



THE UNITED REPUBLIC OF TANZANIA

**STRUCTURAL ADJUSTMENT PROGRAMME FOR
TANZANIA**

MINISTRY OF PLANNING AND ECONOMIC AFFAIRS DAR ES SALAAM
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Structural Adjustment Programme for Tanzania

CONTENTS

PREFACE

SECTION I—INTRODUCTION

- General
- The Economic Crisis
- The Adjustment Programme

SECTION II—MACRO-ECONOMIC POLICY TARGETS

- Objectives
- Budgetary Targets
- Money Supply
- Balance of Payments
- Exports
- External Resources
- Imports
- Macro Policy Instruments

SECTION III—SECTORAL PROGRAMMES

- Agriculture
- Industry
- Transport
- Energy
- Distribution
- Parastatals
- Financial Institutions
- Other Sectors

SECTION IV—IMPLEMENTATION

- Aid Policy Coordination and Requirements
- Implementation Activities
- Implementation Secretariat

PREFACE

The first major attempt by the Government to deal with the unprecedented economic difficulties facing the country, was the formulation of the National Economic Survival Programme (NESP) in 1981. The main elements of NESP, whose main objective was to mobilize domestic resources to the maximum possible, included:

- i. an aggressive export drive in order to increase substantially foreign exchange earnings;
- ii. judicious use of available foreign exchange so as to enhance future earning capacity as well as save on imports;
- iii. the elimination of food shortage through in-expensive small-scale village irrigation projects as well as the cultivation of drought-resistant food crops;
- iv. strict control of public spending in both Government and parastatals;
- v. development plans should emphasize consolidation in contrast to expansion of new activities;
- vi. expansion of the scope and capacity for self-reliance in all sectors of the economy and raising the productivity of the workers and farmers through appropriate incentive schemes.

2. Thus, as a follow-up to those efforts, the Government, with the help of an Independent Advisory Group, prepared a three year Structural Adjustment Programme (1982/83—1984/85). The Structural Adjustment Programme (SAP) encompasses specific measures and definitive actions that have to be taken at the macro and sectoral levels in the immediate and medium terms, in response to the following imbalances in the national economy:

- i. budgetary and the consequent monetary imbalances which have contributed to an increase in the rate of domestic inflation;
- ii. external imbalances due to the deterioration in the terms of trade and low export performance;
- iii. imbalance between productive and non-productive economic activities which has placed a heavy burden on the productive sectors of the economy resulting in a reduction in total output; and the emergence of an unofficial market parallel to the formal channels has in a way undermined the country's planning and control system, creating at the same time other undesirable effects.

3. Thus, the formulation and implementation of a structural adjustment programme is intended to restore balance in the functioning of the economy as well as rationalizing the use of our resources through domestic efforts and external assistance, in forms that are flexible enough to revive existing economic activities. It is not, therefore, intended to undertake new economic activities during the adjustment period unless they contribute further to economic rehabilitation and to the envisaged adjustment programme. The main objectives of the structural adjustment programme will be to:

- (a) reduce the rate of inflation through adjusting the government budget to levels that are consistent with the growth of national economy;
- (b) achieve balance of payments adjustment so as to alleviate the existing extreme foreign exchange scarcity and the consequent domestic production capacity underutilization;
- (c) achieve an increase in the productivity of parastatal enterprises and improvement in public sector management;
- (d) maintain the already achieved equity in income distribution as well as the provision of social services and other basic needs to the majority of the population.

4. In essence the achievement of those objectives would require that we take measures that are aimed at restructuring future economic activities, with regard to priorities in government spending and rationalisation of existing economic activity, improvement in institutional machinery, as well as in the country's planning and control system, and restoration of balance in the major government and external accounts. Such an action programme would largely involve policies, among others,

concerning government revenues and expenditures, wages, prices, credit and parastatal deficits. Thus, the main elements of the structural adjustment programme on which the proposed action programme is based can briefly be said to consist of:

- i. provision of incentives and support for exporters of both traditional and non-traditional products;
- ii. articulation of specific priorities for cutbacks in the composition of future government recurrent and development expenditures;
- iii. reduction in the rate of monetary expansion through measures to restore overall economic balance as well as strict financial controls of public sector expenditures;
- iv. improvement of decision making process in respect of foreign exchange management;
- v. improvement of efficiency in the parastatal sector;
- vi. rationalisation of agricultural producer and ultimate consumer pricing policies;
- vii. increase in efficiency of transport, marketing and distribution services;
- viii. undertake measures that not only economize the use of imported fuel but also stimulate the development of alternative domestic sources of energy;
- ix. ensure the effective use of external assistance, taking into consideration the nation's objectives as well as investment priorities.

5. Thus, in order to implement this programme the Government will take measures at macro and sectoral levels, which are aimed primarily at consolidating and rehabilitating the national economy. While some of the measures will be taken immediately and during 1982/83, others will be taken later on in the course of the adjustment period. In addition, an Implementation Secretariat will be created, under the Ministry of Planning and Economic Affairs, to co-ordinate and monitor programme implementation and the performance of the respective institutions. It will also initiate action on the work that is still to be done in respect of certain other areas.

6. Furthermore, it is expected that all implementing institutions whether public or private as well as the general public, will offer their utmost co-operation and dedication, so as to ensure the success of this programme. In addition to our own domestic efforts, we also hope that flexible and substantial external assistance will be forthcoming, especially to those areas that need rehabilitation to get the economy on the right footing.

7. Finally, I wish to take this opportunity, on behalf of the Government, to express our most sincere appreciation and gratitude to the Tanzania Advisory Group, and all those who have assisted and facilitated the work of that Group, from whose report to the Government this Structural Adjustment Programme for Tanzania was prepared.

K. A. MALIMA

Minister for Planning and Economic Affairs

SECTION I

Introduction

General:

1.01 The Structural Adjustment Programme for Tanzania has been prepared on the basis of proposals and recommendations contained in the Interim Report of the Tanzania Advisory Group. This programme which has been prepared after careful consideration of the main policy proposals of the Report, provides the basis for negotiations of additional support for the balance of payments and other economic rehabilitation activities. It is, however, recognized that implementation of the package will have to be undertaken under conditions of great austerity, if economic recovery is to be achieved.

1.02 The programme is set out in a *three year* perspective. This is important because funding for a period of at least that duration is necessary both to prevent a premature relapse in the economy and to allow for a realistic interval for the recovery in world economic conditions.

1.03 The programme concentrates on an immediate *action programme* in the coming fiscal year, but also envisages the adjustment process as an ongoing process and identifies a number of areas where additional policies for the longer term should be formulated in coming years. This is particularly true regarding agricultural policies influencing farm and village level productivity. The programme does not yet cover tourism and natural resources, which are important areas of potential foreign exchange earning.

1.04 The programme emphasises the importance of the phasing of policy measures and making realistic judgements about the expected response. In any agreement with external funding agencies it is essential that any conditions agreed should be realistic in assessing the lags to be expected between a resource injection and policy changes, and improved performance in relation to such key indicators as the budget deficit, the money supply and the balance of payments. For the viability of the programme the timing of any conditions will be as important as their stringency. Given the degree of current economic difficulties (e.g. the absence of stocks at all levels, the need for rehabilitation and elimination of bottlenecks in some sectors before output can be restored) and administrative limitation, the positive effects of the programme, in terms of restoration of fiscal balance and improvements in the external account, can only be expected in the second and third year of the programme. Much of the first year will continue to be dominated by crisis conditions, although it is to be hoped that the first steps in easing foreign exchange constraints will boost economic performance.

1.05 The programme is set out in two parts. The macro-economic part concerns measures to strike a better balance in the economy, to reduce inflationary pressures and provide the environment in which the external payments situation can be improved. The second part consists of a package of sectoral programmes and steps required to ensure implementation and further development of the structural adjustment programme. The two parts are inter-linked in that greatly improved performance cannot be expected of a particular sector under conditions of extreme overall economic difficulty, while a longer term improvement in national economic performance depends on more effective operation of key institutions and sectors.

The Economic Crisis:

1.06 The depth and persistence of the economic crisis has resulted from a series of shocks which, since 1978, have weakened the economy. Some are global in origin—the second round of oil price

increases, increases in the prices of manufactured goods, together with the fall in the prices of our exports resulted in unprecedented balance of payment crises for Tanzania, particularly in 1981. Other negative factors which are more specific to Tanzania include two successive bad crop years, the costs of the Kagera War and the burdens resulting from the break-up of the East African Community.

1.07 At the same time there are certain longer term weaknesses in the economy which must be corrected if growth is to be sustained. These include the poor agricultural performance in the past decade, the need to improve parastatal performance, and the need to modify and restructure the industrial sector in order to make it less import-dependent and raise its export performance.

The Adjustment Programme:

1.08 The adjustment programme has two aspects:

- (a) *Crisis Management*, which is intended to get inflation under control and to achieve a quick restoration of productive activities, facilitated by an external injection of balance of payments support;
- (b) *Structural adjustment* can then be pursued in an environment that is more conducive to effective implementation of the policy measures which, in the medium term, will reduce dependence on external support as well as restore growth momentum.

1.09 *Crisis management* involves *restraint*, including necessary cutbacks to restore balance in government and external account. It therefore implies policies that are related to the budget, prices, credit, parastatal deficits, etc. In terms of domestic monetary balance it will involve a short term shift from new investment to the use of available resources to maintain and utilize fully existing capacity.

1.10 *Structural adjustment* requires a broad set of mutually consistent and interacting policies whose objective is to:

- (a) *restructure* future economic activity through altered incentive systems, priorities in government spending, etc. designed to achieve a more sustainable external balance and renewed growth;
- (b) *rationalize* production to increase capacity utilization, improve manpower utilization and reduce unproductive activities;
- (c) *improve planning and control systems* through more effective budgeting, monitoring, evaluation and enforcement of agreed priorities.

1.11 The programme also aims at defending basic socio-economic objectives by:

- (a) avoiding retrenchment in the provision of basic social services;
- (b) avoiding measures which would place the burden of short term adjustment on the most vulnerable economic groups;
- (c) defending the role of publicly owned economic institutions and taking measures to improve their operational efficiency;
- (d) allowing for positive initiatives in extending popular participation in the control of institutions (e.g. cooperatives, workers' participation in management, farmers' influence over crop authorities).

1.12 In summary, the structural adjustment programme concentrates on the following measures:

- (a) improved incentives and support for exporters of both traditional and non-traditional products;
- (b) priorities for cutbacks and future composition of government expenditure;
- (c) controls over parastatal finances, to limit their burden on the budget and monetary system;
- (d) improvement of decision-making in allocation of foreign exchange;
- (e) measures to improve parastatal efficiency;
- (f) liberalisation of interregional trade in agricultural and consumer goods and rationalisation of pricing;

- (g) measures to rationalize and increase the efficiency of the industrial sector and to promote industrial exports;
- (h) measures to increase the capacity and efficiency of the transport system;
- (i) measures to economize on energy and to expand alternative domestic supply.

SECTION II

MACRO-ECONOMIC POLICY TARGETS: THE THREE YEAR PROGRAMME:

2.01 In this section, the targets for the budget, the balance of payments and the money supply are set out for the coming three fiscal years*. Of course there is considerable uncertainty regarding a number of the magnitudes involved, but the data is sufficient to demonstrate the major policy choices to be made and the overall viability of the programme.

2.02 Two important assumptions underlying the targets are:

- (a) that the necessary corrective action on the exchange rate front for the time being has been taken. According to the Tanzania Advisory Group recommendations a devaluation based on technical consideration, of 7—17% was called for, thus on March 6, 1982, Government devalued the shilling by 12% in relation to the US dollar.
- (b) that first steps in implementing the package would be taken at the beginning of the 1982/83 fiscal year. However, it is realised that even if additional external funding is made available immediately, its effect in reactivating the economy will not be felt until the third or fourth quarter of fiscal year 1982/83, because the full impact will take time to work its way through the economy.

