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Dates: 11/4/1974 – 12/1/1976

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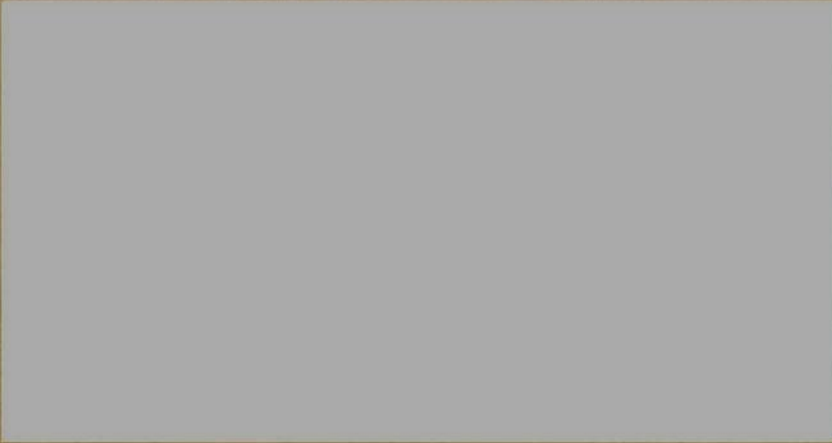


THE WORLD BANK
Washington, D.C.

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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
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PUBLIC DISCLOSURE AUTHORIZED

TANZANIA (LOAN 1063-TA) PROGRAM LOAN
CORRESPONDENCE



 **Archives**
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Tanzania - Program Loan - Correspondence - Loan 1063.

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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of Director-General
Operations Evaluation

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AUG 06 2019

WBG ARCHIVES

December 1, 1976

Issue
W.S. Jones
12.1.1976

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Program Performance Audit Report: Tanzania: Program Loan
(Loan 1063-TA)

Attached, for information, is a copy of a report entitled
"Program Performance Audit Report on Tanzania: Program Loan (Loan
1063-TA)" prepared by the Operations Evaluation Department.

Attachment

Henry L. Laine

THE WORLD BANK
PRINTING REQUEST

NOTE: Requests for reruns of reports must be cleared by the Reports Desk.

Please type or print with ball point pen. If typing, begin vertical spacing on dotted line at left below.

REPORT NO.:	REPORT DATE:	CATEGORY: New ___ Rerun ___	NO. OF PAGES:	QUANTITY:
TITLE OR DESCRIPTION OF REPORT OR DOCUMENT:				
DATE REQUIRED:		TIME REQUIRED:	CLASSIFICATION:	
REQUESTED BY:		DEPARTMENT:	DEPT. NO.:	DIVISION:
DIV. NO.:	ROOM NO.:	EXT.:		

Do not write in space above.

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SIZE:
 8½ x 11 ___ 8½ x 14 ___ 11 x 17 ___ Other: ___ Fold ___ Reduction ___

CONSTRUCTION:
 Assemble ___ Staple ___ No. of Holes to be Punched: ___ Top ___ Side ___
 Print 1 Side ___ Print 2 Sides ___ Color of Paper: ___

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COVER HEADING: _____ MASTHEAD: (Specify)
 World Bank ___ IFC ___ World Bank/IFC ___

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ORDER OF ASSEMBLY:

- Covering Memo (on WB Letterhead, Office of DG, Official Use and Caveat with Facsimile of Mr. M. L. Weiner)
- Title Page (White hard cover, Document of the World Bank, Official Use and Caveat)
- Table of Contents (with official use and Caveat) (pages 1 - 2)
- Preface
- Loan Data
- Highlights
- PPA Memorandum (pages 1 - 6)
- Annex 1
- Completion Report (Attachment A - pages A-1 - A.7)
- Attachment B (pages B-1 - B.11)

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SPECIAL INSTRUCTIONS:

OFFICE MEMORANDUM

TO: Mr. J. Bharier, Division Chief, PRD

DATE: November 19, 1976

FROM: Shu-Chin Wang, PRD

SUBJECT: Comments on Audit Report on Tanzania Program Loan

1. This is an excellent report and I agree with its conclusions. However, the report could bring Tanzania's economic developments more up-to-date. According to the latest draft CPP, agricultural production in 1975 increased by 6.6% and according to the IMF Report (November 9, 1975), agricultural export production is expected to increase by some 8% in 1976. The IMF report also gives the announced producer prices for major agricultural crops up to 1977/78. This appears in line with one of the conditions of the program loan, extending to more than one year. Secondly, Tanzania's balance of payments is improving: the deficit on goods and services is expected by the CPP to decline from about \$350 million in 1975 to about \$270 million in 1976. The balance of payments deficit mentioned in paragraph 1.3 need to be classified (overall? current account? or goods and services?)

c.c. Mr. S. Chernick, Senior Adviser, PDS

For your final OK
before going to
Print shop.

OK
VMS J
11/23

OFFICE MEMORANDUM

Nw Medhara

Please have this prepared quickly for issue.

TO: Mr. Mervyn L. Weiner, Director-General, OE

DATE: November 16, 1976

FROM: Shiv S. Kapur, Director, OED

SUBJECT: Program Performance Audit Report on Tanzania Program Loan (Loan 1063-TA)

[Handwritten signature]
11/19

I am attaching for your approval the Performance Audit Report on the Tanzania Program Loan (Loan 1063-TA) made in December, 1974. The report has been revised in the light of comments received from the Eastern Africa Regional Office. No comments were received from the Central Projects Staff or from the Government of Tanzania.

Attachment

cc: Messrs. Baum
Wapenhans

AK

W 11/18

→ Mr. Kapur

MARGARET:

Re: Tanzania Program Loan

THE MEMO FROM MR. KAPUR TO MR. WEINER ATTACHED TO THE NEW VERSION OF THE REPORT WAS RETYPED BECAUSE MR. KAPUR WANTED TO "UPDATE ALL THE PAPERS" (THE PREVIOUS MEMO WAS DATED NOV. 4). HOWEVER IT IS ONLY BEING SENT TO YOU (IT WAS NOT CIRCULATED TO MESSRS. BAUM & WAPENHANS). IF MR. WEINER WANTS TO CIRCULATE IT AGAIN, PLEASE LET ME KNOW AND WE WILL GIVE YOU ADDITIONAL COPIES OF THE REPORT.

Weiner told me he has sent Medhwa some data corrections. I assume these are included.

Mr. Kapur

ROSA MARIA

No. OK to issue. Phone Hag & tell him you're going ahead; also, agree on his role in future program loan PPA's. W 11/18.

November 16, 1976

Mr. Weiner:

Re: Tanzania Program Loan

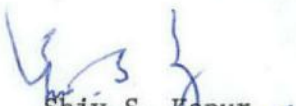
I am returning the copy of the audit report on which you made your comments and which you wanted back. A revised version, in line with your comments, is also attached.

On the time factor. This is one of those audits which we inherited in poor shape. A consultant, Mr. Iqbal, prepared the initial audit. This required extensive revision and Mr. Medhora had to research the papers all over again before producing a revised draft in August/September of this year. I might add that this is not the only audit whose initial author made a mess of things or moved away from OED, resulting in heavy delays. To mention just a few, the audit of India Chasnalla Coal was undertaken by one Miss Insel (YP), Uganda First Education was attempted by Mr. Grewal, Pakistan ADBP III was assigned to Mr. Burki, Zambia Program Loan was put together in bits and pieces by Messrs. Nowicki, Hakuta and Medhora (the draft audit on this one has been circulated but is now being held back because the Region has suddenly discovered that a PCR had not been prepared and would not like the audit to go without the PCR), Pakistan Program Loans, also allocated to Mr. Iqbal, India Beas Equipment on which Mr. Nowicki had been working until very lately and which we have now taken over, and Chile Power V which is with Mr. Willoughby.

Partly as a result of the hiatus between the time Mr. Nowicki left and Mr. Medhora took over, and partly because of very unsatisfactory initial audit drafts, we do have a backlog in the program loans/DFC audits. The position has worsened because of the continuing vacancy in the position of the DFC specialist; for months now Mr. Medhora has been coping with the work in that sector all by himself. In the other cases mentioned by me too the gap between final disbursement and the project audit is likely to be very considerable.

As you might have noticed, we have recently mounted a concerted drive to improve our output. I am as yet unable to say to what extent we shall be successful in bringing down the backlog to acceptable proportions.

As to terminology, the Bank documents relating to this loan use both "program" and "project" in different places; while the loan agreement on the title page carries the word "program", the text reverts to describing the operation as a "project." However, the attached PCR has been corrected to replace the word "project" with "program."


Shiv S. Kapur

Attachment

→
Thanks for the clarification: I hope you don't feel I'm pressing - I just want to understand what's what during this interval in which all the parties adjust to new procedures and standards for documentation.

W 11/18
1110
1119

Mr. Marvyn L. Weiner, Director-General, OE

November 4, 1976

Shiv S. Kapur, Director, OED

Program Performance Audit Report on Tanzania Program Loan
(Loan 1063-TA)

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Attachment

cc: Messrs. Baum ^{-ok}
Wapenhams

11/10 sBk
Hag

JHCollier:mjb

Mr. Kapur : Please let

me know whether you have any problems with my comments on various pages. I'm still awaiting responses from others, including Hag to whom I sent a copy (Baum really is not involved in program loans).

Pl. return

W 11/11

1052
11/12

MJ Medhora
y

November 16, 1976

Mr. Weiner:

Re: Tanzania Program Loan

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Shiv S. Kapur

Attachment

OFFICE MEMORANDUM

TO: Mr. Mervyn L. Weiner, Director-General, OE

DATE: November 4, 1976

FROM: Shiv S. Kapur, Director, OED

SUBJECT: Program Performance Audit Report on Tanzania Program Loan (Loan 1063-TA)

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Attachment

cc: Messrs. Baum - OK 11/9
Wapenhams

11/10 JBK ✓

11/10 Hag

OK 11/17 (Weiner)

data corrections phoned
to Medhora by Region.

annotated text → SK
11/11

WORLD BANK / IFC
OUTGOING MESSAGE FORM
(TELEGRAM/CABLE/TELEX)

IBRD
 IDA
 IFC
 ICSID

TO:

DATE: October 20, 1976

ORIGINATOR'S EXT.: 8145

COUNTRY: TANZANIA

CLASS OF
SERVICE: TELEX

CABLE NO. & TEXT:

BOOK OF TWO

(1)

DR. K. A. MALIMA
PRINCIPAL SECRETARY TO THE TREASURER
THE TREASURY
P. O. BOX 9111
DAR ES SALAAM
UNITED REPUBLIC OF TANZANIA

RE PROJECT PERFORMANCE AUDIT REPORT ON TANZANIA PROGRAM LOAN

(LOAN 1063-TA) STOP IN OUR LETTER OF JULY 28, YOUR COMMENTS ON

ABOVE REPORT WERE REQUESTED BY SEPTEMBER 3 STOP IN ABSENCE OF

COMMENTS FROM YOU WILL PROCEED ON ASSUMPTION YOU HAVE NO

SUBSTANTIVE COMMENTS REGARDS

SHIV KAPUR
DIRECTOR
OPERATIONS EVALUATION DEPARTMENT

(2) HON. G. N. NYIRABU
GOVERNOR OF THE BANK OF TANZANIA
P. O. BOX 2939
DAR ES SALAAM
UNITED REPUBLIC OF TANZANIA

SEPT 3

NOT TO BE TRANSMITTED

REFERENCE:
PPA Report on Tanzania Program Loan (Loan 1063-TA)

AUTHORIZED BY (Name):
Shiv S. Kapur

DRAFTED BY:
Phiroze B. Medhora:sb

DEPARTMENT:
Operations Evaluation Department

CLEARANCES AND COPY DISTRIBUTION:

SIGNATURE (Of individual authorized to approve):

Phiroze B. Medhora

SECTION BELOW FOR USE OF CABLE SECTION

CHECKED FOR DISPATCH:

ROUTING SLIP		DATE	August 17/76
NAME		ROOM NO.	
Mr. Arturo Israel		E-1028	
Mr. Kapur			
Mr. Medhoka B			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
COMMENT		PER OUR CONVERSATION	
FOR ACTION		PER YOUR REQUEST	
INFORMATION		PREPARE REPLY	
INITIAL		RECOMMENDATION	
NOTE AND FILE		SIGNATURE	
<p>ARKS 4024 B1002</p> <p>Thanks you. Frankly, it is not among the worst that we used to receive.</p> <p>We have support from unusual quarters!</p> <p style="text-align: center;">- I -</p> <p style="text-align: center;">8/23</p> <p style="text-align: right;">552 8/20</p>			
FROM	A. S. Kapur	ROOM NO.	EXTENSION
		G1050	2745

OFFICE MEMORANDUM

AUG 12 REC

TO: Mr. Ping-Cheung Loh, Acting Director, EACPI

FROM: ^S Shankar Acharya, Economist, and
F. Stephen O'Brien, Senior Economist, EACPI *So for F.S.O.*

SUBJECT: Draft Project Performance Audit Report on Tanzania:
Program Loan (Loan 1063-TA)

DATE: August 11, 1976

1.
2. Mr. M. ...

According to Mr. Please's instructions we discussed this draft with Mr. Hansen in Dar-es-Salaam before forwarding our comments to you. For easy reference we subdivide our comments into major and minor.

Major Comments

1. According to the first page "the main conclusion of the audit report is that, given the nature and disbursement process of program loans, it is necessary to define, more exactly than was done in the present case, the specific objectives of the Bank loan".

We find it difficult to appreciate this contention. First, the report is unclear as to whether this call for increased specificity refers to the commodity composition and end-use of purchases made through the program loan facility or whether it refers to the policy understandings with the Government of Tanzania which were associated with the operation. If it is the former, then it misses the point of this particular program loan operation. As you know, we were only peripherally interested in the commodity composition of the goods financed and their end-use (contrast with the industrial import loans typical for the Indian sub-continent). Our central concern in the operation was to help articulate and support a program of development policies to cope with certain long-term problems of the Tanzanian economy which had been accentuated by the drought-cum-terms-of-trade crisis. If the audit report is unhappy about the degree of specificity relating to the policy understandings then we submit that considering the period at which these were articulated they are at least as specific as those relating to other program loans for other countries that we are aware of. Looking to the future, we would certainly like to be on the side of the angels in arguing for greater specificity in such policies and "performance indicators". And our economic work has to strive for that level of in-depth analysis which permits greater specificity in advising policy actions. But for program loans up to 1974 the Tanzanian one compares favorably with most others when it comes to the degree of definition relating to policy understandings.

*which acceptable
intention
ungraciously
answer to the
point - missing*

521
8/13

how else

2. In para. 3.2 the audit report notes (critically) that the program loan had little effect in "redirecting import priorities". This was not an objective of the program loan. At the time of the staff appraisal in 1974 Tanzania had a formal and increasingly tightening apparatus for import licensing. The staff were satisfied about the overall composition of the import bill and the program loan was not seen as a vehicle for "redirecting import priorities". On a related point para. 3.3 of the audit report over-emphasizes the concern for end use of the imports financed through the program loan. The staff appraisal was only concerned to spell out a "negative list" including food, fuel, fertilizers and consumer goods and was quite deliberately not concerned with the end-use of the imports allowable for financing under the program loan. The situation would, of course, have been quite different if this were an "industrial imports loan" designed for specific categories of industrial maintenance imports.

Should it have been?
 why not? why this assumption of wisdom in the appraisal report?

