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**Macroeconomic Policy Reforms
and Development Prospects
in Tanzania**

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I. INTRODUCTION

The importance of this Conference on the Development Challenges and Strategies for Tanzania, especially at this time of persistence socio-economic crisis which have been aggravated by internal and external factors in many African countries, cannot be over emphasized. This is because during the 1980's, the focus on short-term macroeconomic management under the auspices of the IMF/World Bank sponsored structural adjustment and stabilisation programmes led to the complete neglect of the formulation of long-term development strategies in general and macro economic planning in particular, in many African countries. This deliberate neglect of systematic and comprehensive development planning implies that there have been no coherent and consistent development strategies for the long-term socio-economic transformation and sustained development of the African economies.

Consequently, if the much desirable long-term goal of rapid economic growth and sustained development with transformation is to be achieved in Tanzania and the other Africa countries in the 1990s and beyond, it is absolutely necessary to return to a situation where both short-term macro-economic management of the type

initiated by the World Bank and the International Monetary Fund in most African countries, and long-term comprehensive macro-economic planning as symbolized by Five Year Development Plans during the early 1960s are properly formulated, implemented, monitored and evaluated.

There is no doubt that a long-term comprehensive development strategy for Tanzania is essential for bringing together all the socio-economic actors as well as the institutions responsible for steering the national economy and for providing the policy-makers with relevant and operational development policy options. To this end, a well coordinated development strategy can serve as an instrument for promoting a national dialogue on long-term socio-economic development policies and societal choices for the future in Tanzania. Such choices can only be made after a thorough and objective analysis of the internal and external factors and policies which have influenced the evolution of the Tanzanian economy in the past and will continue to do so in the future as well as the implications of alternative policy options on the development of the national economy and the society at large.

It is in view of the foregoing considerations that we will in this paper attempt to contribute to the timely and important initiatives taken by the organisers of this Conference to identify and critically examine the alternative ways of achieving agreed national objectives and defining realistic policy choices based on

present socio-economic constraints and future development imperatives in Tanzania. To this end, Section II of the paper attempts a brief review of the socio-economic situations in Tanzania. Section III is devoted to a critical assessment of the on-going macro-economic management and recovery programmes. Finally, the recommendations and concluding remarks are reflected in section IV of the paper.

II. A REVIEW OF THE SOCIO-ECONOMIC SITUATION

With a total land area of 83,739 sq. km. and an estimated population of approximately 4.5 Million people in 1990, Tanzania has a variety of abundant natural resources which offer ample and extensive opportunities for export promotion, development of domestic enterprises and energy exploitation. In particular, minerals such as gold, diamonds, salt, kaolin, gypsum and gemstones are potential sources of foreign earnings for the country. Additionally, some three million tons of coal and 4.5 million tons of iron provide potential opportunities for the development of heavy industries based on domestic available raw material. There also are ample opportunities for the development of hydro-electric power, forestry, fisheries as well as tourism.

Despite the potential for sustainable development in Tanzania, the rate of urbanisation has been very rapid, bringing considerable and constant pressure on such social amenities as housing,

educational, transport and employment. On the other hand, out of a total work force of some 12 million, formal employment is approximately 870,000 people (i.e. 7.3% of the total work force) with the public sector accounting for some 300,000 people annually. As a consequence, the parallel economy or informal sector is increasingly playing an important role in the socio-economic development of the country; accounting for 30% of the labour force.

Apart from the disequilibria arising between the population size (24.5 million), population growth rate (2.8%), the size of the labour force (12 million) and formal employment (870,000 people or 7.3%); agriculture dominates the economy of Tanzania; accounting for some 80% of the export earnings. During the first decade of independence, agricultural production was supported by an efficient extension service, input delivery and marketing system and by favourable international prices and conducive climatic conditions. However, as a result of the deteriorating development policy environment, which was reflected in the over-valued Tanzanian Shilling, excessive official control of marketing, pricing of agricultural products, etc; the performance of the agricultural sector deteriorated rapidly in the late 1970s and the early 1980s.

As concerns the industrial sector, it should be noted that during the period 1961-1973, the sector experienced considerable growth, and its contribution to the Gross Domestic Product (GDP) rose from 4% in 1961 to 10% in 1973. However, between 1973 and

1979, the industrial sector experienced a fall in its growth rate, and in particular, the production of output almost stagnated with its contribution to GDP declining to 9% and the manufacturing value-added decreasingly rapidly at about 5% per annum with a corresponding fall in the share of GDP.