Objectives:

2.03 The objectives of the macro-economic measures are as follows:

- (a) *Restoration of output* by utilizing the foreign exchange inflow and by shifting resources from capital to recurrent uses, the government will initiate the process of restoring output levels currently constrained by the lack of inputs and of foreign exchange;
- (b) *Reducing the budgetary deficit* to reduce the pressure of excess demand, with the resulting inflationary effects, it is proposed to reduce the budgetary deficit. This will be achieved partly as a result of the revenue effects of output expansion. In addition it is intended to significantly reduce development spending, and to restrain the growth of the recurrent budget to levels that imply an overall decline in real terms, while ensuring the maintenance of social services and the expansion of economic services by budgetary reallocation;
- (c) *Reducing the growth of the money supply* as a result of the reduction in the government deficit a sharp reduction in the growth of money supply will be achieved in year two and three of the programme. In the first year money supply can be expected to continue to grow by more than 20%. This is both because the improvement in the budgetary situation will only have a full year's impact in the second year (because of the six months lag between access to additional exchange, expansion in production and the eventual increase in sales tax receipts), and because monetary expansion will be necessary to facilitate the increase in output and accumulation of stocks during the first year;
- (d) *Restoring the external account*. It is intended that by the completion of the programme (i.e. in year four), export earnings should be expanded sufficiently that import requirements can be covered without the need for exceptional financing measures. Over the three years it is also intended to pay off arrears in import payments.

*While these targets have been tested for consistence against a gross domestic product framework, gross domestic product projections are not included. The existing gross domestic product tables are too inadequate to provide a reasonable basis for projections. The improvement of the gross domestic product data is an urgent requirement for more effective policy analysis.

Budgetary Targets:

2.04 The three year programme includes a provision for substantial drawings and credits from the IMF and the World Bank and for some reallocation of bilateral aid towards recurrent needs. All this is to be negotiated and at this moment is uncertain. However, even if negotiations are now initiated and completed relatively swiftly, agreement is unlikely to be reached before the end of the first quarter of the coming financial year and the fiscal effects will not have worked their way through the system in full until by the end of fiscal year 1982/83. Therefore, irrespective of the assumptions made about the success or otherwise of negotiations, the coming budget must be austere in order to contain inflationary pressures in 1982/83.

2.05 The more detailed budgetary targets are set out in Table 1. The intention is that in the first year there should be a significant reduction in the government's financing requirements and in government borrowing from the banks. By constraining growth in recurrent expenditure within 12% and as a result of revenue increases expected towards the end of the year (as a result of output recovery) it should be possible to reduce the recurrent deficit. Restraining the growth in recurrent spending to 12% nominal terms in a period of inflation implies a significant reduction in real terms. This could be achieved without reducing the social and economic services of government only by reductions in defence, in parastatal finance as well as by trimming administrative costs wherever possible.

2.06 The more difficult budgetary target is to achieve substantial reduction in the development budget. This is a crucial requirement both because of its effects on the financial situation and because it is the main instrument for shifting resources from the creation of new capacity to the increase in output from existing capacity. It is intended to reduce development spending substantially by postponing projects to achieve a reduction of the total financing requirements in real terms. After allowing for a downturn in aid resulting from the reduction in development spending and for the positive impact of the March 1982 devaluation the government borrowing requirement from the banking system is reduced compared with the expected 1981/82 outcome. This is not a sufficient reduction to eliminate inflationary effects of the budget but would be a significant first step.

Money Supply:

2.07 In the second and third years it is intended that continued restraint on growth in government spending, combined with expanding government revenues as the economy recovers, should result in a sharp deceleration in the growth of the money supply—to a level of about 13% per annum. At the same time, following the cutback in development spending in the first year, some recovery can be expected in the second and third years.

2.08 A more restrictive approach would aim for a lower growth in the money supply in the first year, by not allowing for increases in non-government borrowing. This might be justified in light of the initial high degree of liquidity in the economy. The judgement made here is that this would run the danger of being unduly restrictive in a period of restocking and output recovery.

Balance of Payments:

2.09 The balance of payments projections in Table 2 are based on cautious assumptions regarding export performance in 1982/83. Despite export promotion efforts, the constraints on all aspects of economic activity resulting from the foreign exchange crisis are likely to hold down export performance in the first half of the year. Subsequent growth is projected realistically assuming significant recovery in output of a number of traditional exports, and a fast growth in non-traditional exports. These projects could prove conservative, if recovery in O.E.C.D. economies turns the terms of trade sharply in Tanzania's favour.

Exports:

2.10 The export projections are built up by separate estimates of possible targets for traditional exports, mineral and manufactures and an assumption regarding shifts in the terms of trade. The basic aim is to raise the *quantity* of exports by one third by 1984/85 over 1981/82 levels. More specifically, the assumptions made are that:

- (a) there is some growth in coffee production—of the order of 5—6% per year;
- (b) restoration of tea and tobacco exports close to earlier peak production (1978—79) levels in the case of tea; 1976—77 in the case of tobacco;
- (c) restoration of cashew production to the range of 60—70 thousand tons of raw nuts (roughly one half of the historical peak);
- (d) the maintenance of clove exports above 7,000 tons per annum;
- (e) the restoration of cotton output (65—70 thousand tons per annum i.e. about 10% below earlier peak production);
- (f) the reversal of the declining trend in sisal production, so that output is maintained at over 100,000 tons per annum.

2.11 While these targets may appear by no means ambitious in that only in the case of coffee do they imply surpassing previous peaks, they do involve reversing a downward trend.

2.12 Part of the required response from the agricultural sector can be expected as a result of a sustained commitment to the provision of the flow of necessary inputs repetition and to the improvement of marketing and the maintenance of real incentives (including the speed of payments for crops to the farmers and the provision of incentive goods). However, there are also a number of specific bottlenecks which require action. These include resolving the labour supply problem for sisal. In the case of cotton, measures to rehabilitate ginning capacity and restore soil fertility, are required. In tobacco, the supply of wood fuel for curing is a constraint. In cashew the reasons for current poor output performance need to be established. None of these problems can be resolved by any set of simple policy decisions by government. In a number of cases action is already being taken to formulate and implement the required policies. What is required is a process of systematic effort to identify bottle-necks and monitor performance to ensure the appropriate priorities in the face of changing conditions. To focus appropriate attention on these needs, the Ministry of Agriculture (Kilimo) will prepare, in cooperation with the crop authorities and the implementing secretariat (see below), a half yearly report to the Economic Committee of the Cabinet (E.C.C.) on performance and requirements of key export crops, identifying bottlenecks and resource needs.

2.13 For mineral exports, while there are longer term prospects for expansion, the realistic short term assessment is that during the structural adjustment programme period, there is likely to be some decline (a decline of 10% is assumed). On the other hand, the structural adjustment programme has, as one of its key objectives, the promotion of non-traditional exports. The intention is that non-traditional (i.e. manufactured) exports should be doubled. (The 1979 peak was US \$75 million; a more typical year would be at about half that level. We have included a figure of \$30 million (1982 prices) for manufactured exports—not including diamonds or fuel and residual furnace oil—by 1984/85).

2.14 In addition, it is to be hoped that there will be some revival in export prices as the O.E.C.D. economies recover from the current recession. The projections assume a shift in the terms of trade of 5% in Tanzania's favour.

External Resources:

2.15 The key assumptions regarding other aspects of the balance of payments are that IMF/IBRD funding becomes available and that bilateral donors can be persuaded to provide more than one third of their finance in form of import support and sectoral rehabilitation packages. It is also assumed

that access to such finance should allow for the avoidance of new commitments of suppliers credit and therefore for a sharp reduction in their use. Over the three year period, accumulated arrears in import payment should be eliminated.

Imports:

2.16 The net result will be a significant increase in import capacity. Combined with the fact that there would be a shift in the balance of imports from capital goods towards inputs for current production, this generates the possibility of output recovery. However, it should also be noted that support for the expected increase by the projected import totals imply a continuation of considerable restraint on the use of imports.

Macro Policy Instruments:

2.17 Government will now proceed to negotiate with the IMF and the IBRD to seek the required programme funding and will approach bilateral donors to seek the required flexibility to shift resources to import and local cost support.

2.18 In relation to development spending, government will trim the level of investment by eliminating projects or rephasing where they lack priority in terms of their expected impact on the balance of payments in the short and medium term. This is meant to shift resources to raise output currently so as to relieve scarcities and promote exports. The restraint on development spending does not prejudice the issue of the Songo Songo project. It is assumed that if that is implemented it will be through a financial arrangement which will make the project self-financing and will not divert resources from other uses.

2.19 In relation to *recurrent spending*, savings will be achieved by further efforts to reduce defense spending to normal peace-time level and to control spending over-runs. Also, a package of measures will attempt to limit the budgetary burden resulting from crop authorities, including appropriate pricing to prevent losses on the trade in some foodstuffs, particularly wheat and rice, as well as macro-economic implications. While there is no simple answer to the problems of financial control of the parastatals, the government will make every effort to focus on this problem in this structural adjustment programme.

2.20 Across the board *reduction in public service employment* are not contemplated as there are many activities which are understaffed. Nevertheless, steps will be taken to identify areas in which significant savings in public employment can be achieved.

2.21 In relation to revenue:

- (a) additional personnel will be allocated to boost the strength of revenue collection;
- (b) steps will be taken to introduce more rigorous assessment of non-salary incomes, including presumptive assessment and collection subject to subsequent appeal;
- (c) introduction of a special tax on a limited range of non-price controlled products where the National Price Commission estimates that likely supply will be insufficient to meet market demand. This emergency tax will be levied through the crisis period to increase government revenue;

2.22 To manage the external balance a number of measures will be taken which are spelt out in the sectoral chapters. In general, the allocation of foreign exchange and credit will reflect:

- (a) the need to shift imports from capital to intermediate goods;
- (b) the need to break bottlenecks, and provide the inputs and incentives to promote non-traditional exports;
- (c) to provide the required inputs and the supply of incentive goods to give a short-term boost to agricultural exports;
- (d) improve agricultural marketing to ensure prompt and adequate payment to farmers.

Table 1

Budget Targets 1982/83—1984/85
(Million T. Shs.)

	1981/82	1982/83	1983/84	1984/85
Recurrent Revenue	8,858	9,800	10,800	
Revenue Effect of Output Increase		<u>700</u>	<u>2,000</u>	
	8,858	10,500	12,800	14,300
Recurrent Expenditure	<u>-12,644</u>	<u>-14,144</u>	<u>-15,700</u>	<u>-17,400</u>
	-3,786	-3,644	-2,900	3,100
Import support	<u>1,600</u>	<u>1,300</u>	<u>1,800</u>	<u>1,800</u>
	-2,186	-2,344	-1,100	1,300
Development Expenditure	<u>-5,600</u>	<u>-4,816</u>	<u>-5,100</u>	<u>-5,400</u>
Total Financing Required	7,786	-7,160	-6,200	-6,700
Aid	<u>3,897</u>	2,584	<u>2,750</u>	<u>3,000</u>
	3,889	4,576	3,450	3,700
Local borrowing	<u>800</u>	<u>900</u>	<u>1,000</u>	<u>1,100</u>
		3,676	2,450	2,600
Exchange Rate Impact on Budget (March 1982)	<u>—</u>	<u>400</u>	<u>—</u>	<u>—</u>
Net borrowing by Govt. from Banks		3,276	2,450	2,600
Money Supply (Mz) June 1982 Est.	18.0b	21.6b	25.8b	29.3b
Increased borrowing by Manufactures and others		950	1,100	1,200
Total Increase in money supply	<u>—</u>	<u>4,226</u>	<u>3,550</u>	<u>3,800</u>
% Increase	20.0	19.6	13.8	13.0

Estimated Recurrent Expenditure for 1982—83

	1981/82	1982/83	
Consolidated Fund	1,596	2,328	+45.9
Ministries (incl. defence)	5,910	5,995	+1.4%
Regions	2,950	3,199	+8.4%
Contingencies	761	791	
Parastatal subsidies	427	1,102	
Parastatal Rehabilitation	<u>1,000</u>	<u>730</u>	-27%
	12,644	14,144	+11.8%

2.23 The overall figure of T. Shs. 14.1 billion represents an increase of 11.8% over the likely outcome for 1981/82. Ministerial expenditures (excluding Defence) will rise by 7.4% and regional expenditure by 8.4%. Parastatal subsidies (including the fertilizer transport subsidy) will more than double while parastatal rehabilitation expenditures will decline by about 27% per cent. Consolidated Fund expenditure will increase by 45.9% over the previous year.

2.24 The critical assumption here has been that defence expenditures can be reduced. This has been achieved as the 1982/83 budget has been trimmed to achieve a nominal reduction of 35.5 per cent. The rate of increase of ministerial and regional expenditures is below that of inflation but no necessarily below the rate of inflation of Government goods and services since wage rates are not likely to rise by much next year.

