special case—the income tax structure deliberately makes them expensive (while other discretionary powers provide certain exemptions for the firm's benefit) to the firm to encourage training, and offset the widespread implicit prejudice for foreign over citizen personnel. Beyond that the combination of relatively high and progressive income taxes, high sales taxes and low allowed\(^{15}\) rates of wage and salary increase may affect employee incentives and morale. However, the underlying problems is the production constraint—lower taxes would mean more inflation (just as bad for morale) or collapse of (inter-alia) health, education, and transport (even worse for morale and directly affecting production/distribution/procurement as well). Were real purchasing power per capita\(^ {16}\) rising, the present tax system would not be inconsistent with incentives to win promotion or bonuses and morale would be substantially higher. The problem is very real indeed but tax reduction is no answer.

**Panel Allocation: Credit, Investment, Foreign Exchange, Prices**

Monetary policy as usually defined is of direct micro interest to enterprises
as it raises interest costs or freezes them out of the credit market by other devices. It is of macro and indirect micro interest as its impact affects rates of price changes (including what the market will bear for their goods) and general economic conditions (especially the market for their product). By and large it turns on interest rate and money supply (or in less crude versions domestic credit formation) policy.

In Tanzania these aspects of policy are best looked at in terms of (bank) Annual Credit Planning since interest rate policy is determined largely on other grounds, including the inflationary impact of raising the cost of working capital - "good" for perhaps a 10% increase in the cost of living if the overdraft rate were raised to 30 to 40% to make it in the range of 5 to 10% above inflation (i.e. 5 to 10% real). However, related allocation policies - on credit other than bank, foreign exchange and prices - need to be seen together with the Annual Credit Plan to ascertain the overall impact on enterprises.

Bank credit (NBC and BOT) is through the Annual Credit Plan. This Plan forms part of the annual planning exercise and is carried out by the Bank of Tanzania in consultation with Finance and Planning with most enterprise or enterprise category data supplied by NBC.

The process is iterative to fit acceptable domestic credit expansion with workable allocations to enterprises. The broad availability estimate is expected real growth in monetised GDP, plus expected unavoidable inflation, e.g. 5% GDP growth plus 15% imported and non-money supply related inflation would yield a 20% target.

The broad guideline for government bank borrowing used to be a) increase in currency circulation plus b) one quarter of increase in deposits. In fact, except in the 1974/75 and 1978/79 to date crisis years, this rule of thumb level
has not been reached. The 1978/79 and subsequent borrowing not only exceeds the guideline but is largely for recurrent deficits.

The Credit Planning mechanism has performed unevenly. Over 1970/71 - 1974/75 it was fairly effective but over 1975/76 - 1978/79 the Bank of Tanzania (then the secretariat with Planning nominally in overall charge) appeared to pay less attention to the exercise, and especially performance. More endemic have been problems of quarterly ceilings because while both government and enterprise demand for credit is seasonal, the seasonal patterns vary by borrower and are not very stable between years. A weakness which developed over 1976/77 - 1978/79 was failure to inquire closely into endemic (in some cases, notably NMC, epidemic) over-borrowers - a sharp contrast with 1970/71 - 1973/74, when the initial STC over-borrowing pattern which precipitated implementation of the 1969/74 Planning exercise's proposals for credit planning, meant that close attention was paid to major "over-borrowers". The combination of these three weaknesses has at times led to credit freezes or squeezes (eg late 1980) even for enterprises within their limits.

How well the exercise relates to particular enterprise requirements depends heavily on how well the relevant NBC and Commissioner for Public Investment Officers know the enterprises projected needs for the ensuing year. (They cannot know them if the enterprise does not, or if it does not inform them). It also relates to how tight the overall ceiling is, and how important the enterprise is perceived as being.