Since 1986, however, there has been an improvement in the performance of the industrial sector; with value added rising by approximately 4% in 1987 and the sector's contribution to GDP was 7.8%. In this regard, it can be observed from Table 1 that the production of some major commodities like rolled steel, cigarettes, corrugated iron sheets, cement, textiles and tyres increased considerably.

Table 1: Production of Selected Industries

Commodity	Unit of Name	1989	1990	% change
Textile	Million Sq. meters	32.2	38.5	+ 0.6
Beer	Million litres	53.7	45.0	- 16.2
Fertilizer	Thousand metric tons	27.0	17.4	- 35.6
Cigarettes	Billion pieces	2.8	3.7	+ 32.1
Auto tyres	Thousand metric pieces	187.1	219.9	+ 17.5
Cement	Thousand metric tons	594.8	663.9	+ 11.6
Rolled steel	" " "	15.3	36.4	+137.9
C. iron sheets	" " "	20.3	21.7	+ 6.9
Car batteries	Million pieces	28.0	21.0	- 25.0
Hoes	Million pieces	1.4	1.3	- 7.1

Source: Bureau of Statistics, National Planning Commission, Dar Es Salaam.

However, it should be pointed out that despite these improvements, the capacity utilisation in the industrial sector has been below 60%-70%, due to shortage of water, power interruptions, outdated and depreciated machinery and equipment. The scarcity of working capital has been largely responsible for the extremely low capacity utilisation in the industrial sector.

Apart from the agricultural and industrial sectors, other sectors like mining, energy, water, transport and communications, forestry, fisheries and tourism have made substantial contributions to the development of the economy of Tanzania. In this regard, it should be noted that the mineral resources include gold, diamond, copper lead, phosphates and gemstones, and the sector's output increased by 18.7% per annum since 1989.

With respect to energy, the total consumption of the country; both commercial and non-commercial; was made up of wood-based energy (93%), electricity (0.6%) and petroleum (6.4%). It should be pointed out that petroleum imports absorb about 50% of the country's foreign exchange earnings; even though there is a considerable potential for the development of alternative energy sources from hydro-electric power, coal, natural gas and solar energy. In the case of water, which has been fairly well organized in many urban areas, its demand has for a long time far exceeded the supply and the distribution system has not been efficiently managed. In fact, in the rural areas, only 43.6% of the people have access to clean water.

Transport and communication sector accounts for some 6% of the GDP annually. However, the immense size of the country and the low population density have made the maintenance and the expansion of transport and communications very difficult and expensive. In the case of forestry fisheries and tourism sectors, there is considerable potential for the development of these sectors. To this extent, emphasis will have to be placed on the conservation, development and sustainable utilisation of forestry and water resources as well as wild life.

Regarding the social sector, it should be noted that, since becoming independent in the early 1960s, Tanzania has made substantial progress towards achieving its social and equity goals through the development of social services. For example, the enrolment rate in primary schools increased from 32% in 1961 to almost 60% in 1975, life expectancy rose by nearly 5% and access to primary health care and safe water improved in the rural areas. Significant reductions were registered in net income disparities through the tax structure and drastic compression in salary levels in the public sector.

Despite the impressive strides which Tanzania had made towards its national development during the first fifteen years of independence (1961-1975), a combination of complex external and internal factors give rise a severe and protracted socio-economic decline which eroded the considerable gains which had been made and

constrained the government from initiating viable and sustainable development policies to reverse the decline. The socio-economic crisis, which started in the second half of 1970s, were caused largely by a series of factors which included successive droughts, the rapid increase in oil prices, the collapse of the East African Community and the War with Uganda.

But, the crisis were also due to some internal factors. These included inadequate incentives and resources for the agricultural sector, a poorly implemented industrialization strategy, excessive administrative control over economic activity and continued expansion of the public sector.

The economic crisis were also manifested by the rapid deterioration of important economic aggregates. For example, the GDP growth rate of 5.5% a year between 1973 and 1978 fell to only 0.4% a year between 1978 and 1982. Inflation accelerated and the fiscal situation deteriorated sharply after 1979 with deficits averaging about 16% of the GDP. By 1982, import volumes were 32% below the level in 1978 and 24% below the level of the early 1970s.

Furthermore, the international aid donors became concerned about the low returns to aid financed investments and realized that maintaining high levels of external support would only allow the government to sustain and implement inefficient macro-economic policies. Consequently, total external assistance (excluding

technical assistance) declined from US\$470 million in 1981 to US\$300 million in 1985.