Table 1
Schedule 1

Assumptions:

(a) Recurrent Revenue:

Adjusted for additional sales tax arising from increased manufacturing output due to availability of foreign exchange. Calculated as follows:

Total sales tax estimated for 1981/82	= 5.1 b
Less beer and cigarettes	= 3.1 b
Other products	= 2.0 b

Assume flows equally each quarter:

1982/83	1st Quarter	2nd	3rd	4th	
	0.5	0.5	0.5	0.5	= 2.0 b
+ Capacity Increase	-10%	0%	60%	100%	
Revenue	0.45	0.5	0.8	1.0	= 2.75 b
Beer and Cigarettes	0.77	0.77	0.77	0.77	
	-10%	10	0	0	
	0.7	0.77	0.77	0.77	= 3.01
				<u>5.76</u>	

Increase in revenue 1982/83 = 0.66 say 0.7

1983/84 onwards increased revenue = 2 b as capacity utilization is doubled in *non-beer* cigarette industries. Capacity utilization in latter (i.e. sales tax) remains unchanged.

- (b) Growth in recurrent revenue = 18.5% 1982/83
- (c) Recurrent expenditure. An increase by Shs. 0.7 billion to provide about 5.3% growth in money terms. Cut back defence and add Shs. 0.3 b or so to basic social needs expenditures.
- (d) Growth in recurrent expenditure: About 11% in 1983/84 and 1984/85—emphasis on basic social needs expenditures and rehabilitation.
- (e) Development Expenditure: Cut back heavily 1982/83 and allow about 6% growth in nominal terms during 1983/84 and 1984/85.
- (f) Exchange rate adjustment March 1982: Shown separately year 1. Included in other figures thereafter.
- (g) Increased borrowing by manufacturing sector assumes gross output of about Shs. 5.5 b or 70% capacity—2 months sales, 2 months purchases less outstanding credit.
- (h) Other sectors need Shs. 0.36 b on account of increased trading activities.
- (i) Money supply (M₂) figure for June 1982 etc.

Table 2

Balance of Payments	(Million US \$)		
	1982/83	1983/84	1984/85
Export	635	690—720	792—840
Others net	80	90	100
Foreign Aid	270	296	322
IMF/IBRD	210	230	250
Suppliers Credits	120	120	120
Import Support	140	194	194
	<u>1455</u>	<u>1620—1650</u>	<u>1778—1826</u>
Reduction of Arrears	60	96	120
Possible Imports	1395	1524—1554	1658—1706

Aid figures consistent with budget, likewise import support.

SECTION III
SECTORAL PROGRAMMES:
AGRICULTURE:

Contents

- A. Background
- B. Objectives and Strategy
- C. Programme Implementation Activities
 - Crop Development
 - Food Crops
 - Export Crop Packages
 - Input Supply
 - Technology and Mechanisation
 - Marketing and Prices
 - National Milling Corporation
 - Prompt Payment
 - Price Formulation
 - Other Institutions
 - Ministry of Agriculture
 - Crop Authorities
 - Co-operatives
 - Tanzania Rural Development Bank
- D. External Support
- E. Further Work

A. Background:

3.01 The main features of agricultural sector performance have been:

- (a) *Food Supply*: A progressive deterioration in the food supply in the early 1970s was followed by remarkable recovery restoring a reasonable level of self-sufficiency in years of favourable weather. Wide year to year fluctuations in officially marketed output have not been successfully stabilised by official procurement and expansion of storage resulting in the need for large and unpredictable imports (particularly for Dar es Salaam). This has created a major source of instability in the government budget and balance of payments. The need for imported food has contributed to the substitution as well as increasing preference for maize, wheat and rice in place of traditional lower cost staples.
- (b) *Export Crops*: The volume of export crops declined substantially for cashewnut, cloves, cotton, pyrethrum, sisal and tobacco; coffee exports stagnated; growth in tea exports ceased in the later 1970s. Climate and international price movements adversely affected production and exports but the major influences included lack of inputs and incentive goods, processing, marketing and transport problems consequent of foreign exchange shortages as well as institutional inadequacies.
- (c) *Marketing and Prices*: In principle, government, through the National Milling Corporation, has a monopoly in trade in the main cereals with official pan-territorial prices for producers and consumers. In practice a considerable trade takes place outside official channels in local markets and on an inter-district and inter-regional basis at unofficial prices which have diverged substantially from official prices. Pan-territorial prices for food grains have stimulated production in areas remote from final markets with consequent high transport (and foreign exchange) costs, and may have indirectly discouraged the output of higher value export and other crops. Marketing major export crops is a monopoly of the respective crop authorities. For the past decade the relative returns to food and export crops have shifted over a wide range with significant effect on production. The formulation of official prices has not paid sufficient attention to relative crop prices. The official producer prices for export crops are lower in real terms than in the early and mid 1970s partly as a result of world price movements. However, increasingly expensive and inefficient marketing services have contributed to the relative decline, including failure to make prompt payment to farmers.
- (d) *Institutions*: Over the past twenty years concern for rural development has led to frequent major institutional reform including government decentralisation, village organisation, the role of co-operatives, establishment of parastatal crop authorities which have affected extension, research, input supply, marketing and processing services. The speed and frequency of such institutional changes has undoubtedly carried heavy costs in building up experience and maintaining a clear system of responsibility and accountability. There has been a deterioration in the level of support to smallholder farming and failure of management in the large-scale sector.

3.02 The aim of the proposals in the Structural Adjustment Programme is to generate swift results. As such they do not address many important longer term issues of agricultural policy, although every attempt has been made to ensure consistency with longer term objectives including movement towards socialist forms of agricultural organisation.

B. Objectives and Strategy:

3.03 The structural adjustment programme which is expected to be implemented over a three year period will focus on the following objectives and targets:

- (a) expand export earnings through restoring the volume of traditional agricultural exports and raise the volume of output of cashews, coffee, cotton and tobacco;

- (b) reduce the foreign exchange costs of agricultural production;
- (c) reduce food imports through increased national maize reserve etc. and handling capacity to ensure overall food security;
- (d) improve the agricultural marketing system and thereby reduce the fiscal and monetary strains arising from inefficiency;
- (e) ensure a secure and reasonably priced food supply for consumers and adequate incentives and opportunities for producers to expand their incomes;
- (f) restore agricultural infrastructure to the standards of the early 1970s and ensure its maintenance.

3.04 Measures will be taken in the immediate future and during the three year period by the institutions concerned to achieve the above objectives.

3.05 In order to achieve these objectives the sector programme will:

- (a) provide agricultural inputs and incentive goods to farmers, and rehabilitate processing facilities;
- (b) provide inputs and spare parts for agriculture—related manufacturing and for transport;
- (c) introduce differential regional food crop prices;
- (d) apply minimum producer and maximum consumer prices to a reduced limited range of food crops;
- (e) improve price formulation and linkage with overall short-term planning;
- (f) improve the operations of existing major agricultural marketing institutions.

3.06 A longer term development strategy for this sector is at the moment being formulated by a Presidential Task Force with view to come up with specific recommendations and a longer term action programme. In addition, a Commission to revise the national agricultural policy has been appointed. The Commission will study current crop production trends in rural areas as well as parastatal farms and come up with recommendations for increasing production of food and cash crops. This work will provide the basis for a formulation of government policy towards agriculture which will fill the gaps in the proposed structural adjustment programme, which as it stands says little about factors affecting productivity improvement at the farm level.

C. Programme Implementation Activities:

Crop Development

Food Crops

3.07 Policies and programmes necessary to ensure sustained food self-sufficiency are being reviewed and developed by the Government. This study will be completed together with an assessment of requirements for external assistance in the first year of the Structural Adjustment Programme.

3.08 In the interim it is intended to enable the National Milling Corporation to purchase and store at a reasonable cost of operation national food crop surpluses (including maize, millet, cassava, pulses) which are generally available in climatically favourable years. Such surpluses will contribute to the national reserve and assist to ensure overall food security. Food crop purchases, storage, transport and handling requirements and costs will be assessed and Government will seek external assistance to finance the operation.

Export crop packages

3.09 Crop packages will be developed for each of the major agricultural exports—cashew, coffee, cotton, pyrethrum, tea, tobacco and livestock products. Each crop package will comprise a policy framework, physical inputs and facilities, and institutional support including:

- (a) provision of farm inputs (seeds, agro-chemicals, tools, equipment);
- (b) extension services support;
- (c) credit requirements;
- (d) appropriate pricing policies;
- (e) development of marketing channels;
- (f) rehabilitation of processing, transport and other supporting facilities;
- (g) strengthening of responsible implementing agencies
- (h) an implementation programme and monitoring mechanism.

3.10 The components and cost of each crop package will be those required to increase production and export volume over a three year period to the levels prevailing in the early 1970s and, where external market conditions permit, to raise export volume. In designing packages special account will be taken of the net foreign exchange earning of the crop, of critical supply constraints, and of the price responsiveness of farmers.

3.11 Crop packages that will also be suitable for external financing, will be prepared by the Ministry of Agriculture and Crop Authorities in association with other responsible institutions. Implementation of programmes will clearly identify action required by each agency involved, and a mechanism will be established to monitor short term developments to identify bottlenecks, and to ensure appropriate action is taken. The major relevant implementing agencies, to be strengthened under the programme, include the Cashewnut Authority of Tanzania, Coffee Authority of Tanzania, Tanzania Cotton Authority, Tanganyika Pyrethrum Board, Tanzania Tea Authority, Tanzania Sisal Authority, the Tobacco Authority of Tanzania, and the Tanzania Livestock Development Authority.

3.12 Crop packages will be complemented by support packages for other related activities including processing, industrial input suppliers, rail and road transport, and feeder roads. In addition, support packages will be prepared for agriculture sector service institutions (which are not crop specific) including the Cooperatives, the Tanzania Rural Development Bank, etc.

Input Supply:

3.13 Only a few regions and districts are relatively well served with well stocked specialised or other sales outlets for agricultural inputs, but the rest lack such outlets. Thus, it is essential to ensure that a range of inputs (primarily fertilizers, pesticides, tools, sprayers and animal drawn equipment) are available to farmers under one roof, wherever possible on a cash basis, in all areas.

3.14 Existing institutions (including the Agricultural and Industrial Supplies Company, Cooperatives, Crop Authorities, Tanzania Seed Company, Tanzania Fertilizer Company, Tanganyika Farmers Association, TRDB, Ubungo Farm Implements and Regional Trading Companies) will be assisted to widen the range of inputs on sale and expand the number of sales outlets. In addition a network of Farm Services Centres will be established gradually extending to every district. The Ministry of Agriculture in collaboration with institutions identified above will prepare a detailed, fully costed programme.

Technology and Mechanisation:

3.15 The use of available alternative technologies will be promoted to reduce the requirement for imported inputs and foreign exchange. This will involve the increased use of compost manures, animal driven ploughs for cultivation, and of non-motorised wheeled transport.

3.16 Savings will also be achieved through improved training in the use and maintenance of imported machinery under the crop packages programme.

3.17 Priority will be given to a tractor and farm machinery rehabilitation programme to improve utilisation of the existing public and private sector stock. The Ministry of Agriculture in cooperation

with the State Motor Corporation (and its subsidiaries) together with the Agricultural and Industrial Supplies Company, and the Regional Trading Companies, National Agricultural Food Corporation and other producers will make an assessment of the requirements for spare parts for different makes, of inputs and improvements to existing maintenance facilities (including private garages and workshops) and of training needs of mechanics and operators. On the basis of this assessment a Rehabilitation Project will be prepared for appropriate external financing; multilateral donors will be the most appropriate sources of assistance because of the multiplicity of makes and sources of supply. In the interim, pending the rehabilitation of the existing tractor stock and establishment of effective maintenance services, imports of new tractors will be restricted.

Marketing and Prices:

National Milling Corporation (NMC):

3.18 The role of NMC primarily focus on:

- (a) procurement and management of urban food supplies;
- (b) the guarantee of minimum producer prices for specified crops, and maximum consumer prices;
- (c) surplus procurement for and management of the emergency food reserve and contingency planning.

3.19 In order to reduce costs, NMC activities will be rationalised and consolidated as follows:

- (a) NMC geographical covering will be reduced, decentralised institutions at district and village level will be assisted to undertake buying, selling and storage operations where crop surpluses are too low to cover NMC overheads, and NMC will intervene only to handle emergency requirements;
- (b) variations in regional producer prices for food crops will be introduced in place of pan-territorial prices, to reflect and reduce transport and marketing costs, between the producers and the final market and take account of regional specialisation.