**Investment bank credit** is not planned in detail centrally (or even for the investment banks as a group). In broad outline it relates to the overall annual planning exercise and the financial institution annual plans as approved by CPI, but individual loans are not pre-allocated by enterprise in nearly as much detail as commercial bank credit. This is partly because investment bank credit to public sector enterprises usually forms part of a
package including a Development (capital) Budget Loan or equity injection (frequently mistitled grant) and therefore is in support of an "approved" use, and partly because TIB has usually had resources available (at least in shillings) in excess of acceptable loan proposals.

At present this excess is related in part to lack of foreign exchange - with about two thirds of the total direct and indirect cost of fixed investment foreign exchange cost, purely domestic finance does not make possible investment at macro level without more exports or foreign finance nor at micro (enterprise) level without high foreign exchange allocations or foreign finance. A somewhat similar constraint explains the very low rate of commercial bank credit expansion to the manufacturing and commercial sectors.

Short and medium term foreign borrowing (supplier credit broadly defined) requires approval by the Bank of Tanzania. For parastatals it also requires government approval as the preferred channels are via government or an investment bank. If - as is common - a bank guarantee is required, then NBC approval (ie agreeing whether and on what terms it will guarantee) is also necessary.

This area has been one of distinct uncertainty, unclarity and unpromptness. Over 1978/79 - 1980/81 levels of short term supplier credit approved were such as to mortgage a substantial portion of 1981/82 - 1988/89 export earnings. Most of these projects seem unlikely to generate foreign exchange savings or earnings adequate to cover the foreign exchange servicing costs, and many require increased imports to be operated. Similarly BOT and NBC approvals have been sequential not in parallel, leading to unnecessary delay in being able to conclude agreements to borrow.

The 1981 BOT guidelines should improve control over borrowing and enable enterprises to anticipate the probability of approval. In practice it seems unlikely that short term credits other than inputs into exports, high export
content plants and minor gap filling credits to complete projects largely financed in longer and softer terms can prudently be approved, given the medium term trade imbalance and grant/soft loan projections.

**Enterprise annual plans** (and related past and current year accounts) covering physical and financial budgets on recurrent (profit and loss) and capital (fixed and current asset) account are legally required by parastatals. If this legal provision was enforced, it would provide a focus for coordinating overall parastatal financing, foreign exchange and price requirements at micro and public enterprise sectoral levels. At present the law is widely - by no means universally - ignored; in many cases because enterprises cannot, or cannot be bothered, to budget for the coming year. That cause is even more depressing than its symptoms of unlawful nonfiling since such an enterprise cannot possibly operate efficiently, nor can its requirements be handled plausibly in any of the annual macro-allocation processes.

The Development (fixed capital) Budget is a major channel for allocating investment finance. Like the Annual Credit Plan it is an iterative exercise (under Planning direction with Treasury and in some respects BOT participation).

Considerable problems have arisen for six reasons:

a. regular misperception of how fast a project could be implemented leading to annual underspending;

b. equally regular underestimation of total costs leading to major overspending on most projects by time of completion;

c. consequential problems in ensuing adequacy of allocations to multi year projects once begun, and to estimating "room" for new starts;

d. overconcentration on new projects even when renovation or replacement would offer better results;

e. lack of coordination with working capital (bank credit) and foreign exchange (operating input) allocation procedures leading to unutilisable capacity;
f. weak coordination of related project timing leading to the power and water availability problems plaguing (in particular) Musoma, Mwanza and Mbeya.

With increased scarcity of resources since 1974, and especially since 1978, the operational impact of these weaknesses has become more severe. In each case the problem lies at least as much on the enterprise side (whence came the original data and proposals) as on that of the Ministry of Planning.

**Recurrent Budget** allocations are either operating subsidies (usually paid to the enterprise but designed to benefit all or specified users, eg sembe, fertilizer) or capital restructuring allocations. For 1981/82 these total about Sh 1,500 million. As the capital restructuring tends to be replacing past losses it too represents a transfer payment from taxpayer to enterprise, and is likely to take the form of a grant. This source of funds can only be interim and bridging. If it becomes open ended current loss cover rather than salvaging an enterprise threatened by past losses while it returns to surplus, the macro effect via the government borrowing or taxing requirement will be unsustainable, and all enterprises other than recipients of the grants will suffer heavily from higher taxes and/or inflation rates.

