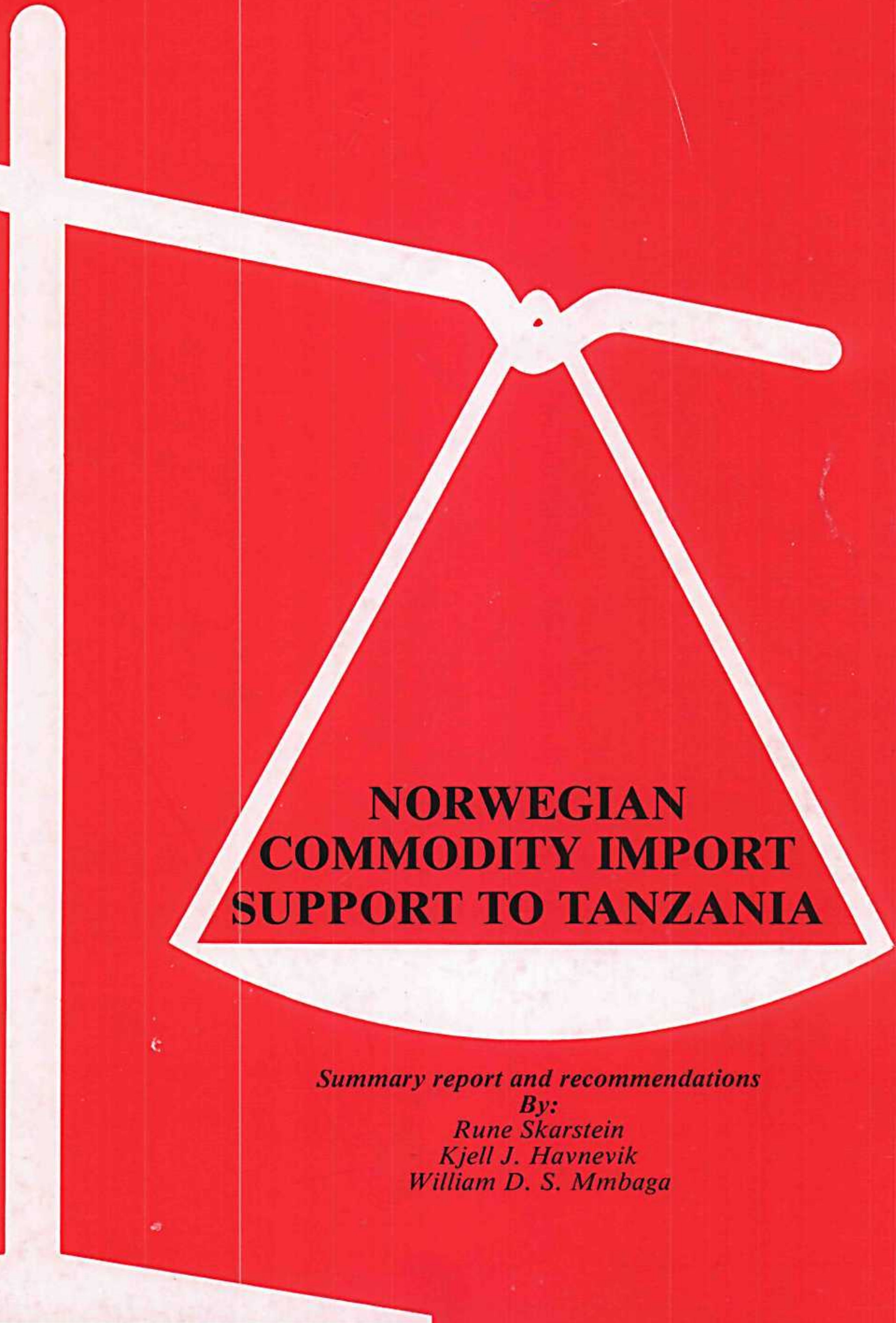




ROYAL MINISTRY
OF FOREIGN AFFAIRES

Evaluation Report 4.88



NORWEGIAN COMMODITY IMPORT SUPPORT TO TANZANIA

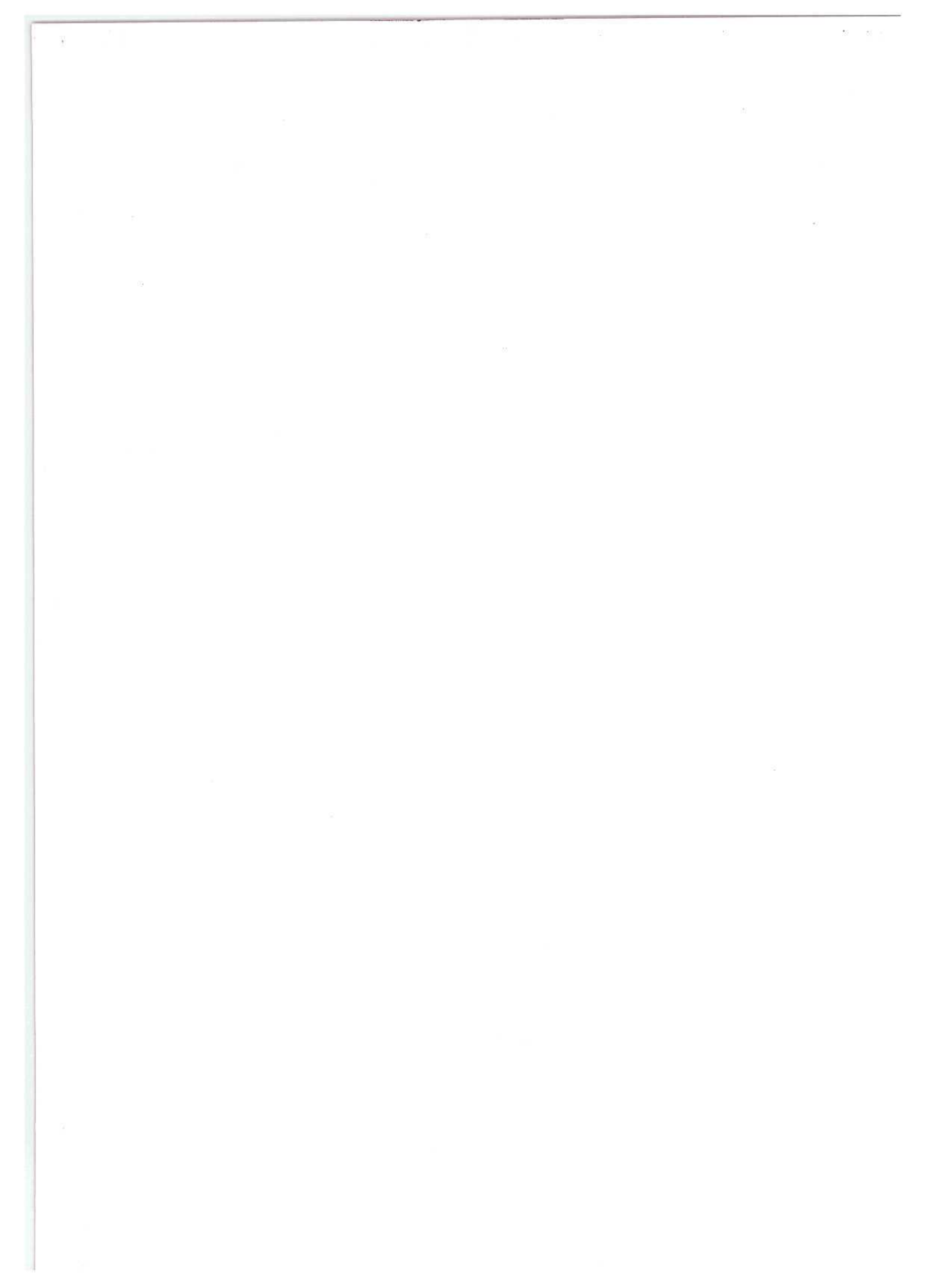
Summary report and recommendations

By:

Rune Skarstein

Kjell J. Havnevik

William D. S. Mmbaga



NORWEGIAN COMMODITY IMPORT SUPPORT TO TANZANIA

Summary report and recommendations

By:

Rune Skarstein

Kjell J. Havnevik

William D. S. Mmbaga

December 1988

IMPACT OF NORWEGIAN COMMODITY
IMPORT SUPPORT TO TANZANIA

Summary report and recommendations

By

Dr. S. H. HANSEN

Senior Lecturer

Department of Economics

Oslo, Norway

PREFACE

The present report is an abbreviated version of Norwegian Commodity Import Support - Background, Design and Implications, Trondheim November 1988, prepared by a team appointed by the Norwegian Ministry of Development Cooperation. The team members were:

Rune Skarstein, senior lecturer,
Institute of Economics,
University of Trondheim - AVH (team leader)

Kjell J. Havnevik, research fellow,
Centre for Development Studies,
University of Bergen

William D.S. Mmbaga, senior lecturer,
Institute of Development Management (IDM),
Mzumbe

In the present, abbreviated version I have tried to retain the discussion of all principal issues which have a bearing on commodity import support. On the other hand, I have reduced more technical analyses as much as possible. Most chapters of the main report have been strongly abbreviated, and some few chapters have been left out all together. For example, Chapter 6 of the main report, "Assessment of the ERP - its implementation and effects", has not been included in this summary version.

To a large extent, this report lacks references to our sources of information, and only a very short list of selected references is presented at its end. Readers who want comprehensive information on our sources of information and the documentation we have used, are referred to our main report.

While all three team members share responsibility for the contents of the main report, I am alone responsible for the

priorities, abbreviations and editing resulting in the present report.

Let me take this opportunity to thank Mrs. Berit Ingvaldsen (Trondheim) for her excellent secretarial work also during the preparation of the summary report. I would also like to express once more our thanks to our Tanzanian assistants, numerous institutions and persons in Tanzania as well as the Ministry of Development Cooperation for their assistance and support during our work on this study.

Trondheim, December 1988

Rune Skarstein

Kjetil A. Havnøy, research fellow,
Centre for Development Studies,
University of Bergen

William D.S. Madsen, senior lecturer,
Institute of Development Management (IDM),
Munich

In the present, abbreviated version I have tried to retain the discussion of all principal issues which have a bearing on commodity export support. On the other hand, I have reduced most technical analyses as much as possible. Most chapters of the main report have been strongly abbreviated, and some few chapters have been left out all together. For example, chapter 5 of the main report, "Assessment of the ERP - its implementation and effects", has not been included in this summary version.