3.20 NMC's present practice of announcing stable producer prices and stable consumer prices ahead of the crop season will be made more flexible. A sliding scale price developed (by the Marketing Development Bureau in association with NMC), system will be introduced under which both producer and consumer prices are adjusted within an announced range depending on the actual supply situation. prices being increased in years of scarcity and reduced in years of good harvests. Similarly producer prices generally will be announced in September instead of July to reduce the possibility of with-holding. Less preferred food stuffs (for example, millet, cassava) will be priced to make them relatively more attractive to the consumer when preferred cereals are in short supply. Controlled releases of various food stuffs and flexible pricing measures will assist stabilise demand and supply in official markets, improve NMC's financial position, minimise the costs of unsaleable stocks in surplus years, and permit price adjustments to take account of inflation during the crop season.

3.21 The financing of surplus procurement by NMC and the export of surplus food crops is discussed above. The need for improved specialised management and for improved financial control, distinguish between overhead costs and payments due to farmers to ensure prompt payment to farmers is recognized.

Prompt Payment:

3.22 The Party and Government will ensure that specific measures are taken to guarantee prompt payment to the farmer. Marketing parastatals at all levels will be instructed to treat prompt payment as a matter of highest priority. In case of complaints from villages and individual farmers, corrective action will be taken at regional and/or national level.

Price Formulation:

3.23 The Ministry of Agriculture's Marketing Development Bureau price formulation work will be developed to reflect:

- (a) the effect of relative crop price movements on the balance of crop output;
- (b) probable differences in farmer response to price incentives, crop by crop, in the light of past experience;
- (c) the net foreign exchange potential of each crop in the light of world market prospects and the foreign exchange component of production, processing and transport costs.

3.24 There will be more effective inter-ministerial consultations in the price formulation process to ensure that fiscal and macro-economic effects are adequately taken into account.

Other Institutions:

3.25 A broad range of actions required to improve the accountability, organisation, efficiency and financial control of parastatal organisations including those operating in the agricultural sector are outlined under the respective sections. More specific action in relation to institutions in the agricultural sector include:

- (a) *Ministry of Agriculture* (Strengthening of Planning Unit, Extension Services etc).
- (b) *Crop Authorities*—are amongst the most important institutions in the Tanzanian economy. Priority will be given to ensuring they are staffed with the most competent and accomplished managers. The development of specialist skills by and continuity of staff in senior positions is critical to effective performance and will be actively encouraged. Crop Authority activities will be rehabilitated and strengthened under the Export Crop Package Programme.
- (c) *Cooperatives*: The government expects local initiatives to determine the pace and progress towards the reintroduction of cooperatives producing both food crops and other crops essential for local processing and for exports. Cooperatives will be allowed to take over the functions of crop authorities in the field of input supply to and purchasing harvested production from constituent members, whenever this is feasible. The transfer of assets and liabilities to cooperatives will be worked out in advance by Government, the Crop Authorities, the National Bank of Commerce and the Tanzania Audit Corporation to ensure an orderly transfer of responsibility and avoid losses in the transfer process. Liabilities will require particular careful review and will need to be reduced. Book keeping control systems and a cadre of cooperative department staff (including inspectors) will be in place in advance of such transfer.
- (d) Tanzania Rural Development Bank—actions required are outlined below.

D. External Support:

3.26 A number of donors are already providing support for the rehabilitation of the agricultural sector including the IDA Export Rehabilitation Programme, the EEC/EDF Coffee Project, etc. Similar support is required for a period of at least three years for the following components of the agriculture sector programme:

- Food crop Production
- Food crop Surplus Procurement (NMC)
- Export Crop Packages
 - Cashewnut (CATA)
 - Coffee (CAT)
 - Cotton (TCA)
 - Pyrethrum (TPB)
 - Tea (TTA)
 - Tobacco (TAT)

—Livestock Products (LIDA)
Input Supply Services
Tractor Rehabilitation

E. Further Work:

3.27 Further studies and the preparation of detailed costed programmes are required to implement and obtain external support for the agriculture sector programme. These will be undertaken in the coming months with the support and assistance of the Implementing Secretariat and include:

Long Term Agricultural Strategy (including Food production and Self-sufficiency)	—Presidential Task Force (underway)
Foodcrop Surplus Procurement, Storage and Handling }	—Kilimo/Task Force
Export Crop Packages (7)	—Ministry of Agriculture et al
Input Supply Services	—Ministry of Agriculture et al
Tractor Rehabilitation Project	—Ministry of Agriculture et al
Sliding Scale Prices	—MDB/NMC
Foodcrop Exports	—KILIMO/BET
Price Formulation	—MDB

SECTION III
SECTORAL PROGRAMMES:
INDUSTRY

Contents

A: Background

B: Objectives and Strategy

C: Programme Implementation Activities

 Capacity Utilisation, Efficiency and Rationalisation

 Plant and Industry Rehabilitation Packages

 Innovation and Incentives

 Export Promotion Programme

 New Investment

D: External Support

E: Further work

A. Background:

3.28 Under the Two Five Year Plans (1964—1969 and 1969—1974) industrial production was increased through a fairly ad hoc programme of import substitution. The long term “Basic Industry Strategy” (1975—1995) was adopted in 1975 with the objective of “developing Tanzania Resources to meet Tanzanian needs. Resources were to be channelled into the manufacture of a wide range of consumer, intermediate and capital goods primarily for the home market in order to create a structure whereby inputs for industrial development would be domestically produced.

3.29 In the period 1964—1978 a high rate of industrial growth was achieved and the range of activities expanded remarkably. However, production declined from 1979, when the onset of the current economic crisis exposed major underlying weaknesses including.

- (a) Excessive import dependence for recurrent imports to utilise existing capacity;
- (b) Export earnings lower than the cost of recurrent import requirements;
- (c) In certain cases the recurrent foreign exchange cost of the domestic production exceeds the cost of the finished imported product.

3.30 Because of the high degree of import dependence the sector was highly vulnerable to the impact of the balance of payments crisis. Shortage of foreign exchange to procure recurrent inputs as well as weaknesses in management, and transport and distribution problems have led to a domestic decline in production, to shortages of essential products, and increasing under-utilisation of installed capacity. Installed capacity has actually continued to increase during the crisis period as projects under implementation were completed.

Industrial Exports:

3.31 The urgent need to increase industrial exports to assist close the enormous balance of payments gap is recognised and the National Economic Survival Programme (NESP) places great emphasis on this problem. In 1980 textiles, clothing and food products accounted for over 75% of industrial exports. However, despite the NESP commitment to increase non-traditional exports there was a decline in exports in 1981, export targets for most industrial products were not met, in the case of textiles less than 20% as trade with Mozambique fell sharply.

3.32 At the present juncture in the world economy entry into the industrial market is not easy given the intensity of competition. Difficulties must be overcome to shift production from domestic to export markets resulting from the fact that;

- (a) most industrial projects were not developed on the basis of competitive advantage in external markets;
- (b) potentially competitive plants may face domestic costs which render the financial outcome unprofitable;
- (c) returns from domestic sales are currently so great that there is little incentive to seek export markets;
- (d) domestic firms were not geared to export markets in terms of product design and marketing organisation;
- (e) government policy in relation to such matters as licensing and exchange control lacks the flexibility required to enable manufactures to respond to international market opportunities;
- (f) financing arrangements are not geared to the uncertainties, delays and other factors affecting export activities;
- (g) in the short term, the allocation of industrial capacity and foreign exchange to export production will reduce the availability of goods for the domestic market.

B. Objectives and Strategy:

3.33 The objectives of the industrial sector component of the Structural Adjustment Programme are to:

- (a) increase the supply to the domestic market of basic consumer goods for the urban and rural sector, inputs for agriculture, and incentive goods to encourage cash crops production;
- (b) reduce the import content of industrial production;
- (c) generate a much higher level of industrial exports;
- (d) minimise demands on the balance of payments for the expansion of industrial capacity;
- (e) maximise revenue generating potential from incremental production.

3.34 The pursuit of these objectives will require:

- (a) increased utilisation of existing capacity;
- (b) allocation of foreign exchange to more efficient plants;
- (c) replacement of foreign inputs by domestically produced inputs;

3.35 Priority in the allocation of foreign exchange to industry will be accorded to:

- (a) the supply of certain basic amenity goods, the scarcity of which has particularly demoralising effects on the public—for example, soap and cooking oil;
- (b) ensuring a reasonable flow of incentive goods to stimulate, inter alia, increased cash crop production—for example, bicycles, radios, etc.,
- (c) inputs for agriculture—for example, agro-chemicals, tools and equipment;
- (d) the production of goods generating high sales and excise tax revenues—for example, beer and cigarettes;
- (e) the production of goods/or exports.

C. Programme Implementation Activities:

Capacity Utilisation, Efficiency and Rationalisation

3.36 Increased output will be achieved by allocating additional foreign exchange to ensure high capacity utilisation of the most efficient plants producing priority goods for the domestic market, and/or goods for export. The over-riding criteria for measuring efficiency will be:

- (a) for the domestic market—the foreign exchange cost per unit of output compared to the cost of imports;
- (b) for the export market—net foreign exchange earnings.

3.37 Industries with surplus capacity or plants producing low priority goods will be closed down. Where domestic production of priority goods is highly inefficient and this cannot be remedied, it will be necessary to terminate production and import finished goods.

3.38 Government will establish a specific list of priority goods for the domestic market. The Ministry of Industries will utilise the services of the Secretariat, the Tanzania Industrial Studies and Consulting Organisation and the Tanzania Investment Bank to evaluate in depth the efficiency of each plant in order to identify plants for rehabilitation and foreign exchange allocation, and plans for closure.

3.39 Plants and commodities with high net foreign exchange earning potential will be identified in the same study as a first step towards export promotion.

3.40 Workers will be protected against avoidable hardships in cases of plant closure. They will have priority for re-employment in expanding enterprises, or for re-call for future employment. Where this is not possible compensation will be offered for the disruption of their employment including a period of paid leave or termination allowances, the cost of transport to their home areas if desired, etc.

Plant and Industry Rehabilitation Packages:

3.41 The achievement of full capacity utilization in plants identified for rehabilitation will require the provision of imported replacement or additional machinery and equipment, spare parts, as well as imported materials and additional locally produced materials.

3.42 The Ministry of Industries review will identify those requirements on an annual, plant by plant and industry basis for a three year period. It is anticipated that foreign exchange will be available to meet these requirements through general import support under this programme. It is also intended to have packages containing requirements for larger plants or for particular industries such as textiles. Such plant or industry rehabilitation packages would be suitable for separate specific rehabilitation projects supported by individual donors.

3.43 The Structural Adjustment Programme support to other sectors will ensure an adequate supply of locally produced raw materials, transport, etc. to the industrial sector.

Innovation and Incentives:

3.44 The Ministry of Industries innovation scheme and individual plants will receive additional financial and technical support to investigate and undertake potentially highly productive innovations in such areas as fuel economy, the substitution of local for imported inputs, recycling of wastes, manufacture or refurbishing of spare parts, the maintenance of equipment, etc. Innovation will be supported both through the proposed plant or industry rehabilitation packages, and by further support for the innovation scheme.

3.45 Productivity will be improved through improvements in work organisation and incentives to replicate the success of existing schemes in, for example, cigarette production.

Export Promotion Programme:

3.46 The export promotion component of the industrial sector programme will deal with the difficulties outlined above and attempt to double industrial exports over the three year period. This requires:

- (a) direct action to promote specific exports in the short term, under a special programme;
- (b) a policy package and implementation programme to shift the attention of the industrial sector towards export markets.

3.47 The short term programme will involve the identification of specific export possibilities which will generate significant amounts of net foreign exchange earnings, and deal with bottlenecks in achieving specific targets. Detailed assessment will be undertaken of the foreign exchange costs of production of specific firms and of markets and prices for potential export goods including, for example, cement, textiles, clothing and certain food products. This assessment would carry forward and supplement the analysis of export prospects of specific firms recently undertaken by the Ministry of Industries and form the basis for restructuring production and obtaining the required financial support package. Particular attention will be given to the feasibility of shifting plants entirely to export production, for example, Tanga cement (to the Middle East and Indian market) which will facilitate provision of necessary foreign exchange and financial support package.

3.48 A more effective set of policy instruments will be prepared to provide incentives for, facilitate, and underpin industrial export promotion. The most important single objective is to streamline and consolidate procedures, controls and incentives currently under the responsibility of a number of government agencies including the Ministry of Industries, the Treasury, the Ministry of Trade, the Bank of Tanzania (BOT), the Board of External Trade (BET) and others.