**Foreign exchange** budgeting is half yearly (within an annual plan) with basic responsibility at BOT. The process - which dates to 1971 - is basically an iterative one of reconciling supply and demand estimates. On an annual basis this introduces a bias toward cutting imports, since export boosting measures tend not to increase foreign exchange supply significantly in the first year of implementation.

The basic problem with the system's operation at present is inadequate foreign exchange to meet minimum import requirements to operate the economy at tolerable short term levels of capacity utilisation, and to maintain
existing capital stocks. Under these circumstances there are no "correct" or "good" choices open to the BOT, only "least unsound" and "least bad" and the type of strain this imposes is conducive to making decisions which are even less satisfactory than that.

A series of other problems aggravate the underlying shortage's impact on all enterprises:

a. gross overstatement of "needs" by most firms forcing the BOT to recalculate or "play crossword puzzles", either of which reduces efficiency of final allocations for most enterprises;

b. an especially serious variant of "a" with respect to spares and replacement machinery where BOT's ability to recalculate with any pretense at accuracy is negligible, leading to problems such as the 1980 'Christmas present' of a brewery breakdown;

c. procedures (by the BOT and by user enterprises) making estimation of licenses outstanding and bills to come on licenses already used at the beginning of a period, and their projection for its close, very difficult with resultant deviations in actual import related requirements during a period from projections based on that period's allocations;

d. increasing burden of repayment of supplier credit;

e. weak export earnings projections (related to terms of trade and transport problems, but also to past limited enterprise and BOT interest in exports beyond the main export crops);

f. weaknesses in effective relation of separate import allocations to export sales (and in checking ex post that the exports eventuated) as well as inadequate priority to such allocations.

With negligible reserves, uncertain receipts and worsening terms of trade (now about 50 to a base of 100 in 1972 and a brief peak of about 115 in 1976-77) the system is uncertain, unstable (with brief semi relaxations eg July-December 1980 all too speedily reversed) and late (ie allocations for the
half years are now made up to 45 days into the six months rather than 45 days before, and no tentative forward allocation indications for the following half year are practicable) both from enterprise and from macro economic management viewpoints.

**Price management** affects borrowing because it affects enterprise cash flow, and therefore the amount of working capital and fixed investment requiring finance from outside the firm. One of the Price Commission's statutory goals is to ensure adequate levels of investible surplus for reasonably efficiently run enterprises.

This goal - moderately well met during most years over 1973-78 - has become much harder to fulfill recently:

a. given foreign exchange allocation - and related transport availability - uncertainties, annual projection of rate of capacity utilisation for manufacturing enterprises is well nigh impossible;  
b. because unit costs are highly sensitive to volume, this makes surplus (or loss) at any approved price highly uncertain for reasons beyond the enterprise's control;  
c. similar problems - albeit probably of less magnitude - arise because of the increased rate of inflation which may tend to result in underestimation of cost increases during the year to which the domestic product price ceilings apply.

For enterprises as a group, the Price Commission probably raises manufacturers' real (price deflated) surplus relative to the commercial sector's (and especially the retail sub-sector's). This was initially the result of the PC's pre-history when opportunistic retail price hikes played a large part in its creation.

More recently, it relates to the probability of "free market" prices under conditions of extreme scarcity leading to 75-200% annual inflation, with manufacturers' prices likely to be the slowest to adjust and their opportunities
to act as 'entrepreneurs of adversity" lowest relative to retailers and sub-wholesalers.

Interest rates (an input price from an enterprise point of view) either affect earned surplus or output prices. At present they are at least 10% below the rate of inflation (ie negative by 10%) as opposed to 1 to 2% above it in the later 1960's, and about equal to it in from mid-1975 through mid-1978.

