POLITICAL ECONOMIC ADJUSTMENT
AND IMF CONDITIONALITY

THE CASE OF TANZANIA 1974-1981

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A man who has inherited a tumbledown cottage has to live in even worse conditions while he is re-building it and making a decent house for himself.  
- President Julius Nyerere

But it is surely better to make relevant but subjective comparisons rather than objective but fundamentally irrelevant comparisons.  
- John Williamson

Mistakes are mistakes.  
- President Julius Nyerere

I
Situation, Goals, Performance: An Introductory Sketch

Tanzania is a very large territory in respect to geographic size (about 950,000 square kilometres land area); a moderate sized polity in respect to population (approaching 19 million in 1980); a very poor economy (about £250 per capita and £4 billion overall at the official exchange rates in 1979).

Tanzania is one of the "least developed economies" albeit at the upper end of that range with the manufacturing sector contribution of the order of 10% of GDP and adult literacy near 70%. In 1974 it was "ranked" third in the list of "most severely affected" economies and over 1979-81 was buffeted by exogenous shocks of greater aggregate magnitude than those of 1973-74. In the earlier case the shocks were primarily related to bad weather drastically affecting food import requirements, secondarily to oil price increases and tertiarily to rapid growth in other import prices and a halt to increases in real per capita soft resource transfers (aid). In the past few years the 1979-80 oil price increases, the 1978 invasion of Tanzania by Iddi Amin and consequential liberation war and security support expenses in Uganda, 1979-81 poor weather exacerbated by disastrously bad storage of 1976-78 food crop surpluses and the 1978-81 coffee price collapse were the major shocks.

As of the end of 1981 the economy was characterised by extreme external imbalance (exports of the order of 50% of imports, arrears of commercial
payments in excess of $300 million, negligible gross foreign exchange reserves) rapid inflation (probably in the 30-35% range in both 1980 and 1981), substantial recurrent budget deficits (nearly 5% of GDP in 1979-80 and perhaps 3.5 to 4% in 1980/81), massive under-utilisation of capacity (eg. industrial sector output to capacity ratio down from the 65.70% range in 1977 to most 35% in 1981, and the backlog of unprocureable, unprocessable or unshippable exports related to transport and processing bottlenecks by the end of 1980 in excess of a quarter of actual 1980 visible exports, although 1981 export performance suggests some subsequent improvement).

Political Economic Goals and Strategic Approaches

Tanzania has had a political economic strategy with relatively clearly identified goals and instruments and an evolutilional (rather than sharply changing) pattern since 1967. It can be presented under four main items: overcoming poverty and approaching equality; economic restructuring; participation and public sector leadership; growth and balance.

Overcoming Poverty/Approaching Equality comprises:

a. increasing productive employment and self-employment with the emphasis on investment in these sectors and in supporting infrastructure;

b. provision of basic services with universality to be achieved within a finite time period;

c. reduction of inequalities in wages and salaries, by region; urban/rural, and general;

d. increasing control over/reduction of opportunities for
exploitation, eg. nationalisation of rental housing, wage-salary-working condition controls, workers and village councils, investment and surplus use allocation.

Economic restructuring comprises:

a. increasing national economic integration through increasing the range of goods produced and the completeness of vectoral linkages from raw materials through finished products primarily by public sector investment, acquisition of technology/personnel, price incentives;

b. thereby balancing domestic production and use of goods by broad sectors;

c. reduction and diversification of external economic dependence partly by reducing the necessary ration of imports to GDP and partly by increasing control over production and external trade;

d. seeking to develop effective economic regionalism and South-South economic cooperation at operational and negotiating levels.

Participation and Public Sector Leadership comprises:

a. planned intervention;

b. emphasis on managed market plus public investment instruments with substantial decentralisation and no serious commitment to material balances planning/physical directives except in respect to a limited number of scarce resources and/or emergencies;

c. broadened participation in decision taking and implementation focused on village and workers council, party and government bodies.
Growth and Balance include:

a. substantial growth of real GNP - in principle\(^{11}\) at about 6% per annum;

b. expansion of domestic savings toward 20% and net external transfers toward 10% of GDP to allow an investment ratio of at least 25%;

c. limited price increases;

d. a goods and services account import deficit financeable out of concessional transfer, World Bank loans and specific project related finance in normal years and these plus IMF low conditionality facilities in external shock years.

Tanzania has pursued these goals by what might be described as a sequential, unbalanced approach. At any one time resource allocation is focused on a limited number of problems believed to be soluble at that time. Subsequently the effects of this concentration create or make soluble other problems leading to an alteration of allocations, which over time may lead to a more balanced trend than at any one point in time.

This approach places emphasis on pushing the possibility frontier outward. In principle it is paralleled by concentration on approaching closer to the attainable frontier in areas in which structural changes have been achieved. On occasion the two overlap, eg. 1980-81 emphasis on restoring rationality among agricultural prices raising them at least as rapidly as the cost of living was a macro or structural priority but also, arguably, a micro-efficiency one.\(^{12}\)

In practice this approach has led to sustained lacunae in respect to two critical areas neither subject to handling by secondary allocations on an incremental basis nor particularly suitable for
once for all structural shifts: development of export earnings and of basic food storage capacity. These gaps have had, and continue to have, disastrous consequences, even though the former has become an identified priority area.

Tanzania has overtly denied that in its context there is any clear evidence of a tradeoff between growth and equality but equally indicated that subject to a growth performance adequate to sustain the strategy, some loss was acceptable. When the option has existed tradeoffs between consumption and investment have tended to be biased heavily toward the latter, subject to attempts to maintain real minimum wage and peasant incomes. In principle a relatively austere view has been taken in respect to restraining inflation albeit not in the direct Philips Curve context which is structurally inapplicable to Tanzanian data.

**Performance**

Performance is marked by a definite periodicity: 1967-69 was relative favourable; 1970-72 was marked by a endogenously generated (and reversed) bank credit/external reserve crisis; 1973 was again relatively favourable on the face of it; 1974-76 was characterised by a major set of shocks and their overcoming; 1977-79 was marked by a more lax policy than before or since and a sharp deterioration of the underlying position while 1980-81 has been a period of - thus far only very partially successful - crises containment with a view to crisis management and recovery.

Productive employment including self employment has grown about as rapidly as population - wage employment distinctly faster - and unemployment remained relatively low (8-10% urban). To 1974 real incomes of wage earners rose - those of salary earners probably were static with promotions affecting inflationary erosion of basically static scales. Thereafter, real wages fell - sharply to 1980 and 1981 but relatively little in these years because of minimum and consequential wage increases. "Urban informal" trends probably paralleled minimum wages. Salaries fell sharply with the rate slowed, but not halted by a 20% effective increase in 1981. Increased employment in the public sector has, in practice, been financed by reducing purchasing.

Peasant household real incomes (on average about 2/3 that of minimum
prices deflated by cost of living (which have fluctuated with no trend from 1967 and in 1980 were 5% above 1975) and crop (with staple foods on balance doing better than export/industrial crops). The peak was probably in 1977 or 1978, since 1979-81 domestic terms of trade have come in relatively poor crop years.\textsuperscript{17}

Service provision has improved radically (eg. 5% rural access improved pure water in 1961, nearly 50% in 1981; 20% to 90% primary school enrollment) with particular gains for rural residents (who had least initially) and women (who benefit disproportionately from approach to universality in education and from improved access to water).

Regional production and service inequalities have been reduced partially and unevenly, and some secondary towns' position has been strengthened/preserved\textsuperscript{18} vis a vis Dar es Salaam. In both respects this represents "evening up" and not "cutting down". The tax incidence seems to be relatively progressive because basic foods are sales tax exempt and amenities relatively highly taxed.

Control of exploitation worked to a degree to 1979 - since then general economic decline has created opportunities for "entrepreneurs of adversity" in housing and goods and in extorting bribes for public service provision. Surprisingly both rent control and price management\textsuperscript{19} designed to manage moderate and/or temporary shortages continue to have some impact under conditions for which they were not designed.

On balance intra urban and urban/rural income distribution has become less unequal since 1967.\textsuperscript{20} Intra-rural change is less clear. Service distribution has become more equal. However, since 1977 (and since 1974 for the urban population) this has been in the context of falling average real purchasing power and from 1979/80 of at best static per capita real public services.

Economic restructuring has been substantial. Almost all consumer goods - except cars, light bulbs and refrigerators - used in Tanzania can now be produced there and the direct (inputs, spares) import content of the industrial sector is down to 20%. Substantial progress has been made in respect to intermediate goods and construction materials and a quite limited but real base in capital goods.\textsuperscript{21} Similarly in respect to food imports dependence has been reduced on the production side albeit failure to develop storage adequate to serve a
15% urban population (3 to 5% in 1961) and to handle reserves to cope with multi-year good and bad harvest cycles has limited the value of this achievement.

Import dependence for goods (and especially investment goods) has not been reduced. Rising proportions of fixed investment (and machinery within it) and of industry which have higher import ratios than agriculture and non-transport services combined with negative terms of trade shifts have meant that all the running Tanzania could do left it in the same macro-ratio position. Expatriates have declined from 90% (4,500) to perhaps 20% (4,000) of high level personpower over 1961-81, but remain very high in respect to each novel undertaking or function in its initial years.