3.49 The BET (a parastatal under the Ministries of Trade and Industries) will be given overall responsibility for export promotion activities. BET will provide a "one stop" service to exporters through a single government office for information, licences, incentives, subsidies, rebates and all associated documentation in order to ensure speed and simplicity of procedures and their operation. It will be considerably strengthened by the provision of physical facilities (offices, communication), and an increased number of suitably qualified personnel and adequate budgetary provision. Funds will be provided for manufactures/export participation in overseas trade fairs and exhibitions and for business travel associated with market development and servicing. External support including substantial technical assistance will be required for the development of BET following on that received previously through the Commonwealth Secretariat and the United Nations International Trade Centre (ITC).

3.50 Other areas for which an action programme will be required in support of export promotion of industrial products will be to look into the possibility of undertaking the following measures:

- (a) provision of either a subsidy on gross value or, if appropriate, a preferential exchange rate in favour of non-traditional exports;
- (b) give priority in the allocation of foreign exchange (with automatic replenishment where appropriate) and import licences;
- (c) streamlining of export licence requirements;
- (d) whenever possible, rapid confirmation of foreign letters of credit by the National Bank of Commerce;
- (e) give preferential interest rates on credit given to non-traditional exporters by the NBC;
- (f) appraise and decide on the proposal to establish an export credit guarantee scheme by the NBC;
- (g) help Tanzania exporters give competitive credit terms to foreign buyers;
- (h) provision of non-material incentives for workers and managers of firms that achieve export targets.

3.51 Detailed proposals for the Industrial Export Promotion Programme will be prepared by a study team drawn from the Ministries of Trade and Industries, Implementing Secretariat, BET and with the assistance of Bank of Tanzania and NBC. The study team will recommend whether action needed and support for the programme might be best provided by either:

- (a) *Industrial Exports Development Credit*, to provide inputs to the industrial sector and for the development of BET or
- (b) *Revolving Export Fund* administered by BET to finance overseas promotion, trade credit or an export credit guarantee scheme together with a separate foreign exchange window for industrial exporters to permit quick and ready access to imported inputs.

New Investment:

3.52 The industrial Sector Programme will give priority to the rehabilitation of existing capacity and a number of projects planned for implementation in the immediate future will be postponed or cancelled. Exceptions will be made only for projects which will break bottlenecks to enable support expansion in the utilisation of existing industrial capacity, or which will generate an immediate expansion in net foreign exchange earnings. A preliminary list of projects to be postponed or cancelled has been prepared and will be reviewed by the Ministry of Industries.

3.53 In the longer term project evaluation, design and choice will be made more sensitive to foreign exchange implications.

D. External Support:

3.54 The following components of the industrial sector rehabilitation programme and of the industrial exports promotion programme are considered suitable for external support:

Industry/Plant Rehabilitation Packages.
Textiles etc.,
Industrial Innovation Scheme
Board of External Trade:
Industrial Exports Development Credit or the Revolving Export Fund

E. Further Work:

3.55 Further detailed studies are required to prepare an implementation programme for industrial rehabilitation and export promotion, and costed packages for submission to donors. These will be undertaken in the coming months by the Ministry of Industries and other institutions with the support and assistance of the Implementing Secretariat, and include:

Identification of priority goods for the
domestic market
Factory Rehabilitation Study
Industry/Factory Rehabilitation Packages
Industrial Innovation: Scheme Support Requirements
Industrial Productivity
Export Markets for Industrial goods
Board of External Trade
Industrial Exports Development Credit
Revolving Export Fund

SECTION III
SECTORAL PROGRAMMES
TRANSPORT

Contents

- A. Background
- B. Objectives and Strategy
- C. Programme Implementation Activities
 - Roads
 - Vehicle Rehabilitation
 - Regional Transport Corporations
 - Railways
 - Air Transport
- D. External Support
- E. Further work

A. Background:

3.56 Transport deficiencies are one of the main bottlenecks for the economy's productive sectors and for improved export performance. The problems that face this sector are mainly technical, managerial, operational, financial as well as of supply. These are reflected in the following:

- (a) lack of reliable statistics for administrative and planning purposes; for example on the stock of vehicles;
- (b) non-optimal use of most of the public sector vehicles in the provision of essential transport services;
- (c) allocation of new vehicles does not take into consideration their economic and efficient use;
- (d) operational problems that had almost paralyzed Air Tanzania Corporation;
- (e) Operational problems of the Dar es Salaam port which affected adversely the export and import trade.

3.57 In addition, insufficient foreign exchange and local funds available to the transport system make it impossible to purchase the required spare parts, rolling stock or even carry out proper maintenance and repair. There are also institutional reasons for the generally poor performance of the sector which was partly manifested by the decline in both the volume of goods and the number of passengers carried over the past few years.

B. Objectives and Strategy:

3.58 The main steps to be taken during the structural adjustment programme period include:

- (a) Maximum use of existing railways, shipping and port services to reduce pressure on the already over-burdened and more expensive road transport system;
- (b) Rationalization and more efficient use of transport facilities by national institutions, including the pooling and rationalization of parastatal vehicle capacity to achieve higher average load factors;
- (c) Strengthening of the planning capacity of the Ministry of Works, Transport and Communications and their parastatal institutions;
- (d) Preparation of a longer term strategy for the transport sector to strengthen and develop it;
- (e) In the short and medium term periods, priority will be given to the rehabilitation and maintenance of rail and road systems and of existing vehicle fleet and rolling stock rather than create new transport facilities;
- (f) Shift the long-distance movement of cargo from road to rail;
- (g) The country's transport tariff policy will be sufficiently flexible to allow for real cost differentials among regions due to different cost structure and road standards and of different types of transport operations; it will allow for recovery of costs and reasonable margins for transport operators;
- (h) Unnecessary administrative restrictions and controls on inter-regional movement of goods and vehicles that limit efficient use of the sector's facilities will be removed;
- (i) More systematic and energetic measures will be taken for more economic use of energy, thus preventing wastage by public vehicle users;
- (j) Additional financial resources (both local and foreign) will be provided to ease critical bottlenecks in the sector, particularly for undertaking adequate maintenance of existing facilities and replacement of worn-out vehicles.
- (k) Make more effective domestic use of the TAZARA Railway, related to general development activities, namely, agriculture, mining and industries in the regions over which the railway passes.

C. Programme Implementation Activities:

3.59 A number of programmes are being implemented or are planned for in the various subsectors. It is expected that these programmes will, in the near future, provide the necessary impetus to revitalise the sector so that it can provide the required services to other sectors of the economy during the structural adjustment period. They include the following.

3.60 Roads rehabilitation and maintenance will be given high priority including the reconstruction of the Chalinze—Segera—Korogwe road, some parts of the Tanzam highway. Additional assistance, to that provided under existing IBRD funded Trunk Road Maintenance Programme would be required. These activities will facilitate the movement of crops and inputs into the agricultural sector and transportation of industrial goods, etc.

3.61 A number of new road projects are being undertaken to increase the network of tarmac roads in the country and make more places easily accessible. Projects under implementation or which are already financed include Morogoro—Dodoma, Makambako—Songea and Mwanza—Musoma. In addition, assistance is required for Rusumo—Lusahunga on the Rwanda border, for the improvement of the coastal road from Kibiti to Lindi, and for the Unity Bridge (Mozambique/Tanzania).

3.62 A feeder road development programme based on labour intensive methods is receiving support from ILO. This programme will be considerably expanded to improve farm-market communication and requires external assistance.

Vehicles:

3.63 Plans have reached an advanced stage to rehabilitate about 600 grounded public sector vehicles and to complete about 700 vehicle bodies. The programme which will be assisted by the EEC (at a cost of approximately Sh. 150 million) is expected to put back on the road a number of non-operative vehicles. Some assistance for vehicle spare parts for some institutions is being provided under the IBRD export Rehabilitation Credit and further assistance would be required.

Regional Transport Corporation:

3.64 A new approach to public sector transport includes the establishment of Regional Transport Companies in all regions with IBRD assistance. These companies will be carrying out the bulk of all road transport operations and are jointly owned by various public sector institutions in the respective regions. So far five such companies have been established and following performance evaluation further assistance will be required for additional companies.

Railways:

3.65 A detailed study of the main problems as well as the medium and long-term requirements of the Tanzania Railways Corporation (TRC) has been undertaken with the assistance of CIDA. TRC locomotive maintenance capacity should improve following the commissioning of the heavy-duty workshop at Morogoro. The Rehabilitation programme for the railway currently being implemented or to be implemented shortly also includes the physical rehabilitation and strengthening, improvement of the communication system, reconstruction of bridges, provision of additional rolling stock, etc. Partial financing is in place for this, and additional financing is required. TAZARA will badly need more powerful locomotives from West Germany, but additional locomotives and assistance with rehabilitation and maintenance is also required.

Air Transport:

3.66 A major expansion of Dar es Salaam Airport and construction of new terminal buildings is

being carried out with French assistance. Assistance is required for the improvement of operation and maintenance of Air Tanzania Corporation.

D. External Support:

3.67 The sector requires substantial additional external assistance to supplement existing efforts, particularly in terms of technical assistance, funds for the purchase of vehicles, rolling stock and equipment, spare parts for rehabilitation and additional development. Further external assistance will be sought on the following projects and programmes:

- Major road rehabilitation and maintenance
 - Chalinze—Segera—Korogwe
 - Tanzam Highway
- Major road construction
 - Rusumo—Lusahanga
 - Kibiti—Lindi
 - Unity Bridge (Mozambique/Tanzania)
- Feeder road rehabilitation, construction and maintenance
- Vehicle rehabilitation credit
- Regional Transport Corporations
- Tanzania Railways Corporation Rehabilitation
- TARA Rehabilitation
- Air Tanzania operation and Maintenance support

E. Further Work:

3.68 Priority will be given to the formulation of detailed support packages outlined above. This will be undertaken by the Ministries of Work, Transport and Communications, and respective parastatals assisted and supported by the Implementation Secretariat.

3.39 Because of the lack of data required for planning and managing the various areas in this sector the Ministry of Transport and Communications will commence a data collection exercise on the demand and supply for transport capacity in the country. The Ministry in cooperation with other institutions (local and external) will also prepare a long-term strategy for the transport sector.

SECTION III
SECTORAL PROGRAMMES
ENERGY

Contents

- A. Background
- B. Objectives and Strategy
- C. Programme Implementation Activities
 - Electric Power
 - Coal
 - Oil and Natural Gas
 - Fuel, Wood and Charcoal
 - Other Measures
- D. External Support
- E. Further Work

A. Background:

3.70 At the moment, about nine-tenths of commercial energy consumption is supplied by oil. The increase in oil prices beginning in 1973 has placed a very heavy burden on the country's balance of payments situation. The electric power system has been expanded and after completion of Kidatu II installed capacity increased from 251MW in 1978 to 360MW in 1980, of which 300MW are from hydro-power stations and remaining 60MW from thermal stations scattered throughout the country. Despite the total system capacity being sufficient to meet total demand even in peak periods, power shortages in many parts of the country have been responsible for stoppages of industrial production or for the delay in starting up of new industries. These shortages have occurred because surplus power on the grid cannot be made available to demand centres off the grid and because of insufficient or poor condition of local generating facilities. In view of the generally depressed present state of the economy the latest forecast of the demand trend for power indicates that power shortfall will not occur until 1987, if no new power supply is brought on stream.

3.71 Fuel wood and charcoal is widely used as an alternative to commercial energy. However, its widespread use has more often than not resulted in deforestation with extremely negative environmental consequences. To avoid those consequences an active policy towards wood fuel use is required. It is important to monitor developments and avoid negative environmental effects and ascertain future wood availability.

3.72 Tanzania's energy potential, particularly its hydro-capacity, is very large in the longer term. There are substantial coal deposits which are largely unexploited. Deposits of natural gas are also known to exist in substantial quantities. Other unexploited sources of energy include wind, solar, biomass, geothermal, etc.