The impact on use of borrowed funds is relatively low for two reasons. First, most borrowing ceilings are set by allocation or by lender estimation of credit worthiness, and not by enterprise "desire to borrow". Second, many enterprise bank credit ceilings are underdrawn because of lack of inputs to operate at or near capacity in which case additional borrowing is pointless (given the absence of enterprise ability to earn as much as the overdraft rate on their liquid assets).

However, a minus 10% real interest rate is distributionally unsound. It penalizes savers - including efficient enterprises with large net deposit account balances - and subsidizes badly performing firms with high credit limits. The problems with raising the rate to 25-35% (positive by - say - 5%) are however even worse:

a. a massive increase in the government debt service bill;

b. a massive increase in working capital costs;

c. and thus highly inflationary pressures via enterprise need for price increases to meet this cost push inflation and government need to borrow more (or raise indirect taxes compounding the cost push element).

With an inflation rate cut to 15% and declining and a recurrent budget approaching balance, a restructuring to - say - 10-13% overdraft, 12-16% investment bank (and government lending to parastatals), 7-10% government debt might be practicable without rekindling inflation, and with some reason to believe a
neutral or positive true interest rate pattern would result. As of 1981 these conditions are far from being met.

Coordination - as noted in the section on enterprise (parastatal) annual plans - of all of these credit, price and foreign exchange allocation budgets is weak at micro and at macro level. Except for the suppliers' credit binge of 1979-81, this has probably been more apparent than real, and serious in only a limited number of cases, on the different credit sources side, but - since 1978 - serious in respect to credit/price/foreign exchange interaction (or non-interaction).

In 1981 - A Resume

The basic fiscal and bank credit policies as they affect enterprises are relatively simple, transparent and predictable. The same used to be true of foreign exchange and price allocations. Greater uncertainty has surrounded long term capital allocations (eg investment banks, development budget).

As of 1981 the situation is substantially worse. On occasion bank credit is not predictable. Foreign exchange allocations and, therefore, the surplus achievable meaning of any price are highly unpredictable and much less simple or transparent than before. (A situation complicated by the increased offering, paying and receiving of bribes and similar payments). This increases the problems flowing from non-coordination at micro and macro level of credit (and government equity), foreign exchange and price allocations.

It is critical to separate problems basically external to monetary - credit - foreign exchange - price allocation from those internal to the present patterns of operation. Otherwise, substantial scarce time and energy will be deployed fruitlessly on changing procedures and policies, in a vain attempt to influence causes external to procedures and policies.
The underlying cause is foreign exchange shortage. To the extent foreign exchange allocation procedures and non-workable tax refund procedures have constrained/deterred exports, this can be influenced by fiscal and foreign exchange allocation priority, policy, procedure shifts. But - while in no way changing the need to act promptly on those fronts now that export growth has been squarely prioritised as critical to both self reliance and survival - such measures cannot by any plausible estimation close the minimum demand/maximum supply gap on import/export account at reasonable levels of operation of the economy over the next three years.

The Recurrent Budget deficit is largely consequential on the foreign exchange constraint via the loss of potential sales tax on domestic manufacturers resulting from 35% versus 60% of capacity production. It cannot be closed at present real output levels, because to do so would require cuts in expenditure inconsistent with continued functioning of basic components of public services (including ones critical to enterprises) or cuts in personal consumption that would probably be both politically unacceptable and, in any event, not actually enforceable by fiscal measures.

A series of procedural problems have been cited in respect of specific allocation mechanisms. Three stand out as fairly general:

a. inadequate data flow from enterprises to BOT CPI-Planning either to allow reasonably informed macro-allocation guidelines or to operate such guidelines fully equitably or effectively with respect to particular enterprises;

b. inadequate enterprise understanding of macro priorities, guidelines and procedures, often even when they are reasonably simple and by no means secret;

c. lack of coordination of allocations (credit, equity, foreign exchange, prices) in respect to major enterprises because the parastatal annual plans are not being submitted in a majority of cases and even when
What Is To Be Done? - Some Notes

In the context of fiscal and credit-foreign exchange-price allocation several steps appear to be possible which would, to a degree, loosen the underlying foreign exchange constraint, and also increase the effectiveness of the allocation process at any level of foreign exchange availability. A number of them require initiatives at enterprise level, some of which are briefly noted here.