As a result, the available consumption goods and production inputs were often allocated according to non-market mechanisms. As a consequence, prices deviated from market determination even more. At the same time, there was the emergence of a parallel economy, involving both legal and extra-legal operations and transactions; in addition to the formal one; in order to cope with shortages of goods and the administrative rationing which were taking place.

By the early mid 1980's, it was clear that rapid recovery from the economic decline which had set in from 1979, could come about only through deliberate and substantive changes in the direction of economic management and a viable policy environment.

III. MACRO-ECONOMIC POLICY REFORMS: AN ASSESSMENT

In an attempt to wrestle with the socio-economic crisis, which had drastically eroded the gains achieved in the economy during the first fifteen years of independence, the Tanzanian government with the assistance of the IMF and World Bank launched a number of economic adjustment programmes in the early 1980s. They included the inauguration in 1983/84 of the Own Funds Import Scheme and other measures in the budget to reduce subsidies and institute greater cost sharing. The Own Funds Import Scheme which was

intended to alleviate severe shortages of goods available within the economy, provided a major impetus for resumption of economic activity, particularly in significantly easing the import compression of the early 1980's.

However, the Own Funds Import Scheme and other measures to reduce the budget deficit and enhance cost-sharing fell short of the critical mass policy reforms needed to stimulate a major recovery and stem the economic decline with a view to achieving the objective of rapid socio-economic transformation and sustained development in the long-run. As a result of the recognition of the need for a comprehensive package of policies designed to improve the macro-economic management of the economy while tackling the underlying structural rigidities and weaknesses that were the root causes of the socio-economic crisis; the Tanzanian Government, in collaboration with the IMF and World Bank, initiated the Economic Recovery programme (ERP I) 1986-1989 and the Economic and Social Action Programme (ESAP) or Economic Recovery Programme (ERP II) 1989-1992.

The main objectives of ERP I, which was supported by the IMF with an 18 month stand by arrangement and the World Bank with a Multi-sector Rehabilitation Credit, were to achieve a positive growth rate in per capita income, lower the rate of inflation and restore a sustainable balance of payments position. In particular, ERP I aimed at: (i) remedying the defects of earlier policies by

increasing the output of food and export crops through the provision of appropriate price and non-price incentives for production, improving market structures, and increasing budgetary and foreign exchange resources available to agriculture; (ii) directing investment resources towards the rehabilitation of physical infrastructure in support of directly productive activities and increasing capacity utilisation in industry by allocating scarce foreign exchange to priority sectors and firms; and (iii) restoring internal and external equilibrium and ensuring that production incentives were not eroded through the use of prudent fiscal, monetary and trade policies.

Furthermore, the government was to attach considerable importance to establishing correct price signals by removing overvaluation of the exchange rate, achieving positive real interest rates and improving the real level of agricultural prices. Some institutional changes were to be made with a view to encouraging and facilitating the activities of cooperatives and the private sector. In cooperation with the World Bank and the IMF, specific incentives and institutional measures were to be developed and implemented during the period of ERP I.

Although with the launching of ERP I, the donor assistance (excluding technical assistance) increased significantly from US\$490 million in 1985 to US\$850 million in 1989; (with some US\$400 million of that amount provided in the form of balance of payments

assistance to support the policy reform process and also to ease the balance of payments constraints on economic activity), it should be pointed out that these initial steps were needed to be followed by further policy deepening and institutional changes if rapid socio-economic recovery and sustained development were to be attained in the long-term.

It is our view that durable and sustainable economic recovery in Tanzania would very much depend on a comprehensive, coherent and viable domestic policy and institutional changes which have to be carefully thought out and subsequently complemented by additional inflows of external resources. Furthermore, restoring sustainable growth and increasing export earnings will depend primarily on the performance of the agricultural sector and hence the overall package of incentives for agriculture and the quality of agricultural services.

During the three years of the ERP I, there was an increase in economic activity as well as improvements in the overall economic conditions. Although trends in GDP, inflation rates, real income per capita, imports and exports showed some positive signs in economic recovery they were still fragile and needed to be reinforced and sustained through broader and sharper economic management reform measures. However, in terms of the overall growth in the economy, the GDP grew at the rate of 4% annually; higher than the population growth rates which was estimated at 2.8%

a year. But this was less than the target rate of 4.5%, except for the year 1989.