B. Objectives and Strategy:

3.73 Energy availability for sectors such as transport, industry, and agriculture is critical to the implementation of the structural adjustment programme. A combination of measures are required with the following general objectives:

- (a) maximum economic use of fuel, since measures have already been taken to curb the profligate use of petrol, further substantial savings are not anticipated;
- (b) to reduce the imported energy burden on the balance of payments by making maximum use of known potential domestic energy sources;
- (c) identification of domestic energy resources and expansion in domestic energy potential through exploration and the development of the capacity to exploit these resources;

3.74 In the short to medium term priority will be given to:

- (a) the development of known sources of hydro-power;
- (b) use of indigenous sources of energy whenever possible, a phased replacement of diesel fuel generators, and extension of the national grid;
- (c) use of coal to generate thermal power to supplement hydropower, to provide backup power during drought periods and for other uses, especially industry;
- (d) undertake training of required personnel;
- (e) carry out comprehensive studies of other sources of energy and the options available including on-going oil exploration.
- (f) put into practical use findings of researches and experiments on the use of wind as a source of energy and look into further use of coal in place of fuel.

3.75 Long term energy policy and development will take into consideration the various potential sources of energy in the country including prospects of finding oil. Energy development will precede development of energy-using sectors (industry, mining, etc.,) in order to avoid power bottlenecks for

projects in these sectors. A detailed analysis will be carried out to establish priority and sequencing of the development of alternative energy sources while giving attention to costs, gestation period, availability of resources, environmental impact and the implication for the development of other economic and social sectors. The analysis will also include the provision of cheaper and appropriate sources of energy to the fuel wood to increase productivity, provide essential services and prevent negative environmental effects.

C. Programme Implementation Activities:

Electric Power

3.76 Rehabilitation of existing diesel fuel generators and installation of new diesel generators in some of the towns to improve the production and supply of electric power and minimize distributional losses will be undertaken to meet short and medium term power demands.

3.77 In order to avoid severe power shortages in the late 1980's planning of a 75 MW station of Mtera Dam has reached an advanced stage. Implementation of this project will start this year in 1982/83.

3.78 In the longer term (later 1980's or early 1990's) a larger area of the country will be covered by the national grid system. The extension of the grid system is underway and will take several years to complete. The grid system will eventually cover the North Western, the South Eastern and other zones and will replace a number of diesel stations, reducing consumption of imported fuel. Diesel generators would be utilized on a stand-by basis and no further diesel generating plants will be constructed.

3.79 Attention is being given to the development of mini-hydro schemes for small townships and for rural electrification.

Coal:

3.80 Production of coal is undertaken on a small scale at Ilima colliery. The coal is mainly used by tea estates and tobacco driers. In order to supply the required coal to the Pulp and Paper and the Cement factories, a coal mine with an annual capacity of about 150,000 tons will be developed at Songwe—Kiwira. The mine is expected to come into production in 1986. In future the use of coal in place of oil will be undertaken whenever possible.

Oil and Natural Gas:

3.81 Oil and natural gas exploration is being carried out in a number of areas and drilling is progressing well. Recently two exploration and production—sharing agreements to allow more investigations of some of the potential areas have been signed. A preliminary decision has been taken to use the natural gas resource at Songo Songo for the production of ammonia/urea fertilizer mostly for export. A firm decision on this project will be taken after the completion of further studies to ascertain its technical, economic and financial viability.

Fuel Wood and Charcoal:

3.82 More than four-fifths of the energy consumed in Tanzania is accounted for by traditional sources, mostly fuel wood and charcoal. These sources which are used in brick making, tobacco and tea industries and for domestic purposes, serve as alternatives to commercial energy but at present, have negative consequences on the environment. Steps will be taken to ensure that replanting of trees is sufficient to offset current use.

Other Measures:

3.83 It is intended to use molasses from local sugar factories to manufacture power alcohol if the

project under consideration is found feasible, to adapt existing buildings and building design to minimize the use of energy, and to take other appropriate measures to economize the use of energy in transport, industry and other sectors.

D. External Support:

3.84 Continued and additional external support is required for on-going and additional projects including:

On-going Projects:

- Electric Power
 - Extension of the grid system (transmission lines etc..)
 - electrification of townships
 - rural electrification programmes
 - supply of generators
 - coal
 - Hima colliery

Oil and Gas:

- Songo Songo (gas and oil exploration)

Fuelwood and Charcoal:

- afforestation programmes

Other:

- Technical assistance
- training
- studies on other energy sources

Additional Projects:

Electric Power:

- Mtera power projects
- Mini-hydros

Coal:

- Songwe-Kiwira coal

E. Further Work:

3.85 The Stiegler's Gorge multipurpose project has been under investigation for some years now. Implementation has been constrained by the enormous size of the initial investment required for its first phase. However, there are other two major potential sites for possible hydro-power generation, Kingenenas and Shughuri Falls which are also within the Rufiji/Kilombero Basin. Studies of these two sites will be carried out soon. Following completion of the studies a decision will be made on the future sequencing of hydro-power schemes to take care of the requirements in the 1990's and beyond.

SECTION III
SECTORAL PROGRAMMES
DISTRIBUTION

Contents

- A. Background
- B. Objectives and Strategy
- C. Programme Implementation Activities
 - Distribution system
 - Institutions
 - Farm Inputs
 - Storage
 - Allocation Information
 - Prices
 - Price control
 - Taxes
- D. External Support
- E. Further work

A. Background:

3.87 The distribution system has undergone major changes in the past fifteen years. A much higher proportion of wholesale trade in imported and locally manufactured goods is handled by public sector institutions and important changes have been made in their respective roles. A price control system has been in operation since 1973.

3.88 The Ministry of Trade is responsible for institutions which comprise the backbone of the distribution system through the Board of Internal Trade (BIT) including seven specialised National Trading Companies (NTC) for various product groups, and twenty Regional Trading Companies (RTCs) one for each region of the country. But in the mid 1970s, BIT controlled 40% of total imports (8% of which were consumer goods) and about 40% of wholesale trade. The range of products handled has expanded, particularly with the takeover of food distribution following dissolution of the Co-operative Unions in 1976. The financial structure of BIT Companies has been strengthened and profitability increased with rising turnover; however profitability is not an adequate criteria to ensure efficiency in view of their monopoly situation. The distribution agencies are subject to difficulties and complaints arising from present shortages, due to insufficient production and import capacity, which are outside their control. There are, of course, inefficiencies and weaknesses in the agencies particularly due to bureaucratic procedures, overstaffing, storage and transport problems. These require correction within the framework of the present system rather than through further major institutional changes.

3.89 Confinement policy allocates a monopoly on the import of selected public sector institutions. Under the policy all inputs should be handled by sixteen institutions (including seven NTCs and other parastatals for specialized requirements). However, many goods bypass this arrangement as a result of large aid inflow. Distribution of locally produced goods has been confined mostly to NTCs although a few industries (breweries, cigarettes, shoes) have their own distribution network. At local level RTCs give preference to village and co-operative shops. Services offered by public sales outlets, especially retail shops, are still weak and private traders continue to play a key role in many areas.

3.90 Following the development of shortages of critical goods in 1980 a quota system of allocation was introduced. Allocation committees with wide ranging membership operate at national, regional, district and ward levels to determine the allocation, currently, of thirty-two critical items. Quotas are reviewed every six months. The system is reasonably effective in ensuring fair distribution to the Regions at the whole sale level, but it is still difficult to enforce at the sub-wholesale and retail level.

3.91 The National Price Commission (NPC) founded in 1973, is responsible for control of ex-factory, wholesale and retail prices, with annual reviews. It previously covered over 2,000 items mostly goods but including some services. Some items have recently been decontrolled and a government committee is currently reviewing the situation. Many prices are pan-territorial, that is, uniform throughout the country, others reflect variations in transport costs to the Regions. NPC lacks adequate staff and facilities and priority is given to attempting to control trading margins rather than producer prices. Enforcement is difficult because of shortages of most price-controlled consumer goods, so that goods are often only available at prices which contravene regulations. In any case in periods of severe shortages price control can only be effective if rationing is undertaken as a back-up measure.

B. Objectives and Strategy:

3.92 The policy objectives in relation to the distribution system are to:

- (a) ensure the regular supply of essential basic food and consumer items with particular emphasis on lower income groups, and the supply of farm inputs;

- (b) establish effective price control and maintain pan-territorial prices at Regional Centres on a limited range of basic items;
 - (c) maintain and improve the quota allocation system;
 - (d) consolidate the role and improve the efficiency of major public sector institutions engaged in wholesale distribution;
 - (d) gradually strengthen co-operative and other publicly owned retail outlets whilst acknowledging the continuing role of private trade;
 - (f) improve storage availability and ensure co-ordination in provision and use between institutions;
- 3.93 In pursuit of these objectives the sectors programme will:
- (a) give priority to the distribution of basic items and consider, in the case of continuing severe shortages, the introduction of a rationing system for a few essential items in major towns;
 - (b) keep the number of items subject to price control under constant review, with a view to leaving only the irreducible minimum;
 - (c) provide improved information to the general public by RTCs and other agencies on the availability of goods under the quota allocation system;
 - (d) reduce the scope and stream-line the operation of pan-territorial prices;
 - (e) improve the organisation, efficiency and accountability of parastatal and other government agencies engaged in distribution, and enable them to operate more flexibly and in a more business like way;
 - (f) expand storage facilities and improve inter-agency co-ordination in the use of storage;
 - (g) exercise caution in trade confinement policy and permit continued private distribution where it provides an important essential service.

C. Programme Implementation Activities:

Distribution System:

Institutions:

3.94 Proposals for improving the organisation, efficiency and accountability of public sector institutions engaged in the distribution sector (BIT, NTCs and RTCs) are included under the overall parastatal development programme discussed below. Particular attention will be paid to improving levels of employee productivity through incentive schemes, the rationalisation of procedures and introduction of more business like methods, and a reduction in the volume of paper work. Alternative criteria to measure efficiency other than the achievement of financial profits will be developed.

3.95 Village and co-operative shops will be assisted to offer improved services by developing management capability and will be given preference in the allocation of particularly scarce goods as essential steps to improving their performance and attaining financial viability.

3.96 It is recognised that the development of public sector distribution will be a gradual process and that private trade still has an important economic function which it will be encouraged to fulfil.

Farm Inputs:

3.97 The supply and distribution of farm inputs is considered in the control of the agricultural sector programme above.

Storage:

3.98 Storage requirements for both the distribution of goods and crop procurement are closely linked to transport operations. Storage availability should be sufficient to even out seasonal peaks

particularly in respect of agricultural produce. It is also necessary to ensure co-ordination between autonomous institutions in the development of storage to avoid the creation of excess capacity, and ensure maximum utilisation.

3.99 A number of institutions, including NMC are developing or planning additional storage at production and consumption centres at national, regional and district levels. Under the Structural Adjustment Programme the location, capacity and use of existing and planned storage will be reviewed, the most urgent requirements clearly identified and arrangements for financing and execution will be put in hand.

Allocation Information:

3.100 A more open information and public relations policy will be pursued on quota allocations of basic goods in order to reduce rumour, minimise malpractices, and assist monitoring. In particular, NTCs and RTCs will make public when goods are available and in what quantities by posting notices locally and through national and local information and news media.

3.101 Trading companies will be made more responsive to the effects of their actions on consumers, and more service—orientated. They will undertake more market research to determine actual requirements of goods in different areas of the country.

Prices:

Price Control:

3.102 The National Price Commission (NPC) will be reinforced to enable it to improve methods and practices in setting ex-factory prices for controlled items taking adequate account of capital structures and of productive efficiency. It will also be strengthened to more effectively monitor the application of price controls and other related macro-economic issues.

3.103 The Government has already taken measures to reduce the number of items subject to price control. The process of reviewing price controlled items will be taken on a continuous basis.

3.104 The pan-territorial pricing system will apply only to the twenty Regional centres for basic goods (mainly food items, bottled and tinned drinks and foods). RTCs will be fully compensated for the difference between the average transport factor allowed in the price set by NPC and actual transport costs incurred by National suppliers of basic goods (SUDECO for Sugar, STAMICO for Salt, NMC for foodstuffs, etc.) This will require detailed work on a transport equalisation scheme by NPC.

3.105 In turn each RTC would establish average transport costs within the Region and apply this uniformly.

3.106 For goods other than basic goods, actual transport cost will be fully reflected in the price. In the case of relatively high value goods, transport constitutes a fairly small percentage of the consumer price so that price variations between Regions will be small. In the case of bulky low value goods (such as cement, CGI sheets) price differentials reflecting transport costs will encourage their movement to and improve physical availability in the more remote areas.

Taxes:

3.107 A special tax will be levied on a limited group of non-essential products where the NPC estimates that likely supply will be insufficient to meet market demand. This will eliminate existing windfall gains derived from the gap between the present official price and the un-official consumer price as well as increase government revenue.