3. In para. 4.10 the audit report criticizes the manner in which public investment expenditure was shifted in favor of more directly productive sectors. Its preferred prescription of doing this "by keeping such additions (additions to productive expenditure) to the minimum while cutting out unproductive items and expediting expenditure on existing productive projects" is simply not a realistic way of quickly changing the sectoral composition of investment expenditure.

is it appropriate to make on investment in the export sector?

4. In para. 4.11 the report rightly notes the vagueness on the policy package relating to parastatal efficiency. At the time of appraisal, the Bank did not have good answers, and was mainly interested in obtaining a serious voicing of concern by the Government. Since then we have come to make this issue more of a focal point in further discussions of policy under the new proposed program credit and expect to elicit some specific policy actions.

Conrad

5. In paras. 5.6-5.8 the audit report makes a pitch for more local cost financing as a means of providing balance of payments support. This is in principle feasible, but the unhappily negative correlation between proportion of local cost financing in a project and its rate of disbursement (at least in Tanzania) sets clear limits on this option.

this is not suggested

Much more importantly, greater local cost financing through projects cannot substitute for a prime purpose of program lending: dialogue leading to agreement on macro-policy issues and actions. If, as we believe, this should be seen as the important justification for program lending, then no amount of local financing in projects can substitute for this function. Indeed, we feel that this purpose of program lending is seriously underplayed in the audit report. To take

the argument further, if program lending is predicated on arriving at serious understandings between a Government and the Bank on a range of macro-policy issues, then it ought to be justifiable (where such agreement is arrived at) even in the absence of unusual and unanticipated balance of payments problems.

Minor Points

- Para. 1.2 - parastatal surpluses have been substantial, they have not been sufficient;
- Para. 1.3 - contrary to the last sentence, the development programs sustained their flow in terms of expenditure, thanks mainly to stepping up of external finance;
- Paras. 2.5/
2.6 - one of the two references to the proportion of the loan disbursed is redundant.

cc: Messrs. Please, Acting Vice President, EAN
Hansen, Resident Representative, Tanzania
Ahmad, Senior Loan Officer, EACPIA
Tidrick, Country Economist, EACPIA
Ms. Sato, Acting Division Chief, EACPIA

.SNAcharya:rb

July 28, 1976

Hon. C. N. Nyirabu
Governor of the Bank of Tanzania
P. O. Box 2939
Dar es Salaam
United Republic of Tanzania.

Your Excellency:

Re: Project Performance Audit Report on Tanzania
Program Loan (Loan 1063-TA)

As an independent evaluation department within the World Bank Group, we have been instructed to prepare performance audits on all projects assisted by the Bank or IDA shortly after the completion of loan/credit disbursements. The purpose of these audits, based largely on Project Completion Reports prepared by the Bank's Regional Departments, is to assess the extent of achievement of project objectives stated in lending documents as well as the general effectiveness and efficiency of the World Bank with the lending operation, focusing mainly on what the organization can learn from past experience.

I am now enclosing for your review a copy of the first draft of the performance audit report on the Program Loan project, supported by Loan 1063-TA of 1974. We would very much appreciate receiving any comments you may have on the draft audit by September 3, 1976 so that we can take them into consideration before sending the final version of the report to the Bank's Executive Directors.

I am also sending copy of the report to the Principal Secretary to the Treasurer, for his comments.

Yours sincerely,

Shiv S. Kapur
Director
Operations Evaluation Department

Attachment

PBMedhora: sb

July 28, 1976

Dr. K. A. Malima
Principal Secretary to the Treasurer
The Treasury
P. O. Box 9111
Dar es Salaam
United Republic of Tanzania

Dear Dr. Malima:

Re: Project Performance Audit Report on Tanzania
Program Loan (Loan 1063-TA)

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I am also sending copy of the report to the Governor of the Bank of Tanzania, for his comments.

Yours sincerely,

Shiv S. Kapur
Director
Operations Evaluation Department

Attachment

cc: Mr. I. El Misbah Mekki, Executive Director

PBMedhora:sb

ROUTING SLIP		DATE
NAME		ROOM NO.
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
COMMENT	PER OUR CONVERSATION	
FOR ACTION	PER YOUR REQUEST	
INFORMATION	PREPARE REPLY	
INITIAL	RECOMMENDATION	
NOTE AND FILE	SIGNATURE	
REMARKS		
<p> b. g. box 3111 THE DIRECTOR DIRECTOR GENERAL TO THE SECRETARY DE. A. Y. 10, 100 During preparation of invoice for the purpose b. g. box 3111 DIRECTOR GENERAL TO THE SECRETARY DIRECTOR GENERAL TO THE SECRETARY DE. A. Y. 10, 100 </p>		
FROM	ROOM NO.	EXTENSION

Loan 1063-TA

- 1) Hon. A. H. Jamal
Minister for Finance and Planning
Ministry for Finance and Planning
P. O. Box 9242
Dar es Salaam
United Republic of Tanzania

- 2) Dr. K. A. Malima
Principal Secretary to the Treasurer
The Treasury
P. O. Box 9111
Dar es Salaam
United Republic of Tanzania

- 3) Hon. C. N. Nyirabu
Governor of the Bank of Tanzania
P. O. Box 2939
Dar es Salaam
United Republic of Tanzania

Copy to

country to
~~Westerly~~ F 1237

O'Brien 4022 for
TANZANIA

Baker Ahmed 4915

1. Principal ^{lecter} Malinga
2. Government of Lower East Africa
Nairobi

THE WORLD BANK
MESSAGES

DATE

7/20

TIME

TO

Mr. Medhony

FROM

Mr Adler's Secy.

DEPT./OFFICE

PHONE

EXTENSION

CALLED

CALL BACK

CAME TO SEE YOU

WILL CALL AGAIN

RETURNED YOUR CALL

REQUESTS APPOINTMENT

URGENT

REMARKS

Mr Adler + Mr Marse
have no comments on
Tanzania Loan 1063
PPA.

RECEIVED BY

Mr Medhau

OFFICE MEMORANDUM

TO: Mr. Shiv S. Kapur, Director, OED DATE: July 20, 1976

FROM: Bashir Ahmad, Acting Chief, EAfrica CPIA

SUBJECT: TANZANIA - Project Performance Audit Report
Program Loan (Loan No. 1063-TA)

In response to your memorandum of July 12 to Mr. Stanley Please with which was attached the draft Performance Audit Report on the Program Loan (Loan No. 1063-TA), and as discussed with you, I am raising such issues/corrections in this memorandum which need to be incorporated before the draft report is sent to the Government for their comments. Further detailed comments on the draft report will be sent to you by August 12.

Comments/Corrections

Para 2.5 - This para states that 99 percent of the loan was disbursed by the end of April 1975 whereas para 2.6 mentions over 95 percent by the same date. It is suggested for the sake of consistency that we say "over 95 percent" in both paras 2.5 and 2.6.

Para 4.6 - The Government is rather sensitive to any criticism -- implied or otherwise -- of the villagization program. The statement in para 4.6 that the "Government is slowing down the pace of villagization" may be factually correct but could be misunderstood. I would instead suggest the following sentence. "Government is also re-examining its program of villagization."

Para 4.8 - The statement in this paragraph that the Government increased the proportion of capital expenditure on productive investments in its development program from 23 percent in 1970/74 to 36 percent in 1974/75 is only a part of a more comprehensive statement contained in the Completion Report (page A-5, para 9). To be able to correctly assess the Government's decision to give priority to productive investments, the remaining part of para 9 of the Completion Report should also be summarized.

Para 4.10 - In this and subsequent paragraphs where the words "productive expenditure" is used, it is suggested that the report should qualify these by the word "directly" and instead of "unproductive items or expenditures," the report should speak of "expenditures for infrastructure or social projects." Paragraph 9, page A-5 of the Completion Report explains this in greater detail.

BAhmad/ebb

cc: Messrs. Baum, Please (o/r), H. Adler, Fuchs, Van der Tak,
Loh (o/r), O'Brien (o/r), L. Hansen

373

7/20

OFFICE MEMORANDUM

TO: Mr. Warren C. Baum, Vice President, Projects
Mr. Stanley Please, Vice President, E. Africa IA

DATE: 12 July 1976

FROM: Shiv S. Kapur, Director, Operations Evaluation Department

SUBJECT: Project Performance Audit Report on Tanzania: Program Loan
(Loan 1063-TA)

I attach herewith, for your review and comments, the draft of a Performance Audit Report on the project supported by Loan 1063-TA. I would appreciate receiving any comments you may have by August 12, 1976.

On July 21, 1976 we expect to send the draft report to the Principal Secretary of the Ministry of Finance and the Governor of the Bank of Tanzania, for their comments.

cc: Messrs. H. Adler
J. Hendry
C. Morse
P.-Cheung Loh
S. O'Brien
B. Ahmad
H. Fuchs
H. van der Tak

WORLD BANK GROUP
REQUEST FOR
TOTAL COPY CENTER SERVICES

Please provide complete information.

OPERATOR:		JOB NUMBER:	
CENTER LOCATION:		DATE: 27/7/76	
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OFFICE MEMORANDUM

TO: Mr. F.S. O'Brien

DATE: February 3, 1976

FROM: Sally C. Chan *S Chan*SUBJECT: Audit of Tanzania Program Loan

In reply to some of the questions raised in the audit of the Tanzania program loan:-

A. Net balance of payments effect in shifting from cash (cotton) to food (maize) crops, and import substitution program:

The volume of net imports of maize averaged 35,000 tons per annum during 1969-73 and in years of bumper harvests (1968/69 and 1970/71), there were net exports of maize (see table below). As a result of drought in 1973-74 some 270,000 tons of maize costing 368 million shillings were imported in 1974. The government, in a drive to achieve self-sufficiency in food grains, raised the producer price for maize by 52% for the 1974/75 planting season. This improved the producer price for maize vis-a-vis that for seed cotton which was raised by 33%. This price advantage and the exhortation campaign to grow more maize led to some diversion of acreage from cotton to maize in the 1974/75 planting season. As a result, the volume of cotton exports is expected to be around 30,000 tons in 1975 as compared to 51,000 tons in 1974.

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Net imports of maize (m. T. Sh.)	-1.4	1.4	-5.0	65.1	12.3	367.1
Exports of cotton (m. T. Sh.)	234.7	247.3	245.8	336.9	335.2	479.3
Imports of maize (tons)	62284	25626	23011	134941	21874	268850
Exports of maize (tons)	48344	23339	30070	-	-	-

Marketed consumption of maize is about 22,500 tons a month or 270,000 tons a year. The world market price for maize is projected to be around \$100 a ton (estimate by Marketing Development Bureau, Tanzania), so that in years of harvest failures, maize imports of up to \$270 million can be expected (not including imports of maize for relief). As of end December 1975 stocks of maize held by the National Milling Corporation are estimated at 170,000 tons. Because December to February are peak consumption months (35-40,000 tons consumed or bought per month), this level of stock will last till end May 1976. So, until NMC starts purchasing maize from the 1966/67 harvest (running from July to September), up to 100,000 tons may have to be imported to cover the intervening months. The NMC has tried some substitution of other grains for maize by mixing wheat and maize (in a ratio of 20:80). The growing of substitutes such as sorghum and cassava is also encouraged.

The production of food crops has been given priority by the government which has launched a National Maize Development Program to develop 400,000 hectares under maize (with assistance from IBRD and U.S. AID). This program will improve the marketing of maize by constructing additional storage and transport facilities (depending on the quality of storage, spoilage of maize stocks may run as high as 25%), and will attempt to increase the yield per acre cropped through better distribution of farm inputs.

To bring a more proper balance between the cultivation of food crops and of cash crops, the government raised the producer price for seed cotton by 34% for the 1975/76 planting season as compared to 25% for maize.

B. Domestic price trends

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>Est. 1975</u>
National Consumer Price Index (1968 = 100)	102.0	105.3	108.6	119.0	128.9	168.2	185.0
% change	2.0	3.2	3.1	9.6	8.3	30.5	10.0

Source: IFS

C. Producer prices vs. import/export parity prices

	<u>Producer Price</u>	<u>1976 world price (proj.)</u>
Maize, 1975/76 planting season	\$106/ton	\$100/ton ^{1/} ; \$255/ton ^{2/}
Seed Cotton, 1975/76 planting season (AR grade)	24.8cts/kg ^{3/}	
Cotton lint (AR grade)	46.8cts./kg ^{3/}	95 cts./kg. ^{4/}
Cashewnuts	\$128 ¹³⁰ /ton ^{3/}	\$224-248/ton ^{1/ 3/}
Cashew kernels		\$1615/ton ^{1/ 3/}
Coffee (mild Arabica, 1973/74)	61 cts./kg.	65-70 cts./ 1b ^{1/} or \$1.43-1.54/kg.
Tobacco (flue-cured, 1974/75)	87 cts./kg	\$2.31/kg ^{5/}

^{1/} projection by Marketing Dev. Bureau, Tanzania; ^{2/} forecast by Econ. Analysis & Projections, IBRD; ^{3/} converted from T. shillings at rate of T.Sh. 8.05 = US\$1; ^{4/} USA futures price as quoted by Marketing Development Bureau; ^{5/} quoted price in the United States.

OFFICE MEMORANDUM

TO: Those Listed Below

FROM: S. ^{JMB}O'Brien, Economist, EAfrica IA

SUBJECT: TANZANIA - Program Loan
Notification of Decision Meeting

DATE: January 12, 1976

A Decision Meeting to discuss the attached Tanzania Program Loan Issues Paper will be held at 10:00 a.m. on Friday, January 16, 1976 in Room C-1120. Please let my secretary know (Ext. 2833) if you will not be able to attend.

Attachment

SO'Brien/ebb

cc: Messrs. Husain, Hablutzel, Hansen, Barry, Please, Wiehen, H. Adler, Hendry, Morse, Creyke, ResRep, Tanzania, Knapp (3), Cargill, Maubouche, Baum, King, van der Tak, Raizen, Ray, Chenery, Haq, Hoffman, Edelman, Tims, Zaidan, Stevenson, Bowron, Ms. Harris, Messrs. Walser, Singh, Gulhati, Burney, Walton, Walden, Pennisi, Bickers, Erkman, Reid, Acharya and Ms. Chan



OFFICE MEMORANDUM

TO: Mr. Ping-cheung Loh, Division Chief, EACPIA

DATE: January 9, 1976

FROM: F. S. ^{F.S.}Brien, S. Acharya, and S. ChanSUBJECT: TANZANIA: Second Program Loan Issues PaperBackground

1. Because of the severe economic crisis which confronted Tanzania in 1974, arising in part from drought and import price escalation, the Tanzanian Government approached the World Bank in mid-1974 to request program lending to meet the immediate balance of payments problem. During discussions between World Bank staff and Government officials in the latter half of 1974 it was recognized that (a) the economic crisis facing Tanzania resulted from longer-term trends in the Tanzanian economy as well as from short-run drought and terms of trade effects; (b) given the reduced availability of real resources resulting from the crisis a wide range of policy measures would have to be introduced if Tanzania was to sustain the momentum of development without sacrificing the avowed political, social and economic goals of the country; and (c) exceptional financing of the program loan type would be required from many sources, both bilateral and multilateral, if the 1975 balance of payments gap was to be covered.

2. From the beginning of the first program loan discussions it has also been recognized that the process of adjustment to the economic crisis would be difficult and protracted. It was clearly foreseen that the balance of payments problem might persist for a number of years until the positive effects of the policy measures adopted by the Government were fully felt. Therefore, it was also recognized that further program lending beyond 1975, from the World Bank as well as from other sources, might be needed. A second program loan to help meet the anticipated balance of payments gap for 1976 was requested by the Government of Tanzania at the World Bank annual meetings in September 1975, and a mission was sent to Tanzania in November 1975 to appraise the need for further program assistance as well as the suitability of the program of policy measures which has been and is being undertaken by the Government to offset the economic crisis.