To a large extent, this report lacks references to our sources of information, and only a very short list of selected references is presented at its end. Readers who want comprehensive information of our sources of information and the documentation we have used, are referred to our main report.

While all three team members share responsibility for the content of the main report, I am also responsible for the

CONTENTS

	page
PREFACE.....	ii
LIST OF TABLES.....	vii
LIST OF ABBREVIATIONS.....	ix
1. DEVELOPMENTS LEADING UP TO THE BALANCE OF PAYMENTS CRISIS AROUND 1980.....	1
1.1. Developments within the agricultural sector and agricultural marketing.....	1
1.1.1. Introduction.....	1
1.1.2. Growth and composition of agricultural production.....	1
1.1.3. Villagisation, agricultural marketing and price policies.....	4
1.1.4. Technological development in agriculture	6
1.1.5. Impact of the stagnating agricultural surplus on the balance of payments, and the role of foreign aid.....	8
1.2. Developments within the industrial sector.....	9
1.2.1. After the Arusha Declaration: nationalisations and emphasis on parastatals.....	9
1.2.2. Problematic features of manufacturing parastatals.....	9
1.2.3. The Basic Industries Strategy - Industrial Developments 1974-1986.....	11
1.2.4. Increasing import intensity in industrial production.....	13
1.2.5. Increasing forex consumption but declining output.....	15
1.2.6. Profits maintained through real wage erosion.....	17
1.2.7. Some concluding remarks.....	18
1.3. Public finance, money and credit.....	19

	page
1.4. The role of foreign aid.....	21
1.5. A summary of balance of payments developments..	24
2. TANZANIAN POLICY RESPONSES TO THE BALANCE OF PAYMENTS CRISIS.....	27
2.1. The National Economic Survival Programme (NESP), 1981/82-1982/83.....	27
2.2. The Structural Adjustment Programme (SAP), 1982/83-1984/85.....	28
2.2.1. The economic crisis.....	29
2.2.2. Import support.....	29
2.2.3. Industrial priorities of SAP and forex inflows.....	30
2.3. Economic Recovery Programme (ERP), 1986/87-1988/89.....	31
3. THE DESIGN AND ROLE OF COMMODITY IMPORT SUPPORT (CIS)	34
3.1. Growth and composition of CIS.....	34
3.2. Norwegian CIS, 1979-1988.....	36
3.2.1. The elements of CIS.....	36
3.2.2. Norwegian/Tanzania CIS-agreements and criteria for CIS allocations.....	38
3.2.3. Procedures for allocations of Norwegian CIS.....	41
3.3. CIS-programmes of other major donors.....	41
3.3.1. The Dutch programme.....	41
3.3.2. The Swedish programme.....	42
3.3.3. The Danish programme.....	44
3.4. Criteria for allocations of CIS.....	44
4. EFFECTS OF CIS.....	50
4.1. Effects at the level of production.....	50
4.2. Effects at the level of consumption.....	53
4.3. Effects on net foreign exchange earnings.....	54
4.4. Implications for public finance, money and credit.....	58
4.5. Possible effects on trade in the SADCC and PTA regions.....	61