Apart from the policy reforms, it should be pointed out that Tanzanian economy was affected by four favourable external shocks. The shocks consisted of temporary improvements in the terms of trade due to the coffee booms in 1986, repatriation of capital in response to the Own-Funded Imports Scheme, the decrease by two-thirds in the real prices of petroleum since 1982 and the increase in development aid from US\$300 million per annum between 1981 and 1985 to over US\$800 million a year in the late 1980's. To this extent, the combination of these positive external shocks and changes in macro-economic policy, implemented since 1986, accounted for the change in economic performance during past five years as can be observed in Table 2.

Table 2: Performance of the Economy (Index of Output 1986-1990)

1983 = 100

Indicator	1985	1986	1987	1988	1989	1990
GDP	106.1	109.3	113.5	118.2	123.4	128.9
GDP Per Capita	100.4	100.6	101.6	103.0	104.6	106.4
Exports	106.3	101.3	105.6	104.3	113.9	N.A.
Manufacturing Value Added	98.7	94.7	98.7	104.0	109.6	116.7
Public Administration	102.1	91.0	91.5	94.4	N.A.	N.A.
Capital Goods (Traded)	221.0	200.0	192.9	168.0	N.A.	N.A.
Capital Goods (Non-traded)	109.5	128.4	131.3	137.0	N.A.	N.A.
Services, ETC.	104.6	112.7	116.7	121.5	128.5	133.2
GDP per Capita (excluding Public Administration)	101.3	104.0	105.3	106.9	N.A.	N.A.

Source: World Bank, Tanzania: Economic Report - Towards Sustainable Development in the 1990s. June 11, 1991 (vol. I) p. 10.

The steady improvements in the economic indicators in Table 2 reveal the fact that in the absence of deliberate policy changes, economic decline and subsequent stagnation would have continued unabated. However, as a result of economic reforms, manufacturing output has grown at 5% per annum, investments have increased while the size of the public service has decreased since 1985.

Nevertheless, despite the substantial improvements in the different macro-economic aggregates as revealed in Table 2, an analysis of sector and micro-level performance of economic agents (peasants, and urban workers) indicates that not all agents shared equally in the achievements of the Economic Reform Programme I. As concerns the peasants, although per capita food consumption in rural areas rose substantially, prices received by producers for agricultural output did not in general increase in real terms since the reforms began and farmers' real cash incomes increased only slightly during the period.

In the case of urban workers, it was observed that per capita food consumption by the urban population had increased significantly since 1984 as greater production and liberalized food grain marketing had brought greater supply to the urban areas. However, not all urban dwellers benefited from the achievements of the reforms. For example, young, unskilled, underemployed and public sector employees who earned fixed salaries and had little or no access to non-salary incomes benefited very little.

In general, all urban inhabitants as well as rural dwellers continued to face the problem of inadequate delivery of social services such as primary health care, basic education and training. To this extent, it can be argued that the disparities in the distribution of the gains of the reforms reflect to a large extent the limitations of ERP I. This is because the implementation of

the ERP I took place primarily in areas where the demands on Tanzania's limited institutional and administrative capacities were relieved by the reforms themselves rather than the reforms placing additional demands on the existing institutional and managerial capacity.

In view of the foregoing considerations, the Tanzanian government prepared the Economic and Social Action programme (ESAP) or ERP II (1989-1992), which was intended to complement ERP I, with an additional objective of rehabilitating and improving the provision of social services. Within the framework of ERP II, the increase in economic growth was to be generated from the recovery in both agricultural and industrial production, while an important role was assigned to flexibly set market-based producer and consumer prices, and to adjustments in the exchange rates and interest rates.

An increase in concessional external resources was to provide the import support needed for the recovery of economic activity. In this regard, the IMF Structural Adjustment Facility (1987/90) and Enhanced Structural Adjustment Facility (1991/92) continued to support the efforts of government towards comprehensive economic policy reforms.

IV. RECOMMENDATIONS AND CONCLUSIONS

Despite the comprehensive nature of the ERP I and ERP II, there was no well thought out reform package to cater for the thousands of the public servants and employees of public enterprises who were to lose their jobs during the restructuring. It is necessary, therefore, that employment generating programmes be initiated to absorb those who have lost their jobs in the public and parapublic sectors; especially those programmes which can in the long-term guarantee self-employment. Some efforts will have to be made to channel the activities of the parallel economy into the main stream of the national development process; particularly as such activities currently contribute some 30% of the GDP and account for over 35% of employment in the Tanzania economy.