The Balance of Payments Situation

3. We estimate that the overall balance of payments gap, after accounting for ordinary capital inflows, for Tanzania in 1976 will be on the order of \$100 million. This may be compared with an overall gap of some \$144 million in 1974 and an estimated \$140 million in 1975. Balance of payments data are shown in Annex I.

4. During the late 1960's and early 1970's the overall balance of payments position of Tanzania was generally satisfactory, despite the slow growth of primary and processed exports, because large public capital inflows more than covered current account deficits. Through prudent financial management international reserves were built up from \$60 million at the end of 1971 to \$145 million at the end of 1973. During 1974, however, the deficit on current account escalated from previously manageable levels to over \$300 million. Severe drought in 1973/74 affected both agricultural export volumes and also the level of required food imports, which rose by more than \$100 million over 1973. At the same time the import bill for crude oil and petroleum products jumped from some \$30 million in 1973 to over \$100 million in 1974. The country's foreign exchange reserves were almost completely exhausted during the year; net reserves of \$50 million at the end of 1974 included drawings of \$46 million from the IMF. *+ 4 million*

5. At the time of appraisal of the first program loan in September 1974 the World Bank's projections for 1975 indicated a current account deficit of around \$220 million and an overall balance of payments deficit of \$142 million. Our latest estimates of the 1975 balance of payments indicate that the current account deficit will be larger than had been anticipated, perhaps as high as \$300 million, although the overall deficit is still expected to be approximately \$140 million. During 1975 extreme measures have been taken to reduce the volume of imports. The burden of food imports has been somewhat lessened as a result of food aid, a better domestic harvest, and consumer price increases which have reduced demand for formerly imported commodities such as sugar. On the export side, however, the results for 1975 have been disappointing; export volumes for most primary commodities have fallen from 1974 levels, which were themselves in most cases below previous trend levels. This is particularly true for cotton where the nationwide campaign to grow more food crops led to a diversion of cropland from cotton to maize. In addition, world prices for some export commodities such as sisal have declined sharply from 1974 levels. The large 1975 trade deficit which resulted has been met only through an extraordinarily heavy inflow of unilateral transfers, project aid, and balance of payments support, including an estimated \$70 million from bilateral sources, the Bank's first program loan, and other multilateral assistance, including IMF, of some \$40 million. Even with this huge inflow of foreign aid, amounting to more than \$20 per capita, Tanzania has been unable to build up foreign exchange reserves to any significant degree during 1975.

6. For 1976 we have assumed a moderate recovery of export volumes and prices. We have assumed, based on information from the Government, that additional grain imports will be needed during the second and third quarters of 1976 to offset a shortfall in the marketed surplus from the 1975 harvest, but we have assumed that the Fall 1976 harvest will be a normal one. Whether the total value of imports can be reduced as we have assumed will depend almost entirely on the food situation. We do not believe that further reductions in non-food imports are feasible. Non-food consumer goods imports have already been reduced to austerity levels, and restrictions on the importation of spare parts, raw materials and intermediate goods in 1974 and 1975 have begun to have adverse effects on production.

The Size of the World Bank Program Loan

7. The appraisal mission was instructed to consider the adequacy of a \$30 million program loan (\$15 million IBRD, \$15 million IDA). The adequacy of a loan of \$30 million against an estimated gap for 1976 of \$80-100 million is dependent, of course, on what support is likely to be forthcoming from other sources of finance. At the present time we can only speculate about this matter; what follows is merely a preliminary assessment of balance of payments assistance that is likely to be forthcoming from other sources in 1976:

a. IMF. No drawings have been made to date on the second credit tranche negotiated in June 1975 (\$12.6 million). This money would be available in 1976 providing the Government can reach an understanding with the IMF regarding the credit ceilings which were imposed under the standby agreement. Alternatively, if the terms of the new Jamaica accord are adopted, this credit might be renegotiated at a higher level of approximately \$17 million. If further financing for the Fund's 1975 oil facility is adequate, Tanzania might be able to borrow an additional \$15 million from this source. Thus, Tanzania could obtain slightly more than \$30 million from IMF, even before considering such other Fund facilities as the extended facility, compensatory export financing, or proceeds from IMF gold sales, although this is by no means assured.

b. Other multilateral. Tanzania expects to obtain \$14.7 million from the Arab Fund for Africa, following grants of \$7.1 million in 1974 and \$14.3 million in 1975.

c. Western bilateral sources. These sources made available an estimated \$70 million of program-type support in 1975, and a continuation of this level of assistance in 1976 should be possible. The best prospects for program lending or local cost financing, based on 1975 performance and indications of intentions for 1976 are Sweden, Netherlands, Canada, West Germany, and UK. A further US sector loan is possible but unlikely. The best prospects for food aid include the U.S. (PL480), Canada, Sweden, Belgium and Australia.

It appears from the above preliminary assessment that Tanzania should be able to obtain at least \$50 million of program assistance from multilateral sources (World Bank second program loan, IMF second credit tranche, and Arab Fund for Africa.) This would leave a gap of some \$50 million to be met from bilateral sources. We have indicated that such an amount should be attainable; however, firm prospects for this aid have yet to be established. We have indicated to the Government that we would approach bilateral donors on their behalf if they wished, and this offer of assistance has been accepted. We have stressed, however, that the primary effort in mobilizing this assistance must come from the Government.

The Government's Program to meet the Balance of Payments Crisis

8. The program of policy actions which was under consideration by the Tanzanian Government to confront the balance of payments problem in the short-run and to reestablish external equilibrium in the medium to long-run was discussed with the World Bank at the time of appraisal and negotiation of the first program loan and was described in the President's Report for the loan. These measures were also elaborated in a letter from the Minister of Finance to Mr. McNamara at the time of loan negotiations. The progress of the Government in implementing this program was reviewed by a Bank mission which visited Tanzania in July/August 1975; the report of that mission was submitted to the Executive Directors of the Bank in September 1975. In essence, the program called for a judicious blend of demand management, restructuring investment, and improving the incentive framework in order to increase the growth rate of output despite the reduced availability of real resources. The main elements of the program consisted of reallocation of public investment in favor of directly productive sectors, a series of measures to improve output performance in agriculture, improvements in the structure of incentives in the parastatal sector, an increased export orientation in manufacturing, and restraints on private and government consumption demand.

9. One of the first measures undertaken by the Government was to mount an exhortation campaign for Tanzanian farmers to grow more maize in order to restore self-sufficiency in food grains. The impact of this campaign, combined with better weather and sharp upward revisions in producer prices for food grains, appears to have been successful in alleviating the food crisis in 1975, although there has been a diversion of acreage from cash crop production to food crops which has had a negative impact on exports. Further price increases for a number of staple crops were approved by the Government in September 1975 for the 1975/76 season. In a related measure the system of steeply progressive export taxes on coffee was replaced with a lower ad valorem tax in order to encourage farmers to grow higher valued coffee for export. The Government also restricted private consumption demand through a wage freeze which was imposed in May 1974, through restrictions on imports of consumer goods, higher retail prices of foodstuffs, textiles, beer and cigarettes, and increased urban water and electricity user charges. The cumulative impact of these measures has been a very substantial increase in the cost of living of low-income workers which was only partially offset by a 12 percent increase in the minimum wage in May 1975. The Government has also attempted to restrict public consumption by holding the 1975/76 recurrent budget to the same level as estimated actual expenditures for the preceeding year, which implies a significant reduction in the level of real expenditures. These measures, combined with a large drought-relief food distribution effort, were reasonably successful in preventing the balance of payments situation from becoming much worse, and also in protecting the poorer elements in the population from the dramatic short-run income losses brought about by the harvest failures and the terms of trade decline.

Food as % total imports

10. Other policy actions already undertaken or under study by the Government deal with the medium and longer-run situation. The Government has been aware of the need to reallocate public investment in favor of the directly productive sectors of agriculture, industry and mining since its own mid-term review of the Second Five Year Plan in 1971. The 1974/75 development budget, approved several months before the program loan was signed, allocated 36 percent of expenditures to directly productive sectors compared with a realized average of only 23 percent for the preceeding four years. ^{1/} For total planned public investment (government development expenditure plus parastatal investment) the share of these sectors for 1974/75 was 48 percent. Despite shortfalls in implementation these sectors still accounted for 28 percent of the realized government development expenditures and for 41 percent of actual total public investment. For 1975/76 the allocations to directly productive sectors correspond closely to the shares originally budgeted for 1974/75. Furthermore, the probability of attaining these shares is greater in 1975/76 in view of the more rigorous financial programming introduced to counteract the shortfalls experienced in the past, and given the several steps which the Government is taking to strengthen project preparation and implementation capacity in industry and agriculture. A project coordination unit has been established in the Ministry of Agriculture and in response to a request from the Government the World Bank has supplied a project management advisor and a financial advisor to this unit. The Bank's agricultural development service has also provided about a dozen technical staff to meet specific needs in individual projects. The Bank has assisted the Government in preparing a national maize program which will be implemented over the next three years. In addition, an IDA technical assistance credit has recently been approved to finance project preparation and feasibility studies for the directly productive sectors. All of these actions will contribute to better returns from public investment activity.

Low!

11. The Government has also taken some steps to promote exports. In late October 1975, Tanzania, in conjunction with Kenya and Uganda, devalued the shilling by approximately 14 percent. This devaluation will, if passed on to producers in the form of higher shilling prices for their output, add to the incentives for exports of both primary and manufactured products. In recent months the Government has also set up an export promotion bureau in the Ministry of Commerce and has also established an export department in the Bank of Tanzania to assist exporters in obtaining financing.

^{1/} See Annex II for current data on public investment.

12. In our view the general thrust of the Government's policy framework is correct. We also feel that the initiatives already undertaken represent a substantial and creditable effort to meet the economic crisis. We would particularly emphasize the importance of the following actions:

- (a) maintaining the recently increased share of directly productive sectors in public investment;
- (b) sustaining an adequate level and structure of producer prices in agriculture; *↑ food relative to other crops.*
- (c) holding wage increases to the minimum acceptable level;
- (d) maintaining tight control over government recurrent expenditures and government borrowing.

We recommend that the Bank should seek assurances from the Government at the time of negotiations that the above policies will be retained in place. This is particularly important in the light of certain recently-announced decisions. For example, we are not entirely clear about the implications for (a) and (d) above of the recent decisions to advance the target dates for universal primary education (to 1977) and for universal rural water supply (to 1980). If these targets were to be approached using the existing delivery systems and investment/output ratios the volume of resources required over the next few years would far exceed the capabilities of the country. The Government has indicated that UPE and URWS will be implemented using lower standards, lower cost delivery systems and materials, and much more self-help than has been mobilized in the past, in order to minimize the budgetary impact. However, as yet we do not have detailed information about how these programs will be undertaken. We recommend, therefore, that the Bank should be fully informed by the Government about the capital and recurrent budget implications of UPE and URWS in order to assure ourselves that these targets are feasible.

13. With respect to agricultural producer prices we have been impressed with the pragmatic fashion in which the Tanzanian authorities have approached this problem, with the extent of the upward revisions in prices which have been introduced, and with the decision to institutionalize producer price setting through an annual agricultural price review. However, both in the recent exhortation campaign to grow more food and in the recent producer price increases the balance may have swung somewhat too far in favor of domestic food crops. In view of the present balance of payments situation every effort must be made to increase incentives for export crops. Thus the issue of the relative structure of producer prices must be an important part of the Government's periodic review of all agricultural prices.

14. There is one further aspect of producer price policy which we wish to emphasize. In some instances recent producer price increases have aggravated the financial problems of export processing and marketing

parastatals, which has in turn generated counteracting pressure for lowering producer prices. Several studies of these parastatals, including one which the World Bank is now carrying out, have indicated that in many cases these financial problems are primarily due to inefficiencies, low levels of capacity utilization, overstaffing, and related problems. These problems must be dealt with as part of the general problem of parastatal inefficiency, discussed below. We recommend that in those cases the Government should not consider lowering producer prices as a solution for parastatals' financial losses. To the extent that inappropriate cost-price structures are at the root of the financial problems of these firms, this may be approached through economic instruments such as the recent devaluation.

15. Within this general framework of policy issues there are some areas in which we feel that additional governmental actions are needed to improve economic performance. One of the principal areas where it seems that additional policy actions are called for is that of worker and management efficiency in the parastatal sector. The inefficiency of publicly-owned enterprises has become increasingly critical because of the rapidly expanding role which these institutions are playing in such important sectors as manufacturing, energy, transport, finance and commerce. They have become the major generators, as well as users, of the national surplus. However, they have been largely insulated from the discipline of market forces by the prevailing system of wage, price and import controls and by the deliberate down-playing of the profit motive. While numerous agencies are intended to oversee and control the operations of parastatal enterprises, including boards of directors, parent ministries, the Treasury (which incorporates a Commissioner of Public Investments and a new Inspectorate of Parastatals), the Ministry of Planning, the Audit Corporation and the Price Commission, clear guidelines for setting goals and evaluating performance are lacking.

16. These issues were addressed in the Bank's recent Industrial and Mining Sector Review and also in the first program loan discussions. Recently they have been the focus of an ILO report on wages, incomes and prices, ^{1/} and of government policy studies on incomes, prices, and productivity, and on government control of parastatals. The ILO report argues that real output per worker in the modern sector has probably declined in recent years, and goes on to recommend changes in the present little-used bonus payment scheme and establishment of a national incomes, prices and productivity council. The Government is committed to improving productivity and efficiency in the economy and is actively investigating changes in the wage and pricing systems and in parastatal organization that will raise parastatals' surpluses. In the first program loan negotiations the Government committed itself "to seek improvements to the existing incentive system for managers and workers and to more

^{1/} Report to the Government of Tanzania on the Past, Present and Future of Incomes Policy in Tanzania, International Labour Organisation, Geneva, 1975.

effectively relate bonuses to increased productivity." However, to date no action has been taken by the Government on the major recommendations of these reports and internal policy studies. Our concern over this general issue has already been made known to the Government and we would hope that some definitive policy actions will be taken soon. We request consideration of the following issue:

Should the second program loan be made conditional on policy initiatives relating to improved incentives for parastatal performance?

In our judgement some clear action or decision in this area would greatly strengthen the justification for the second program loan. We suggest that, at a minimum, we should have the Government's official response to the ILO report.

17. The other major area in which the Government communicated its intentions of review and subsequent action last year, but in which few specific measures have been introduced, is that of general incentives for manufactured exports, including export subsidies where justified. As was indicated earlier, an export promotion bureau has been established and the recent devaluation should help, but in view of rapidly rising domestic costs further export incentives may be needed. In recent years Tanzania has followed a generally inward-looking development path with few inducements to export expansion. If essential import levels are to be attained in the future a more systematic approach to export development will be required. Increased processing of traditional agricultural exports and a greater export orientation of existing resource-based industries such as textiles, wood products, leather and leather products could increase foreign exchange earnings as well as strengthen inter-industry linkages. Over the longer term there are prospects for certain mineral-based exports such as soda ash, coal, iron ore and steel, and natural gas. In light of the critical balance of payments situation, should the negotiations for the second program loan be used as an opportunity for pressing the Government to articulate a medium-term export policy? We recommend that this issue should be made one of the principal issues for discussion at that time; emphasis could be given to the desirability of setting export targets for specified industries, to the need for improved marketing, to the importance of decisions on export price and subsidy policy, and to the potential benefits of joint ventures with majority Government interest.