Import substitution on a systematic basis beginning with enterprise identification of operating inputs, spares, personnel, construction inputs and services (eg industrial consultancy, building) which could be procured domestically. The second step would be deciding whether enterprise production or purchase from other enterprises would be more suitable. Parallel to this should be enterprise and sectoral (eg by Mechanical and Engineering Development Industries Association) of what capacity to produce import substitutes exists, and informing potential buyers - and exercise in which TIB might take a role at encouragement and data exchange level.

Opportunities are not negligible eg TISCO has 'spare' capacity in certain types of services as do several MEDIA members in respect of spares and engineering inputs into construction. On operating inputs Tanzania Breweries partial substitution of sorghum for barley, and action to identify how to grow or encourage others (eg Tanzania Wattle?) to grow barley is an example of what can be done.

The relevance to the policies under consideration is that such action would

submitted do not seem to be used as a means to testing consistency of subsequent allocations with each other, and with the enterprise plan (either as approved or as consistently amended in the light of resource constraints).
require credit (and in some - not all - cases price increases) for buyer and/or producer. Clearly demonstrated and costed import substitution cases should (and probably if presented as such would) receive priority for bank and investment bank credit within existing procedures. In respect to foreign exchange allocation procedural changes (for input content) might be needed, but cannot be identified until a number of cases requiring special attention have been brought.

Parallel considerations apply to exports. Most enterprises have not seriously considered what they could export nor what their marginal/incremental costs are to identify the export prices needed for improved overall financial performance. Nor have they considered in detail what data on external markets (and which ones) and what promotion (direct or via a specialist export company) they would need to achieve actual sales. Until this is done more widely, rebates, export promotion funding and foreign exchange allocations for inputs cannot produce satisfactory results.

However, here procedural changes are needed:

a. an effective, prompt indirect tax recovery system for exports - preferably one providing a "deemed" refund of 2½% or 5% of the FOB value for exports of predefined categories of goods paid on presentation of a copy of one of the forms now required for Customs and/or Exchange Control purposes;

b. more priority to separate foreign exchange allocations for inputs required to produce exports, plus some observable preference to firms achieving enhanced exports in respect to general foreign exchange allocations;

c. specific consideration of working capital requirements of increased production for exports in setting enterprise bank credit plan ceilings.

Better data collection and application at enterprise level is needed:

a. to reduce need for outside finance (by raising internal cash flow);

b. to lower avoidable losses of real resources;
c. to allow coherent enterprise annual budgeting/planning;
d. to provide a firm foundation for use in macro level annual planning.

One sub-area is in accounting and auditing viewed as management tools for projecting, guiding and reducing cost of enterprise activities. The most immediate losers from inadequate (including late) accounts are the enterprises themselves.

A related area is systematic following through of the implications and requirements of major decisions not leaving gaps which erode the whole. Eg SUDECO's emergency procurement of additional godown space in 1981 was necessary. Probably the only large enough premises were privately owned. Rental (which would have rendered the godown subject to compulsory acquisition at a low price under the 1971 legislation) was not practicable. The price paid - taking into account present construction costs - was not self evidently grossly excessive. But the failure to consider squarely how best to achieve needed repairs (probably by SUDECO buying "as is" and immediately undertaking the repairs itself or hiring a contractor) rendered the entire exercise 'productive' of spoiled sugar and unwelcome publicity/demands on management time rather than of additional, useable storage capacity.

