The Political Context.

The greatest misfortune which can befall a small country is for it to become a battleground on which its larger neighbours struggle for supremacy. Tanzania has become a battleground in an ideological war which, while it may not cause immediate physical destruction, may in the long run have profound consequences both for Tanzania itself and for the Third World. Under the leadership of President Julius Nyerere, Tanzania's governing political party - formerly TANU and now CCM - proclaimed its intention of developing socialist solutions for the country's problems. Since 1967 Tanzania has established an international reputation for its style of development and its adherence to principles in the face of the severest difficulties.

Nyerere sees Tanzanian socialism as rooted in traditional African values and practical communal support provided by family and village. To this has been added the experience of other countries.
Until 1974 Tanzania had good relations with the IMF, perhaps because she had no need of its facilities. During the economic crisis of '74 and '75 Tanzania drew on IMF credits to meet costs of importing food. Since the problems were caused by events outside of Tanzania's control (drought and the first round of oil price rises), these credits were offered with minimal conditions.

Over the next two years the boom in coffee prices enabled Tanzania to start to repay its borrowings, but imprudent relaxation of import controls in '78 and the collapse of the coffee boom made another approach to the Fund necessary. This time there was disagreement over the conditions with the IMF pressing for a 25% devaluation. A small devaluation early in '79 was matched by modest IMF credits. War with Amin und rising oil prices worsened Tanzania's economic position but no agreement could be reached on further credit facilities and negotiations broke down dramatically in October.

In reply to Nyerere's protests, the Managing Director of the IMF denied that the Fund had ideological biases or political motivation. New negotiations began this year with new teams of officials from both sides. There were strong pressures to reach an agreement. The IMF's reputation had been damaged by the breakdown of talks with Tanzania and Jamaica while the Brandt Report had been highly critical of the Fund's criteria, procedures and lack of sensitivity.

While Tanzania had demonstrated that it could hold out for a time without IMF support and several Governments had responded to its appeal for help, shortage of foreign exchange had drastically reduced manufacturing output, arrears on payments for commercial imports were rising to £100m and substantial repayments of earlier IMF loans would fall due in 1980/81.

The 1979 breakdown concerned eight points of principle:

- Devaluation: the IMF suggested 25%; Tanzania considered that any devaluation would only worsen matters.  
- Higher interest rates to be introduced in place of Tanzania's system of credit control.  
- Reduction in the real level of Government expenditure, especially on Health and Education.

1 This article is based on data and other material that has appeared in the press and in Ministerial statements and contains nothing that may have come to the author's notice on a confidential basis during his recent service as consultant to the Tanzanian Treasury. It is, therefore, in no sense an official Treasury record or statement of the situation. Ed.

2 It is well known that increased exports, particularly of primary products, depend on structural and technical changes within Tanzania and cannot be achieved in any marked degree by price manipulation in the short run. The effect of devaluation would therefore be to increase the cost of imports and hamper the changes and adjustments needed in the export industries without yielding any substantial benefits in increased export earnings. The IMF prescription of devaluation rests on the wholly erroneous assumption that export surpluses already exist that could readily be sold abroad if prices were lowered. Ed.
Wage freeze to be continued to reduce real value of wages.
Price controls to be abolished.
Relaxation of Import Controls to allow in more imports on a less selective basis.
Economic efficiency to be improved. Obviously Tanzania favoured this, but there was a wide difference on what the words meant. Whatever the Fund intended, the proposals would have meant dismantling planning and repudiating the strategy of transition to socialism. They would also have worsened the trade deficit by more than the Fund credit provided, accelerated inflation, increased inequality of income distribution and reduced marketed food production—hardly a recipe for economic recovery, even in orthodox capitalist terms.

The outcome of the 1980 negotiations can be deduced from Press statements and from Ministerial speeches in the National Assembly. There has been no devaluation. Credit control has remained and there have been no important changes in interest rates. The Budget, voted on before agreement was reached with the Fund, aims to reduce Government's recurrent deficit, but not at the expense of Social Services.

Price Controls have been retained and enforced more effectively. Import Controls remain central to planning, although additional foreign exchange has allowed larger allocations to reduce production and transport bottlenecks.

Minimum wages have been increased by 26% for urban and 36% for rural workers. This increase was announced on the day the IMF team arrived. Salaries have not been increased. Economic efficiency: work began, on Tanzanian initiatives, in problem areas before the arrival of the IMF team, in particular in the re-organisation of the National Milling Corporation, which had been making massive losses, and the development of an export strategy.