	page
5. CIS AND OTHER SOURCES OF FOREIGN EXCHANGE FOR RECURRENT IMPORTS - DESIGN AND PROBLEMS OF COORDINATION.....	65
5.1. Sources of foreign exchange (forex).....	65
5.2. "Free" foreign exchange.....	65
5.3. Own-funds imports.....	66
5.4. The export retention schemes.....	67
5.5. Multisector Rehabilitation Credit and the New Open General Licence.....	68
5.6. Summary of our findings.....	69
6. PRIORITIES OF CIS IN ORDER TO SUPPORT ERP.....	71
6.1. Priorities and implementation problems within agriculture.....	71
6.2. Priorities within the industrial sector.....	73
6.2.1. General remarks.....	73
6.2.2. Suggested indicators of efficiency.....	75
6.3. Priorities within transport and infrastructure.	79
6.4. Priorities within education and social services.....	81
7. RECOMMENDATIONS.....	84
7.1. The balance of payments crisis and recurrent forex implications of new aid projects.....	84
7.2. Avoiding permanent dependency on CIS.....	85
7.3. The recipients' need for planning and foresight	86
7.4. Priorities and allocation criteria for CIS.....	86
7.5. NORAD's manpower needs related to CIS.....	89
7.6. The need for coordination and cooperation among donors.....	89
7.7. Alternative forms of CIS.....	90
7.8. The need for information to potential CIS applicants.....	91
SELECTED REFERENCES.....	92

LIST OF TABLES

	page
Table 1.1.1. Weighted average producer price indices for major crop categories.....	2
Table 1.1.2. Volume ('000 tonnes) of official purchases of agricultural crops 1970/71-72/73 and 1978/79-80/81.....	3
Table 1.2.1. Estimates of manufacturing industry's net foreign exchange consumption, 1975 and 1984. US \$ mill.....	15
Table 1.2.2. Manufacturing value added, fixed capital formation and incremental capital-output ratios, 1968-1986.....	16
Table 1.4.1. Foreign aid disbursements to Tanzania, 1970-1986. US \$ mill.....	22
Table 1.5.1. Tanzania: Balance of merchandise trade 1962-1986. US \$ mill.....	25
Table 3.1.1. CIS disbursements in 1986/87 with disbursements due to extra commitments linked to the ERP specified. US \$ mill....	35
Table 3.2.1. Total Norwegian bilateral aid disbursements and CIS allocations to Tanzania, 1980-1988. NOK mill.....	37
Table 3.3.1. Swedish country frame and CIS to Tanzania 1978/79-1987/88. SEK mill.....	43
Table 3.4.1. Sectoral "minimum import requirements" for recurrent inputs according to the ERP. US \$ mill.....	46
Table 4.1.1. Import intensity in production of industrial firms responding to NORAD CIS study questionnaire.....	52
Table 4.1.2. Rates of capacity utilisation for manufacturing firms in NORAD CIS study....	53
Table 4.3.1. Industrial firms responding to NORAD CIS questionnaire. Net forex earnings/savings per forex unit of imported recurrent inputs.....	57

	page
Table 4.4.1. Trends in external financing of the government budget.....	59
Table 6.2.1. Import intensity and net forex earnings/savings per unit of imports for industrial sub-sectors responding to NORAD CIS questionnaire. Weighted averages at international prices.....	75

LIST OF ABBREVIATIONS

- AISCO - Agricultural and Industrial Supplies Company
- ATC - Air Tanzania Corporation
- b (or bill.) - billion
- BET - Board of External Trade
- BIS - Basic Industries Strategy
- BIT - Board of Internal Trade
- BOT - Bank of Tanzania
- BRALUP - Bureau of Resource Assessment and Land Use Planning
(presently IRA)
- CAT - Coffee Authority of Tanzania
- CATA - Cashewnut Authority of Tanzania
- CCM - Chama cha Mapinduzi (The Revolutionary Party)
- CDP - Consultants for Management of Development Programmes
- CIDA - Canadian International Development Agency
- CIS - commodity import support (= commodity assistance plus
import support)
- CMI - Christian Michelsen Institute, Bergen
- CRDB - Cooperative and Rural Development Bank (formerly TRDB)
- CUT - Cooperative Union of Tanzania
- DANIDA - Danish International Development Agency
- Dfl - Dutch guilder
- DNC - Den Norske Creditbank, Oslo
- DRC - domestic resource cost ratio
- DSM - Dar es Salaam
- EAC - East African Community
- EEC - European Economic Community
- EIU - The Economist Intelligence Unit, London

- ERB - Economic Research Bureau (at the University of Dar es Salaam)
- ERP - Economic Recovery Programme (1986/87-1988/89)
- FAO - Food and Agricultural Organisation, United Nations
- FCF - fixed capital formation
- FINNIDA - Finnish International Development Agency
- forex - foreign exchange
- GAPEX - General Agricultural Products Export Corporation
- GDP - gross domestic product
- GOT (or Got) - Government of Tanzania
- IBRD - International Bank for Reconstruction and Development (World Bank)
- ICOR - incremental capital output ratio
- ICS - Intercounsel Sweden AB, Stockholm
- IDA - International Development Association
- IDRC - inverted domestic resource cost ratio
- ILO - International Labour Office
- IMF - International Monetary Fund
- IRA - Institute of Resource Assessment (formerly BRALUP)
- IRTAC - Industrial Rehabilitation and Trade Adjustment Credit
- LC - letter of credit
- m (or mill.) - million
- MDB - Marketing Development Bureau
- MDC - Ministry of Development Cooperation, Oslo
- MEIDA - Metal and Engineering Industries Development Association
- MRC - Multisector Rehabilitation Credit
- NAFCO - National Agricultural and Food Corporation
- NBC - National Bank of Commerce
- NCG - Nordic Consulting Group, Oslo