D. External Support:

- 3.108 Requirements for external support in the distribution sector are for:
Storage Rehabilitation and Development
Agricultural input supply

E. Further Work:

- 3.109 The following further studies are required for the implementation of the sector programme:
- | | |
|--|-----------------------------|
| Storage Rehabilitation and Development | —Ministry of Trade, |
| | —Ministry of Agriculture |
| | —Parastatals. |
| Ex-Factory Prices | —NPC/Ministry of Industries |
| | —KILIMO |
| Transport Equalisation Scheme | —NPC/RTCs |
| Rate of Return on Investment | —DEVPLAN |

SECTION III

SECTORAL PROGRAMMES PARASTATALS

CONTENTS

- A: Background**
- B: Objectives and Strategy**
- C: Programme Implementation Activities.**
 - 1. Organisation and Accountability**
 - Holding Company Parastatals**
 - Non-holding Company Parastatals**
 - Material Incentives**
 - 2. Financial Control**
 - Staff and Staff training**
 - Systems**
 - The Budget**
 - Immediate measures on overheads**
 - Workers Councils and Controls**
- D: External Support**
- E: Further Work**

A. Background:

3.110 The performance of parastatals varies widely. Some operate efficiently and generate surpluses but others suffer from poor commercial performance. In general, there is inadequate accountability at all levels of decision taking. The elaborate internal and external control system over parastatal activities, which exist on paper are in reality, very weak. Motivation of both managers and workers has been found to be inadequate as evidenced by problems of discipline in a number of firms and this is compounded by the absence of effective incentives either moral or material.

B. Objectives and Strategy:

3.111 The objectives of structural adjustment in this sector will be to:

- (a) Help restore the commercial viability of parastatals and their capacity to generate surpluses.
- (b) Reduce the fiscal burden of parastatals on the Government budget.
- (c) Achieve greater autonomy of parastatals in day to day activities within a clearly articulated system of central and local controls.
- (d) Restore discretion but also responsibility and accountability to all levels of decision takers in this sector—boards, managers and workers.
- (e) Safeguard the system of workers involvement and extend it overtime.

3.112 The strategy to be followed to attain these goals will focus on:

- (a) Rationalising the decision taking structure of parastatals.
- (b) Clarifying the roles of Ministries, boards, managers and management committees within a structure that gives enterprises more day to day autonomy.
- (c) Introducing a new material incentive system in line with the national productivity, incomes and prices policy.
- (d) Improving the reporting and accounting systems of parastatals and providing more and better qualified accounting and book-keeping staff.
- (e) Introducing standardised budgeting based on performance and investment criteria, to be supervised by Treasury and Devplan at the centre and workers' councils and boards at the enterprise.
- (f) Focussing special attention on reducing parastatal overheads.

C. Programme Implementation Activities:

3.113 Measures will be taken in the immediate future to clarify responsibility, inject scarce technical expertise where it can be used most economically and situate ministerial responsibility clearly. These steps are meant to locate responsibility for production and discipline at the enterprise level, strengthen the degree of controls over activities of parastatals in a non-bureaucratic way. Thus, holding companies will be developed as repositories of scarce technical skills and provide for an efficient scheme of material incentives which relates rewards to production performance:

- (a) As far as possible a clear structure of decision taking with respect to ministries, holding parastatals and operating companies will be clearly spelt out so that the structure will have both discretion and responsibility to increase the autonomy of parastatals and their efficiency. External controls of parastatals will be strengthened to improve accountability but not to increase rigidity or stifle creativity and incentives.
- (b) Holding companies would provide technical expertise, help arrange and review plan targets, training programmes, budgetary/financial requirements, inter-enterprise trade, export promotion, etc. In other words, holding companies would be the principal planning bodies for specific industries and the main centre of technical expertise for individual enterprises.
- (c) Boards of holding companies will be comprised predominantly of experienced and qualified people who are also technically oriented. Performance of board members would be monitored by the ministry concerned. Holding company boards will have power to draw up

short lists of managers for their enterprises management committees for formal appointment.

- (d) Management Committees will among others also be composed of workers elected from and by the employees in the enterprise with one member from the CCM branch executive, one member of the JUWATA branch executive, and one representative of the relevant consumer interests in society who will be appointed by the holding company.
- (e) Managers will be hired on terms laid down by SCOPO and will be answerable to the Management Committees for the efficient performance of their tasks but would have discretion to implement production and action plans once approved by management committees and holding companies.

3.114 Since in certain aspects these steps involve major departures from the present system they will be implemented on a gradual basis.

3.115 With respect to holding parastatals themselves, emphasis will be placed on the appropriate expertise of board members with more representation from workers than at present. Boards will be free to appoint managers using normal advertising and recruitment procedures. Because boards exercise discretion in such appointments they will, thus, be answerable for mistakes.

3.116 In addition to steps being taken within the government's Productivity, Incomes and Prices Policy on material incentives the following additional steps will be taken to reinforce the existing policy:

- (i) the Permanent Labour Tribunal (PLT) on the advice of the National Institute for Productivity (NIP) and the recently formed Productivity Council will advise holding companies on the parameters within which bonuses and penalties should be awarded and may, if necessary, scrutinize individual schemes, a task which will normally be done by the holding companies themselves.
- (ii) Incentives will be significant with ranges as high as 30% above the base wage for ordinary workers, but consideration will be given to avoid opening up too large wage and salary differentials.
- (iii) Penalties for poor performances will be as high as 10% of the base wage for ordinary workers and 20% for more highly paid personnel.
- (iv) Greater than budgeted productivity increases will be rewarded by granting workers favoured access to durable consumer goods which would otherwise be difficult to obtain.

This bonus system will also generally apply to larger parastatals which are not in holding company form. Here boards of directors would approve proposals subject to external review by the PLT.

Financial Control:

3.117 In this subsection measures will include:

- (a) Introduction of crash programmes to improve book-keeping for specific institutions including the National Milling Corporation (NMC) Crop Authorities etc.,
An emergency programme for these institutions will be prepared by the Institute of Finance Management (IFM), Nyegezi Social Training Centre, Institute of Development Management (IDM) and the National Board of Accountants and Auditors (NBAA). To accommodate parastatal needs existing training institutions will be expanded to increase the intake especially at the National Bookkeeping Certificate (NABOCE) level. In addition efforts will be made to raise teaching standards and improve the pass rate.
- (b) Treasury will review the staff strength of these training institutions in order to improve the standards and increase the intake of students.
- (c) Treasury, with the help of NBA/IFM, will also review the distribution of accounting and book-keeping staff by education and experience between various parastatals and undertake

reallocation to meet staff requirements in certain critical areas in the short term, priority will be given to crop authorities.

- (d) Each parastatal will be required to sponsor at least two candidates each year for NABOCE and the National Accountancy Diploma (NAD).
- (e) For medium and long term standardized accounting, book-keeping and budgeting system will be introduced.
- (f) The budget system will be linked to cost reduction or output or surplus generation. Initially each parastatal will be required to link its expenditures to a few key performance indicators. NIP and IFM will assist in this process during 1983/84. Thereafter the indicators used could become more numerous and more refined.
- (g) Before the commencement of each budget cycle the Public Investment Division of Treasury will issue general budget guidelines for all parastatals and holding companies indicating maximum acceptable growth rates in certain expenditure items. Similar guidelines will be issued simultaneously for the capital budget by DEVPLAN.
- (h) All budgets, once approved by the relevant boards of directors or managing committees, will be subject to scrutiny by Treasury and Devplan. In this way parastatals would for the first time be brought into the annual budget procedure and special skeleton accounts will be published for scrutiny by the Government, Parliament and the Party.
- (i) Performance relative to budget will be assessed at least every quarter with reasons given for deviations from budget. This information will be presented to workers' councils for review and comment before being considered by boards, and then sent to Treasury. Efforts will be made by IFM, IDM and other training institutions to provide courses for workers' councils, tailored to the needs of their specific industry, to assist them in interpreting and assessing budgets.
- (j) The Public Investment Division of Treasury will be strengthened immediately by the recruitment of economists from the University and elsewhere so that it can undertake this quickly and efficiently.
- (k) As a preliminary step a freeze will be imposed on overhead expenditures of parastatals at their 1981/82 levels, and any growth in spending which would otherwise have taken place is to be transferred to Treasury as a special contribution by parastatals to the central government budget. This contribution will not be eligible for inclusion in any application to the price Commission for price increases, but must be found from efficiency improvements within parastatals. To effect this, workers' councils will be called upon to advise, specifically, on how operating expenses might be trimmed as part of the annual budget exercise.
- (l) Flagrant departures from budgets will be reported by Treasury to the Parliamentary Committee and Party for appropriate action against boards and managers. It is hoped, however, that these external interventions will only be applied where internal controls fail to operate.
- (m) Special attention will be given to the accounting and budgeting needs of the larger parastatals, especially crop authorities. Where detailed reports have been carried out on these aspects of their operation e.g. Coffee Authority and NMC, boards will be required to draw up implementation programmes with definite deadlines and advise government and the Tanzania Audit Corporation (TAC).
- (n) The statement of affairs of NMC, Cotton Authority etc., will be drawn up as recently as possible, more attention will be focussed on putting new systems, staff and staff training programmes in place.
- (o) Where evidence of wrong-doing exists, the case will be taken to the workers councils and the boards with view to taking appropriate action, legal or otherwise. It is important that workers' bodies become an active forum for discussing such matters as they are much better placed than most others to police irregularities.

- (p) The Statistical Bureau will continue with its questionnaire of parastatal accounts and will also liaise on an on-going basis with TAC, on data and analysis. This aims at having data generated in annual accounts in a form that can be used directly for publication and planning purposes.

D. External Support:

3.118 The requirements for external support in the parastatal sector are specified under the sectoral programmes. However, support will also be required for the following:

- (a) Technical assistance—recruitment of professional staff for NBAA.
- (b) Consultancy funds to carry out various studies for several parastatals.
- (c) Funds for recruitment of professional personnel for training institutions and for expansion in order to increase the intake of students.

E. Further work:

3.119 Further work will be required in the following areas:

- (a) Appraise the already proposed structure of decision taking with respect to ministries, Boards, holding parastatals and operating Companies.
- (b) Analysis of problems affecting various parastatals including managerial, financial and technical in order to come up with specific recommendations and workable programme.

SECTION III
SECTORAL PROGRAMMES

Financial Institutions:

- A: Background
- B: Objectives and Strategy
- C: Programme Implementation Activities
- D: External Support
- E: Further Work

A. Background:

3.120 Most of the problems facing the banking system in Tanzania stem from a period of rapid expansion from mid to late 1970s. This put a severe strain on staff and led, in many cases, to a lapse of the control function of the banks. Other major changes in institutional structure and practice during this time (e.g. abolition of cooperatives, introduction of villagisation etc.), put further pressures on banks. But each institution has its own unique problems.

3.121 The National Bank of Commerce (NBC) has been severely strained by a two thirds increase in the number of offices since the mid 1970s—shortages of skilled staff being felt at all levels. This expansion has also made it more difficult to balance the bank's books. Head office costs have risen rapidly in recent years and problems of discipline in many offices have emerged. Profits of NBC have declined recently.

3.122 The capital position of the NBC has been adversely affected in recent years by large non-commercial overdrafts to parastatals and by the large backlog of unpaid import bills. The NBC has also encountered problems in its foreign business.

3.123 The Tanzania Rural Development Bank (TRDB) has experienced problems of loan repayment particularly after the introduction of crop authorities and abolition of the cooperative movement. The TRDB is facing problems of liquidity largely on account of delays by Treasury in passing on aid and transport subsidy disbursements. Operating expenses of the TRDB have risen fairly rapidly in recent years.

3.124 The Tanzania Housing Bank (THB) has acute staff shortages and very serious book-keeping and accounting problems. It has been unable to generate surplus and maintain adequate reserves.

B. Objectives and Strategy:

3.125 The major objectives of the structural adjustment programme for financial institutions will include:

- (a) Strengthening the control function of the banking system by making a clear division between commercial and non-commercial business with the latter being underwritten by Treasury.
- (b) Improving the commercial viability and efficiency of financial institutions.
- (c) Improving standard of service to the public.
- (d) Ensuring the security of state and public funds invested in those institutions.

C. Programme Implementation Activities

The National Bank of Commerce (NBC)

3.126 The concept of a branch will be reviewed to accommodate some branch expansion limited to simple physical and personnel requirements, which would at the same time allow NBC time for consolidation of its operations.