The conditions which Tanzania has had to accept and which could cause difficulty are limits on Government borrowing, bank lending and arrears of external payments. As targets, these limits are probably close to those of the Tanzanian Government; problems can arise, because if the limits are exceeded, the IMF standby credit automatically stops. The limits are set for each quarter year, but Tanzania works on an annual budget and has big seasonal variations in government borrowing and foreign exchange income. However, it seems that the limits were not exceeded for the September quarter.

The total credits made available by the IMF come to about £100m. Of this only 35 - 40% will actually be available to pay for

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3. The credits consist of a standby arrangement of SDR 179.6 million during the period to 30th June, 1982, and a compensatory financing facility of SDR 15 million to help to meet outstanding import costs in the year ending 12th March, 1980. The value of these credits is roughly £100 million and £8.5 million respectively. The outstanding obligation to the IMF amounts to SDR 72.1 million, or roughly £40 million.
The Political Economy of Tanzania, 1979-81: 
Self-Reliance, Solidarity and Survival.

The crisis and its limits.

It would be totally unrealistic to paint a rosy picture of the Tanzanian economy at the end of 1980 or to hold out prospects for an easy recovery in 1981. True, President Nyerere in late 1979 forecast eighteen bad months, but he then assumed a reasonable 1980-81 crop year, not both short and long rains failure in half the country, and did not foresee the 1980 oil price explosion. These two factors have cancelled out the gains from the reduction in defence costs, though that reduction has itself been slowed by the continuing instability and economic collapse of Uganda.

What is surprising is not the crisis, but that there is a functioning economy, a budget and a political and economic strategy. At the end of 1979 a quick review of the economic situation led the writer to remark that Tanzania was walking on water. A year later things are better - Tanzania is walking on thin ice. Unfortunately ice on salt water near the equator tends to be very thin.

However, it is also necessary to note the achievements of Tanzania in spite of the crisis:

1. There have been no deaths from starvation, nor will there be.
2. Universal Primary Education is steadily progressing.
3. Health facility visits are now up to 10 per person per year in contrast to 1.5 at independence and 3 to 4 in the late sixties.

Based on a paper delivered at the Annual General Meeting of the Britain Tanzania Society on 24th October, 1980. The author was Economic Consultant to the Tanzanian Treasury during the period from April to September, 1980, but this article is issued entirely under his personal responsibility and is in no sense a statement of official Tanzanian policy.
4. By 1981 pure water will become available to over 50% of the rural population, compared with probably 10% at independence.

5. The urban minimum wage was raised by 26% in mid 1980, clawing real purchasing power back to 1978 levels.

Since 1977, Tanzania's economy has been battered by events over which she has had no control, namely -

1. 1977 - Collapse of East African Community - at least $100 million replacement facilities required.
2. 1977/78 - Collapse of coffee boom. Losses up to $100 million per year on export earnings.
3. 1978/81 - Amin Invasion and support for new Uganda Government. $500 million war, over $100 million support to Uganda.
4. 1979/80 - Oil price doubling. $150 million a year by second half of 1980.
5. 1979 - Flood damage to transport and crops. Of the order of $100 million.

The total cost of these events over the period 1977-81 comes to about $1,500 million; that is, 32½% of the 1979 Gross Domestic Product, or 125% of the Annual Government Revenue, or 200% of the Annual Export Earnings.

These successive crises and the 1978/79 war diverted attention from the task of improving output. The policy of self-reliance had led to some neglect of export strategy and in consequence the terms of trade moved against Tanzania by an average of 5% a year since 1972, while the volume of exports also declined at a rate of 1 - 2% a year since the mid 1960s. The drive to expand domestic manufacturing stimulated a demand for imported raw materials and spares. These trends produced a recurrent balance of payments problem.

Food production kept ahead of population growth, but there were unusable surpluses of some crops, while the production of others such as wheat, rice, sugar, milk and oilseed did not meet the demand.

The National Milling Corporation, responsible for the marketing of the main food crop, maize, was badly advised on storage systems and its operations have been generally poorly managed, creating losses which have contributed to inflation.

By October 1979:

1. the rate of inflation had risen from the mid 1975-mid 1979 rate of 8 to 10% a year to over 20%;
2. manufacturing output was collapsing (20-25% fall from the first quarter of 1979 to the first quarter of 1980, with a parallel fall in Sales Tax receipts);
3. for the first half of 1979/80 the recurrent budget deficit came to about shs.1,750 million;
4. goods shortages worsened to record levels (worse than 1975);
5. black marketing became common and built up a middle official or manager/private sub-wholesaler/retailer nexus of corruption;
6. real income fell 20 to 25% below 1973 for minimum wage earners, 5 to 10% for most peasants, over 50% for the majority of salary earners;
7. morale was badly shaken, with tiredness and near despair being dangerously common.