External dependence has certainly been diversified - there is no dominant trading partner or source of resource transfers. However, with exports falling from over 100% of imports in 1966 to under 45% in 1980 (a trend arguably correct to 1973 as an export surplus for a developing country is hardly optimal but thereafter exacerbated by terms of trade shifts and continued export decline temporarily masked by the 1976-77 beverage prices boom) and still only marginally above 50% in 1981, external dependence has clearly increased and now applies to basic economy operation as well as to fixed investment.

Regional and South-South coordination has progressed erratically. The results and potential are not insignificant but their size and time scale mean that they are more relevant to averting or limiting crises in the 1990's than to overcoming the present one.

Planning and managed market intervention has operated with mixed efficiency. Until 1981 its chief macro weakness was a failure to prioritise exports (a reversal over 1980 and 1981 was paralleled by and in part caused a nominal increase of the order of 40%). Micro efficiency has varied both in government and in parastatals with one (National Milling) a combined Chryster/Penncentral and two others (National Bank of Commerce, Tanzania Petroleum Development Cooperation) having profits equal to NMC losses and a substantial claim to real efficiency in resource use and service provision under severe handicaps.

Decentralisation and participation have had mixed but on balance
positive macro and micro efficiency results. However, this does not hold for regional and district parastatals which unlike villages present a nearly unbroken vista of financial and physical inefficiency (and as a result have been radically downgraded).

Growth through 1979 (from 1963 or 1967) averaged just under 5%. However, terms of trade deterioration (1961-71, 1973-75, 1977-81) has been very severe, reducing the "real purchasing power" growth to perhaps 4% versus population growth of perhaps 3%. From 1977 terms of trade deterioration, forced reallocation of resources to defence and abnormal waste of food through inadequate storage have reduced per capita real consumption power perhaps 15% - little on public services and housing, about 5% on food, perhaps 30% on manufactured consumer goods and private services.

Saving which had approached 20% at the beginning of the 1970's fell sharply over 1974-76 and again after 1977 because ex post only one third of fixed investment can be financed from domestic real imports and earned foreign exchange was barely or not available above "operating inputs" over 1974-76 and 1977-81. Real foreign resource transfers on concessional and quasi-concessional terms have approached 10% in the early 1970's and over 1979-81 but in a context of crisis and of total foreign exchange availability inadequate to allow maintenance and operation of existing capacity or to prevent a build-up of commercial payment arrears. Low conditionality IMF facilities have been fully utilised.

Except for a deliberate structural adjustment to 1973-74 changes in world oil and grain prices, Tanzania prices rose by less than import prices until 1979. Over 1979-81 the inflation rate skyrocketed from perhaps 8% to over 30%, (albeit apparently not significantly above the African average and below that for developing countries). This relates directly to inability to utilise existing capacity because of import strangulation.
II

Tanzania and the IMF

Prior to 1974 Tanzania made no use of Fund facilities. Fund missions' advice therefore was precisely that - indeed it was viewed as advice from a conservative, rather academic research body which might be of use in identifying weaknesses in Tanzanian policy implementation, albeit its political economic ideology posited means which were often unacceptable. Since Tanzania maintained a recurrent budget surplus and - except for a brief period in 1970-72 - relatively low rates of growth of domestic credit formation as well as fairly adequate reserve levels and current account deficits of about 5% of GDP fairly readily financed by concessional transfers, the IMF missions, while somewhat quizzical, were not sharply critical.

Over 1974-75/1976-77 Tanzania utilised its SDR's, "gold tranche", first credit tranche, oil facility and compensatory facility drawings and trust fund credits totalling about $75 million or 7% of total external resource transfers over the period (but about 17.5% in 1974-75). These were all low conditionality facilities available on demonstration of a balance of payments pressures, substantial exogenous shock contributions to those pressures and plausible programmes of import compression (including dcf control) and selective production increases toward restoring balance. A 10% devaluation in 1975 was the successor to earlier ones designed to facilitate domestic price adjustments (particularly grower prices) and/or avoid revaluation against major trading partners rather more than an IMF condition or an attempt to use devaluation to alter the external balance.

Over 1975-76, negotiations toward a second credit tranche drawing failed - or more accurately petered out early in 1977 when the impact of the beverage boom (and the lagged response of concessional finance sources to the mid-1974 requests) set reserves on an upward course to almost five months imports at the end of the year. The difference turned on appropriate dcf ceilings with Tanzania arguing that the proposed IMF trigger level would abort sustained recovery of real output by preventing adequate productive sector working capital expansion.

1977-78 were marked by relatively relaxed relations, but also by IMF (and IBRD) advice to relax foreign exchange budgeting (import allocations by category and major user). These were adopted in 1977 as the beverage
boom began to receed and maintained through much of 1978 as the external balance turned sharply negative.\textsuperscript{30}

In early 1979 an interim programme was agreed involving use of the balance of the first credit tranche, compensatory facility drawings and trust fund resources. It included a devaluation of about an eighth and a set of intended targets. As the explosive evolution of oil prices was not foreseen and the war related deficit quite un-guessable,\textsuperscript{31} it is hardly surprising that none of the targets were met, nor that the devaluation was viewed by some Tanzanians (with scant evidence\textsuperscript{32}) as a substantial contributory cause to inflation (which rose from 8-10\% to over 20\% by the year's end) and to negative changes in low wage worker and peasant purchasing power.

An attempt to negotiate a major programme led to a sharp breakdown in the fall of 1979. The programme proposed was a fairly standard one involving a substantial devaluation, a nominal wage freeze, abolition of price management, higher interest rates, reduction of real government expenditure (at least implicitly centred on health, primary education and water\textsuperscript{33}) and relaxation of import controls. It was clearly unacceptable to Tanzania, but the breakdown's timing and acerbity did not relate primarily to that as further negotiations would normally have ensued. Rather three complicating factors gave the appearance of an IMF intent to put up a "take it or leave it" package including dismantling several key economic management tools, sharply worsening income distribution and reversing extension of basic services:

a. substantial disagreement existed within Tanzanian official and decision-taking circles;

b. proponents of a quasi-orthodox line (somewhat similar to the IMF's) were perceived to be allying themselves with the IMF rather than negotiating with it or seeking to convince their colleagues by reasoned argument;\textsuperscript{33}

c. the IMF proposals at a stage when they were presumptively still negotiable were presented to the President as if they were a "final offer".

The 1980 programme was significantly different. In the first place it was negotiated after the annual budgetary, wage and price exercises and therefore could hardly be seen to be causing major policy changes. (Minimum wages had been increased 40\% to restore 1978 purchasing power, grower prices had been raised selectively to improve urban rural terms
and improve cross product rationality; the recurrent budget deficit had been target for a reduction of 80% to 1% of GDP). Nor did they include an immediate devaluation or interest rate adjustment nor any significant commitment to dismantle price control or foreign exchange budgeting.

The key conditions\textsuperscript{34} for a three year stand by totalling SDR 195 million (including SDR 15 compensatory facility) were:

a. a coordinated Bank of Tanzania/IMF exchange rate study by early 1981 leading to agreed action by mid-1981;

b. conclusion of a Bank of Tanzania interest rate review already scheduled by the end of 1980 with the view to raising deposit and lending rates (in the event by about 1%);

c. a ceiling on additional government borrowing of about SDR 200 million and on total DCF expansion of about SDR 300 million over 1980/81 (22.5% and 19% respectively against an implicit projected rate of inflation of about 20% and increase in real output of 4 to 5%);

d. a reduction in external commercial arrears from about SDR 185 million to about SDR 150 million over 1980/81.

The programme fell apart in November for five reasons:\textsuperscript{35}

a. while dated from July, it did not become effective until October, creating a lag in possible resource use effects on imports, production, tax revenues and exports;

b. the estimate of arrears "in the pipeline" (bank credits and non-clc commercial bills) proved seriously inaccurate;

c. the IMF/Tanzania assumption that a World Bank structural adjustment credit of about SDR 80 million would be concluded and disbursed in 1980/81 beginning in the last quarter of 1980 proved totally wrong - a much smaller credit excluding the industrial sector was negotiated in 1981 but drawings were negligible during the fiscal year;

e. in terms of actual 1980/81 outturn, the loss of the IMF facility itself since import strangulation while holding down productive sector dcf radically reduced the revenues by forcing a fall (not the posited recovery) in manufactured goods output.

If the Fund and Bank finance had been available (Sh 1,550 million odd) transport bottleneck clearing would have allowed Sh 500 million odd higher exports for a net availability gain of SDR 200 million. Half
of this would have allowed arrears to be held to target levels and the
other would have generated tax revenues from additional imports of
SDR 80 to 100 million, thus reducing government borrowing from SDR 300
million to Sh 200-220 million (around the SDR 210 trigger).

Thus the programme would probably have succeeded had the projected
Bank and Fund resources been avoidable despite several other adverse
results:

a. the World Bank's insistence on export tax abolition which reduced
revenue by perhaps SDR 20-25 million; 36
b. the collapse (unanticipated by IMF or Tanzania) of tobacco and
coffee prices;

c. relatively poor weather affecting cotton and maize output;

d. the limited (20% in real terms) cut possible in defence and related
expenditure because the Uganda security situation required con­tinued involvement on a substantial scale to mid-1981 (at least six
months later than anticipated) with a budgetary cost of perhaps
SDR 30-40 million.