3.127 An immediate staff training programme at all levels with an initial emphasis on re-training of the new bank managers, accountants and supervisors will be prepared. Appropriate courses will be designed in cooperation with other training institutions.

3.128 Branches with serious accounting personnel problems will be identified and some emergency staffing measures taken to help them improve their services and operations. Special regional action squads will be formed to replace the existing staff undergoing training.

3.129 Efforts will be made to improve services to Customers through increased staff discipline and by strengthening the inspectorate unit of the bank. The unit will receive material incentives including upgrading and special training programmes.

3.130 The bank is already undertaking steps to decentralise its activities and cut head office and administrative costs by introducing very tight budget starting 1982/83

3.131 With regard to parastatal overdrafts the bank will immediately reintroduce an emphasis on cash flow analysis of customers' business as a basis for lending decisions. Credits to parastatals will be restricted to amounts shown to be required on the cash flow basis and covered with an adequate security. The bank will not lend money to parastatals which do not fulfil those conditions.

3.133 The Bank is presently examining the possibility of having a special account for administrative and overhead costs for each crop authority and a separate account for payments to farmers. The Bank will alert the respective crop authority whenever it spends beyond its budgeted figures for the former account. The latter account will not be used to pay administrative and overhead expenses, instead it will be used to ensure and safeguard prompt payments to farmers.

3.134 Interest rates on bank credits will be raised up to 25%, i.e. from 7.5%—12% to 9.5% to 15% in order to improve NBC's performance and other considerations.

3.135 Special attention will be given on improving the performance of foreign operations department including its staffing.

Tanzania Rural Development Bank (TRDB):

3.136 In order to recover TRDB's loan arrears, crop authorities will be given mandate to deduct loan repayments, on behalf of TRDB crop proceeds before paying villages.

3.137 The Tobacco Authority will start purchasing of the crop from villages and not from individuals.

3.138 The Credit administration structure as proposed by TRDB will be implemented and the Government and the Party will help TRDB recover its outstanding loans.

3.139 TRDB will retain its function of distributing inputs until a more efficient alternative has been established and is functioning.

3.140 A thorough review of TRDB, operating costs will be undertaken with view to reducing them beginning 1982/83.

3.141 Interest rates on credits will be raised by up to 25%, for villages in line with increases of other banks.

Tanzania Housing Bank (THB):

3.143 Interest rates on mortgages and savings deposits will be raised by up to 25%, while those on Workers and Farmers Housing Development Fund remain unchanged at 3½%. Interest rates on low cost housing will be raised to ½% above deposit rates for all types of lending and additional surplus will be used to build up reserves.

3.144 NBC will be asked to release some of its more experienced staff, possibly on secondment basis, to assist the THB while urgent crash training programme will be introduced in conjunction with NBC training College.

3.145 The Workers Council of the THB will be convened regularly to advise on ways to improve THB efficiency and to reduce administrative problems.

3.146 Tanzania Housing Bank has been designated a priority institution for emergency accounting and managerial assistance.

D. External Support:

3.147 One of the problems adversely affecting the improvement of the operations of the banks is the lack of competent manpower in senior key positions and certain departments. External support in the form of technical assistance to cover these gaps will therefore be required.

3.148 The NBC will need a short term technical assistance for its Foreign Operations Department to help devise ways and means of increasing efficiency in the foreign transactions side of its business.

3.149 Since most of THB's head office managerial positions are vacant, technical assistance will be required especially in the field of accountancy to fill the gap in this area.

3.150 Arrangements will be made immediately to recruit an economic advisor to the Bank of Tanzania to assist in the formulation of macro-economic policy and strengthen the Research wing of the Bank.

E. Further Work:

3.151 In the structural adjustment programme the National Insurance Corporation and Tanzania Investment Bank have not been covered. It is envisaged that recommendations for a plan of action will be prescribed after an analysis of the operations of these two parastatals.

SECTION III
SECTORAL PROGRAMMES
OTHER SECTORS

3.152 The preparation of detailed programmes will be undertaken for water, natural resources, and manpower utilisation and will be co-ordinated by the Implementation Secretariat.

SECTION IV
I M P L E M E N T A T I O N

Aid Policy, Co-ordination and Requirement

Background

Objectives and Strategy

Programme Implementation

Further Work

Implementation Activities

Implementing Secretariat

Aid Policy, Co-ordination and Requirements:

A: Background:

4.01 Tanzania's foreign aid has increased substantially since the Arusha Declaration. In 1967/68 foreign aid was only \$10 million, equivalent to 5% of imports, 4.7% of exports, about 8% of gross investment and about 24% of the development budget. But at present Tanzania receives foreign aid of between \$500 and \$600 million per year. Thus, foreign aid now accounts for about 45% of the import bill, over one third of total gross investment and about 60% of estimated development budget revenues (net of import support) for 1981/82. Aid is now equivalent to more than 25% of monetary GDP and thus of more or less the same order of magnitude as export earnings if not larger. It is clear from these figures that over the last 15 years Tanzania has become more and more dependent on external assistance.

4.02 Tanzania receives aid from a multiplicity of sources, hence the need for its effective co-ordination cannot be over emphasised. During the five year period, 1975—1979, out of the total aid of \$1,718 million, 73% came from bilateral sources and the remaining from multilateral sources such as the World Bank/IDA group which accounted for 60% of the total assistance from multilateral sources in 1979. With regard to bilateral aid, the most important donors include Sweden (15% of total in 1979), Netherlands (10%), W. Germany (7.5%), Japan (7.4%), Norway (6.3%), U.K. (6%), the USA (5.7%), Canada (5.3%), and Denmark (4.9%).

4.03 During 1975—1979, 54% of total aid was in form of grants and two thirds of the bilateral aid was in this form. The grants component in the total aid has increased significantly to 70% in 1979, 90% of which came from the bilateral sources. A number of Tanzania's aid donors now give assistance in form of grants and almost all outstanding loan servicing commitments to those countries have been cancelled. In 1979, the country's outstanding external public debt amounted to \$2.25 billion with an average interest rate on this debt of approximately 1.7% per annum. Of recent, Tanzania has been forced to increase its external borrowing on non-concessional terms i.e. supplier's credits, borrowing from the IMF etc, which has increased her future debt servicing burden.

4.04 External aid has contributed significantly to the financing of development expenditure for most sectors. Project aid accounted for about 60% of grants in 1980 and 48% of loans; and 21% of the grants were used for general imports, compared to 30% of loans. About 16% of the loans were in form of commercial credits. Because of the dominance of project aid, its co-ordination from the viewpoint of the country as well as the donors, is of crucial importance to ensure its effectiveness, particularly its control so that it gives maximum contribution to the country's social and political objectives.

B: Objectives and Strategy:

4.05 During the structural adjustment period, efforts will be made to ensure there is more effective use of external assistance to attain the country's short, medium and longer-term objectives. Thus aid co-ordination will take into account national investment priority needs and sequencing of projects, resource balance, absorptive capacity of the economy, future recurrent expenditure and manpower demands, the cost of aid, flexibility and other relevant issues.

4.06 In order to derive more benefits from aid, it is important that its selection and co-ordination is properly managed. So during the crisis period the main objective and strategy in this area will be:

- (a) make effective use of aid to increase capacity utilisation in industry, agriculture, tourism, transport and other sectors in order to get the economy moving again;
- (b) reduce the extent to which donor's preference determine Tanzania's priorities in terms of investment and programmes;
- (c) undertake a much more critical review of aid requests and aid use; while the need for aid is realized, emphasis will be placed on aid projects which are in line with the aid policy laid

down in the Arusha Declaration;

- (d) except for foreign aid required for structural adjustment in the short run, future aid priorities will concentrate on maintaining the flow of aid in real terms (at donor inflation rates) at the level of the last 2—3 years, shifting aid from project aid to import support and local cost support, guaranteeing food aid when needed, building up strategic food reserves and negotiate foreign debt service obligations;
- (e) vetting of all aid projects and programmes will be carried out on a continuous basis by DEVPLAN and TREASURY to ensure the appropriateness of aid in terms of its technology and manpower demands, use of local resources, avoidance of budget dependence and its contribution to basic needs, particularly those of the lower income groups.

4.07 In summary, clear cut areas of priorities and a workable system of vetting projects and programmes which require aid will be established. The main target will be for a reduced real amount of aid to contribute more towards meeting declared goals than has hitherto been the case.

C. Programme Implementation:

4.08 In order to co-ordinate external assistance requirements and ensure effective control by Tanzania of balance of payments support, project support and the country's rehabilitation programme, a number of measures are being taken to correct both operational and institutional deficiencies. During the adjustment period Tanzania will undertake to implement the following:

- (a) During the adjustment period, Tanzania will need to mobilize both balance of payment and development programme support from international institutions and bilateral sources. The requirements for balance of payments support amount to at least US \$300 million annually, apart from receiving accommodation from commercial creditors. It will also include switching about US \$80 million annually from project aid to import and local cost support for the rehabilitation programme. External support requirements for various sectors and institutions in terms of finance, import support, technical assistance etc., are detailed in Section III.
- (b) Central Ministries, namely, DEVPLAN and TREASURY will with immediate effect undertake to scrutinize each and every aid proposal against national priorities and matching of aid forms to those priorities. This will be undertaken in light of the required consistency with national targets for balance of external payments and for balance in the development budget. This exercise will involve looking into the questions of the size of the aid commitments, maximisation of disbursements within a given total of commitments, prompt reimbursement of local costs, and tailoring the composition of aid to aggregate needs, for example, switching from technical assistance to project support or from project support to food or import support as national balance requires.
- (c) Measures will be taken to limit total aid flows; and aid flows to sectors and specific ministries/parastatals to amounts which can be absorbed within existing managerial, administrative, institutional and foreign exchange and budgetary constraints. Thus aid that places a burden on the country's absorptive capacity will be rejected. Equally, external aid that generate import dependence or that places heavy demands on future recurrent expenditures and skilled manpower needs will be scrutinized with a view to minimizing these constraints.

4.09 It is intended to create a mechanism which would provide a framework under which Tanzania and donors will effectively co-ordinate aid, particularly in terms of national priority areas; and arrangements under which donors are informed of each other's and Tanzania's development policies and activities will be made. Institutions responsible for aid will be strengthened as follows:

- (a) A new section will be created in the External Finance Division of the Treasury to deal with

- aid co-ordination, policy and analysis;
- (b) The main functions of the section will be to co-ordinate aid, analyse aid flows, monitor aid terms and availability, advise on policy with regard to negotiations with donors, and assist in projecting future aid flows;
 - (c) Immediate steps will be taken to build up the staff strength of the External Finance Division at the Treasury. The Directorate of International Economic Co-operation and the Budget Directorate of DEVPLAN will also be strengthened in order to deal effectively with the country's aid programmes, economic co-operation, issue financial and physical progress reports of aid financed projects etc.

D. Further Work:

4.10 Since aid requirements cannot be met by general programme support and because of the constraints faced by donors in the administration of their aid programmes, global aid requirements need to be translated into sectoral packages which:

- (a) meet the country's needs for rehabilitation, maintenance and recurrent foreign exchange needs; and
- (b) the donor's requirements to meet project and aid-tying criteria and their own budgetary needs with respect to both the budgeting and drawing down of aid.

4.11 Experience with rehabilitation packages points to the direction of bridging the gap between the requirement of programme and project aid. Thus given the greatly varying requirements of differing donors, the achievement of the required flexibility will require an on-going effort beyond the time horizon of one year. So it is expected that the Implementation Secretariat will co-ordinate the immediate start of such work.

Implementation Activities:

4.12 The implementation requirements in relation to macro-economic targets, sectoral programmes and external assistance specifying actions, responsible institutions and target dates will be carried out by the respective Ministries and institutions in cooperation with the Implementing Secretariat which would have primary responsibility for coordinating and monitoring the performance of responsible institutions.

Implementing Secretariat:

4.13 To undertake additional work on the structural adjustment programme and monitor the implementation of the decisions already taken, it is proposed to set up an implementing secretariat immediately. Its work will be supervised by a review committee consisting of the Principal Secretaries of Planning and Finance, and the Personal Assistant (Economics) to the President and the Prime Minister. An Interim Director will be appointed immediately and a small staff seconded from ministries, parastatals and the University. Funding will be sought to provide technical assistance support to the Secretariat.

4.14 The first task of the Secretariat will be to initiate action and co-ordinate the areas identified in this programme that require further study.