The trough came at the end of October 1979 when talks with the IMF by a weak and apparently ill prepared Tanzanian side collapsed in acrimonious disarray. President Nyerere's "18 hard months" speech was as sombre as his 1975 New Year's "grow food or starve" address and had no equally easy call to action to offer, although it did raise again the standard of holding on and striving to get back on a forward course.

The fight back.

Economic management again became central. A new (for his third term) Minister of Finance and a new top Treasury team were soon joined by new Ministers of Commerce and of Planning. The theme was to seek interim bilateral aid while putting Tanzania's economic house in better order, to hold out for six months basically alone to demonstrate that Tanzanian policy was not up for auction and that Tanzanian strategy was still coherent and functional.

Action was far reaching and rapid, if by no means always fully successful:

1. the import budget was hacked back to near balance by the first half of 1980, but at a severe cost in reduced production and with no possible cure for the arrears albatross;
2. the recurrent budget deficit was held to shs.2,600 million for 1979/80 and a 1980/81 budget drawn up with measures to cut the deficit to shs.350 million without reducing basic public services;
3. the tax system was simplified, recurrent expenditure control potentially at least substantially improved, and tighter cash flow management instituted;
4. bank credit budgeting was improved for 1980/81 but at the expense of a sharp squeeze in the September-December period;
5. a plausible, detailed export strategy potentially capable of generating 6% export growth was worked out and while implementation is only beginning, for the first time there is broad acceptance of this as a priority area;
6. industrial output was pushed back to early 1979 levels by September 1980, some bottlenecks to plant completion and operation were removed, but the imported spares and inputs constraint was at best dented;
7. the rehabilitation of transport was begun, but from a very weak base as 1971-75 deferred maintenance had been only partly clawed back over 1976-78 before floods and foreign exchange crises imposed new setbacks;
8. Food supplies for 1980/81 (including imports) had been organised and prices rationalised somewhat, but no new strategy had been worked out;

9. The reform of the National Milling Corporation had begun, but the process of decentralising and achieving minimal levels of storage, physical control and financial performance would still take at least eighteen months;

10. In commerce efforts to end foreign exchange leakage and the sub-wholesaler centered black market upsurge had begun, sometimes with more energy than detailed planning, and a well worked out programme to strengthen and expand the 5,000 odd village communal shops had also started.

External assistance.

Renewed external negotiations yielded shs.650 million in import support grants and loans in 1979/80 (up from shs.150 million in 1978/79) and the expectation of shs.1,000 million in 1980/81. Negotiations with the World Bank funded further Songo Songo natural gas probing and oil exploration and some agricultural storage and marketing improvement. As shown in the previous article. Renewed IMF negotiations produced funds at least for 1980/81 to cover some reduction of arrears to foreign suppliers, repayment of earlier IMF drawings and a marginal increase of imports without any surrender of political or planning principles.

An interim balance sheet.

What can be said at present about the results to date? Tanzania's economy and society as well as its political economic philosophy have survived. Given the 1977-80 shocks, that is not a trivial achievement. But there is a continuing crisis.

The foreign exchange gap has been contained. Arrears (barring new shocks) have peaked and allocations are now more rationally planned. But overall the economy is still starved of needed imports which cannot be financed. Manufacturing output has been pushed up a third from March 1980 and should rise modestly in 1981. But shortages continue and 1981 will probably be little - if at all - above the previous 1978 peak.

Shortages of basic goods are contained at irritating and time wasting austerity levels. In six of its eight neighbours the Tanzanian shilling stands at a premium on the black market. But (except for food) the shortages are at least as bad as the previous 1975 trough. Inflation is less than in six of the eight neighbours but at about 20% is still painfully high. Basic public services - especially water, health and education - are steadily being extended. But operating supplies (spares, drugs, fuel, books, paper, chalk) are inadequate, raising serious quality and useability problems.

Violence and - less certainly - corruption have been reduced, but they are still at levels well above 1978 and a fortiori 1973. The minimum wage increases and the control over crop prices have reduced the fall in real income of the weakest social groups. But they have not reversed them (especially following the drought) and the vertiginous fall in the real incomes of salary earners is a cause for alarm as to its morale and morality implications.
Economic planning and management is much better than in 1978-79 and in some areas is at a new high. But serious gaps - e.g. in the National Milling Corporation - remain and overall there is still some deterioration especially at the middle level of management. The explosive rise of middle level technical (post secondary and non-university tertiary) institutions to over 200 and of their enrolment to over 25,000 gives hopes of breaking the middle level personpower bottleneck by 1985.