NDC	- National Development Corporation
NEI	- Netherlands Economic Institute (Netherlands)
NESP	- National Economic Survival Programme (1981/82-1982/83)
NIDC	- National Industries Development Corporation (India)
NMC	- National Milling Corporation
NOK	- Norwegian kroner
NORAD	- Norwegian Agency for International Development
NSC	- National Steel Corporation
NTC	- National Transport Corporation
ODA	- Official Development Assistance
OGL	- Open General Licence
PMO	- Prime Minister's Office
RETCO	- Regional Transport Company
RTC	- Regional Trading Company
RURECO	- Rukwa Region Cooperative Union
SADCC	- Southern Africa Development Co-ordination Conference
SAP	- Structural Adjustment Programme (1982/83-1984/85)
SCOPO	- Standing Committee on Parastatal Organisations
SCRS	- Seed Capital Revolving Scheme
SEK	- Swedish kroner
SGS	- Société Générale de Surveillance (Geneva)
SIAS	- Scandinavian Institute of African Studies, Uppsala
SIDA	- Swedish International Development Authority
SIDO	- Small Industries Development Organisation
t	- tonne
TAG	- Tanzania Advisory Group, appointed by the Government of Tanzania and the World Bank to formulate the SAP
TANSEED	- Tanzania Seed Company

TANU	- Tanganyika African National Union
TAP	- Tanzania Agricultural Policy (1983)
TAT	- Tobacco Authority of Tanzania
TAZARA	- Tanzania-Zambia Railways Authority
TCA	- Tanzania Cotton Authority
TFA	- Tanganyika Farmers Association
TFC	- Tanzania Fertilizer Company
TFNC	- Tanzania Food and Nutrition Centre
THA	- Tanzania Harbours Authority
TISCO	- Tanzania Industrial Studies and Consulting Organisation
TRC	- Tanzania Railway Corporation
TRDB	- Tanzania Rural Development Bank (presently CRDB)
TRM	- Tanzania Road Maintenance Programme
TSh	- Tanzanian Shilling
TSP	- triple super phosphate
TTA	- Tanzania Tea authority
UDSM	- University of Dar es Salaam
UFI	- Ubungo Farm Implements Manufacturing Company
UNDP	- United Nations Development Programme
UNIDO	- United Nations Industrial Development Organisation
URT	- United Republic of Tanzania
US \$ (or \$)	- US dollar
USAID	- United States Agency for International Development
VA	- value added
ZZK	- Zana Za Kilimo
£	- British pound

TANU	- Tanganyika African National Union
TAP	- Tanzania Agricultural Policy (1983)
TAT	- Tobacco Authority of Tanzania
TAZARA	- Tanzania-Zambia Railway Authority
TCA	- Tanzania Cotton Authority
TFA	- Tanganyika Farmers Association
TFC	- Tanzania Fertilizer Company
TFCG	- Tanzania Food and Nutrition Centre
THA	- Tanzania Harbours Authority
TISCO	- Tanzania Industrial Studies and Consulting Organisation
TRC	- Tanzania Railway Corporation
TRDB	- Tanzania Rural Development Bank (presently CRDB)
TRM	- Tanzania Road Maintenance Programme
TSH	- Tanzanian Shilling
TSP	- triple super phosphate
TTA	- Tanzania Tea Authority
UDSM	- University of Dar es Salaam
UPI	- Upanga Farm Implements Manufacturing Company
UNDP	- United Nations Development Programme
UNIDO	- United Nations Industrial Development Organisation
URT	- United Republic of Tanzania
US \$ (or £)	- US dollar
USAID	- United States Agency for International Development
VA	- value added
Z&K	- Tanzania Kilimo
£	- British pound

1. DEVELOPMENTS LEADING UP TO THE BALANCE OF PAYMENTS CRISIS AROUND 1980

1.1. Developments within the agricultural sector and agricultural marketing

1.1.1. Introduction

In Tanzania covering about 945.000 km² of land area, 85-90% of the 24 mill. (1988) population live in around 8000 villages in the rural areas. The agricultural sector employs about 80% of the workforce, contributes about 50% of the GDP and about 80% of the foreign exchange earnings. It is estimated that about 80% of the agricultural foreign exchange earnings originate from smallholder production, in particular coffee, cotton, cashewnuts, tobacco, and some tea. The major part of grain production, except wheat, is also carried out by smallholders. The export crops sisal and tea are plantation crops, and as well sugar and wheat. The major food staples include maize, rice and wheat. Sorghum, millets, cassava and bananas are important in various localities.

1.1.2. Growth and composition of agricultural production

The characteristic feature of agricultural production in the 1970s was changing composition rather than growth. In our analysis three crop categories will be distinguished: export-crops, marketed food crops and drought-resistant crops. At the onset of the 1970s, marketed output consisted of export- and marketed food crops. From 1970/71 to 1973/74 net imports of staple grains were kept at a low level, averaging about 45 000 tonnes per year. Then, however, in the crop seasons 1973/74 and 1974/75, an agricultural crisis occurred. Severe drought and short-term effects of major villagisation campaigns coincided, and food production was substantially reduced. The food crisis

necessitated massive imports of grain. The value of grain imports rose from about 6.9 mill. US \$ in 1973 to 111 mill. US \$ in 1974, then fell to 102 mill. US \$ in 1975 and about 20.6 mill. in 1976. The food crisis of 1974/75 was immediately transformed into a balance of payments crisis. Total food imports (including non-grain) increased from 7.9% of total imports in 1973 to 19.8% in 1974, then went down slightly to 17.8% in 1975.

The government's response to the food supply crisis was to encourage food production by increasing producer prices of domestic crops (staple grains and drought-resistant crops) in relation to export crops. Official purchases of drought resistant crops such as millet, sorghum, cassava and beans were initiated in 1972 at about the time of establishment of the first government crop authorities. They were to gain exclusive control of crop procurement from 1976 onwards. These crops were traditionally mainly consumed directly by or stored in households as a buffer against production setbacks and famines. The evolution of the producer prices in nominal and real terms of the various crop categories from the crisis year 1973/74 to 1979/80 is shown in table 1.1.1.

Table 1.1.1. Weighted average producer price indices¹ for major crop categories (1969/70 = 100).

Crop category	Money prices		Real prices ²	
	1973/74	1979/80	1973/74	1979/80
<u>Export crops</u>	106.8	234.5	65.8	57.5
<u>Domestic crops</u>	115.8	344.7	71.4	84.4
Staple grains	109.9	323.0	67.7	79.1
Drought-resistant crops	207.5	426.2	127.9	104.4
<u>All crops</u>	108.1	261.7	66.6	64.1
Export crop prices as % of domestic crop prices	92.2%	68.0%	92.2%	68.0%

1) Weighted by the share of each crop in the total producer value, calculated for each year separately.