1981 negotiations toward an extended fund facility of the order of
£400 million relatively quickly reached deadlock where they have
remained. They took place against the background of two exchange rate
studies (one by the Bank of Tanzania, the other by the Fund) which
could not be reconciled.

The Tanzania study concluded that devaluation (and interest rate
adjustment) were irrelevant to the current account balance in real terms
as import reduction was undesirable and barriers to increasing exports,
at least in the short and medium term, turned on quite specific bottle­
necks requiring imports to break them. It doubted the fiscal gain
from devaluation because its analysis suggested rapid cancelling by
inflation and a potential built-in spiral effect. Finally, it argued
that managing devaluation would divert key personnel from more hopeful
policy measures (related to specific resource reallocations to raise
exports) and from actual resource and production management.

The IMF study was a superficial summary of recent events followed by a
"standard" IMF package. Its elements appear to include: 37

a. a 66 2/3% to 75% devaluation;
b. 35 to 40% interest rates;
c. no increase in nominal wages or salaries;
d. dismantling of price controls;
e. reductions in real government recurrent and capital expenditure;
f. dcf increase limits such as to require reduction in productive sector inventories (currently at levels totally inconsistent with significant output expansion);
g. 50% to 75% increases in export and 25% increases in staple food crop grower prices (below Tanzanian estimates of the post-devaluation inflation rate).

These features could be deduced from the initial March discussions and became clearer in July and Annual General Meeting dialogues. While the acerbic 1979 breaking of discussions has been avoided, the present dialogue is one of the deaf. Ironically the chief policy result of the IMF's proposals seems to have been to block internally proposed Tanzanian action to restore the mid-1980 T Shilling/SDR parity (and peg to the SDR) reversing the 15% odd revaluation over 1980-81 resulting from Tanzania's dollar/pound reference basket. This technical adjustment would probably have been agreed on a phased basis in the absence of perceived IMF pressure for a much larger devaluation.

III
The IMF and Tanzanian Analysis/Policy Debates and Decisions

The IMF has interacted with an ongoing process of analysis, discussion, debate and decision in Tanzania. It has had rather different priorities in respect to items on that agenda and a somewhat narrower agenda. The most evident impact (which the author would view as a negative one) has been to focus a substantial amount of attention (central in the debate with the IMF) on devaluation and interest rates at the expense of more micro and structural issues.

In respect to prices, the IMF's argument that relative agricultural prices had over 1975-79 become radically inconsistent with output, equity or export criteria reinforced the position of those who pushed through substantial rationalisation in 1980 and 1981. For the target crops the increases were, if anything, above the IMF's suggested norms.

Subsidy elimination debate has been on timing. Tanzania was and is basically opposed to consumption subsidies. Those in grain arose
because bad accounting concealed the losses. The 1980 consolidation so only one product (maize) was subsidised (partly from sugar surplus, and partly from a budgeted Treasury payment)\(^3\) and the 1981 maize price increase to reduce the per cent subsidy are attempts to phase out the subsidy (perhaps 1.5% of GDP and in respect to Treasury financed portion 3% of recurrent revenue). The difference is on whether it would be prudent to eliminate it at one go at the cost of almost doubling the cost of the staple urban wage good (ie, a 300% increase in 1981 versus the 100% actually made).

Price management (control) is an area of contention. Limiting it to a handleable number of basic items and improving the analysis underlying the acceptable return on assets given attainment of target levels of output/efficiency (modified cost plus) based price setting is agreed. However, Tanzania views price management as critical especially in conditions of shortage and as - to a degree - keeping surpluses in manufacturing, wholesaling and finance (where they can be taxed and are likely to be productively reinvested) opposed to sub-wholesaling/retailing (where neither conditions applies). The IMF disagrees - apparently on principle - with price management on the basis that free markets would work smoothly and effectively in Tanzania.

**Industry** strategy and role debate has been largely implicit. Tanzania perceives industry as relatively integrated, relatively efficient (prior to import strangulation) and a critical source of surplus, incentive goods and inputs, reduction of import dependence and (less agreed within Tanzania) exports.\(^4\) As the average capacity utilisation and profit ratios (at least to the extent determinable from Price Commission tax and research data) of both public and private sector vary widely, but among firms not on public/private lines and with average public sector performance better, most Tanzanian perceive criticism of the public industrial enterprise role as evidencing ideological bias and lack of actual knowledge of the sector. The IMF appear to view the Tanzanian industrial sector as inherently weaker and featherbedded on a fairly simplistic static comparative advantage model. It clearly does not place equal importance on restoring capacity utilisation as a means to providing incentive goods or raising exports,\(^5\) albeit it does see its relevance to closing the recurrent budget deficits.

In respect to **agriculture** the IMF has stressed price adjustments and public corporation efficiency. The first is not an area of disagreement
except that Tanzania perceives the main changes as made (urban goods/rural goods terms of trade improved sharply over 1979/81, relative prices among crops were rationalised). On the public corporations the debate is partly internal to Tanzania (with the Ministry of Agriculture/Marketing Development Bureau relatively unwilling to plan for or enforce efficiency reforms which are sought by the Treasury, central and commercial banks and Planning) and the World Bank/Marketing Development Bureau (which wish to reform by increased centralisation and administrative first as opposed to decentralisation and managed market/managerial responsibility approaches). However, Tanzania's main argument that the key bottlenecks are transport (fuel, spares, vehicles), storage, production and processing inputs and "incentive goods" which can only be broken by increased import capacity and whose breaking requires detailed micro programmes does not get much response from the Fund - apparently being seen as irrelevant, whereas, if correct, it makes much of the present devaluation/price controversy a dangerously attention misallocating primrose path (for both opponents and proponents). The Fund's pressures for public enterprise reform have strengthened the hand of the internal advocates of reform - how much is unclear.

Export expansion seems to be viewed by the Fund as both necessary and in the short term virtually impossible. The Tanzanian debate has shifted radically from no active priority to export expansion (1961-1972) to a verbal priority not matched by action (1973-1979) to central priority (1980) backed by an articulated programme (1981). The route to the NESP (National Economic Survival Programme) backed by articulated, aggregated export targets with ways and means hopefully relevant to achieving them does result from external reality forcing greater attention to the internal proponents of export expansion as vital to political economic room for manoeuvre and sustained growth who were as of 1969-70 an isolated minority, but by 1980 were dominant. The IMF has made surprisingly few proposals (beyond devaluation which it admits seems likely to have little impact) but the Exchange Rate Study by the Bank of Tanzania (required under the 1980 Letter of Intent) did lay the foundations for the proposals toward, dialogue on and adoption of the NESP. In that indirect sense, IMF intervention was critical but toward producing an alternative to the IMF's own adjustment model, Tanzania variant.

Arrears reduction is not an area of IMF-Tanzania or intra-Tanzania
disagreement. The faster the better consistent with partial and sustainable restoration of real import levels is the common target and differences in ideas as to timing reflect optimism or pessimism (of authors at time of writing) not real ideological or analytical divergences.

The related issue of **supplier credit** has received surprisingly little Fund attention. Its use over 1979-81 to the level of perhaps SDR 200 million largely for low foreign exchange generation, long payoff (thus wholly unsuitable) projects to sustain fixed investment became the topic of an intense (if limited circle) debate in Tanzania. 1981 saw new guidelines drastically limiting its use to major export development, interim spares and replacement capital goods and final tranche of otherwise financed bottleneck breaking projects. However, here - where IMF advice might have achieved an earlier correction⁴⁰ - there was little Fund interest.

On uses of **foreign resources** - ie, reallocation from creating new, unused capacity to rehabilitation and maintenance of existing capacity, bottleneck breaking and restoration of capacity utilisation - the IMF and Tanzania appear to have had parallel internal debates. The preservation of gross fixed investment rates - come what may - has had strong proponents in Tanzania⁴³ and the Fund. But in the present crisis - if it is expected to be more than transient - maintaining and utilising existing capacity plus selective new investment aimed at debottlenecking, generating significant net exports or reducing present import needs seems an improved allocation of resources. That view came to prevail in Tanzanian (spearheaded by the Treasury) over 1979-81 and is embodied in NESP.⁴⁴ One major obstacle (not the only one - domestic project defenders abound too) is that many resource transfers are not fungible to import support, maintenance and rehabilitation and selected foreign balance oriented projects. Over 1979-81 the Fund (and Bank) have come to endorse such a reallocation of resource transfer use and authorisation in respect to Tanzania - possibly in part as a result of their dialogue with Tanzanians (who were in general drawn from the foreign resource reallocation proponents). They did not take the lead, however, as the shift began with Treasury balance of payments support fundraising in 1979/80.

**Credit ceilings** are not a matter of disagreement in principle nor primarily of target levels. There are disagreements on how rigid
targets should be if events are significantly more adverse (reducing government revenue and production and thereby increasing government borrowing) or more favourable (allowing economic expansion but requiring more productive sector working capital before the production/tax results work through to reduce government borrowing) than projected.

Given credit allocation and import constraints (particularly the latter in 1980/81), productive sector dcf has grown slowly (especially excluding a handful of disastrously run agricultural enterprises the need for for reforming which is common ground and, at least as to bank borrowing, has been begun) - well below implicit IMF or Tanzanian targets. But with relaxation of the import constraint, it would need to rise to finance inventories to allow greater production to reduce inflationary pressure directly and by tax revenue generation - a mechanism the IMF missions accept in principle but not, it would seem, in trigger clause forging.