Future Program Lending

18. While we have dealt primarily with the balance of payments problem in 1976 in this memorandum, we have alluded to the fact that the adjustment process to the balance of payments crisis will require a number of years. There may well be a need for further program lending to Tanzania beyond 1976. The terms of trade deterioration which Tanzania has experienced has been a severe one, and there is little likelihood of improvement during the remainder of the decade. Further, significant output changes from the new investment priorities will require three to four years. The principal improvements in the economic situation in the

medium run are likely to come from increased agricultural production and exports. Some improvements are also possible in the balance of trade in manufactured products through increased import-substitution production from earlier investments and through ad hoc expansion of exports of selected manufactured goods such as sugar. In addition to assisting the Government to carry out this difficult adjustment, program lending to Tanzania from the Bank's viewpoint reaffirms our support for the overall direction of Tanzania's economic development, which continues to represent a bold departure from the usual pattern of urban-oriented growth, and affords continued opportunities for detailed discussion and suggestions about the Government's economic policies.

Procurement

19. In the first program loan to Tanzania the Government's procurement procedures for imports were accepted. For imports by government ministries and departments the procurement regulations of the Central Tender Board apply. These procedures ensure full opportunity for participation by foreign suppliers and are in accordance with the Bank Group's procurement guidelines. The parastatal and private sectors follow no explicit government guidelines for international procurement; however, most companies follow normal commercial procurement practices using competitive bidding where appropriate. Further, the Bank of Tanzania requires that, with few exceptions, all imports be subject to compulsory quality and quantity inspection and price comparison by General Superintendence Company of Switzerland before shipment is effected. We recommend that the Bank again accept Tanzania's procurement procedures for goods to be financed under the second program loan.

Disbursement

20. The first program loan financed imports of capital goods, intermediate goods and raw materials. A "negative list" prohibited disbursements against imports of food, fuel, fertilizers or consumer goods. The Government was reimbursed for expenditures on eligible imports not financed through other assistance on the basis of import documents and evidence of payment submitted to the Bank. The entire loan was disbursed within less than five months from the date of effectiveness. We recommend that the same disbursement guidelines be used for the second program loan. In the first program loan individual import invoices of less than \$500 were not eligible for reimbursement; in fact no small invoices were submitted. We suggest, on the recommendation of the controllers' staff at RMEA, that individual import invoices below \$5,000 be excluded from reimbursement under the second program loan. We also recommend that the procedures adopted for handling counterpart funds under the first program loan be applied for the second loan. !!

Timing

21. Negotiations for the second program loan are currently scheduled for the first week in April with Board presentation set for the first week in May 1976. The Government has inquired whether negotiations could be held as early as February but we have responded that we feel that the fourth week in March is the earliest date at which negotiations could be held. If this timetable is followed it is reasonable to assume, based on the experience with the first program loan, that the loan proceeds would be fully disbursed during the 1976 calendar year.

cc: Messrs. Husain, Hablutzel, Hansen, Barry, Please, Wiehen, H. Adler, Hendry, Morse, Creyke, RMEA Office, Res. Rep. Tanzania, Knapp (3), Cargill, Maubouche, Baum, King, van der Tak, Raizen, Ray, Chenery, Haq, Hoffman, Edelman, Tims, Zardan, Stevenson, Bowron, Ms. Harris, Walser, Singh, Gulhati, Burney, Walton, Walden, Pennisi, Bickers, Erkmen, Reid, and, Stern

Enclosures

TANZANIA (MAINLAND)
Balance of Payments, 1973-76
(millions of U.S. dollars)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
<u>CURRENT ACCOUNT</u>				
Exports (f.o.b.)	330.5	388.0	361.1	414.3
Imports (f.o.b.)	- 459.7	- 738.7	- 792.3	711.1
Trade balance	- 129.2	- 350.7	- 431.1	- 296.8
Net services	27.0	25.5	54.6	49.6
Net transfers	5.0	15.7	77.8	55.5
Current Account Balance	- 97.2	- 309.5	- 298.7	- 191.7
<u>CAPITAL ACCOUNT</u>				
Government M and LT loans				
Tazara	108.6	61.7	40.4	6.2
Other	45.8	47.5	98.9	105.0
Less repayments	- 13.2	- 8.7	- 20.2	- 18.4
Net inflow	141.2	100.5	119.1	92.8
Parastatal and Private M and LT (net)	11.4	24.5	32.4	9.6
Government compensation payments	- 5.1	- 4.2	- 2.9	- 2.0
Other capital movements	- 20.8	7.4	9.5	-
Errors and omissions	- 8.7	36.9	-	-
Program assistance	-	7.1 ^{1/}	112.0 ^{3/}	44.7 ^{5/}
Special transactions	-	46.3 ^{2/}	28.6 ^{4/}	12.6 ^{6/}
Net change in reserves	- 20.8	91.0	-	- 12.4
Unfilled gap	-	-	-	46.4

Notes:

- 1/ Arab Fund for Africa.
2/ Drawings on IMF 1974 Oil Facility (\$33.7 m.); and IMF 1st Credit Tranch (\$12.6 m).
3/ Bilateral program assistance of \$67.7 m., Bank program loan of \$30.0 m., and Arab Fund for Africa of \$14.3 m.
4/ Drawings on IMF 1974 Oil Facility (\$3.8 m.); IMF 1975 Oil Facility (\$24.8 m).
5/ World Bank program loan of \$30.0 m.; and Arab Fund for Africa of \$14.7 m.
6/ Drawing on IMF 2nd Credit Tranch.

Source: Data from Bank of Tanzania and staff estimates.

Assumptions Underlying Balance of Payments Projection for 1976

1. Export volumes are expected to recover from the lows reached in 1974 and 1975, and price increases (in local currency) are also expected for all major export commodities except sisal. Details are shown below. For all other exports not shown in detail an increase of 5 percent in value is assumed.

<u>Commodity</u>	<u>Change in Quantity 1976/1975</u>	<u>Change in Price 1976/1975</u>
Cashewnuts	+5%	+20%
Sisal	-	-20%
Cotton	+50%	+15%
Coffee	+10%	+20%
Tea	+ 4.5%	+ 3%
Tobacco	+ 5%	-
Pyrethrum	+10%	+10%
Sugar	30,000 tons	-

2. The import projection for 1976 is based on an extrapolation of the value of import licenses (which account for about 70 percent of total imports) for July-December 1975, with an added increase of \$10 million for petroleum imports to account for the recent price increase, and \$7-8 million for anticipated maize imports.

3. Unrequited transfers include a \$75 million (TSh. 600 million) grant from SIDA. Project aid is assumed to remain at about the same level as in 1975, with the exception of the TAZARA project. The program assistance included in the projections is limited to the IBRD program loan, the Arab Fund for Africa (\$14.7 million), and the IMF second credit tranche (\$12.6 million).

Table 1 - TANZANIA: Government Development Expenditures

	<u>Actuals</u>		<u>Planned</u>		<u>Provisional Actuals</u>	
	Average Annual 1970/71-1973/74		1974/75		1974/75	
	<u>Sh.Mill</u>	<u>%</u>	<u>Sh.Mill</u>	<u>%</u>	<u>Sh.Mill</u>	<u>%</u>
<u>Directly Productive</u>	<u>210</u>	<u>22.9</u>	<u>688</u>	<u>35.7</u>	<u>527</u>	<u>28.2</u>
Agriculture	145	15.8	499	25.9	334	17.8
Commerce, Industry & Mining	65	7.1	189	9.8	193	10.3
<u>Economic Infrastructure</u>	<u>438</u>	<u>47.8</u>	<u>719</u>	<u>37.3</u>	<u>833</u>	<u>44.5</u>
Water	85	9.3	215	11.1	215	11.5
Power	97	10.6	216	11.2	216	11.6
Communication	183	19.9	214	11.1	303	16.2
Other <u>1/</u>	74	8.1	73	3.8	99	5.3
<u>Social Infrastructure</u>	<u>73</u>	<u>8.0</u>	<u>195</u>	<u>10.1</u>	<u>164</u>	<u>8.7</u>
Education	49	5.3	112	5.8	95	5.1
Health	21	2.3	80	4.2	66	3.5
Other	3	0.3	3	0.1	3	0.2
<u>Other <u>2/</u></u>	<u>196</u>	<u>21.4</u>	<u>326</u>	<u>16.9</u>	<u>347</u>	<u>18.6</u>
<u>TOTAL</u>	<u>917</u>	<u>100.0</u>	<u>1928</u>	<u>100.0</u>	<u>1872</u>	<u>100.0</u>

1/ Housing and Urban Development; Natural Resources and Tourism; Dodoma Capital Development; and other Regional Infrastructure.

2/ Regional and Central Administration and Planning; Information and Broadcasting; and Security.

Sources: Auditor-General's Reports, Annual Plan 1974/75, and estimates made available by Ministry of Economic Affairs and Development Planning.

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Table 2 - TANZANIA: Public Investment; Planned, Provisional Actuals and Deviations
 (in T.Sh. millions except when otherwise specified)

	1974/75			1975/76		Sectoral Shares (%)			
	Planned	Provisional Actual	% Deviation From Planned	Planned		1974/75		1975/76	
				All Projects	New Projects	Planned	Provisional Actual	All Projects	New Projects
<u>Directly Productive</u>	<u>1282.8</u>	<u>949.5</u>	<u>-26.0</u>	<u>1736.0</u>	<u>962.4</u>	<u>47.9</u>	<u>41.3</u>	<u>47.7</u>	<u>78.8</u>
Agriculture	983.3	701.8	-28.6	1208.2	308.0	36.7	30.3	33.2	25.2
Commerce, Industry, Mining	299.5	247.7	-17.3	527.8	654.4	11.2	10.8	14.5	53.6
<u>Economic Infrastructure</u>	<u>937.6</u>	<u>840.6</u>	<u>- 2.0</u>	<u>1144.8</u>	<u>147.5</u>	<u>32.0</u>	<u>36.5</u>	<u>32.0</u>	<u>12.1</u>
Water	214.8	214.6	- 0.1	337.0	51.2	8.0	9.3	10.6	4.2
Power	253.7	218.4	-15.6	192.1	-	9.7	9.5	5.3	-
Communication	224.5	303.9	35.4	344.1	75.3	8.4	13.2	9.5	6.2
Other 2/	159.6	103.7	-35.0	241.6	21.0	6.0	4.5	6.6	1.7
<u>Social Infrastructure</u>	<u>197.9</u>	<u>163.7</u>	<u>-17.3</u>	<u>297.4</u>	<u>104.4</u>	<u>7.4</u>	<u>7.1</u>	<u>8.2</u>	<u>8.6</u>
Education	114.6	94.6	-17.5	219.8	78.0	4.3	4.1	6.0	6.4
Health	80.5	66.0	-18.0	75.0	26.4	3.0	2.9	2.1	2.2
Other	2.8	3.1	10.7	2.6	-	0.1	0.1	0.1	-
<u>Other 3/</u>	<u>342.5</u>	<u>347.4</u>	<u>1.4</u>	<u>443.3</u>	<u>6.3</u>	<u>12.8</u>	<u>15.1</u>	<u>12.1</u>	<u>0.5</u>
TOTAL	<u>2680.5</u>	<u>2301.2</u>	<u>-14.2</u>	<u>3641.5</u>	<u>1220.6</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

1/ Government Development Budget plus Extra-budgetary Investment Expenditures financed by Parastatals "own resources".

2/ Housing and Urban Development; Natural Resources and Tourism; Dodoma Capital Development; and other Regional Infrastructure.

3/ Regional and Central Administration and Planning; Information and Broadcasting and Security.

Sources: Annual Plans for 1974/75 and 1975/76 and information made available by Ministry of Economic Affairs and Development Planning.

OFFICE MEMORANDUM

TO: Mr. Ping-cheung Loh, Chief, EAfrica IA DATE: December 30, 1975

FROM: S. O'Brien, Economist, EAfrica IA

SUBJECT: TANZANIA - Loan 1063-TA, Program Loan
Completion Report

Introduction

1. This report is based primarily on the findings of three missions to Tanzania; the program loan appraisal mission in September 1974, a mission in July/August 1975 to review the implementation of this project and the program of policy understandings which laid the basis for the loan, and an appraisal mission for a second program loan carried out in November 1975.

Project Data

Borrower	:	United Republic of Tanzania
Loan Amount	:	US\$30.0 million
Date of Loan Agreement	:	December 20, 1974
Effective Date	:	January 9, 1975
Terms of Credit	:	30 yrs, 10 yrs grace, 8% int.
Amount Disbursed:		
Jan 75	:	-
Feb 75	:	US\$2.3 million
Mar 75	:	US\$17.6 million
Apr 75	:	US\$10.06 million
May 75	:	US\$0.04 million
Closing Date	:	December 31, 1975
Rate of Exchange*	:	US\$1 = TSh7.14

The schedule to the Loan Agreement defines the Project as follows:

"The Project consists of the provision to the Borrower of foreign exchange required for the import into Tanzania by the public and private sectors of essential capital and intermediate goods and raw materials as listed in Schedule I to this Agreement, and of the implementation by the Borrower of such parts of its 1974/75 investment

* This is the official exchange rate between the Tanzanian shilling and the U.S. dollar which prevailed during the disbursement period of this loan. On October 27, 1975 the Tanzanian shilling was pegged to the SDR at a rate of Sh9.66 = SDRL.00. On the basis of a dollar/SDR conversion rate of 1.2 to 1.0, the new shilling/dollar exchange rate would be 8.05 to 1.00, implying a devaluation of approximately 14 percent vis-a-vis the U.S. dollar.

program as are to be financed under the Votes of the Borrower's 1974/75 Development Budget listed in Schedule 4 to this Agreement."

The Balance of Payments Situation

2. The need for program lending to Tanzania arose when two successive years of drought in 1973 and 1974 (leading to imports of food grains totalling over \$100 million in 1974), combined with the sharp rise in prices of imports as a result of world-wide inflation, led to a serious balance of payments crisis. The cushion of foreign exchange reserves accumulated between 1971 and 1973 was sharply reduced during 1974; net reserves had fallen to only \$35 million at the end of the year, after IMF drawings of \$46 million. This level of reserves was equivalent to only three weeks' imports.

3. At the time of appraisal of the program loan in September 1974, the Bank's projections for 1975 indicated a current account deficit of \$222 million and an overall balance of payments deficit of \$142 million, thereby underscoring the necessity for program assistance. The latest revisions of the 1975 balance of payments indicate an even larger current account deficit of almost \$300 million, due to higher than anticipated imports and lower than anticipated export volumes. After accounting for higher disbursements of project aid, the residual gap is still expected to be approximately \$140 million; this residual gap is being met by bilateral program assistance of an estimated \$70 million, the Bank's \$30 million program loan, and other multilateral assistance (including IMF) of some \$40 million. It is evident that the Bank's program loan was an essential element in filling the 1975 balance of payments gap; in addition the Bank has been instrumental in mobilizing bilateral program assistance, both at the time of initial program loan discussions and during the Consultative Group meeting for Tanzania in April 1975.