2) Money prices deflated by a modified National Consumer Price Index.

Source: Ellis 1982, p. 269 and 283.

From 1973/74 to the end of the decade the producer prices of domestic crops as a whole increased substantially in real terms while those of export crops declined. These changes in relative prices coupled with a purchase guarantee for drought-resistant crops had a profound impact on the composition of agricultural marketed output.

One major effect was the dramatic increase in official purchases of drought-resistant crops, which temporarily reached a level almost that of staple grains. In volume terms, staple grains recorded a slight decline through the decade, and domestic crops did not compensate for the sharp reduction in export crops. Hence, total officially marketed output declined by more than 20% in volume terms over the entire period (Cf. table 1.1.2).

Table 1.1.2. Volume ('000 tonnes) of official purchases of agricultural crops 1970/71 - 1972/73 and 1978/79-1980/81. Annual averages.

	Export crops	Staple grains	Drought-resistant crops	Total
1970/71-1972/73	635.2	239.2	15.8	890.2
1978/79-1980/81	403.5	215.8	77.4	696.7
Volume change	-231.7	-23.4	+61.6	-193.5
Per cent change	-36.5%	-9.8%	+389.9%	-21.7%

Export crops include: Coffee, cotton, sisal, tobacco, tea, cashewnuts, pyrethrum, cardamom and cocoa.

Drought resistant crops include: Sorghum, millet and cassava. Staple grains include: Maize, rice (paddy converted to rice equivalents) and wheat.

Sources: Ellis 1982 and Marketing Development Bureau: Price Policy Recommendations for the Agricultural Price Review. Summary, Dar es Salaam 1980 and 1985.

As far as total agricultural production is concerned, what may alter the picture emerging above, is the size and development of

marketing through inofficial or parallel market channels. Several observations indicate that an increase in the sales of agricultural produce through parallel markets has taken place. The potential crops to be included in such marketing is coffee (smuggled to neighbouring countries) and food crops such as maize and rice, mainly sold to Tanzanian consumers. But such food crops, in particular maize, are also reported to have crossed boundaries to neighbouring countries during times of wide price differentials.

As the size of parallel agricultural marketing in total is not known, nothing definite can be concluded. Our assessment, however, based on investigation of import trends, changes in NMC purchasing policy to include drought resistant crops and implications for nutritional levels, is that a stagnation in agricultural production has actually taken place in Tanzania during the 1970s and into the 1980s. The existence of marketing through parallel channels may serve to modify our conclusion for certain areas, in particular some areas in the Southern Highlands. But it cannot alter the conclusion significantly for the country as a whole.

1.1.3. Villagisation, agricultural marketing and price policies

The ujamaa or resettlement policy aiming at moving the rural farmers and their families into nucleated villages was implemented in the period 1969-1976. First the movement was voluntary. However in 1973 when it was realised that the speed of implementation was far below expectations, the Party decided that the whole of the rural population should live in villages by the end of 1976. By the end of 1973 about 2 million people were living in nucleated villages, three years later the number had increased to 13 million living in about 7,700 villages.

People were moved by force from their traditional farming areas into villages which often were poorly located and much bigger than the planned original size of 250 families. The significance

of the villagisation policy and its implementation for agricultural production and marketing, environmental issues, education and the supply of social infrastructure and the organisation in the rural areas including the relations between the farmers and the state can hardly be overstated.

As to agricultural marketing, the GOT policy was to connect the village multipurpose cooperative society to government crop authorities or parastatals which started to replace crop marketing in the early 1970s. From 1976 onwards when Cooperative Unions were abolished, the crop authorities were designated to handle all the previous functions of the crop marketing boards, the cooperative unions and as well some activities undertaken by the former primary cooperative societies.

The main characteristics of this marketing system and as well what distinguished it from the former, was the tightening of centralised control, not only of marketing, but to some extent also of production activities. With the advent of crop authorities a price system was introduced with a crop specific basis. Each crop authority was entitled to expand its activities to obtain coverage of its services for its designated crops. The weakness observed in the former marketing system of duplication of functions between the marketing boards and cooperative unions, became even more pronounced as each crop authority expanded activities on a broad level with little coordination among themselves when operating in the same geographical areas.

State intervention in price determination in the new system was on deciding the uniform producer price on national level (so-called pan-territorial price), rather than the previous into-store marketing board price which had implied geographical variation in the producer price for the same crop. This price system was to be in effect from 1974 to 1981 when a price system was introduced which differentiated between premium and non-premium areas which was supposed to reflect the comparative production advantages of an area. The underlying approach in both of these price systems, observed particularly clearly in the case

of export crops, was that the marketing margin should be sufficient to cover the projected marketing costs of the crop authority. In other words, first the crop authorities took the share they "needed" to cover their costs, and then the peasants were paid what might be left.

The lot of the small farmers under this residual price determination system was in addition negatively affected by the continuous overvaluation of the Tanzanian shilling (up to mid-1986), which had the effect of reducing in shilling terms what remained for crop payments to peasants. The exchange- and price policies which were created actually did function as a means of state appropriation of the agricultural surplus in financial terms. In this way resources were transferred from the small farmers and the rural areas to the state bureaucracy located in urban areas.

In our view, the replacing of the cooperative unions with the crop authorities constituted part of the policies of intervention of the Tanzanian state to control the agricultural surplus, i.e. the marketed output of food, raw materials and export crops.

However, the uneconomic size of the individual village multipurpose co-operatives and the inefficiencies and mismanagement of many of the crop authorities proved this marketing system to be unviable. The marketing system discouraged small farmers through late or no payment and late or no collection of crops. In addition the small farmers were faced with a deteriorating terms of trade. The result was that the agricultural surplus stagnated and furthermore most of what crop authorities managed to appropriate was wasted. Thus the costs of this marketing system came increasingly to represent a threat to the economic basis of the state.

1.1.4. Technological development in agriculture

Apart from effects of villagisation and the role of crop authorities there are several factors which have inhibited the growth of the agricultural surplus, and maybe the most important internal

cause is linked too the lack of technological development in agriculture. A characteristic feature of agricultural production in Tanzania is the predominance of manual hoe cultivation. In the 1970s the Ministry of Agriculture estimated that 85% of the country's cultivated acreage was tilled by hoe, 10% by animal-drawn implements and 5% by tractor. The widespread and persistent use of hand hoes severely limits the acreage cultivated. This was clearly reflected in the Agricultural Census for 1971-72 which showed that 2.44 million farmers held 3.07 hectares of farm land, giving an average as low as 1.26 hectare per holding. (Cf. Statistical Abstract 1973-1979, p. 230.)