To interact with the policies considered in this paper, several steps beyond enterprise collection and internal use are needed:

1. serious enterprise attention to filing parastatal annual planning data in the form legally required;
2. consolidation of basic CPI, Planning, Parent Ministry, BOT, NBC, Investment Bank, Price Commission, data requirements on a single form to save duplicate form preparation time, and to facilitate coordination among the recipients. Additional data would be needed by some of the users (eg NBC, Price Commission, Investment Banks), but consolidation and standardisation of the common data requirements would represent a
significant time saving;

3. use of the enterprise annual plan submission exercise - both by enterprise and government bodies - as a means to check the consistency of proposals for and allocations of credit (and government capacity) of foreign exchange and of prices;

4. to use these micro inputs in formulation of macro annual plan allocations (especially in respect of bank credit, investment bank credit, government capital budget and foreign exchange budget.

These steps would - among other things - allow more realistic assessment of operating input requirements for foreign exchange by the Bank of Tanzania since the request could be related to physical and financial operating targets. In response to spares and replacement machinery further procedural changes could be needed. A start might include:

a. requiring from enterprises an 'engineering' statement to justify claimed spares and replacement machinery for which foreign exchange allocations are sought;

b. use by BOT of TISCO\textsuperscript{27} as an agent to provide expert review and advice on the allocations requests and their technical justification (on a desk study basis when possible, but if necessary, by actual inspection at the enterprise).

This would not be perfect, but should break the present impasse of gross over-requests for allocations facing total lack of BOT technical capability to evaluate them to arrive at a possible, and reasonably prudent, level of macro allocations, let alone micro allocations, to enterprise.

For enterprises to receive intelligent understanding of their problems by CPI, Treasury more generally, BOT, NBC, TIB, Parent Ministries or Planning they must provide data on a regular basis to enable the recipients to build up a working knowledge of the enterprises as micro inputs into macro policy determination. Coming only when facing a crisis to institutions otherwise left uninformed
cannot be very productive. Nor are written submissions enough. The more successful enterprises (public and private sector) maintain ongoing contact with officers in these bodies on whose schedules their enterprises fall for the very good reason that an established relationship based on exchange of information speeds up response to requests and improves the quality of decisions from both parties' point of view.

However, in many cases the government side also needs to improve procedures. Several parent ministries (and in some cases NBC and BOT) do not have officers responsible for maintaining working knowledge of enterprises falling within their sectors nor effective systems for reading, analysing, filing and retrieving data when submitted. In other cases - eg CPI - the system exists, but evidently lacks adequate numbers of qualified personnel to work properly. Enterprises (and TIB on their behalf) can legitimately point to the need for substantial improvement here if and when they actually do provide adequate information.

These proposals do not include a systematic integration of the credit - foreign exchange - price allocation planning mechanisms. Such an exercise is needed but requires:

a. better micro data flows from more enterprises plus better use by recipients;
b. additional accounting and financial management capacity in enterprises and recipients to produce and handle the micro data;
c. a study on how coordination could be achieved without major additional time or personnel constraints (a study the most concerned bodies - CPI, Planning, BOT, NBC - might consider contracting to TIB as an expert consultant with a working knowledge of both government and enterprise capacities and requirements);
d. clear guidelines, clearly understood by all participants before the changes are introduced to reduce transitional difficulties to a minimum.

For the immediate future the more modest proposals for improved operation
within the existing framework could lead to very substantial micro and macro
efficiency gains. They cannot in themselves surmount the present economic
crisis nor the constraints it imposes on fiscal and monetary policy. They can
make a substantial contribution to reducing the costs imposes by those con­
straints and a moderate one to loosening them by reducing total foreign exchange
demand/increasing supply and lowering total credit requirements.
Notes

1. The views expressed are those of Professor Green and are not necessarily the same as those of the Bank of Tanzania, Ministry of Planning or Treasury to which he is from time to time consultant.

2. In this case the seller is probably correct unless a practice of very high prices on medium size orders hampers small enterprise buyers.

3. Even a public sector enterprise will have a surplus as well as other targets. These are harder to meet if key employees cannot be recruited or are dissatisfied.


5. The standard Price Commission approach, explicitly in manufacturing and implicitly in commerce.

6. The loss of Sh. 2,000 million plus reduces allowable bank credit to other enterprises and places additional demand pressure on unchanged supplies; the loss of 500,000 tonnes of food over 1977-79 causes the 1980/81 and 1981/82 maize imports and thereby lower foreign exchange availabilities.