Policy Measures Taken by Government to Cope with the Balance of Payments Deficit

4. Quick disbursing financial assistance to cover the unexpected external gap was provided by the Program Loan. However, in appraisal, negotiation and presentation of the loan, the Bank also emphasized the need for policy actions by the Government of Tanzania to ensure that the balance of payments problem was brought under control in the short to medium-run, while at the same time

the underlying thrust of the Government's long-run development program could be maintained. The mission which went to Tanzania in July/August 1974 prepared, as part of the requirement to report to the Board on the progress of the project, a report entitled "Progress Report on Policy Understandings Relating to Program Loan to Tanzania (Loan No. 1063-TA)." ^{1/} That report provided a summary assessment of the actions taken by the Government of Tanzania to alleviate the balance of payments crisis and the steps taken to restructure the economy in order to maintain the momentum of development despite the adverse terms of trade shift. This report necessarily repeats some of the information already contained in the Board paper. It will evaluate the implementation of the project on two levels: first, in terms of its success in stimulating measures to cope with the immediate balance of payments crisis; second, in terms of the type of policy measures introduced to deal with the longer-trend problems experienced in the Tanzanian economy even before the drought and terms of trade shift had their full impact.

5. One of the first measures undertaken by the Government was to mount an exhortation campaign for Tanzanian farmers to grow more maize in order to restore self-sufficiency in food grains. The impact of this campaign, combined with sharp upward revisions in producer prices for food grains, appears to have been successful, although it has led to a diversion from cash crop production to food crop production in the 1974/75 season. The 1974/75 maize harvest turned out, however, to be slightly lower than was originally estimated because of the lateness of rains in some regions. Purchases of maize by the National Milling Corporation are expected to be 100,000 tons, down from the 125,000 tons expected earlier, but with present stocks the grain should last till end-May 1976. Also in line with the Government's intention to rationalize agricultural pricing policy producer prices were raised in May and November 1974 for a number of basic crops, including cotton (1.13 to 1.50 to 1.75 Sh/kilo), maize (274 to 500 to 750 Sh/metric ton), wheat (557 to 770 to 1000 Sh/metric ton) and rice (Sh 589 to 650 to 800 Sh/metric ton). Further price increases for a number of staple crops were approved by the Government and announced in September to apply to the 1975/76 season. These two issues, namely adequate producer pricing and the proper balance between cash crop and food crop production, are being constantly reviewed by the

^{1/} Sec M75-687, September 25, 1975.

Government as part of the measures needed to stimulate the agriculture sector where growth has been lagging in recent years. In a related measure, the system of steeply progressive export taxes on coffee (averaging 30 percent) was replaced with a 12-1/2 percent ad valorem tax so that farmers would be encouraged to grow higher quality coffee for export.

6. In the sphere of consumption, the Government acted to restrict private consumption demand through imposing a wage freeze in May 1974, curtailing non-food consumer goods imports since mid-1974, banning imports of luxury items, increasing retail prices of basic foodstuffs in November 1974 to eliminate or reduce subsidies, and raising excise taxes on textiles, beer and cigarettes, with further tax raises on these items legislated in the 1975/76 Budget. Urban water rates and electricity user charges were also increased. The cumulative impact of these measures was to raise the cost of living of low income workers by 76 percent between March 1974 and March 1975. This sharp decline in the real income of these workers was slightly compensated for by a wage increase of 10-12 percent in May 1975.

7. At the same time the Government acted to restrain public consumption; Government recurrent expenditure had increased at a rate of almost 30 percent per year between 1971/72 and 1974/75, or at a rate slightly above the increase in recurrent revenues. To control public consumption demand, the Government, in its 1975/76 Budget, allowed for no increase in current expenditures over the estimated actuals of the previous year, implying a substantial decrease in planned recurrent expenditures in real terms.

8. The measures outlined above, plus the expanded distribution of food relief were, to a great extent, successful in protecting the poorer sections of the community from the dramatic short-run income losses brought about by harvest failures and the terms of trade decline and also in preventing the balance of payments situation from becoming much worse. Other policy actions already taken or under study by the Government deal with the medium and longer run situation. These are intended to sustain the pace of Tanzania's development despite the reduced availability of real resources. The main elements of the program include reallocating public investment in favor of directly productive sectors, improving output performance in agriculture, and increasing efficiency in industry and mining while at the same time expanding the export orientation of these sectors.

9. One of the most serious problems facing the Tanzanian economy in recent years has been the declining rate of growth of gross material product in spite of a high investment rate, averaging 21 percent of GDP over 1967-73. This slow growth in the productive base of the economy has been diagnosed, in part, to be a result of the high proportion of investment which went into social and other infrastructure rather than into the directly productive sectors of agriculture, industry, and mining. The Government has been aware of this problem since its 1971 review of the Second Five Year Plan, and has been making efforts to reallocate its investment resources. In the 1974/75 Government Development Budget, approved several months before the Program Loan was signed, 36 percent of capital expenditures were allocated to directly productive sectors compared to a realized average of 23 percent in the preceding four years. For total planned public investment (i.e. government development expenditures plus extra-budgetary investment financed by parastatals' own resources) 48 percent was allocated to directly productive sectors. For 1975/76 the allocations to directly productive sectors in the Government Development Budget and the more inclusive Annual Plan for total public investment also correspond closely to the shares originally budgeted in 1974/75. An even more revealing indicator of the Government's efforts to redirect public investment in favor of directly productive sectors is in the proportion of financial allocations to new projects programmed to start in 1975/76. On this basis, out of an Annual Plan allocation of Sh1221 m. to new projects (representing one-third of the total public investment allocation of Sh3642), four-fifths is programmed for investment in directly productive sectors.

10. Another long term problem is the recorded low productivity of labor. The Government is reviewing a recent ILO incomes policy paper which was prepared at Government request, and is considering a number of measures designed to increase labor productivity. It remains to be seen whether the measures under consideration, if implemented, would be effective.

11. The inefficiency of publicly owned parastatal enterprises has become an important issue because of these institutions' key investment role in such vital sectors of the economy as manufacturing, energy, transport, finance and commerce. As such, they are the major users, as well as generators, of the national surplus and play an important role in the structural transformation of the economy which Tanzania is attempting. However, these state enterprises have been largely insulated from market forces by the prevailing system of price, import and marketing controls, while clear guidelines for their performance goals are lacking. A Government policy paper has been prepared

dealing with the question of "control" of the parastatals, and the Bank is assisting in a cost study of the agro-processing and marketing parastatals.

12. To improve the balance of payments situation in the long run, exports will have to be increased. Aside from the policy measures already discussed, the Government has established two units to deal specifically with this issue. An export promotion bureau has been set up in the Ministry of Commerce to study the export potential of various sub-sectors of manufacturing and an export department is being established in the Bank of Tanzania to facilitate the export of manufactured goods. Also, in late October, the Government of Tanzania, in concert with the Governments of Kenya and Uganda, devalued the shilling by approximately 14 percent. This devaluation should contribute to higher exports.

13. Another long-term problem area is in project preparation and implementation. To improve project implementation capacity, the 1975/76 Development Budget embodies a much more rigorous screening process to include only ongoing projects and projects guaranteed to "take off" during the current fiscal year. In addition, two new control units have been created in the Ministry of Finance to improve public sector project performance. One will concentrate on monitoring, streamlining, and expediting disbursements on externally financed projects. The second will work in cooperation with ministries and parastatals to monitor the efficient utilization of resources by parastatals. The Bank has recently approved a technical assistance credit of \$6 million to assist in project preparation and has seconded several project advisers to the Ministry of Agriculture.

Policy Actions and the Economic Outlook

14. As was clearly recognized at the time of the program loan discussions in late 1974, many of the effects of the policy actions undertaken by the Government will only be felt over the coming years rather than in a few months. In most cases it is too early to observe significant effects in the conventional economic indicators. While the improved harvest for 1975 is to be greatly welcomed, the balance of payments is nevertheless expected to remain under severe pressure for the medium-run, until more of the favorable balance of payments effects of the recent policy changes bear fruit. For 1976 the residual balance of payments gap is projected to be \$80-100 million, even though the very tight import control program is maintained, and assuming a moderate recovery of export volumes and prices. Tanzania will thus clearly require additional concessionary assistance during

this period of economic restructuring, and a further program loan of \$30 million from the World Bank is anticipated in 1976.

Disbursement Procedures

15. Foreign exchange provided under this loan was utilized for essential imports of capital equipment, intermediate goods and raw materials. No disbursements were made for food, fuel, fertilizers or consumer goods, or for imports for which other sources of foreign financing had been secured. In order to streamline disbursement procedures, no individual import invoices of less than \$500 were eligible for reimbursement.

16. The program loan was drawn down rapidly, as indicated in the disbursement schedule on page 1 of this report; over 99 percent of the loan was disbursed by the end of April 1975, four months after effectiveness, and 100 percent by the end of May 1975. At the outset there were minor delays in processing of import invoices by the National Bank of Commerce, but these difficulties were resolved quickly with the assistance of the controller's staff at RMEA.

17. A special project account was opened by the Bank of Tanzania to which the Tanzanian shilling equivalents of the imports financed under the project were credited. The Government was authorized to withdraw funds from the project account to cover expenditures under certain specified votes in the 1974-75 Development Budget, after the Bank had had the opportunity to review the withdrawal proposals. The use of these counterpart funds was limited to those expenditures not otherwise financed by external sources. A request to withdraw the entire amount of the counterpart funds was submitted by the Ministry of Finance in July. The request was reviewed by the Bank and authorization was given in August.

FSO'Brien/SChan/ebb.

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SecM75-687

From: The Secretary

September 25, 1975

Subject: Progress Report on Policy Understandings Relating
to Program Loan to Tanzania (Loan No. 1063 TA)

In December 1974 the Board approved a Program Loan of \$30 million to Tanzania to assist the Government in coping with the extraordinary balance of payments difficulties encountered in 1974 and anticipated for 1975. These difficulties were caused primarily by the adverse shifts in the terms of trade in 1974 and two successive years of drought in crop years 1973/74 and 1974/75, which checked the growth of agricultural cash crop exports and reduced foodgrain production by as much as 30% from the 1970/72 average, thus entailing massive food imports. Quick disbursing financial assistance to cover the unexpected external gap was provided by the Program Loan. However, in appraisal, negotiation and presentation of the Loan the Bank also emphasized the need for policy actions by the Government of Tanzania to ensure that the balance of payments problem was brought under control in the short- to medium-run, while at the same time the underlying thrust of the Government's long-run development program could be maintained.

To achieve these short- and long-run objectives the Government of Tanzania prepared a program of policy actions. At the time of approval of the Program Loan the Bank's staff was asked by the Board to submit a progress report on these policy understandings within eight or nine months of the Loan approval. Accordingly, a Bank mission visited Tanzania in July/August, and its findings are summarized in the attached memorandum, prepared in the Eastern Africa Region.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Executive Vice President and Vice President, IFC
President's Council
Directors and Department Heads, Bank and IFC

PROGRESS REPORT ON POLICY UNDERSTANDINGS RELATING
TO PROGRAM LOAN TO TANZANIA (LOAN NO. 1063 TA)

I. Policy Understandings and Measures Adopted by the Government

The President's Report on the Program Loan (Part V of the Report* is attached as Annex I for reference) sets forth the program of policies which was jointly agreed as desirable to cope with the immediate economic crisis and to initiate the longer term structural adjustments necessary to protect and reinvigorate the momentum of development in the face of adverse terms of trade shifts. In essence, the program called for a judicious blend of demand management, restructuring investment and improving the incentive framework in ways that would increase the growth of output despite the reduced availability of real resources. The main elements of the program consisted of reallocation of public investment in favor of directly productive sectors, a series of measures to improve output performance in agriculture, initiatives to reform the structure of incentives in industry and mining to engender higher factor productivity and increase the export orientation of the sector, and restraints on private and Government consumption demand.

This section reviews the progress in implementing these policy measures. As an overall conclusion there is no question that the Government has lived up to the spirit of the policy understandings and taken significant steps, some of which have been extremely difficult ones, to implement the program of economic restructuring.

A. Public Investment Policy

The Government has been aware of the need to reallocate public investment in favor of the directly productive sectors (agriculture, industry and mining) since its own 1971/72 mid-term review of the second Five-Year Plan. The 1974/75 Government Development Budget, approved several months before the Program Loan was signed, allocated 36% of expenditures to directly productive sectors compared to a realized average of 23% in the preceding four years. For total planned public investment (Government development expenditures plus extra-budgetary investment financed by parastatals' own resources) 48% was allocated to directly productive sectors.

In the light of past trends and given the short-run constraints on project implementation capacity these targets were overly ambitious. Preliminary estimates indicate significant shortfalls in planned public investment (in the order of 15% in nominal terms). In part the shortfalls

*R74-236, dated November 26, 1974.

reflect the overall resource squeeze (imposed by drought and import price inflation during 1974/75) which was even tighter than originally envisaged. More particularly, a variety of factors (local and foreign) induced delays in the implementation of some large, externally financed, productive projects, mainly in agriculture, leading to slower-than-anticipated disbursements. As a result investment shortfalls were particularly heavy in directly productive sectors. Nevertheless these sectors still accounted for 28% of the Government Development Budget compared to the previous four year average of 23% noted earlier. And as a share of total public investment directly productive sectors received 41%.

For 1975/76 the allocations to directly productive sectors in the Government Development Budget and the more inclusive Annual Plan for total public investment correspond closely to the shares originally budgeted in 1974/75. However, in the light of the divergences between planned and actual expenditures experienced in 1974/75, the 1975/76 program embodies a much more rigorous screening to include only on-going projects plus those projects guaranteed to "take off" during the current fiscal year. Furthermore, several specific steps are being taken to improve project implementation capacity in the directly productive sectors (see below). More generally, two new units are being created in the Ministry of Finance to improve public sector project performance. One will concentrate on monitoring, streamlining, and expediting disbursements on externally financed projects. The second, announced in the Finance Minister's June Budget speech, "will work in cooperation with ministries and parastatals to see to it that parastatal resources are efficiently utilized to increase production. Those parastatals which fail to generate surpluses will be closed down." All these measures should bring about a closer correspondence between planned and actual expenditures in 1975/76 than occurred in 1974/75.

Perhaps a more revealing and persuasive indicator of the Government's continued efforts to redirect public investment in favor of directly productive sectors is obtained by looking at the financial allocations to new projects programmed to start in 1975/76, as these represent the Government's current sectoral priorities whereas total allocations to all projects primarily reflect the financial implications of decisions taken in the past. On this basis, out of an Annual Plan allocation of Sh 1,221 m. to new projects (representing one-third of the total public investment allocation of Sh 3,642 m.), four-fifths is programmed for investment in directly productive sectors.

The economic crisis and the public investment reallocations it induced also had repercussions for the Government's third Five-Year Plan which was to begin in July 1975. Recognition of a more urgent and long-term need to build up the directly productive sectors was a prime factor in the postponement of the Plan by one year and the ensuing reworking of priorities in the draft Plan document which is currently underway.

B. Agricultural Policy

(a) A number of programs and policies have been initiated by the Government to stimulate the growth of agricultural production.

In crop production the single most impressive effort of the past year has been the TANU Party's success in mobilizing peasants to grow more food under the campaign slogan of "farming as a matter of life and death". The impact of this campaign, highlighted by a nationwide tour by President Nyerere, should not be underestimated, though it is difficult to separate its effects from the sharp upward revisions in producer prices for foodgrains (see below) and the return of normal weather conditions. These positive factors certainly far outweighed any production disruptions which may have been caused by the massive villagization program in 1974 (see below). Further specific programs to assist farmers in increasing food production are now under preparation. The most important is the National Maize Project which is expected to be presented to the Board later this year. The preparation of this Project has proceeded in close collaboration with the Tanzanian authorities. The Project would mark the beginning of a national agricultural development effort extending over two decades and aimed at raising agricultural productivity and rural living standards throughout Tanzania.