In spite of the government's repeated policies and calls to encourage ox-plough cultivation, limited developments in technical change in agriculture took place. In the early 1980's, tendencies of change are seen to emerge, however, not as a direct result of government policies, but more as a response by peasants to effects of villagisation and the deepening economic crisis.

On the other hand, the economic crisis developing from 1978 onwards soon led to a major shortage in the supply of some categories of farm inputs. Both the supply of farm implements, in particular all types of hoes, and ploughs were at such a low level compared to demand, that a "tool famine" can be said to have developed. Thus the dismal results of agricultural production must also be related to this fact, and not only the adverse weather conditions. From 1983/84 onwards local production of hoes and imports of ploughs started to increase, thus easing the problems related to implements supply. This development is linked both to increased efficiency in local production due to a new and energetic management at UFI and to expansion of CIS for the importation of raw materials and finished farm implements. As to fertilizers, the quick response by donors to channel CIS for imports, and to a more limited extent to supply of raw materials and spare parts for the TFC factory, alleviated an acute supply crisis, at least in the sense of fertilizer availability in the country.

A major problem affecting all input supplies was deteriorating road and transport facilities, including at times acute shortages of fuel. To this was added another complex of problems related to the organisation of agricultural input supply and transport, storage and marketing of agricultural produce. During the first half of the 1980s, in particular 1981-1983, the problems at all levels coincided to produce the most serious crisis which Tanzania has experienced in its post-independence period. From 1983/84 onwards donor CIS has led to improvements in farm input supplies. The general changes in economic policy, starting with the 1984/85 budget and the Economic Recovery Programme in 1986 have further improved input supply to agriculture. The weather conditions of 1986 and 1987 were in addition favourable to agricultural cultivation.

1.1.5. Impact of the stagnating agricultural surplus on the balance of payments, and the role of foreign aid

For the period 1974 to 1982, we have estimated the total loss of foreign exchange due to increased food grain imports and declining agricultural exports compared to the levels in 1973. According to our estimate, the total loss amounted to about US \$ 1770 mill., accounting for more than 40% of the accumulated foreign trade deficit in that period. It may also be of interest to note that during the same period, the increase in foreign aid over the 1973 level amounted to US \$ 2565.4 mill. This implies that about 70% of the increase of foreign aid after 1973, and up to 1982, may be considered as a foreign exchange "compensation" for the decline in the agricultural food and export surplus. In other words, 70% of the increase of foreign aid after 1973 only neutralized the impact of stagnating agricultural production on the balance of payments.

1.2. Developments within the industrial sector

1.2.1. After the Arusha Declaration: nationalisations and emphasis on parastatals

With the Arusha Declaration of 1967, the Tanzanian Government committed itself to expanding the public sector's role in industry and to reducing dependence on foreign investment. Consequently, a large number of manufacturing plants were nationalised.

The government involvement in manufacturing industry also led to increased emphasis on investment in manufacturing parastatals, rising from 13% of total manufacturing FCF in 1966 to more than 63% in 1970. After the wave of nationalisations parastatal FCF as a share of total manufacturing FCF was slightly reduced again, to an average of about 30% in the period 1976 to 1985. As a combined result of the nationalisations and the heavier emphasis on investment in the parastatal sector, VA in manufacturing parastatals increased from 8.9% of total value added in manufacturing industry (establishments with 10 or more employees) in 1966 to 53.1% in 1975.

Employment in manufacturing parastatals tended to grow at a higher rate than value added in the period 1966 to 1973. As a consequence of these diverging growth trends, labour productivity in terms of value added per worker declined.

1.2.2. Problematic features of manufacturing parastatals

A major problem of parastatal manufacturing enterprises is their organizational structure. Under the auspices of the Ministry of Industry there are seven holding companies which oversee about 75 operating manufacturing companies. The holding companies own the equity of their subsidiary companies on behalf of the government. A total of about 600 persons are today on the payroll of the industrial parastatal holding companies in Tanzania.

Both holding and operating companies have their own boards of directors. The general manager and the chairman of the board of the holding company are appointed by the President of Tanzania, while the other members of the board are appointed by the Minister of Industries and Trade - a pattern which tends to make the board members submissive to the chairman and the general manager.

The organisational structure of parastatal industries seems to involve too many control levels without well-defined control responsibilities; and this, in turn, results in a diffusion of responsibilities. The result is that no single entity feels fully responsible for their supervision and performance, and when something goes wrong nobody is held responsible. This attitude is reinforced by interference from several regulatory government bodies such as SCOPO, the National Price Commission and the Permanent Labour Tribunal. In addition, recruitment of top personnel to the holding companies has suffered from political patronage, nepotism and a far too rapid expansion, resulting in lack of industrial and managerial competence. Partly because of the heavy manpower needs of the holding companies, the subsidiaries and the Ministry also suffer from lack of sufficiently skilled and trained personnel.

Parastatal industries have been protected from competition and have enjoyed preferential treatment over the private sector, for example in allocation of credit, foreign aid and foreign exchange, and in tolerance of arrears in payment of bills and in debt service. There has been a chronic failure among parastatals to produce acceptable accounts and, until recently, they could also expect to be bailed out by the government if they got into serious financial trouble. Managers have apparently not been punished for overt financial indiscipline or lack of cost consciousness. Remuneration and promotion of staff have been based more on "connections" and the principle of seniority than on job performance (World Bank 1988).

As a result of all this, many industrial parastatals have become a burden to the government as well as to the economy as a whole, and the parastatal sector is perhaps the most glaring example of how the Tanzanian state has overreached itself.

1.2.3. The Basic Industries Strategy - Industrial developments 1974-1986

In 1974, the Government adopted the Basic Industries Strategy (BIS) which gave industry priority over the primary sector ("structural transformation"), stressed the importance of self-reliance through the use of domestic resources to meet domestic needs, and the development of heavy producer goods industries and a wider range of consumer goods. Job creation and regional development were among the main criteria to be considered in choosing manufacturing techniques and plant locations.