Morale: How Tanzanians see it.

Ultimately an analyst's views are of less real significance than those of Tanzanians in offices and fields, on shop floors and in polling booths. Here, morale and perceptions seem to vary widely.

The weariness in the face of successive post-1974 crises remains. The sense of loss of part of what had been won and of any assurance of sustained progress is real. Shortages, corruption and problems with individuals (even if, or perhaps especially if those individuals are senior managers or officials) do lead to cynicism and fatalism. But that is not the whole picture. Even in late 1979 morale in the rural areas and in the Party was surprisingly high. Since June 1980 urban morale seems to have risen. The initial results of clawing back have not passed unnoticed. Further, tiredness - let alone cynicism - is not universal. There are many officials and managers who work late, who seek to improve performance, who become passionately angry at incompetence or corruption.

The election results bear out this view. The President's 93% is a vote of confidence. So is the return of all five major economic ministers standing by large majorities. The defeat of over 50% of back bench MPs is not truly unusual but does reflect the view that many middle level leaders were lazy or inept. The overall pattern is that of a selectively critical but hopeful electorate, not an embittered or despairing one.

The road ahead.

The prospects for Tanzania in 1981-83 depend largely on the progress of events beyond her control. How will the Gulf War affect petroleum supplies and aid from oil producing states? What will the weather be like? And export prices? Will the World Bank structural adjustment credit be approved (indeed will IDA survive President Reagan)? What will the climate be for the transfer of world resources? Will Uganda win through to stable government, thus ending its resource drain on Tanzania? Will Zambia be able to earn and make available sufficient foreign currency to reduce its massive arrears to Tanzania? It is hard to be highly optimistic about many of these questions.

Export prospects look better. Cashew nuts and sisal appear to be reorganised for recovery and manufactured exports for continued increase. The Buck Reef gold mine (a 20,000 ounce one) is due to come on stream. But to win through to 6% growth will be hard. After 1984 there are prospects of substantial mineral exports - fertilizer based on natural gas, perhaps uranium oxide, perhaps nickel and cobalt, vanadium and iron ore, possibly coal. But none is yet in hand, none can yield major net earnings until the late 1980s and major payoffs cannot be until the 1990s.
Agricultural advance is possible. It requires a coherent new strategy based on the five deficit foods, storage, a 'new' National Milling Corporation, selected export and industrial crop development, crop prices which are in coherent relationship with each other as well as reasonable in comparison with the prices of urban goods, better crop authority management and especially communication with growers. The need for action is seen, some initiatives have been taken and the advance (or failure to advance) to an overall strategy will be the most important economic event of 1981/82.

Finance and domestic credit will be on a sound basis if and only if - the foreign exchange continues to be available at, or above, late 1980 levels. The same holds for industrial output, where the clearing of power and water bottlenecks, getting factories completed, finding export markets and correcting inefficiencies in management will pay off if - and only if - the import of raw materials and spares can be increased. Rural incomes will rise if weather in 1981 is average or better. Urban wages can be raised parallel to price increases if moderate production gains allow a cut in the inflation rate to 10 - 15%. A 10 to 15% salary increase is badly needed, but the chances of production and tax revenue to allow for it by mid 1981 are at best 50-50.

Foreign exchange is the key question. From 1990 on manufacturing and mining should allow a breakthrough. From 1985 on the export development strategy should pay off fairly well and over the period from 1982 to 1984 it should have some impact. 1981-82 requires good management, external support and more than 'a little bit of luck'.

Can Tanzania win through?

In 1979-80 economic and social collapse and the end of Socialism and Self-Reliance as proclaimed in 1967 has been avoided. Has this created a basis for mounting a new advance or merely postponed descent into a more dependent, inegalitarian future? Frankness forces a clear warning that the odds against success are still high. But that has been true before - in 1974 when drought and oil prices hit; in 1978 when Amin invaded; in late 1979 when external bankruptcy and domestic disintegration only months away, the prospects and the odds looked worse than today.

The survival of Tanzania's strategy and dynamics have been problematic ever since its present policies were launched in the Arusha Declaration. It remains problematic. But prophets of doom (right, left and centre; gleeful, sardonic and despairing) have to date been confounded. There have been hardships and setbacks, but Tanzania remains progressive, closer to its goals than in 1967, remarkably united behind the basic strategy and coherently seeking to move ahead. The most appropriate mood may be, at least for the friends of Tanzania, a degree of pessimism of the intellect, looking at the challenges and strains, but optimism of the will, looking at past challenges surmounted and a living national determination to win through.

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