In respect to the government deficit the first divergence is in definition. Tanzania (unlike the Fund) sees a sharp difference between the recurrent budget deficit and the public sector investment borrowing requirement which - so long as financed from long term sources or within an overall ceiling on dcf consistent with economic balance - it sees as no more a deficit than - say - IBM's external borrowing requirement. In respect to the recurrent budget Tanzania (and to a degree the Fund) sees the only route to regain balance (1961/62 - 1977/78 say no recurrent deficits) as restoring manufactured goods production and therefore sales and company tax with secondary gains by phasing down defence and defence related costs now that the Uganda support operation is concluded (real defence/defence related spending has been cut in 1980/81 and 1981/82). There is equally no divergence that maintenance and repair expenditure need to be raised. Where there is a divergence (both Fund/Tanzania and within Tanzania) is on what savings, if any, on real recurrent expenditure are obtainable. The Treasury - while forceful in imposing tighter micro-control - doubts that these can be significant given real cuts already made, the price uncertainties leading to supplementary estimates globally (usually above Tanzania's 4-6% average in non-defence spending), and the well known difficulties in collecting enough candle ends to have a macro impact. The Bank of Tanzania and Planning (whose capital budgets' average cost overrun per project of over 25% may offer greater scope for real savings) are more optimistic as to the potential.
The Fund apparently is advocating programme cuts, but barring reduction of services supporting directly productive sectors, the only candidates large enough to have a macroimpact would appear to be education, health and water. While Tanzania has accepted curtailed growth (and some real per capita cuts) in these sectors major cuts are as inconsistent with Government, Party and public priorities as to be virtually inconceivable.\(^46\)

Devaluation has become a central focus of disagreement - probably out of any relation to its possible uses in any stabilisation and reconstruction programme. The Fund accepts that its short-term impact on the external balance (in foreign currency terms) would be near nil, its impact on inflation substantial (albeit less than Tanzanian analysis suggests and - apparently - as self-limiting which is contrary to Tanzanian evaluation of probabilities) and its effect on income distribution substantial, inegalitarian and uncertain. It contends it would allow substantial relative price adjustments consistent with enhanced government revenue/expenditure balance (which Tanzanian calculations suggest is highly doubtful) and improved agricultural enterprise surplus (which Tanzania sees as simplistic - unnecessary in several cases, eg. coffee, cashew and hopelessly insufficient in others, eg. tea, tobacco, cotton). However, it is difficult to escape feeling the basic thrust is moral - "devaluation is good for your soul".

Tanzanian positions are split. A minority view favours a back end loaded (ie. lagging supply promoting measures to limit inflationary impact), phased (to make each step marginal limiting adverse unexpected consequences on prices or income distribution and to restore the 1967-75 position when small devaluations were seen as one among many policy instruments) and limited (reversal of 1980-81 \textit{de facto} revaluation followed by reevaluation of position). The dominant position views large devaluations as inequitable, leading to uncontrollable inflationary spirals and - for both reasons - reducing or destroying the efficiency of economic planning and management. It too tends, in the end, to make the issue a moral one of good and evil.\(^47\)

The impact of Fund pressure for massive devaluation on Tanzanian debate is clear. It has cut the ground from under the feet of those proposing lagged, phased, limited devaluation and prevented rational consideration of devaluation as one policy instrument among many.
On wages and salaries the Fund clearly believes a greater reduction to be desirable than most Tanzanian opinion (spearheaded by State House and — surprisingly — The Treasury) consider economically efficient, politically wise or morally acceptable. Tanzania has compressed real minimum wages about 25-30% since 1973 and real salaries by over 50% and believes serious personal hardship and productive inefficiency in the former case and further aggravation of morale (and consequentially production) as well as corruption (and consequentially resource misallocation) problems would flow from further sharp reductions (eg a wage freeze accompanying a large devaluation and its consequential inflation). Neither side appears to have convinced the other — 1980 and 1981 minimum wage and grower price changes were designed to protect real purchasing power and 1981 salary increases (the first since 1974 and the second since before Independence) were a partial offsetting of 1980/81 inflation impact on real salaries. 

Interest rate dialogue appears to have been theoretical/ideological on the Fund side (moving to a 5% real interest rate at once stance) and structural/pragmatic on the Tanzanian. Given credit budgeting, it is doubtful allocation by use would change much. Given the actual holders of deposits in Tanzania and their past non-responsiveness to interest rate changes (admittedly relatively small ones) there is no real reason to suppose much higher rates would increase savings. But the Tanzanian side perceives large increases as having a major inflationary impact as they would fall on domestic trade (raising consumer prices) and export marketing (creating deficits for them unless — as neither the IMF nor Tanzania proposes — grower prices were reduced). Much Tanzanian opinion sees the solution in reducing inflation so that the 9-12% nominal short term rates became positive in real terms (or until a limited adjustment could make them so) and perhaps raising long term (fixed investment financing) rates to say 12-15%. A harder line sees any increase as both inflationary and negative in income distribution implications (a point which is somewhat obscure given actual deposit holders, pension and insurance beneficiaries, interest payers and financial institution ownership by the state).
That there is a need to adjust whatever the balance of external and internal causes of the crisis if (as in now agreed) there has been a structural worsening of the external balance position which external events (eg a beverage price loan) cannot be expected to reverse speedily and sustainably is agreed. On the Tanzanian side this is a change in the sense that over 1974-76 the permanence of the shift was not fully recognised and in 1977-78 the temporary relaxation of external constraints caused by the beverage boom was not seen as transient so that its potential for winning structural improvements by concentrating on new export potential was frittered away (partly through IMF pushed import liberalisation). But the IMF appears to view the route as primarily bridging finance to ease demand contraction and Tanzania as primarily bridging finance to allow supply expansion with priority attention to export supply via rehabilitation and new exports (eg pulp and paper, amonia-urea, processed forms of existing primary exports such as shoes, twine, speciality textile prints, manufactures more generally).

Nor is there real divergence on the need for austerity - Tanzania's 1979-81 programme (arguably precisely because of the absence of IMF support) has been harsh in the extreme with real government spending - excluding debt service and funding past parastatal deficits - real wages and salaries, real imports and real availability of manufactured goods (except agricultural inputs) all sharply compressed. The differences are on who should bear the costs of adjustment and receive the gains of recovery (crudely put private capitalists or workers, peasants and enterprises 'owned' by them through the state) and whether a sustained recovery to a growth rate consistent with development is a day dream (apparent IMF view - which on global projections may be analytically valid) or essential to maintain support for and implementation of any programme (Tanzanian position whose psychological and political economic force is substantial).

The basic differences between Tanzanian and IMF perceptions are five fold:

a. whether the present imbalances came largely from artificial monetary expansion of demand (implicit IMF position) or a fall in real supply triggered by external shocks;

b. therefore, what the cumulative and sustainable as well as
the short term result of more import capacity (by IMF facilities) would be (Tanzania seeing much more scope for internal and to a degree export rebalancing triggered by such an injection); c. and whether the balance of emphasis should be as domestic demand compression (IMF) or domestic supply enhancement with a bias toward exportables (Tanzania); d. combined with a parallel difference in perspective as to the general and contextual merits of 'free' versus 'managed' markets; e. and a sharp difference in balance of emphasis on macro, standard model elements (IMF stress) versus micro, articulated, structural context based approaches (Tanzanian approach).

Technical debate on trigger targets has turned on three points:

a. what are appropriate quarterly ceilings given the sharp - but not very stable - quarterly variations in foreign exchange and government account balance and commercial credit requirements over the fiscal year?

b. are official (and publicly known) government, foreign exchange, and credit budget Estimates appropriate 'trigger' levels and if not what margin should be allowed?

c. given external uncertainties and data weaknesses, do precise figure 'triggers' (as opposed to ranges) make sense and should certain alterations be allowed quasi automatically if external events are very different from agreed Fund/Tanzania projections?

These are not per se issues of principle but in practice they are critical to the sustainability of any programme. The remarkably high mortality rate of 1979-81 multi year facility programmes suggests present Fund procedures are objectively unsatisfactory under present conditions of stress and uncertainty.
Tanzanian and IMF Adjustment Strategies: Notes Toward Evaluation

Tanzania's structural adjustment strategy as prepared in 1981 turns on six priorities:

(a) raising domestic food production and - at least equally important - improving storage and rehabilitating transport to avoid further food availability and import requirement surge problems;

(b) developing new medium and long term export sectors based on present unprocessed exports (e.g. shoes), newly exploited renewable raw materials (e.g. pulp and paper) and newly discovered mineral/hydro carbon resources (e.g. amonia-urea);

(c) completing and initiating projects to break bottlenecks preventing use of existing capacity (e.g. transmission lines for electricity to secondary industrial centres, local phosphate and barley consumption to cut the import content of fertilizer and beer production);

(d) completing/rehabilitating productive enterprise and infrastructure units with significant export potential/impact (e.g. Morogoro shoe plant, khanga and kitenge textile production, main rail lines and lorry fleet);

(e) raising existing primary product and manufactured goods exports through loosening production (e.g. input), procurement (as storage transport), processing (e.g. spares) and shipping (e.g. transport) constraints;

(f) restoring domestic manufactured goods output by making additional imported inputs/spares available and plant rehabilitation (e.g. textiles, sugar) to make incentive goods more available, reduce inflationary pressure and "parallel market allocation" of surpluses to untaxable recipients unlikely to use them for productive investment and - through sales and company tax boosts - restore the recurrent budget to balance.
These priorities – of which the fifth was seen as the most urgent in the short run (and the one most workable until additional foreign exchange was either raised from abroad or from its own success to implement the others) – imply a shift away from generalised fixed investment promotion. (It is no accident that in real terms 1981/82 Capital Budget estimates were 20-25% below 1980/81.) The shift required is not, however, to consumption but to maintenance, rehabilitation, working capital (inputs to allow higher capacity utilisation) and selective fixed investment.