Attempts at implementing the BIS resulted in large investments in industry which were reflected in the growth of manufacturing fixed capital formation (FCF) from 3.1% per year in 1968-73 to 14.7% per year in 1974-79. Industrial FCF more than doubled from an average of Tsh 595 m. per year at constant (1976-)prices in 1968-73, to Tsh 1,250 m. per year in 1974-79, and increased even further to an annual average of Tsh 1,425 m. in 1980-85. Manufacturing FCF at constant (1976-)prices as a proportion of total FCF, rose from an average of 13.6% in 1968-73, to 20% in 1974-76, 25.8% in 1977-82 and about 29.5% in 1983-85 (cf. table 1.2.2). This indicates that the increase in manufacturing FCF to a large extent took place at the expense of other sectors. And most of these investments were large-scale, capital-intensive and import-intensive both in capital goods and in recurrent inputs in production.

The BIS played a crucial role in channelling substantial investment resources to industry, and a large share of these investments were financed by foreign aid. In general, aid levels grew dramatically from an annual average of US \$ 69 m. in 1970-73, to US \$ 347 m. in 1974-79 and US \$ 661 m. in 1980-83 (cf. Chapter

1.4). A considerable share of the increasing aid inflows went to the manufacturing sector. From 1975 to 1985, more than 30% of FCF in manufacturing industry was financed by foreign aid, as compared with only about 4% in 1970-75 (World Bank 1987, Vol. I:74). From 1977 to 1980, manufacturing industry was the largest recipient of foreign aid (about 29% of total), followed by transport, water, power supply and other physical infrastructure (24% of total).

On the other hand, the presence of foreign aid doubtless influenced the pattern and character of industrial investments. On the Tanzanian side, investment projects with a relatively large share of promised or committed foreign finance, and a correspondingly, a lower share of domestic finance, were easily approved by the coordinating ministries. On the donor side, there was in many instances a preference for large scale, capital- and import-intensive projects in order to reach planning and disbursement targets, and because large, capital-intensive projects would ensure deliveries from the donor country. This tendency was reinforced by the economic recession in the industrial countries. Quite often it could also be difficult for aid agencies to find consultants with knowledge of other technologies, or suppliers of alternative technologies.

Moreover, donors were preoccupied with industrial investment projects, leaving it to the Tanzanian economy to cover the future forex costs of operating the additional industrial capacities. On the Tanzanian side, this created strong biases towards new investments, at the expense of maintenance and rehabilitation of existing projects. When pushing for new projects, parastatal managers and ministry officials were responding to an incentive structure that rewarded the visibility of new projects and the size of installed capacity and number of employees under the manager's control, as a status sign and as a basis for recurrent forex allocations from the BOT. On the other hand, mobilisation of foreign exchange for imports of recurrent inputs in industrial production was not contemplated on the project planning stage, either on the Tanzanian or the donor side.

To avoid the technical and managerial manpower constraint, most parastatal industrial enterprises were established as joint ventures, under a management contract with the foreign partner who could then provide the technology as well as the technical management of the plant. Moreover, the parastatal holding companies have usually preferred large, fully packaged turn-key projects with economies of scale in terms of the involvement of the holding company's management. As a consequence, parastatal industries in most cases depend on the foreign partner for supplies of spare parts, raw materials and maintenance.

The idea was that local personnel should replace expatriate staff through a process of learning by doing. However, the evidence suggests that the type of technology chosen for most parastatal industries, implying strong dependence on the foreign partner company, has inhibited such a learning process (cf. Skarstein and Wangwe 1986:67-69).

1.2.4. Increasing import intensity in industrial production

Combined interests on the Tanzanian and the donor side promoted new industrial projects at the expense of improving or rehabilitating existing ones. Moreover, they generally promoted rather large-scale, capital intensive and very import intensive projects. This bias was further strengthened by the increasing overvaluation of the TSh from the late 1970s onwards, which made imported inputs increasingly cheaper than domestic inputs of a comparable quality.

As a result, there was a dramatic increase in the import content of manufacturing production. According to World Bank estimates, the costs of imported inputs as a percentage of total input costs rose from 22.9% in 1973 to 52.5% in 1984. (World Bank 1987, Vol I, p. 10). It may be noted that our own investigation of import intensity in manufacturing production gave about the same result as that of the World Bank. For 33 manufacturing firms we found that in 1984 the costs of directly imported inputs accounted for

50.3% of total input costs at domestic prices, whereas direct and indirect inputs accounted for 63.5% of total input costs in the same year. However, it is worth noting that there was some decline in import intensity from 1984 to 1986. (Cf. also SINTEF/Division of Applied Economics 1988.)

It is also worth noting that the import-dependency of smaller industrial firms is much lower than that of large firms. In 1984, the import content of recurrent inputs for factories with 5 to 25 workers was about half of the overall industrial sector's import intensity. (World Bank 1987, Vol I, p. 14)

The increasing import content of manufacturing production required rapidly increasing imports to the sector. Imports of recurrent inputs (including oil but excluding transport equipment) rose from about \$ 110 mill, in 1975 to \$ 290 mill. in 1984. The increasing imports were not compensated for by a corresponding rise in manufacturing exports. In fact, manufacturing exports of \$ 65 mill. in 1984 were lower than those in 1975. (Cf. table 1.2.1.) The result was that the manufacturing sector's direct "contribution" to the total merchandise trade deficit increased from 9.% in 1975 to 46.3% in 1984. In the same period, recurrent inputs to industry increased from 14.2% to 33.2% of total merchandise imports. (Cf table 1.2.1.)

The figures in table 1.2.1. do not give full account of the manufacturing sector's consumption of forex in 1984. An additional \$ 75 mill. was estimated to have been the foreign exchange component of capital equipment amortisation in that year. The total forex consumption of the manufacturing sector in 1984 was thus estimated to be about \$ 365 mill., or almost six times the sector's own export earnings in that year (World Bank 1987, Vol I, p. 11). When taking into account the forex component of capital equipment amortization, the manufacturing sector created more than 60% of Tanzania's foreign trade deficit in 1984, while contributing only 7.7% to the country's GDP.

Table 1.2.1. Estimates of manufacturing industry's net foreign exchange consumption, 1975 and 1984. US \$ mill.

	1975	1984
Recurrent imports to industry	110	290
Industrial exports	74	65
Industry's net current forex consumption	36	225
Total merchandise imports	773	874
Recurrent imports to industry as a percentage of total merchandise imports	14.2%	33.2%
Deficit on merchandise trade \$ mill.	401	486
Industry's net current forex consumption as a percentage of merchandise trade deficit	9.0%	46.3%

Source: World Bank 1987, Vol I, p. 12; and Vol II, p. 109. (For merchandise trade figures, cf. table 1.5.1.)