Agricultural producer prices for major crops were increased in May and November 1974, so that the ratio of Tanzania producer prices to world prices have risen between 1973 and 1975 as follows: maize, .38 to .88; wheat, .56 to .71; and sorghum, .61 to .97. To keep the issue of adequate producer prices under continuing review, an Agricultural Price Review Commission has been set up. This Commission recommended further price increases for a number of staple crops which were approved by Government and announced in early September, to apply to the 1975/76 season. The Commission has also alerted policy-makers to the need to strengthen the relative profitability of cash crops in current and subsequent price setting exercises so as to avoid undesirable shifts of acreage from these to foodgrains. In addition, the system of steeply progressive export taxes on coffee (averaging 30%) has been replaced with a 12- $\frac{1}{2}$ % ad valorem tax, thus restoring the incentive to farmers to produce higher quality coffee for export. These actions reflect the clear recognition by the Government of the importance of agricultural pricing policy. The system of pan-territorial (uniform) prices remains in effect, though studies are underway to evaluate its effects and examine alternatives.

The Government remains extremely conscious of the need to improve project planning and implementation capacity, especially after the delays experienced in 1974/75 (see above). A Project Coordination Unit has been established in the Ministry of Agriculture and in response to a request from the Government the Bank has supplied a project management advisor and a financial advisor to this Unit. In addition, the Bank's agricultural development service has supplied 15 technical staff to meet specific needs in various projects.

To correct inadequacies in the distribution system, regional trading companies have been introduced to coordinate distribution of agricultural inputs, marketed products and consumer goods. Also, the Bank Group has provided assistance for studying the problems of the road transport sector under the recent Highway Maintenance Credit (No. 507 TA). However, as in the case of project planning and implementation, improvements will take time to mature and further reforms may be called for in the future.

Finally, the Government has recognized that inadequately planned villagization can have a negative impact on agricultural production. During the latter half of 1974 there was a massive push for villagization initiated by regional authorities in almost all sections of the country. As a result of this effort the number of rural households that have been affected now includes an estimated two-thirds to four-fifths of the entire rural population. However, despite the crash nature of the 1974 villagization effort, it does not appear that the short-run production effects have been disastrous, as was predicted by some observers in late 1974. The resettled farmers were able to plant food crops, indeed they were required to plant them under the Government's "life and death agriculture" policy. The expectation now is that the 1975 food crop harvest will be close to normal, as was indicated earlier. The year 1975 has been a period of consolidation for the villagization movement and no further large-scale resettlement of farmers has taken place. The Government is reviewing carefully the 1974 experience and intends to carry out the remaining villagization program in a more carefully planned manner.

C. Industry and Mining

The Government has given high priority to increasing productivity in the industrial and mining sectors. Policy papers are being prepared on parastatal organization and Government control over parastatals, performance indicators for parastatals, price and import control systems, and on an incentive system for workers and managers. The 1975/76 Annual Plan accords high priority to projects that will have a positive effect on the balance of payments. An export promotion bureau has been set up in the Ministry of Commerce and Industry to study the export potential of various sub-sectors of manufacturing and an export department has been established in the Bank of Tanzania. To improve project preparation and implementation, a Project Unit is to be established in the Tanzania Investment Bank to administer a technical assistance project to be financed by an IDA credit which it is proposed to present to the Board by the end of 1975.

D. Private Consumption

To restrict private consumption demand, non-food consumer goods imports have been sharply curtailed since mid-1974, and a ban has been placed on the import of automobiles, spirits, luxury textile goods and others. Retail prices of basic foodstuffs were increased sharply in November 1974 in an effort to eliminate or reduce subsidies, and excise

taxes on textiles, beer and cigarettes were raised to absorb unsatisfied demand. The retail price of maize flour was increased by 60%, sugar by 100% and rice by 150%. Urban water rates and electricity user charges have also been increased. The cumulative impact of these changes was to increase the cost of living index for low income workers in Dar es Salaam by 76% between March 1974 and March 1975, indicating that there has been a sharp decline in the real incomes of urban dwellers. The 1975/76 Budget has legislated further tax increases on beer, cigarettes, soft drinks and petroleum products. A freeze has been maintained on wages and salaries since May 1974, except for low income workers earning Sh 400 per month or less, whose wages were raised by 10-12% in June 1975 because of the substantial losses in real purchasing power which had been sustained by these groups. Finally, an Incomes Policy paper, prepared with ILO assistance, is under consideration by the Government.

E. Government Consumption

Government recurrent expenditure increased at a rate of almost 30% per year between 1971/72 and 1974/75, or at a rate slightly above the increase in recurrent revenues. This was attributable to a rapid expansion in the scale of Government operations and also, in 1974/75, to subsidies on high priced commercial foodgrain imports. Nevertheless, this expansion of Government consumption was seriously straining the economy and contributing to domestic inflation. The 1975/76 Budget, therefore, allows for no increase in recurrent expenditures over the estimated actuals of the previous year, implying a substantial decrease in planned recurrent expenditures in real terms.

F. Summary

To sum up, the policy initiatives adopted by the Government to meet the present economic crisis can justifiably be characterized as impressive, and in some ways go beyond what was called for in the policy understandings reached at the time of the Program Loan.

II. Policy Actions and the Economic Outlook

As was recognized at the time of the Program Loan discussions, many of the effects of the policy actions undertaken by the Government will be felt over years rather than months. In most cases it is too early to observe significant effects in the conventional economic indicators, although in the critical area of food production the more than doubling of the maize price combined with the restoration of normal rainfall and the national exhortation campaign is expected to yield a marketable surplus of 100,000-125,000 tons (compared to only 25,000 tons for the 1974 crop and 74,000 tons in 1973). Together with present stocks, this would be adequate to carry the country through to the spring of 1976. Because of the relatively buoyant harvest outlook no commercial grain imports are planned for the second half of 1975.

While the improved harvest for 1975 is greatly welcomed, the balance of payments is expected to remain under severe pressure for the short-run, until more of the favorable balance of payments effects of the recent policy changes bear fruit. The 1974 balance of payments deficit was met primarily by drawing down reserves, with net reserves falling to only \$35 m. (equivalent to only three weeks' imports) at the end of the year. The balance of payments forecast for 1975 shows a reduction in the current account deficit because of reduced food imports, concessional food aid, and tight controls on non-essential consumer imports. Export volumes, however, are expected to stagnate, while prices of most of Tanzania's exports have fallen from their 1974 peaks. The deficit in 1975 is being met by a massive infusion of foreign assistance, estimated to reach \$280 m., or almost \$20 per capita. Even with this huge inflow Tanzania will be unable to build up net foreign exchange reserves.

For 1976 the balance of payments gap is projected tentatively to be slightly above \$100 m., based on the following assumptions: no grain imports, other import volumes remaining at the 1975 level, which implies a continuation of the very tight import control program, export volumes increasing by 5%, export prices recovering by 7%, and project assistance remaining at the 1975 level in real terms, excluding Tan-Zam railways. At the present time the only known available resources for filling this gap are the remaining balance of the IMF second credit tranche (the standby was concluded in August, when the 1975 Oil Facility drawing was also agreed), amounting to \$6 m. Thus, a gap in the order of \$100m. would still remain. Tanzania will clearly require additional concessional assistance during this period of economic restructuring.

Eastern Africa Regional Office
September 25, 1975

PART V - MANAGING THE MEDIUM-TERM
BALANCE OF PAYMENTS PROBLEM 1/

General

36. The projected size and persistent trend of overall B.O.P. deficits over 1975-80 suggest that major remedial measures are required in the structure of the Tanzanian economy. The projected trend is the consequence of the expected deterioration in the terms of trade and the slow growth of export volumes. Thus, less relative real resources are expected to be available to sustain the growth of consumption and investment. As already noted, persistent B.O.P. deficits resulting from the present pattern of investment, consumption and output would require a level of external borrowing, which is likely to be increasingly on conventional terms, such that creditworthiness would soon be exhausted. Continued external borrowing on conventional terms would inevitably result in external debt management problems in the 1980s. Reducing the level of consumption absolutely at present low levels of per capita incomes and consumption is politically unacceptable. However, the rate of increase of consumption can be moderated. Even if this is achieved, the resource constraint will be such that there will not be enough resources to sustain the present rate of increase of investment. It follows that if the growth rate of GDP is to be maintained and hopefully increased, then investment will have to be restructured to become more productive, especially in ways that benefit the B.O.P. The preferred solution is therefore a judicious blend of demand management and restructuring of investment in ways that increase the growth of output despite the limited resources available. This solution seeks to increase output while moderating the rate of increase of consumption and investment.

Public Investment Policy

37. As noted in Part IV, the Government has already made substantial progress in reallocating public sector investment to the directly productive sectors of agriculture, industry and mining and has informed the Bank that it will continue to pursue this objective. This will imply that investment resources will be available for other sectors. Although there will be political and institutional difficulties in making these reallocations (for example, the Government is committed to supply water to all rural areas in 20 years and these plans will now have to be rephased) the Government is determined to carry them out.

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Agriculture Policy

38. A second policy area is to improve agricultural production. The single most worrying weakness in the economy is the low rate of growth of agriculture production as reflected in the stagnation of per capita food output. While this is a result of a range of problems, there is consensus on some of the primary contributing factors. Until recently, producer incentives were dampened by low agricultural producer prices. However, the Government has responded to this situation by substantially increasing the prices of the major crops in 1973 and 1974. For example, producer prices were increased substantially on May 1, 1974, and increased again on November 1, 1974 for the 1974-75 crop season. The November price increases include a 50 percent increase for maize, 23 percent for paddy, 30 percent for wheat, 75 percent for cotton and 20 percent for flue cured tobacco. Corresponding adjustments have also been made to the controlled retail prices. These prices are now close to the projected long term world parity. The Government has informed the Bank of its intention to continue to maintain prices at levels which provide sufficient incentive to producers. The increased rural incomes made possible by these higher producer prices will not, in our judgement, increase consumption to unmanageable levels, and the foreign exchange gains of increased production would substantially exceed the foreign exchange costs involved in the increased rural consumption.

39. There are three other policies affecting producer incomes where the appropriate action raises great difficulties. One is that the structure of progressive export taxes, largely on "older" traditional crops such as coffee, are now such that at higher prevailing world prices the producer receives relatively less than at lower prices. This probably has an adverse effect on production. However, the short-run supply elasticity of coffee is low, and with a premium on savings, taxing the "windfall" incomes generated by higher world prices is a legitimate fiscal objective. Another is the present uniform national producer price policy. Although this policy results in some misallocation of resources, its modification is a complex subject, e.g., if transport differentials are not set correctly, internal cross haulage will occur. It is also a politically sensitive issue in egalitarian Tanzania. Finally, the rise in the import prices of agriculture inputs such as fertilizer, has affected the impact of input subsidy policies. However, input subsidy levels will have to be examined by the Government in the context of producer price policy and tax policies. The Government has informed the Bank that it will initiate studies of these complex issues with a view to taking appropriate action.

40. A second factor contributing to agricultural stagnation is inadequate project planning and implementation. For example, the IDA assisted tea and tobacco projects are far behind original schedules. Part of the problem is that skilled staff has been dispersed too widely and staff turnover has been extreme as a result of agency proliferation and Government decentralization. Concentrating limited staff on priority areas and projects and greater stability of staff tenure are seen as the solutions. The Government has begun to move in this direction. For example, a team of project implementation experts has been established in the Ministry of Agriculture. The Government

has also notified the Bank that it will arrange longer tenure for senior staff whose frequent rotation has disrupted implementation. The Bank Group will assist the Government's efforts by provision of project planning staff under the IDA assisted Kigoma project as well as the regular services of the Bank's Regional Mission in East Africa (RMEA). Furthermore, the Bank's Resident Representative in Tanzania is concentrating his attention on this problem.

41. A third contributing factor to the agricultural production problem is the inadequacy of distribution systems for production inputs, consumer goods and the marketing of crops. One problem here is inadequate road transport. This is due, in part, to the transition to a mixed system of private, cooperative and state truck operators. The Association has agreed to provide expertise to find solutions in the road transport sector under the Highway Maintenance Project (Credit 507 TA). The Government has informed the Bank that it will take measures to improve distribution of inputs, consumer goods, and marketing of crops. These measures are expected to include improvements in truck maintenance, use of army trucks in supply emergencies, improvement of credit facilities for private truckers, and measures to improve cooperative marketing which is presently seriously inadequate in a number of respects.

42. Another contributing factor to the agricultural problem is that when villagization under ujamaa is poorly planned and implemented, as has happened on occasion, this disrupts agricultural production for at least one season, if not longer. The Government decided to increase rapidly the pace of villagization in 1974 and, although the statistics are unreliable, it appears that about two million persons were resettled during the year. It is also apparent that many of these moves were poorly planned and that some adverse effect on agricultural production in 1975 can be expected. In the emergency facing Tanzania, the planning and implementation of villagization will have to be improved to minimize the short-run negative effects on production. The Government and TANU party recognize this, and the Central Committee of the Party is currently conducting an inquiry into the problems of ujamaa implementation. Meanwhile, the Government has informed the Bank that villagization plans will continue to be kept under constant review and their implementation will be related to the availability of suitable land, competent staff, adequate plans and supply of production inputs. When farmers are resettled within established cash crop areas, villagization will be implemented in ways not to disrupt production.

Industry and Mining

43. In the area of industry and mining, improvement in the productivity of existing state manufacturing enterprises is very important. These are now largely insulated from market incentives by the system of price, import and marketing controls. The Government is currently identifying possible improvements to the present incentive systems for managers and workers, to more effectively relate bonuses to increased productivity. The recent

Bank industry/mining sector mission found cases where the export/domestic price ratio was adverse to exports. Furthermore, incentives for the export of manufactured goods are needed and the Government has indicated to the Bank that it intends to initiate appropriate studies. The development of selected industrial and mining ventures will have a substantial impact on the B.O.P. outlook. The manufacture of textiles, sisal, cashew and cement, based on local raw materials, for all of which projects are being prepared or are in the early stages of implementation, are examples of industries with expansion potential. Phosphate, soda ash, rare metals from beach sands, iron ore and coal, and natural gas are examples of mineral development possibilities. The economic potential of these industrial and mining possibilities are so important that the Government has decided that scarce skilled manpower and finance will be concentrated on the processing of these projects. The Bank is now exploring the feasibility of an IDA credit to assist in project preparation in these sectors.

Private Consumption

44. It has already been emphasized that measures to slow down the rate of growth of private consumption will be required to deal with the projected B.O.P. problem. The Government has already introduced and intends to maintain a wage and salary freeze although this will be increasingly difficult to maintain if inflationary pressures persist, and it is difficult to insulate the economy from inflation from the import side. The Government is also taxing unsatisfied demand where consumer goods are in short supply as is now the case for several basic items such as textiles and beer. The recently announced increased prices (para. 38 above) will also modify the growth in private consumption. Finally, state enterprise product prices will need to be adjusted where inflation is raising costs if state enterprise savings are to be maintained. This will be difficult because higher prices conflict with the objective of holding down the cost of living for the poor.

Government Consumption

45. The Government is having to examine the rate of growth of its own expenditure, particularly of non-development recurrent expenditure. A decline in the rate of increase of investment that generates high levels of recurrent expenditures, for example in the social sectors, would automatically have a favorable effect on Government consumption. While increases in the rate of taxation are unlikely to be possible given the present high ratio of tax revenue to monetary GDP, it may be feasible to devise direct or indirect methods for collecting user charges for certain social services, such as rural water, at present supplied free of charge. The Government has informed the Bank that it will take further measures to slow the rate of growth of Government consumption and to curtail non-development recurrent expenditure.