Elaboration of means to achieve these "operational goals" was perceived as necessarily starting at the micro or sectoral level with macro requirements aggregated upward, e.g. the discovery that for many manufacturing firms experts at world prices would be profitable (i.e. above incremental cost) and were prevented by imported input constraints led to a column in the foreign exchange budget for import allocations tied to export targets and performance. Simple higher allocations to potential exporters was not seen as viable because while export sales from additional output would be profitable additional domestic sales would be more so.52

In a majority of cases quite specific constraints and opportunities were identifiable.53 These varied from case to case but imported raw material and spares availability (and/or failure to develop local alternatives54), fuel and power network gaps, transport availability were the commonest. Cost reduction also appeared to require case by case approaches – raising output to spread overheads was in the bulk of cases the most logical approach and in many almost "all" that was needed. Where serious internal inefficiencies existed, these required enterprise changes (in extreme cases like NMC total institutional restructuring) not particularly related to macro instruments like devaluation or interest
rates. Certain difficult cases - e.g. cotton, tobacco and tea - faced serious technical agronomic (especially cotton), sustainability (cotton and - because of fuel requirements - tobacco), and/or dismal real global price trend (tea and probably tobacco) problems. These problems seem to require specific measures (e.g. reduction of acidity in cotton soils, woodlots or substitution of coal for tobacco), cutbacks in production support overheads (especially for tea) and interim subsidies either during restoration or phasing out. Macro demand management and price level measures are either irrelevant or expensive ways of approaching such problems.

The NESP has improved efficiency of resource allocations to these priorities. It has had some results e.g. improved production, procurement, processing and transport of exports which appear to account for much of 1981’s substantial export increase. However, it is clearly operating within too tight real resource (and especially import) constraints and requires an injection of new resources to produce results (including reducing external imbalance, clearing arrears and maintaining debt service) over an acceptable time period.

**Evaluation on Uniform Criteria**

Because there is not and has not for any period long enough to analyse been a Tanzanian programme within the parameters of a Fund high conditionality extention of facilities, the evaluation is necessarily somewhat speculative and centres on the Tanzanian NESP and - where it appears clearly divergent from fund advice - contrasts with IMF proposals.

Micro economic efficiency clearly is central to the NESP’s approach (rather more in a sense than to the overly macro concentration and somewhat blind faith in market efficiency under conditions of extreme scarcity and
uncertainty proposals of the Fund). It has been reflected both in the 1980-81 rationalisation of agricultural prices and in the actual operation of the Prices Commission.

Whether there is an egalitarianism/growth trade-off in the present Tanzanian context is open to question. Arguably more food, incentive goods and basic services (especially pure water, health facilities, education) for low income workers and peasants and, given resource scarcity, continued constraint on middle and upper incomes has in this context a positive link to growth.

The consumption/growth trade off has certainly been pushed heavily to the growth (investment) side by Tanzania. The NESP change is in stressing working capital, maintenance, rehabilitation and debottlenecking (including above all raising exports) and improved capacity utilisation in contrast to general levels of new capacity generating fixed investment.

The employment/inflation trade-off is also complex. Given underutilisation of capacity, the most plausible route to restoring mid 1975/mid 1980 rates of inflation (6 to 10%) would appear to be increased production (through fuller "employment" of existing plant and labour force) not demand compression. In fact the latter seems more likely to generate sustained falls in output and hyperinflation than stability.

The more general problems arise in applying micro criteria. The first is that expanding the production frontier often requires imbalances, structural changes and non-marginal measures which do have micro efficiency costs justified by allowing higher levels of production even with temporarily reduced micro efficiency and subsequent attention to restoring micro efficiency. The NESP's export development priority is a case in point albeit in a broad sense it is
also a move toward micro efficiency given the past de facto bias against them. Similarly total institutional reconstruction (as needed in the National Milling case) has interim micro costs but may be necessary both for macro gains and for creating a context in which significant micro gains are possible and sustainable. Second there is a time frame problem. For example, few production diversification (especially industrial sector creation) patterns have been micro efficient at the start. In retrospect successful ones have clearly been micro and macro efficient over the longer term. Much of the debate on Tanzanian industry does turn on this point. Third for micro efficiency purposes account must be taken of alternative uses, actual scarce resource requirements and market prices rigidity not only of market price profit and loss results. Failure to do so can lead to generalised recommendations to shift from domestic food production to massive increases in coffee, tea and cocoa production on asserted static comparative advantage and (preshift) terms of trade projections - a prescription more likely to accelerate starvation than development if it leads to action by a majority of Sub-Saharan African economies.

High priority to avoiding inflation is a Tanzanian goal - indeed much of the opposition to a front ended loaded, massive devaluation turns precisely on this point. The NESP strategy seeks to reduce excess demand by reactivating capacity to increase supply (and at the same time balance the recurrent budget through revenue increases) and as a necessary facilitating measure to increase exports to loosen operating input stragulation of production.

The desire to achieve the reduction rapidly underlies both the objection to a large devaluation which would raise and lengthen the 1980-81 period of high (30% odd) inflation and build in expectations inconsistent with regaining stability.
and the attempt to shift existing foreign resource transfers to maintenance, rehabilitation and operating input uses.

Tanzanian managers, officials and technocratic decision takers have an additional objection to high inflation. In the context of managed market economic policy instruments, lagged and uncertain data and no capacity to run detailed, generalised material balances checks, inflation has serious macro and micro policy efficiency costs because decision takers (presumably in the private as well as the public sector) do not know where they are.

To seek to avoid major departures from internal balance in the Tanzanian context means attempting to reduce present imbalances rapidly. To do so by compressing demand further in the context of underutilised capacity is self evidently wasteful as a general approach. Systematic debottlenecking and capacity utilisation restoration (à la NESP) would seem more efficient. Balance restoration seems unlikely to be facilitated by major initial cost raising shocks - thus the argument for delayed and phased exchange rate and interest rate adjustments. Whether the NESP targets are sustainable in the absence of "front end loaded" or "bridging" additions to external resource transfers is, however, open to grave doubt as such transfers are critical to rapid reduction of inflation and to sustained export growth as well as to restored manufactured goods production and recurrent budget balance.

External balance as a high priority but medium term objective is again a priority within the Tanzanian adjustment strategy. Whether it is - or can be given the IMF programme and drawing repayment schedule constraints - for the Fund is open to some doubt, ie. three years is not medium term for the forty or fifty odd economies with external imbalances as severe as Tanzania's.
Given the present import strangulation (which in 1980 was feeding on itself by cutting export production/processing/transport) no gains can be seen from further absolute import reduction - au contraire. The focus in the short run needs to be - and is - on restoring exports (25% below peak levels in physical terms in 1980) and carrying out those import substitution possibilities with low import content and guide results (e.g. barley growing?). In the medium term investment in new exports (including processing of existing ones and pushing the manufacturing sector to a ratio of exports to output much nearer to operating import requirements) and of selective import substitution (especially backward integration to intermediate goods and raw materials and lateral to spares and construction inputs) requires sustaining current attention and more articulated and numerous priorities for specific products and plants.

The main NESP-IMF divergence is on the relative weights to be given to specific, contextual, micro measures (often physical and requiring either non market or market intervention based allocation) and to macro, "free play of market forces" oriented measures. Especially in the short term the weight of evidence appears to be on the side of the Exchange Rate Study/NESP approach.

Influence, Impact and Results

IMF influence on Tanzanian action has, to date, been fairly modest. Direct impact has, arguably, been negative and indirect somewhat hard to measure and weigh up.

Positive direct influence since 1974-76 has been limited to underlining (in 1979-81) how serious Tanzania's external balance and domestic surplus flow position was and was likely to remain and, marginally, strengthening the position of advocates of certain subsidy reducing or surplus enhancing measures, whether these were those proposed by the IMF or alternatives to them. In 1974/75, however, IMF resource transfers were essential to allowing Tanzania to hold out until other, very lagged, transfers actually arrived.
Negative direct influence has had two main aspects. First the 1977-78 general import liberalisation which wasted resources (especially since, predictably, it could not be put into reverse rapidly) and bolstered Tanzania's erroneous perception that the 1976-77 external balance recovery was based on something more stable than the 1975 Brazilian frost. Second, the 1979-81 calls for major interest rate boosts and devaluations have made rational discussion of these policy instruments in Tanzania almost impossible and totally blocked the Tanzanian proponents of their use on a smaller scale and over a different time frame as supportive instruments within Tanzanian economic survival strategy.