In order for the government to address the social problems resulting from the implementation of ERP II, social concerns will have to be effectively incorporated into the overall economic reform programmes with a view to improving the incomes of the rural farmers who constitute the majority of the poor. This could be done through an improvement of the rural terms trade, an active exchange rate policy, further deconfinement of marketing of export crops and restructuring of the cooperative systems.

Furthermore, to the extent that long-term sustainability requires the building of indigenous capacity, increasing labour

productivity and augmenting of poverty reduction efforts, it is recommended that a deliberate effort be made by the Tanzanian government to restructure the national budget, improve financing arrangements and the development of alternative systems for effective social service delivery and efficient management.

This is important because the present macro-economic management reform framework which places emphasis on reducing the rate of inflation, reducing budget deficit, eliminating current and balance of payments deficits and efficiently managing the external and internal debt to avoid debt-servicing problems, has not complemented macro-economic planning which is concerned with devising measures, and strategies directed at achieving the fundamental and long-term objectives of the economy with special attention on the reduction or elimination of mass poverty, meeting the needs of the population, reducing income inequality, increasing of standard of living and per capita incomes of the citizens, protecting the environment and promoting a diversified, self-reliant and sustainable development. To this extent, deliberate and effective comprehensive structural reforms have to be initiated to address the problems of structural bottlenecks and rigidities which have so far impeded the realisation of the objectives of long term development planning in Tanzania.

Despite the importance of the responsibility for effective coordination and management of international development assistance vested in the National Planning Commission, within the framework of the present ongoing economic recovery programme; it should be pointed out that the system and procedures for the coordination and management of development aid have not been well developed.

In particular, external assistance has not been fully integrated into the macro-economic planning and budgetary process.

To the extent that maintaining and even increasing the already high levels of international development assistance will be important in the continuing support to Tanzania's economic recovery and restructuring programme, there is need for the effectiveness of the development assistance to be improved. This will call for increased collaboration and improved coordination of donor assistance by the National Planning Commission and the Ministry of Finance, as well as the concentration of donor assistance in some priority social and economic sectors.

In order for development assistance coordination and management to be effective, and considering the fact that donors share with the government some responsibility for past policy mistakes, it is important that substantial changes from past practices in donor coordination and management should take place on the part of both the government and the development partners. In this regard, both the government and the donor community should

acknowledge the existing weaknesses and should be keen to work out modalities for an effective system of resource mobilisation, coordination, management and utilisation.

To the extent that donor assistance to Tanzania has been spread too thin in the past years and therefore some donor concentration action is desirable for an effective development assistance improvement, information flow, aid coordination and management; it is recommended that:

- (i) Action be taken by the government to identify priority areas to which development assistance could be directed in the future. To this end, consultative group meetings should not be limited only to the discussion of economic policy framework papers and external aid requirements for the coming year but should also discuss and agree on government proposals on priority issues, sectors and economic policies for further review.
- (ii) The government should effectively exercise the ownership of projects and programmes financed by external development assistance with a view to ensuring that only identified priority programmes have access to such assistance. This would resolve the issues of donor driven development projects and programmes, projects focusing on domestic but non-national interests and the

financing of non-priority packages. In this regard, substantive efforts should be made to ensure that the donor development assistance is properly streamlined, and concentrates on a few selective priority areas, otherwise it will continue to be very costly to administer and the desirable positive impact will not be achieved.

- (iii) Steps should be taken by the government to put together a viable strategy for development assistance. The components of such a strategy should include an aid coordination framework which should be responsive, responsible, transparent and capable of monitoring the sources of resources and implementing the top priority programmes agreed with the donors; as well as an aid data base and information management unit so that periodical review reports can be produced for both the government and the donors. It should also include aid concentration which should highlight the priority sectors and economic activities identified by the government for the concentration of resources and encourage donor concentration with a view to discouraging the too much spreading of donors.

Notwithstanding the foregoing recommendations, it is our considered view that the continuous financing of the economic reform process will depend partly on the speed with which the

Tanzanian economy responds to the improved policy environment and resource situation and partly on extent to which further development assistance commitments on an exceptional basis can be obtained. However, the agenda of policy reformulation and institutional reshaping is a long and complex one, and will require determined action by the government as well as external support over several years before Tanzania can put its economic difficulties behind it and achieve socio-economic transformation and sustainable development during the 21st Century.

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