Summary

46 The policy measures outlined above can be expected to reduce the B.O.P. gap to manageable levels, without undue damage to the development effort, if implemented effectively and as quickly as possible. The Government recognizes the need for action along these lines. Many of these policy changes have already been introduced and will be developed further in the formulation of the 1975-76 development budget and the new Five-Year Development Plan both scheduled to begin July 1, 1975. Furthermore, in the agricultural sector future public investment and staff will be concentrated in areas of highest productive potential. In this context, special measures will be devoted to a national food production program, and within this program, a special program to increase maize production.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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From: The Secretary

September 25, 1975

Subject: Progress Report on Policy Understandings Relating
to Program Loan to Tanzania (Loan No. 1063 TA)

In December 1974 the Board approved a Program Loan of \$30 million to Tanzania to assist the Government in coping with the extraordinary balance of payments difficulties encountered in 1974 and anticipated for 1975. These difficulties were caused primarily by the adverse shifts in the terms of trade in 1974 and two successive years of drought in crop years 1973/74 and 1974/75, which checked the growth of agricultural cash crop exports and reduced foodgrain production by as much as 30% from the 1970/72 average, thus entailing massive food imports. Quick disbursing financial assistance to cover the unexpected external gap was provided by the Program Loan. However, in appraisal, negotiation and presentation of the Loan the Bank also emphasized the need for policy actions by the Government of Tanzania to ensure that the balance of payments problem was brought under control in the short- to medium-run, while at the same time the underlying thrust of the Government's long-run development program could be maintained.

To achieve these short- and long-run objectives the Government of Tanzania prepared a program of policy actions. At the time of approval of the Program Loan the Bank's staff was asked by the Board to submit a progress report on these policy understandings within eight or nine months of the Loan approval. Accordingly, a Bank mission visited Tanzania in July/August, and its findings are summarized in the attached memorandum, prepared in the Eastern Africa Region.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Executive Vice President and Vice President, IFC
President's Council
Directors and Department Heads, Bank and IFC

PROGRESS REPORT ON POLICY UNDERSTANDINGS RELATING
TO PROGRAM LOAN TO TANZANIA (LOAN NO. 1063 TA)

I. Policy Understandings and Measures Adopted by the Government

The President's Report on the Program Loan (Part V of the Report* is attached as Annex I for reference) sets forth the program of policies which was jointly agreed as desirable to cope with the immediate economic crisis and to initiate the longer term structural adjustments necessary to protect and reinvigorate the momentum of development in the face of adverse terms of trade shifts. In essence, the program called for a judicious blend of demand management, restructuring investment and improving the incentive framework in ways that would increase the growth of output despite the reduced availability of real resources. The main elements of the program consisted of reallocation of public investment in favor of directly productive sectors, a series of measures to improve output performance in agriculture, initiatives to reform the structure of incentives in industry and mining to engender higher factor productivity and increase the export orientation of the sector, and restraints on private and Government consumption demand.

This section reviews the progress in implementing these policy measures. As an overall conclusion there is no question that the Government has lived up to the spirit of the policy understandings and taken significant steps, some of which have been extremely difficult ones, to implement the program of economic restructuring.

A. Public Investment Policy

The Government has been aware of the need to reallocate public investment in favor of the directly productive sectors (agriculture, industry and mining) since its own 1971/72 mid-term review of the second Five-Year Plan. The 1974/75 Government Development Budget, approved several months before the Program Loan was signed, allocated 36% of expenditures to directly productive sectors compared to a realized average of 23% in the preceding four years. For total planned public investment (Government development expenditures plus extra-budgetary investment financed by parastatals' own resources) 48% was allocated to directly productive sectors.

In the light of past trends and given the short-run constraints on project implementation capacity these targets were overly ambitious. Preliminary estimates indicate significant shortfalls in planned public investment (in the order of 15% in nominal terms). In part the shortfalls

*R74-236, dated November 26, 1974.

reflect the overall resource squeeze (imposed by drought and import price inflation during 1974/75) which was even tighter than originally envisaged. More particularly, a variety of factors (local and foreign) induced delays in the implementation of some large, externally financed, productive projects, mainly in agriculture, leading to slower-than-anticipated disbursements. As a result investment shortfalls were particularly heavy in directly productive sectors. Nevertheless these sectors still accounted for 28% of the Government Development Budget compared to the previous four year average of 23% noted earlier. And as a share of total public investment directly productive sectors received 41%.

For 1975/76 the allocations to directly productive sectors in the Government Development Budget and the more inclusive Annual Plan for total public investment correspond closely to the shares originally budgeted in 1974/75. However, in the light of the divergences between planned and actual expenditures experienced in 1974/75, the 1975/76 program embodies a much more rigorous screening to include only on-going projects plus those projects guaranteed to "take off" during the current fiscal year. Furthermore, several specific steps are being taken to improve project implementation capacity in the directly productive sectors (see below). More generally, two new units are being created in the Ministry of Finance to improve public sector project performance. One will concentrate on monitoring, streamlining, and expediting disbursements on externally financed projects. The second, announced in the Finance Minister's June Budget speech, "will work in cooperation with ministries and parastatals to see to it that parastatal resources are efficiently utilized to increase production. Those parastatals which fail to generate surpluses will be closed down." All these measures should bring about a closer correspondence between planned and actual expenditures in 1975/76 than occurred in 1974/75.

Perhaps a more revealing and persuasive indicator of the Government's continued efforts to redirect public investment in favor of directly productive sectors is obtained by looking at the financial allocations to new projects programmed to start in 1975/76, as these represent the Government's current sectoral priorities whereas total allocations to all projects primarily reflect the financial implications of decisions taken in the past. On this basis, out of an Annual Plan allocation of Sh 1,221 m. to new projects (representing one-third of the total public investment allocation of Sh 3,642 m.), four-fifths is programmed for investment in directly productive sectors.

The economic crisis and the public investment reallocations it induced also had repercussions for the Government's third Five-Year Plan which was to begin in July 1975. Recognition of a more urgent and long-term need to build up the directly productive sectors was a prime factor in the postponement of the Plan by one year and the ensuing reworking of priorities in the draft Plan document which is currently underway.

B. Agricultural Policy

A number of programs and policies have been initiated by the Government to stimulate the growth of agricultural production.

In crop production the single most impressive effort of the past year has been the TANU Party's success in mobilizing peasants to grow more food under the campaign slogan of "farming as a matter of life and death". The impact of this campaign, highlighted by a nationwide tour by President Nyerere, should not be underestimated, though it is difficult to separate its effects from the sharp upward revisions in producer prices for foodgrains (see below) and the return of normal weather conditions. These positive factors certainly far outweighed any production disruptions which may have been caused by the massive villagization program in 1974 (see below). Further specific programs to assist farmers in increasing food production are now under preparation. The most important is the National Maize Project which is expected to be presented to the Board later this year. The preparation of this Project has proceeded in close collaboration with the Tanzanian authorities. The Project would mark the beginning of a national agricultural development effort extending over two decades and aimed at raising agricultural productivity and rural living standards throughout Tanzania.

Agricultural producer prices for major crops were increased in May and November 1974, so that the ratio of Tanzania producer prices to world prices have risen between 1973 and 1975 as follows: maize, .38 to .88; wheat, .56 to .71; and sorghum, .61 to .97. To keep the issue of adequate producer prices under continuing review, an Agricultural Price Review Commission has been set up. This Commission recommended further price increases for a number of staple crops which were approved by Government and announced in early September, to apply to the 1975/76 season. The Commission has also alerted policy-makers to the need to strengthen the relative profitability of cash crops in current and subsequent price setting exercises so as to avoid undesirable shifts of acreage from these to foodgrains. In addition, the system of steeply progressive export taxes on coffee (averaging 30%) has been replaced with a 12-1/2% ad valorem tax, thus restoring the incentive to farmers to produce higher quality coffee for export. These actions reflect the clear recognition by the Government of the importance of agricultural pricing policy. The system of pan-territorial (uniform) prices remains in effect, though studies are underway to evaluate its effects and examine alternatives.

The Government remains extremely conscious of the need to improve project planning and implementation capacity, especially after the delays experienced in 1974/75 (see above). A Project Coordination Unit has been established in the Ministry of Agriculture and in response to a request from the Government the Bank has supplied a project management advisor and a financial advisor to this Unit. In addition, the Bank's agricultural development service has supplied 15 technical staff to meet specific needs in various projects.

To correct inadequacies in the distribution system, regional trading companies have been introduced to coordinate distribution of agricultural inputs, marketed products and consumer goods. Also, the Bank Group has provided assistance for studying the problems of the road transport sector under the recent Highway Maintenance Credit (No. 507 TA). However, as in the case of project planning and implementation, improvements will take time to mature and further reforms may be called for in the future.

Finally, the Government has recognized that inadequately planned villagization can have a negative impact on agricultural production. During the latter half of 1974 there was a massive push for villagization initiated by regional authorities in almost all sections of the country. As a result of this effort the number of rural households that have been affected now includes an estimated two-thirds to four-fifths of the entire rural population. However, despite the crash nature of the 1974 villagization effort, it does not appear that the short-run production effects have been disastrous, as was predicted by some observers in late 1974. The resettled farmers were able to plant food crops, indeed they were required to plant them under the Government's "life and death agriculture" policy. The expectation now is that the 1975 food crop harvest will be close to normal, as was indicated earlier. The year 1975 has been a period of consolidation for the villagization movement and no further large-scale resettlement of farmers has taken place. The Government is reviewing carefully the 1974 experience and intends to carry out the remaining villagization program in a more carefully planned manner.

C. Industry and Mining

The Government has given high priority to increasing productivity in the industrial and mining sectors. Policy papers are being prepared on parastatal organization and Government control over parastatals, performance indicators for parastatals, price and import control systems, and on an incentive system for workers and managers. The 1975/76 Annual Plan accords high priority to projects that will have a positive effect on the balance of payments. An export promotion bureau has been set up in the Ministry of Commerce and Industry to study the export potential of various sub-sectors of manufacturing and an export department has been established in the Bank of Tanzania. To improve project preparation and implementation, a Project Unit is to be established in the Tanzania Investment Bank to administer a technical assistance project to be financed by an IDA credit which it is proposed to present to the Board by the end of 1975.

D. Private Consumption

To restrict private consumption demand, non-food consumer goods imports have been sharply curtailed since mid-1974, and a ban has been placed on the import of automobiles, spirits, luxury textile goods and others. Retail prices of basic foodstuffs were increased sharply in November 1974 in an effort to eliminate or reduce subsidies, and excise

taxes on textiles, beer and cigarettes were raised to absorb unsatisfied demand. The retail price of maize flour was increased by 60%, sugar by 100% and rice by 150%. Urban water rates and electricity user charges have also been increased. The cumulative impact of these changes was to increase the cost of living index for low income workers in Dar es Salaam by 76% between March 1974 and March 1975, indicating that there has been a sharp decline in the real incomes of urban dwellers. The 1975/76 Budget has legislated further tax increases on beer, cigarettes, soft drinks and petroleum products. A freeze has been maintained on wages and salaries since May 1974, except for low income workers earning Sh 400 per month or less, whose wages were raised by 10-12% in June 1975 because of the substantial losses in real purchasing power which had been sustained by these groups. Finally, an Incomes Policy paper, prepared with ILO assistance, is under consideration by the Government.

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39. There are three other policies affecting producer incomes where the appropriate action raises great difficulties. One is that the structure of progressive export taxes, largely on "older" traditional crops such as coffee, are now such that at higher prevailing world prices the producer receives relatively less than at lower prices. This probably has an adverse affect on production. However, the short-run supply elasticity of coffee is low, and with a premium on savings, taxing the "windfall" incomes generated by higher world prices is a legitimate fiscal objective. Another is the present uniform national producer price policy. Although this policy results in some misallocation of resources, its modification is a complex subject, e.g., if transport differentials are not set correctly, internal cross haulage will occur. It is also a politically sensitive issue in egalitarian Tanzania. Finally, the rise in the import prices of agriculture inputs such as fertilizer, has affected the impact of input subsidy policies. However, input subsidy levels will have to be examined by the Government in the context of producer price policy and tax policies. The Government has informed the Bank that it will initiate studies of these complex issues with a view to taking appropriate action.

40. A second factor contributing to agricultural stagnation is inadequate project planning and implementation. For example, the IDA assisted tea and tobacco projects are far behind original schedules. Part of the problem is that skilled staff has been dispersed too widely and staff turnover has been extreme as a result of agency proliferation and Government decentralization. Concentrating limited staff on priority areas and projects and greater stability of staff tenure are seen as the solutions. The Government has begun to move in this direction. For example, a team of project implementation experts has been established in the Ministry of Agriculture. The Government

has also notified the Bank that it will arrange longer tenure for senior staff whose frequent rotation has disrupted implementation. The Bank Group will assist the Government's efforts by provision of project planning staff under the IDA assisted Kigoma project as well as the regular services of the Bank's Regional Mission in East Africa (RMEA). Furthermore, the Bank's Resident Representative in Tanzania is concentrating his attention on this problem.

41. A third contributing factor to the agricultural production problem is the inadequacy of distribution systems for production inputs, consumer goods and the marketing of crops. One problem here is inadequate road transport. This is due, in part, to the transition to a mixed system of private, cooperative and state truck operators. The Association has agreed to provide expertise to find solutions in the road transport sector under the Highway Maintenance Project (Credit 507 TA). The Government has informed the Bank that it will take measures to improve distribution of inputs, consumer goods, and marketing of crops. These measures are expected to include improvements in truck maintenance, use of army trucks in supply emergencies, improvement of credit facilities for private truckers, and measures to improve cooperative marketing which is presently seriously inadequate in a number of respects.

42. Another contributing factor to the agricultural problem is that when villagization under ujamaa is poorly planned and implemented, as has happened on occasion, this disrupts agricultural production for at least one season, if not longer. The Government decided to increase rapidly the pace of villagization in 1974 and, although the statistics are unreliable, it appears that about two million persons were resettled during the year. It is also apparent that many of these moves were poorly planned and that some adverse effect on agricultural production in 1975 can be expected. In the emergency facing Tanzania, the planning and implementation of villagization will have to be improved to minimize the short-run negative effects on production. The Government and TANU party recognize this, and the Central Committee of the Party is currently conducting an inquiry into the problems of ujamaa implementation. Meanwhile, the Government has informed the Bank that villagization plans will continue to be kept under constant review and their implementation will be related to the availability of suitable land, competent staff, adequate plans and supply of production inputs. When farmers are resettled within established cash crop areas, villagization will be implemented in ways not to disrupt production.

Industry and Mining

43. In the area of industry and mining, improvement in the productivity of existing state manufacturing enterprises is very important. These are now largely insulated from market incentives by the system of price, import and marketing controls. The Government is currently identifying possible improvements to the present incentive systems for managers and workers, to more effectively relate bonuses to increased productivity. The recent

Bank industry/mining sector mission found cases where the export/domestic price ratio was adverse to exports. Furthermore, incentives for the export of manufactured goods are needed and the Government has indicated to the Bank that it intends to initiate appropriate studies. The development of selected industrial and mining ventures will have a substantial impact on the B.O.P. outlook. The manufacture of textiles, sisal, cashew and cement, based on local raw materials, for all of which projects are being prepared or are in the early stages of implementation, are examples of industries with expansion potential. Phosphate, soda ash, rare metals from beach sands, iron ore and coal, and natural gas are examples of mineral development possibilities. The economic potential of these industrial and mining possibilities are so important that the Government has decided that scarce skilled manpower and finance will be concentrated on the processing of these projects. The Bank is now exploring the feasibility of an IDA credit to assist in project preparation in these sectors.