The indirect positive influence centers on the 1981 Exchange Rate Study. Work done in connection with it did provide the base from which the NESP - the first coherent, comprehensive, medium term response \(^6\) to the 1978-?? crisis - was built. While this was hardly the IMF's intent, it is a fact that without its pressure there would have been no Exchange Rate Study and - at least in 1981 - no NESP.

Indirect negative impact includes very high 1979-81 allocations of analytical, professional and decision taken time to working and negotiating with the IMF for no very evident results when if devoted in 1979 to elaborating an NESP and in 1980-81 to implementing it there would have been at least some payoff. Further IMF disagreement has hampered Tanzania attempts to fund alternative approaches (over 1974-76 IMF "approval" may have had a positive effect).

Impact flows from influence. The IMF facilities of 1974-75 were crucial to allowing the success (for 1974-77 not invalidated by an overestimation of how stable it was and a resultant failure to capitalize on it in 1977-78) of the 1974-76 adjustment strategy. Equally denial of substantial resources over 1979-81 has made attempts to devise and implement any stabilisation and structural adjustment strategy more costly and less successful.

The 1980 agreement breakdown had a particularly high cost. The year's foreign exchange and revenue budgets were drawn up assuming both the IMF drawings and World Bank structural adjustment credit.
As a result, second half 1980 foreign exchange allocations were made at levels which - when neither flow materialised - both added to arrears and forced draconic cutbacks in first half 1981 allocations below what would have been possible had the whole year's budget been made on the basis of funds available excluding those two items.

These measures of impact do not relate to the particular IMF targets in actual, suspended and debated programmes with Tanzania. The trigger clause figures are tests of means not of ends (eg. external balance, internal balance, capacity utilisation, growth, income distribution). Nor would it be valid to treat the costs of adjustment as the impact of the IMF - for two reasons. In 1974-76, the causes of adjustment costs were primarily drought and fuel price increases and secondarily increases in other import prices while the IMF facilities by providing bridging finance allowed much less draconic impact, production and public service compression in 1974-75 and (therefore) a much prompter recovery in 1975-76 than would have been possible without them.

In 1979-81 the primary causes are again external and the secondary largely*domestic inefficiencies caused by attempting to manage within radically reduced real resource parameters. These have been exacerbated not by IMF imposed measures or IMF funding but by inability to negotiate IMF facilities on terms Tanzania considers consistent either with economic stabilisation or adjustment leading to renewed development. As the present Finance Minister has observed, it is bitterly ironic that failure to agree to IMF proposals for demand compression because of commitment to supply expansion is forcing Tanzania to undertake even more draconic initial demand compression in order to free at least some real resources for supply (especially export supply) bolstering - an exercise which is both high cost and high risk.

Whether the "post IMF" situation is better or worse than it would have been in the absence of IMF programme/transfers is answerable only for 1974-76. For that period it is clearly better. Equally for that period no better strategy was evident to Tanzania (the internal opponents of the actual strategy in fact advocated a classic IMF demand compression strategy as a response to drought) then nor
is it now to the author looking back. The failure to move more promptly on reducing import intensity in manufacturing and on articulating means to raising exports were deviations from the strategy, not components in it, and were certainly not the result of IMF influence. Without the IMF facility that strategy would not have been viable (ie P better than C 2 in terms of Professor Williamson's comparison model\textsuperscript{67}).

Over 1979-81 P does not exist in the sense that there have been no significant IMF transfers, therefore one is in one sense still at "A" - the pre IMF state of affairs - or, more realistically, at C2 given the radical initial demand compression and policy instrument reshaping of 1977-80 and the new strategic formulation in NESP of 1981.

The question then is whether C2\textsuperscript{*} (ie. with IMF facilities) would be better than the present and better than P (the results of the programme proposed by the IMF). C2\textsuperscript{*} would include:

a) the NESP strategy elements outlined above;
b) continued price management to ensure that reductions in excess demand pressure did lead to reductions in effective prices;
c) rehabilitation and consolidation of basic services and their gradual expansion;
d) a more flexible approach to bank working capital lending linked to expansion of production and therefore need for inventories;
e) "rear end loaded", phased and probably relatively limited exchange and interest rate adjustments following supply boosting to avert generating new inflationary pressures or massive shock effects but over time increasing freedom to manoeuvre on relative prices and reducing the pressures on the foreign exchange and credit budgets;
f) maintenance - and subsequent restoration - of real wages and real peasant incomes and - once recovery has become rooted - some restoration of real salary levels.

The author's belief that this strategic package would have more positive external and internal balance results (as well as production and income distribution impact) in Tanzania than the IMF proposals is presumably evident and is - or is not - convincing on the basis of the whole previous line of argument which obviates both the need for and value of any closing peroration.\textsuperscript{68}
However, it may be worth pointing out that the external and material (if not necessarily the political economic goal and policy) contexts of Tanzania are similar to those of many other low income economies, especially, but not solely, in Sub-Saharan Africa. If the criticisms of IMF proposals and approaches in respect of Tanzania are valid in that case they probably (as the author has argued elsewhere⁶⁹) are more generally relevant.
Tanzania acted on the pending proposals to reverse its *de facto* revaluation and to alter its currency basket on March 8th, 1982. The 10% devaluation rolled back at least two thirds of the 1980-82 revaluation resulting from a limited basket peg biased to the dollar while the basket repacking reduced the dollar's weight. These steps - probably delayed from June or September 1981 by Tanzanian reaction to IMF pressure for a massive devaluation - appear to represent a return to the 1967-1975 policy of modest exchange rate changes used to provide one input into a package of basically domestic balance adjustment measures.
TABLE 1
Balance of Payments: Trade Balance
in Goods and Services: 1965 - 1980

<table>
<thead>
<tr>
<th>Year</th>
<th>2 Merchandise Trade</th>
<th>3</th>
<th>4 Balance on Services</th>
<th>5 Col. 4 as % of Current GDP</th>
<th>6 (Col. 4 + Col. 5) as % of Current GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports (T. Sh. m)</td>
<td>Imports (T. Sh. m)</td>
<td>Balance (T. Sh. m)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>1,475.9</td>
<td>1,410.0</td>
<td>65.9</td>
<td>-</td>
<td>1.07</td>
</tr>
<tr>
<td>1966</td>
<td>1,889.9</td>
<td>1,694.9</td>
<td>195.0</td>
<td>-72.9</td>
<td>2.77</td>
</tr>
<tr>
<td>1967</td>
<td>1,796.9</td>
<td>1,637.6</td>
<td>159.0</td>
<td>-2.15</td>
<td>2.15</td>
</tr>
<tr>
<td>1968</td>
<td>1,719.0</td>
<td>1,833.7</td>
<td>-114.7</td>
<td>-</td>
<td>-1.45</td>
</tr>
<tr>
<td>1969</td>
<td>1,756.5</td>
<td>1,710.1</td>
<td>46.4</td>
<td>177.3</td>
<td>.55</td>
</tr>
<tr>
<td>1970</td>
<td>1,797.2</td>
<td>2,274.2</td>
<td>-477.0</td>
<td>225.9</td>
<td>-5.21</td>
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<td>1971</td>
<td>1,913.1</td>
<td>2,725.6</td>
<td>-812.5</td>
<td>208.8</td>
<td>-8.11</td>
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<td>1972</td>
<td>2,312.7</td>
<td>2,882.9</td>
<td>-570.2</td>
<td>256.0</td>
<td>-9.99</td>
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<td>1973</td>
<td>2,581.1</td>
<td>3,478.9</td>
<td>-897.7</td>
<td>190.1</td>
<td>-6.85</td>
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<td>1974</td>
<td>2,878.1</td>
<td>5,377.0</td>
<td>-2,498.9</td>
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<td>-15.6</td>
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<td>5,709.4</td>
<td>-2,945.4</td>
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<td>4,108.0</td>
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<td>-1,241.5</td>
<td>466.4</td>
<td>-5.3</td>
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<tr>
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<td>4,464.2</td>
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<td>210.1</td>
<td>-15.3</td>
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<td>9,073.2</td>
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<td>306.0</td>
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<td>1980*</td>
<td>4,702.2</td>
<td>10,261.9</td>
<td>-5,559.7</td>
<td>156.1</td>
<td>-15.6</td>
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</tbody>
</table>


* Revised estimates
### TABLE 2

**Public Finance/Gross Domestic Product Ratios 1961-1980**

(stated as % of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Recurrent Revenue</th>
<th>Recurrent Expenditure</th>
<th>Capital Expenditure</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960/61</td>
<td>13.03</td>
<td>13.6</td>
<td>2.6</td>
<td>16.2</td>
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<tr>
<td>1963/64</td>
<td>14.2</td>
<td>13.7</td>
<td>2.9</td>
<td>16.6</td>
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<td>1966/67</td>
<td>15.5</td>
<td>15.5</td>
<td>4.5</td>
<td>20.0</td>
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<tr>
<td>1969/70</td>
<td>20.1</td>
<td>19.5</td>
<td>7.8</td>
<td>27.3</td>
</tr>
<tr>
<td>1972/73</td>
<td>22.8</td>
<td>21.1</td>
<td>7.0</td>
<td>28.1</td>
</tr>
<tr>
<td>1975/76</td>
<td>20.9</td>
<td>19.8</td>
<td>12.0</td>
<td>31.8</td>
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<tr>
<td>1977/78</td>
<td>21.7</td>
<td>19.8</td>
<td>11.8</td>
<td>31.6</td>
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<tr>
<td>1978/79</td>
<td>21.6</td>
<td>26.0</td>
<td>15.1</td>
<td>41.1</td>
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<tr>
<td>1979/80</td>
<td>22.6</td>
<td>27.5</td>
<td>15.8</td>
<td>43.3</td>
</tr>
</tbody>
</table>