7. Fixed investment may or may not promote development; the same is true for recurrent expenditure. In some key sectors - eg agriculture, education, health - the recurrent requirements on the government budget far exceed the fixed investment ones. Further, for enterprises working capital (current asset) investment is usually as critical and sometimes as large or (in services) larger than fixed investment. To style a fixed investment budget "development" is an intellectually antiquated, colonial relic.

8. To achieve breakeven in sembe in 1981/82 would have required a near quadrupling not doubling of price; to allow Tanzania Railways to be halted by insolvency would cause a collapse of the transport system.

9. This estimate includes Sales Tax on Petroleum products which are sometimes classed as Sales Tax on Imports.

10. The other weaknesses are themselves in part the result of diverting scarce managerial, technical and artisanal time to keeping going at all given import constraints with less attention to, and poorer performance in respect of, other problems.

11. Logically all buildings should be depreciable. Whether this would substantially alter enterprise results is rather doubtful.

12. "In principle" only as at present import licensing protects far more than any likely tariff level would.

13. ie, it is not a multiple stage "value added tax" with complex sequential payment and recovery provisions.

14. Clearly, there are failings on the Tax Officer side here too but it was the Treasury, not the enterprise, who finally spotted the error.

15. Except for the private sector, enterprise wage and salary scales are regulated to achieve a degree of public sector uniformity. Doubtless some salary boosts by juggling titles are achieved but probably not for significant numbers of employees. Private enterprises do pay more in some categories (and do make dubiously legal increases) presumably to
lure away scarce technical/professional personnel whose training has been paid for by the state or parastatals. In this case the public enterprises' interest is in greater state intervention to deter poaching or to regulate private sector salaries and higher wages more effectively.

16. This is not the same as constant price Gross Domestic Product per capita. Terms of Trade loss (18% over 1976-81), added defence spending, "lost grain" need to be deducted first. On that basis 1980 per capita real purchasing power was probably 15% below 1978.

17. That is a 5 to 10% annual increase in the purchasing power of the combined principal plus interest.

18. Only on Recurrent Budget account are there grants or operating subsidies. The problem arises because of the lag in Treasury specifying the loan or equity nature of the transfers and setting interest rates and repayment periods for the loans.

19. The point is not who lends but that the loan is fairly short (normally 3 to 10 years with under 2 years grace), tied to particular purchases from a particular supplier, at interest rates (say 7 to 10%) showing there is a seller or government subsidy element (the true rate for a bank loan of this type to a Tanzanian enterprise would now exceed 20%).

20. Granted there should have been less approvals. But once approval is decided upon it is desirable to reduce cost overruns by getting the goods in and the project in hand rather than playing sequential games of snakes and ladders.

21. In practice the working capital constraint from non-coordination has rarely been serious.

22. Here the errors are primarily at enterprise level. In particular both Texco and Tanesco should have contacted each other and kept in touch during construction of the Musoma and Mbeya textile mills and of the power facilities to service them.

23. This is true even for key firms receiving - supposedly - preferential treatment eg TCC (for revenue reasons) and General Tyre.

24. Radically higher taxes at present would almost certainly lead to augmented inflation and evasion on a scale cancelling most of the gains.

25. Without believable and accurate (or in some cases any serious) data on past and current performance linked to serious forward enterprise budgets, it is not possible to allocate effectively to one firm. When this situation is pervasive, the data base for macro allocation becomes almost equally dubious on the demand side.

26. Any price above incremental cost on additional export sales improves enterprise profit and loss results so long as it is not at the expense of existing sales at higher (or equal) prices. Thus in present conditions of capacity underutilisation export sales below average cost (and domestic selling price) would pay most enterprises if the import content were made available on special additional allocations so that domestic sales were not reduced.

27. TISCO has some engineering and technical personnel capacity but is under-utilised.