Private Consumption

44. It has already been emphasized that measures to slow down the rate of growth of private consumption will be required to deal with the projected B.O.P. problem. The Government has already introduced and intends to maintain a wage and salary freeze although this will be increasingly difficult to maintain if inflationary pressures persist, and it is difficult to insulate the economy from inflation from the import side. The Government is also taxing unsatisfied demand where consumer goods are in short supply as is now the case for several basic items such as textiles and beer. The recently announced increased prices (para. 38 above) will also modify the growth in private consumption. Finally, state enterprise product prices will need to be adjusted where inflation is raising costs if state enterprise savings are to be maintained. This will be difficult because higher prices conflict with the objective of holding down the cost of living for the poor.

Government Consumption

45. The Government is having to examine the rate of growth of its own expenditure, particularly of non-development recurrent expenditure. A decline in the rate of increase of investment that generates high levels of recurrent expenditures, for example in the social sectors, would automatically have a favorable effect on Government consumption. While increases in the rate of taxation are unlikely to be possible given the present high ratio of tax revenue to monetary GDP, it may be feasible to devise direct or indirect methods for collecting user charges for certain social services, such as rural water, at present supplied free of charge. The Government has informed the Bank that it will take further measures to slow the rate of growth of Government consumption and to curtail non-development recurrent expenditure.

Summary

46 The policy measures outlined above can be expected to reduce the B.O.P. gap to manageable levels, without undue damage to the development effort, if implemented effectively and as quickly as possible. The Government recognizes the need for action along these lines. Many of these policy changes have already been introduced and will be developed further in the formulation of the 1975-76 development budget and the new Five-Year Development Plan both scheduled to begin July 1, 1975. Furthermore, in the agricultural sector future public investment and staff will be concentrated in areas of highest productive potential. In this context, special measures will be devoted to a national food production program, and within this program, a special program to increase maize production.



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WBG ARCHIVES

RECENT ECONOMIC DEVELOPMENTS IN TANZANIA

Updating Memorandum Prepared for the April 1975 Meeting
of the East African Consultative Group on Tanzania

1. This updating memorandum should be read in conjunction with, and attempts to update, the "Report and Recommendation of the President to the Bank's Executive Directors on a Proposed Program Loan to the United Republic of Tanzania" (P-1517a-TA) dated November 25, 1974 which was distributed to the members of the Consultative Group under cover of the Secretary's Memorandum No. EA75-1 dated February 19, 1975.
2. Since the above Report was issued it has become apparent that a deterioration in the balance of payments prospects for the immediate future is likely. Also, because of sharply increased domestic and import prices and emergency food import requirements in 1974 and 1975, recurrent Government expenditures are likely to exceed the original budget estimates for 1974/75 by a significant margin. The unfilled balance of payments gap in calendar year 1975 - after allowing for a net capital inflow for project financing of around US\$80 million - is expected to increase from US\$141.6 million (projected in the above Report) to about US\$202 million. The two main reasons for this further worsening of the balance of payments prospects are:
 - (a) a sharper deterioration in the terms of trade than expected; and
 - (b) a downward adjustment of projected export volumes for some of the major export crops, in particular cotton.
3. Part of the projected shortfall of US\$202 million for 1975 is expected to be covered by disbursements from an IBRD Program Loan and other non-project financing that has already been committed. The remaining unfilled gap, however, will still be very large and is currently estimated at around US\$154 million. Possible additional capital inflows (IMF Second Credit Tranche; IMF Oil Facility 1975; Food Aid; UN Special Fund; EEC Special Fund and special bilateral assistance) could amount to approximately US\$116.4 million which still leaves a sizeable gap of around US\$37.5 million. This estimated amount does not allow for any increase in the level of net official external reserves which are at the moment at an uncomfortably low level. To raise net official reserves to a minimum of four weeks imports equivalent a further US\$16 million would be required. This raises the total additional emergency aid required in 1975 to about US\$54 million.
4. The details of the revised balance of payments projections are attached as an appendix to this updating memorandum. Naturally, these revised projections are based on a number of assumptions. The downward

revision of export volume projections for some export crops - in particular cotton - is based on the field observation that this year's plantings appear to be lower than last year. Actual harvest figures will not be known for some time. Reduced cotton plantings are probably a direct reflection of the fear of famine and the higher priority that farmers are giving to food crops under the present situation. Commodity import projections are based on the implementation of plans for the further reduction of consumer good imports to absolute austerity levels.

5. Progress has been made in programs and policies designed to generate the required structural change in the economy. In doing so the Government has made courageous decisions including the November 1974 increases in agricultural producer prices which implied a substantial shift in the urban/rural terms of trade. The producer prices for the major crops are now close to projected long-term world parity and should be sufficient to provide adequate incentives to producers. Arrangements are being made to increase the availability of subsidized inputs for selected crops and priority is being given to areas of high agricultural potential. The Government is also intensifying its efforts to improve project implementation in the rural sector by concentrating limited staff and additional technical assistance on these areas.

6. Several new programs designed to increase agricultural production and to enable the country to become self-sufficient in food are being developed. A maize production program is now in its second year and in cooperation with several donors, including the Bank, the Government is currently working on plans to expand this effort in the next cropping season. The program will concentrate on areas of high potential and include the distribution of improved seed and subsidized fertilizers as well as improvements in marketing, transport, storage and extension services. With the assistance of a number of bilateral and multilateral donors the Government is also proceeding with its integrated rural development programs.

7. The Government's strategy for the development of the industrial sector aims to transform the current structure of production by increasing processing of local raw materials for the home and overseas markets. In this way it is planned both to further integrate the domestic economy and to reduce its dependence on foreign suppliers. This strategy has been given added impetus by the current balance of payments crisis in which the need to develop projects with a positive foreign exchange effect has assumed even greater priority. Several major investments have already been undertaken in textile production and a number of further investments in this sector will be implemented shortly. Projects to expand tanning, canvas production and shoe manufacturing are in various stages of planning and implementation. Major investments are also being undertaken in cashewnut processing in order to increase local value added. A steel industry project

based on domestic iron ore and coal deposits is being prepared. A large number of potential projects suitable for foreign financial and technical assistance have been identified in this sector. These are discussed in some detail in the Bank's Industrial and Mining Sector Survey to be distributed to the members of the Consultative Group in early April 1975.

8. In line with its policy of bringing essential infrastructure (basic education, water supply and basic health services) to the rural population in order thus to increase agricultural productivity, the Government recently announced that the target date for Universal Primary Education (UPE) has been advanced to 1977 and the target date for the completion of the national rural water program to 1980. Government planners are presently working out the detailed implications of these decisions. In view of the critical resource constraint faced by Tanzania, it is expected that several novel features will be introduced in order that UPE may be achieved at minimal cost. Double shifts in schools are likely, teachers will have only minimal training and complete reliance is likely to be placed on self-help for primary school construction. Similarly the acceleration of the Government's rural water supply program will be based on a substantial reduction in unit costs by relying less on piped water and motorized pumps and more on shallow wells and hand pumps. Even with these unit cost reductions the Government's ability to implement these programs on schedule will be critically dependent on overall resource availability.

APPENDIX

TANZANIA MAINLAND

BALANCE OF PAYMENTS PROJECTION FOR 1975*

(in Million of T. Shillings)

	<u>Shs</u>	<u>US \$</u>
Exports (f.o.b.)	2399.3	336.0
re-exports	90.5	12.7
TOTAL	2489.8	348.7
Imports (c.i.f.)	4682.2	655.8
<u>Trade Balance</u>	<u>-2192.4</u>	<u>-307.1</u>
Net Services	140.0	19.6
Net Transfers	49.7	7.0
<u>Current account balance</u>	<u>-2002.7</u>	<u>-280.5</u>
<u>Projected capital inflow based on existing commitments:</u>		
Net capital inflow for project financing	560.0	78.4
of which Government	(500.0)	(70.0)
Parastatal and private	(60.0)	(8.4)
IMF Oil Facility (1974)	28.0	3.9
IBRD Program Loan	214.2	30.0
Arab Fund	102.0	14.3
TOTAL	<u>904.2</u>	<u>126.7</u>
Remaining unfilled gap (assuming no change in reserves)	<u>-1098.5</u>	<u>-153.8</u>
<u>Possible additional capital inflows:</u>		
Food Aid	160.0	22.4
IMF Oil Facility (1975)	350.0	49.0
IMF 2nd Credit Tranche	90.0	12.6
Other Special Assistance	231.3	32.4
TOTAL	<u>831.3</u>	<u>116.4</u>
Remaining unfilled gap (assuming no change in reserves)	-267.2	-37.4
Reserve build-up required to minimum of 4 weeks imports equivalent	<u>-115.0</u>	<u>-16.1</u>
Additional emergency capital required	<u>382.2</u>	<u>53.5</u>

*These projections are largely based on estimates prepared by the Bank of Tanzania in March 1975

Eastern Africa Regional Office
April 2, 1975

Tanzania: Program Loan

THE UNITED REPUBLIC OF TANZANIA
THE TREASURY

Telegrams: "TREASURY", DAR ES SALAAM.
Telephone: 21271.

P.O. Box 9111.
DAR ES SALAAM.

(All official communications should
be addressed to the Principal
Secretary to the Treasury and
NOT to individuals.)

In reply please quote:

224 Nov 1974

22nd November, 1974

Mr. Robert S. McNamara,
President of the International Bank for
Reconstruction and Development and its Affiliates,
1818 H Street N.W.
Washington, D.C. 20433,
U. S. A.

Dear Mr. McNamara,

You will recall that a few months ago I requested World Bank assistance in helping Tanzania to meet its Balance of Payments difficulties which arose due to the drought, increased food imports and the inflation in the cost of essential imports because of the rise of world fuel prices. I am glad to say that the Bank responded immediately to our call for assistance and last week a Program Loan of \$30 million was negotiated here in Dar es Salaam.

Mr. Hussain, Vice-President, and Mr. Stanley Please, Director, have been here during the last one week discussing with me and my colleagues the Government's policies and programs in the light of the problems we face in our resource position.

The following summary contains the policy objectives of this Government in the light of our present situation:-

I. General

The projected size and persistent trend of projected overall balance of payments (B.O.P.) deficits over 1975-80 suggest that major remedial measures are required. The projected trend is the consequence of the expected deterioration in Tanzania's terms of trade and the slow growth of export volumes. Thus, we shall have to make major economic policy adjustments to attain the long term objectives of the Party and the Government to improve the quality of life for our people, the majority of whom do not at present enjoy even minimum standards of living. We have not resorted to increased external borrowing on conventional terms

to meet the projected shortfall in resources as this would inevitably result in external debt management problems in the 1980s. Reducing the level of consumption below present levels of per capita incomes is not a practical alternative. The rate of increase of consumption, however, can be moderated. Even if this is achieved though, the resources available is expected to be such that there will not be enough resources to sustain the present rate of increase of investment. It follows that if we are to maintain and hopefully increase the growth rate of GDP, then investment will have to be restructured to become more productive, especially in ways that benefit the B.O.P. The Government's preferred solution is therefore a judicious blend of demand management, restructuring investment and improving the incentive framework in ways that will increase the growth of output despite the limited resources available. This solution seeks to increase output while moderating the rate of increase of consumption and investment.

II. Public Investment Policy

We shall have to allocate more public investment to agriculture, industry and mining within an expected slower rate of increase of public investment and this implies that less investment resources will be available for other sectors. This will require re-examining the present level of investment and future phasing of this investment in other sectors to adjust these programs to the reduced resources expected to be available. This does not mean that there will be no investment in infrastructure as it is important to support strategic agriculture investment with selected investment in these complementary sectors. This investment allocation principle will be reflected in the 1975-76 budget and Five Year Plan both scheduled to start July 1, 1975.

III. Agriculture Policy

It is recognized that the single most worrying weakness in the economy is the inadequate growth of agriculture production, and therefore first priority will be given to solving this problem. One important aspect is to provide adequate incentives to the producer as this is effected by producer prices, input subsidies and taxes on crops. The Government believes that the successive increases in producer prices of 1973, May 1974 and November 1974 has raised them to an adequate level, and the objective now is to maintain producer prices at an adequate level. In the periodic review of producer incentives, a specific study will be

made of the feasibility of the present progressive tax rate on coffee; the adequacy of input subsidies such as on fertilizers; and whether the uniform pan-territorial producer prices policy can be rationalized while maintaining the principle of uniform prices.

An important measure will be to improve the implementation of agriculture projects included in the development program. In addition to steps already taken, it is recognized that it will be important to assign scarce skilled Tanzanian staff to this task, and to arrange that they have long tenure to enable them to effectively handle this work.

Another aspect is to remedy inadequacies in the distribution of agriculture production inputs, the supply of consumer goods to rural areas and the marketing of crops. Central to this task will be to improve road transport. In the context of a policy of having state, cooperative and private operators of road transport, remedies will be found appropriate to each type of road transport. A review will be made of how to better distribute consumer goods to rural areas in the context of a policy of uniform national prices for basic commodities. Also a review will be made to find ways to improve marketing of crops.

Villagization is a central policy of rural development in Tanzania, but it is recognized that poorly planned and implemented villagization is detrimental to agriculture production. Villagization plans will continue to be kept under constant review and their implementation will be related to the availability of suitable land, competent staff, adequate plans and supply of production inputs. Where farmers are settled with established cash crops, villagization will be implemented in ways not to disrupt production.

Future public investment and staff will be concentrated in areas of highest potential in terms of productive potential. In this context, special measures will be devoted to a national food production program, and within this program, a special program to increase maize production.

IV. Industry and Mining

Improvement in the productivity of existing manufacturing enterprises is very important. Improvements to the present incentive systems for managers and workers, to more effectively relate bonuses to increased productivity, will be sought. Studies will be undertaken to examine the feasibility of introducing export subsidies for manufacturing. The economic potential of selected industry and mining possibilities are so important that scarce skilled manpower and finance will be concentrated on the processing and implementation of these projects.

V. Private Consumption

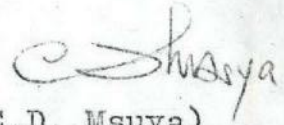
Measures to slow down the rate of increase of private consumption will be required to deal with the expected balance of payments problem. In this context, the present wage and salary freeze will be maintained as long as possible. Moreover, unsatisfied demand where consumer goods are in short supply will be taxed as was the case in the tax increases on beer and cigarettes announced in November 1974. In this regard, controlled retail prices for food and consumer goods will be determined, in part, with the objective of constraining consumption and maintaining or increasing state enterprise surpluses as was also the case in the food price increases introduced in November 1974. The Government shall continue to maintain a judicious balance between wage, price and tax policy designed to constrain private consumption and the object of maintaining a reasonable standard of living for the people. This will be especially difficult if inflation is not contained, and while a non-inflationary domestic policy will be pursued, it is difficult to insulate Tanzania completely from world inflation.

VI. Government Consumption

It is equally important to slow the rate of growth of Government recurrent expenditure. A decline in the rate of increase of investment that generates high levels of recurrent expenditure such as social sectors will automatically have a favourable effect on Government consumption. Moreover, priority will be given to curtailing non-development recurrent expenditure. Finally, studies will be made into the feasibility of introducing user charges for selected social services, such as rural water, at present supplied free of charge.

I would like to take this opportunity to thank you for the prompt manner in which the bank has responded to our request for assistance.

Yours sincerely,



(C.D. Msuya)

MINISTER FOR FINANCE.