#### Notes

1. Includes Debt Service in full. Technically debt redemption should not be included.
2. "On budget" items only.

#### Sources

Adapted from "Twenty Year Review" Annex Tables on Gross Domestic Product and Trends in Government Finances; Financial Statement and Revenue Estimates (various years); World Bank, The Economic Development of Tanganika.
TABLE 3

Makeup of Recurrent Revenue 1961-80

(In Percentages)

<table>
<thead>
<tr>
<th></th>
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<tbody>
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<td>Major Direct Taxes</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Income</td>
<td>21</td>
<td>22.5</td>
<td>26.5</td>
<td>25.5</td>
<td>24.5</td>
<td>39.5</td>
<td>35</td>
<td>5</td>
<td>30</td>
</tr>
<tr>
<td>Export</td>
<td>(0)</td>
<td>(20)</td>
<td>(25)</td>
<td>(25)</td>
<td>(25)</td>
<td>(35)</td>
<td>(27.5)</td>
<td>(31)</td>
<td>(23)</td>
</tr>
<tr>
<td>Major Indirect Taxes</td>
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<td>(40)</td>
<td>(41)</td>
<td>(41)</td>
<td>(33.5)</td>
<td>(24.5)</td>
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Notes: 1. Includes Sales Tax on Imports. Excise amalgamated into Sales Tax 1977/78 – 1979/78.
2. Import and Export Duties plus Sales Tax on Imports.

Sources: As For Table 2.
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<td>(0.0)</td>
<td>(0.6)</td>
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<td>(0.7)</td>
<td>(0.2)</td>
<td>(0.5)</td>
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<td>Non-Bank Borrowing</td>
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<td>( - )</td>
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<td>(1.8)</td>
<td>(1.8)</td>
<td>(2.5)</td>
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Notes:  
1. Includes grants, loans to government. Some small private agency grants may be misclassified under domestic. Includes counterpart funds from food aid and balance of payments support finance in year paid into Development Revenue account.  
2. Excludes domestic counterpart funds from external aid (see Note 1).  
3. Early year figures appear to include some borrowing eg from Cotton Authority, East African Currency Board. Later years include resources from special funds in year allocated/paid over to Development Revenue.  
Sources: Adopted from "Twenty Year Review" Annex Tables on Public Finance, GDP; Financial Statement and Revenue Estimates (various years)
### TABLE 5

**ELEMENTS OF THE RECURRENT BUDGET AND SOURCES OF GOVERNMENT DEVELOPMENT FINANCE**

1966/67 - 1979/80

<table>
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<tr>
<td><strong>1. Tax Revenue</strong></td>
<td>1017.2</td>
<td>2937.8</td>
<td>3160.6</td>
<td>3302.5</td>
<td>4672.0</td>
<td>5343.0</td>
<td>5854.0</td>
<td>6154.0</td>
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<td><strong>2. Other Revenues</strong></td>
<td>6.8</td>
<td>85.2</td>
<td>781.7</td>
<td>616.0</td>
<td>607.0</td>
<td>748.1</td>
<td>810.0</td>
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<td><strong>3. Total Recurrent Revenue</strong></td>
<td>1024.0</td>
<td>3023.0</td>
<td>3942.3</td>
<td>3918.5</td>
<td>5279.0</td>
<td>6091.1</td>
<td>6684.0</td>
<td>7270.0</td>
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<td><strong>4. Recurrent Expenditure</strong></td>
<td>979.7</td>
<td>2785.0</td>
<td>3961.1</td>
<td>5108.0</td>
<td>5769.0</td>
<td>8907.0</td>
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<td><strong>5. Surplus</strong></td>
<td>44.3</td>
<td>238.0</td>
<td>-18.8</td>
<td>202.9</td>
<td>171.0</td>
<td>322.1</td>
<td>-2223.0</td>
<td>-1824.0</td>
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<td><strong>6. Development Expenditure</strong></td>
<td>294.4</td>
<td>1442.0</td>
<td>2221.2</td>
<td>2253.0</td>
<td>2731.0</td>
<td>3388.0</td>
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<td>a. Surplus on Recurrent Budget</td>
<td>44.3</td>
<td>238.0</td>
<td>-18.8</td>
<td>209.9</td>
<td>171.0</td>
<td>322.1</td>
<td>-2223.0</td>
<td>-1824.0</td>
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<td>b. Non-Bank borrowing</td>
<td>59.8</td>
<td>196.0</td>
<td>362.0</td>
<td>336.0</td>
<td>276.0</td>
<td>488.0</td>
<td>569.0</td>
<td>443.0</td>
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<td>c. Borrowing from Banks</td>
<td>18.9</td>
<td>521.0</td>
<td>834.0</td>
<td>570.0</td>
<td>-170.5</td>
<td>464.0</td>
<td>2912.9</td>
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<td>d. Other Sources</td>
<td>44.4</td>
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<td>1052.3</td>
<td>744.9</td>
<td>1085.1</td>
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<td>e. External Loans and Grants</td>
<td>127.0</td>
<td>481.0</td>
<td>1038.0</td>
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<td>1402.0</td>
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* Provisional

**Source:** Economic Survey (Various issues) and Budget Documents
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<th>Year</th>
<th>Bank of Tanzania</th>
<th>Commercial Banks</th>
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<td>90.0</td>
<td>170.5</td>
<td>806.9</td>
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<td>1968</td>
<td>84.9</td>
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<td>1969</td>
<td>75.6</td>
<td>160.3</td>
<td>243.9</td>
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<td>1970</td>
<td>291.3</td>
<td>168.7</td>
<td>459.0</td>
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<td>1973</td>
<td>484.9</td>
<td>558.6</td>
<td>1043.5</td>
<td>1566.9</td>
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<td>1974</td>
<td>863.3</td>
<td>671.2</td>
<td>1534.5</td>
<td>2456.4</td>
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<td>1976</td>
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<td>1977</td>
<td>1445.6</td>
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<td>1979</td>
<td>4515.6</td>
<td>2589.3</td>
<td>7104.9</td>
<td>6418.2</td>
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</table>

* The figures are given in quarterly averages

Source: Bank of Tanzania. *Economic and Operations Report* (various years)
Notes

1. Dr. Green is a Professorial Fellow of the Institute of Development Studies at the University of Sussex. He has been associated with two of the studies on the adjustment process carried out by UNCTAD for the Group of 24 under the leadership of Sidney Dell and with the 1980 Arusha Conference on the International Monetary System. Over 1966-1974 he was Economic Advisor to the Tanzania Treasury and from 1980 to date has been half time advisor to the Tanzanian Treasury, Central Bank and Ministry of Planning. The views expressed and suggestions made are his personal responsibility and are not necessarily those of any Tanzanian institution. While he has been involved in Tanzanian negotiations with the IMF and the 1981 Bank of Tanzania Exchange Rate Study, this paper does not use information considered confidential by Tanzania - equally in no case does it present data or interpretation inconsistent with such information.


3. Over 1972-75 up to two thirds of aid was Chinese (of which over a quarter was de facto balance of payments support) whereas after 1976 this flow was minimal. DAC members and multilateral and resource transfers per capita have risen significantly since 1975.

4. Of this the post liberation costs total over $250 million, those of the war period over $400 million plus $100 million adjustment/demobilisation costs. Of this the order of $150 million represents loans in principle recoverable from Uganda but in practice beyond Uganda's present and foreseeable capacity to repay.

5. Abnormal levels of stocks held by crop authorities were of the order of 20% of exports while those not purchased (especially but not solely cotton) were at least of the order of 5 to 10%.
6. Pre-1967 strategy was less coherent because it included growing commitment to the goals outlined below but without even potentially appropriate instruments. In practice it was a mise en valeur, private production/state infrastructure led approach marked by growing inequality and a desired dependence on private/public capital inflow which was not attainable in the 1961-67 context. See Mwansasu and Pratt and Bank of Tanzania "20 Year Review", op cit, for more detailed discussion.

7. As of 1961 the range was essentially staple foodstuffs (with an import requirement even here for wheat, sugar, rice and in half the years maize) and unprocessed (or minimally processed) agricultural experts plus uncut diamonds.

8. The approach is broadly similar to that of Ragnar Nurkse's "Istanbul Lecture".

9. For a concise introduction to EAC, SADCC see Africa Contemporary Record, Africana, New York, chapters on EAC (1975-76, 76-77, 77-78) and Southern African Economic Cooperation (1978-79, 79-80, 80-81, 81-82) by the author.

10. Credit and foreign exchange budgeting are intermediate cases as they are clearly not material balances planning - especially as operated - but are quite selective market management.

11. Target rates have usually been about 6.5% and achieved 4 to 6%. The latter range is considered dangerously low in terms of strategy viability.

12. The macro case turns on peasant real incomes, staple food self sufficiency, foreign exchange earnings implying substantial real income and output structure (and less clearly overall output level shifts).

13. In the absence of earned foreign exchange (or reserves) in excess of operating requirements ex post domestic savings cannot readily exceed one third of gross investment because the direct and indirect import content of investment is of the order of two thirds.

14. Domestic credit formation targets have been set at or below real output growth projections plus exogenous inflation and include government bank borrowing.

15. This figure is basically urban - the landless rural population is very small. Seasonal unemployment associated with rainfed agriculture is high albeit the increased command investment (buildings, public works, small scale irrigation afforestation) made possible by villageisation has reduced it marginally.

16. This is on a conversion of household produced rural housing and food to urban prices to get a "physical consumption capacity" comparison.
17. 1981 - because of a record coffee crop and substantially increased "parallel market" food sales may be near 1977 per capita levels but this seems unrealistic given shortages of urban manufactured goods and the limited (albeit real) post 1975 development of small rural handicraft and manufactured goods supply.

18. In two cases major action was needed to avert decline of previously sisal industry centred towns.

19. The Prices Commission is a price management body with guidelines relating inter alia to firm efficiency and surplus not a standard consumer price control body.

20. The World Bank (cited in Leibenthal op cit) draws gloomier conclusions but these are open to question. The Bank of Tanzania "20 Year Review" and a recent Ph.D. thesis by J.Wagao present the case for the position stated in much greater detail.

21. For more detail see chapters by M.A.Bienefeld and R.H.Green in M.Fransman, Industry and Accumulation in Africa, Heineman, 1982. The low direct import to ex factory price ratio in consumer manufacture is a mixed blessing in the context of import cutbacks - goods availability at retail prices falls $8 to 9, tax revenue $2 to 2.50 and domestic value added over $3.5 (including domestic suppliers to manufactures for each dollar of forced import savings on manufacturing sector spares and inputs.

22. Over the 1950s and 1960s there was usually a two year cycle. 1973 and 1974 were both bad, 1975 average, 1976-78 good, 1979-81 bad. Statistics appear as collected to damp both up and down swings around the 4 to 5% agricultural output growth trend.

23. This is not to argue inaction in the 1980s - the potential is significant and whenever begun serious efforts will not yield major payoffs for up to a decade.

24. Village operations relate primarily to investment, marketing and commerce with some transport and small scale manufacturing. 95-97% of peasant agricultural production is individual, not communal, a pattern unlikely to change rapidly, nor one in which radical, rapid change is a public goal.
25. Because 1967 was the first true census and 1977 had improved coverage, the raw population growth figures of 2.75 per cent to 1967 and 3.3 per cent since are almost certainly overestimates.

26. This suggests a serious over-allocation of resources to investment in new capacity from 1979 onward - a misallocation supported by rigidities in use of concessional finance and major, unwise use of supplier credit over 1979 - first half 1981 to sustain investment without adequate regard to forward foreign exchange availability/requirement implications.

27. The earlier programmes are discussed in Green et alia, op cit and those through 1980 in the balance of payments and international economic relations chapters of Bank of Tanzania "20 Year Review", op cit. An earlier discussion of the 1979 and 1980 negotiations (before the collapse of the 1980 programme was known) by the present author appears in Bulletin of Tanzanian Affairs, No. 11, December 1980.


29. In fact the beverage boom also radically increased government revenue and reduced net bank lending to government (which declined for several quarters) so that the ceiling might have been met because both sides' projections of foreign exchange earnings and tax revenues were too pessimistic.

30. 1974-76 had been marked by severe import compression (perhaps 30 to 40 per cent in relation to GDP in real terms). Some import relaxation was needed - and some was begun in 1976 in respect of industrial and agricultural inputs and spares. The issues are that the 1977 advice was for import levels which could not possibly be sustained unless the beverage price boom was viewed as the new norm and across-the-board liberalisation frittered away not insubstantial sums on non-priority consumer goods imports.

31. The negotiations were three months before the actual end of the war and at a time when no projection of that period could be made.

32. The war costs and dislocations and import bottleneck constraints on output combined with the direct and indirect impact of petroleum price increases would appear to have been much more significant.

33. The issue was not fiscal austerity - 1977/78 to 1979/80 had been the laxest budgets in Tanzanian history and the incoming Minister of Finance, predictably (on his record in two previous terms at the Treasury) tightened expenditure control and the analysis/policy work on the 1980/81 and 1981/82 budgets.
34. Others were not critical eg the short term commercial borrowing ceiling was well above any level the Treasury was prepared to contemplate, neither the Treasury nor the Bank of Tanzania had the slightest inclination toward multiple exchange rates.

35. The following section is based on the 1980/81 Budget Speech and analysis of preliminary 1980/81 fiscal, credit and balance of payments outturn. It may or may not correspond exactly to official estimates of impact and causation.

36. The bulk of this might have been foregone for 1981/82 in any event because the coffee price could not otherwise have been held in the face of world price falls and the internal cash flow of the Sisal Corporation strengthened to facilitate rehabilitation. However, at least the coffee tax would not have dropped in mid year as the gain to growers of the 1980/81 abolition in February was on coffee already harvested - hardly the ideal situation for it to be an output-boosting incentive.

37. These can be deduced from Presidential and Ministerial speeches from July onward and are not, in fact, discussed with no particular secrecy in Dar es Salaam.

38. Ironically this 'development' over 1975-79 resulted from in effect entrusting them to an autonomous, technocratic agency and was reversed when ministers (on the urging of their technical advisers) reasserted control.

39. Another Treasury payment was begun to fund past losses related to spoilage, excessive cross transport, dumped exports, interest on drawings not backed by assets, horrendously low poultry feed prices and the previous 'accidental' grain subsidies (perhaps a third of the SDR 250 million total losses). These measures were initiated by Treasury and Planning in late 1979 during the period between breakdown of 1979 and opening of 1980 IMF negotiations and did not relate to IMF proposals or comments.

40. NESP represents a partial consensus that, given import allocations tied to subsequent exports, certain industries can generate substantial exports at prices above their incremental costs. The emphasis on the Morogoro shoe, Mufindi pulp and paper and Kilwa amonia-urea plants also reflect a reorientation of sectoral priorities to export generation.

41. The IMF appears to view substantial manufactured exports from Tanzania as inconceivable because it is thinking of labour intensive (low wage export) industries rather than natural resource intensive and/or speciality (eg khanga and kitenge prints) products.

42. The unwisdom of sustaining gross fixed investment now at the cost of mortgaging future export earnings was fairly rapidly accepted once an internal analysis was done as a byproduct of the Exchange Rate Study.
43. cf Green et alia, op cit for the 1974-76 strategy and results in this connection.


45. On Tanzanian accounting 1973/74 did show a recurrent deficit but less than debt redemption included (logically incorrectly even if procedurally usefully) in recurrent spending.

46. Because certain Tanzanians would find such cuts desirable - probably eg the airplane hijackers - but would be in a position to enforce them only by a coup and a highly repressive regime, sustained pressure for such cuts (however intended) is perceived by many of the Tanzanian leadership as political interference not economic advice.

47. This pattern began during the abortive 1979 talks, receded in 1980 and became much more intense from the middle of 1981.

48. It might cause some shift from currency to deposits but this has no macro meaning ie it alters asset holdings not savings rates.

49. Like devaluation, interest rate dialogue and deadlock has shown signs of causing some participants to abandon analysis and objective corollatives and escape to a level of good versus evil somewhat tenuously related to economic or political economic reality.

50. Including tax revenues and savings as well as - and generated by - increased physical production. Likewise including rehabilitation, maintenance and selective new investment as well as enhanced imported inputs into domestic production.

51. Substantial textile and farm implement capacity is totally unusable because of lack of power and at least one existing secondary industrial sector suffers from unreliability (and import cost) of its oil fired plant.

52. This is not unique to Tanzania - unit profits on domestic sales normally exceed those on exports. However, given the domestic imbalance, it is especially severe in Tanzania at least until external and internal balance are closer.

53. In the Exchange Rate Study and NESP technical background papers and consultations.

54. Performance on this front has been very uneven with the best very imaginative and successful (eg the brewery) and the worst totally passive.


58. Admittedly in 1974 major price and wage adjustments were made to pass on the world grain and oil price increases at once to achieve a rapid shift to a new price plateau. This did work - very rapid price increases in two quarters were followed by restoration of inflation rates under 10%. But in 1974 past inflation was lower, the starting points (or at least the 1973 past) were of internal and external balance and the attention mobilizeable for a coherent forward projection of consequences (based on statistical data much better than that now available) was much greater than would be the case in 1982. An attempt to repeat 1974 would run a very high risk of collapsing into hyperinflation on an enduring basis.


62. As identified in much greater detail in the Exchange Rate Study, NESP working papers and '20 year Review''.

63. Previous action was certainly substantial but not coordinated and largely centered on import compression.

64. cf Williamson, *op cit*, p.24.

65. *ibid*, *loc cit*.

66. The two can only be evaluated ex post as a package. However, conceptually the transfers might produce better results if linked to a different programme - indeed in one sense that is precisely Tanzania's argument.

67. cf *op cit*, pp 4-7.

68. Such a peroration might also cut against the aim of this paper to contribute to dialogue by expressing criticisms in terms of a goal set presumably not widely divergent from the IMF's and doing so in terms of argument related to actual contextual facts and in language of reasonable civility!