1.2.5. Increasing forex consumption but declining output

It is significant that industry's increasing forex consumption was not associated with a corresponding increase in industrial output. Table 1.2.2. shows that manufacturing VA increased at a rather high trend rate of about 7% per year in 1968-1973. After 1973, the trend rate of growth declined to about 3% per year. In the period 1976 to 1979 VA stagnated at a peak level of about TShs 2650 - 2800 mill. per year at 1976-prices; and since 1980, there has been a trend rate of decline of about 4.5% per year. In 1986, manufacturing VA had become 31% lower than in 1979. (Cf. table 1.2.2.)

The manufacturing sector's decreasing effectiveness in the use of forex paralleled with a declining effectiveness of investment in terms of output increase per TSh invested. Whereas the trend rate of growth of VA declined from 7.3% per year in 1968-73 to 3.4% per year in 1974-79, FCF showed a quite opposite trend, its rate

of growth increasing from 3.1% per year in 1968-73 to 14.7% per year in 1974-79. The diverging growth trends of FCF and VA implied that increasing amounts of investment were associated

Table 1.2.2. Manufacturing value added (VA), fixed capital formation (FCF) and incremental capital-output ratios (ICOR), 1968-1986

Year	Man. VA at 1976- prices TShs mill.	Man. VA as % of GDP ¹⁾	Man. FCF at 1976- prices TShs mill.	Man. FCF as % of total FCF ¹⁾	ICOR ²⁾
1968	1655	9.0%	538	16.2%	
69	1814	10.0	405	13.2	
1970	1890	10.1	780	16.9	4.2
71	2070	10.7	751	13.5	4.5
72	2244	11.4	528	10.9	4.5
73	2344	11.0	574	11.9	6.0
74	2376	10.6	788	15.6	13.4
1975	2384	10.5	764	17.9	4.5
76	2811	12.4	1343	26.1	11.0
77	2641	12.6	1916	33.5	11.7
78	2730	13.3	1302	24.3	506.7
79	2821	11.9	1389	21.7	109.7
1980	2683	10.6	1272	22.7	-48.9
81	2382	10.3	1544	26.6	-8.2
82	2304	8.3	1689	27.9	-7.8
83	2103	8.0	1307	35.9	-20.5
84	2159	7.7	1259	28.2	-18.7
85	2075	6.9	1480	26.4	-24.1
1986	1935	6.2			
Annual trend rates of growth,					
1968-73	7.3%		3.1%		
1974-79	3.4%		14.7%		
1980-86	-4.6%		-0.3%		

1) % shares at current prices.

2) Man. FCF 3-years moving averages divided by incremental man. VA 3-years moving averages lagged by one year.

Source: National Accounts of Tanzania 1966-1980 and 1976-1984; The Economic Survey/Hali ya Uchimi, several issues; and Bureau of Statistics: Selected Statistical Series 1951-1985, DSM 1987. Manufacturing FCF at current prices has been deflated to constant (1976-) prices by using the implicit deflator for total FCF in the named publications.

with declining increments of VA. The ICOR figures in table 1.2.2. show that, in 1970-72, a VA-increment of one TSh was associated with an investment of about 4.5 TShs. By contrast, in 1978-79, a VA-increment of one TShs was associated with an investment of far more than 100 TShs. After 1979, the situation became even worse with decreasing VA every year, except in 1984, at high levels of investment. (Cf table 1.2.2.)

In 1986, manufacturing VA as a share of total GDP had declined to 6.2%, from a peak of 11.4% in 1972 (cf. table 1.2.2). In 1987 there was a further decline of this ratio, to a low of 4.6%, lower than in any year since 1963. It is significant that this process of deindustrialization took place at very high levels of industrial investment, i.e. with enormous resources channelled to industry. The combined effect of these developments was that the average rate of capacity utilisation declined from about 53% in 1976 to about 25% in 1984 and 1985. (World Bank 1987, Vol I, p. 5.)

1.2.6. Profits maintained through real wage erosion

In spite of dramatic decreases of the rate of capacity utilisation, manufacturing industry in general continued to perform well in terms of financial rates of return, the reason being that most industries could practice cost-plus pricing and increase prices to compensate for increasing costs on a protected domestic market. For this mechanism to work, real wages had to decline significantly in order to ensure that the share of labour costs in total costs, at least, did not increase.

From 1972 onwards, real wages have declined every year, and with increasing rates since the late 1970s. In 1984, the average real wage/salary in manufacturing industry had become 70% lower than in 1972. This was according to official statistics which, no doubt, underestimate the rate of inflation. Through this dramatic erosion of real wages, the share of labour costs in VA was kept at below 40% and the profit share correspondingly at above 60% in

every year since 1976. On the other hand, from 1970 to 1975, labour costs represented more than 40% of manufacturing VA.

In spite of stagnating output and decreasing rates of capacity utilisation, manufacturing employment continued to increase. Total employment in manufacturing firms with 10 or more employees rose from 84 175 in 1977 to 102 300 in 1980, and 103 620 in 1983. Only after 1983, a modest reduction in employment came about. Thus, up to 1983, new workers were employed to operate additional unutilised capacities. In other words, employment was related to capacity creation, rather than to the level of actual output. This feature of employment growth and real wage erosion was more characteristic of parastatals than of private manufacturing firms.

At present, wages, especially within the parastatal sector, are so low that workers and their families cannot subsist on them. Many workers therefore try to improve their situation through various auxiliary activities, even during work-time. This situation results in a further deterioration of work motivation and discipline and a further fall in labour productivity.

1.2.7. Some concluding remarks

In order to escape from the present depression it is especially important for manufacturing parastatals that they adjust their level of employment to the actual level of production and use wages and salaries as incentives to increase productivity and output.

For manufacturing parastatals to improve their performance it seems necessary to reduce the bureaucracy of holding companies and locate responsibility at the subsidiary level, while creating an organisational environment that makes management result-oriented.

In order to recover, the industrial sector will, moreover, need a drastic change in the pattern of allocations of forex for imports

of recurrent inputs as well as spare parts and machinery for rehabilitation. A major problem is that the manufacturing sector as a whole has become so import dependent that the economy cannot sustain it at reasonably high rates of capacity utilisation, even with restored agricultural exports.

On the other hand, there is no economic justification for providing the extremely import-intensive industries with such amounts of forex at the expense of other sectors. This means that a programme for CIS to the industrial sector should also be a programme for restructuring and rehabilitation, aiming at reducing the import dependency and increasing the efficiency of the sector.

1.3. Public finance, money and credit

Generally speaking, the government budgets created inflation since the mid 1970s mainly because recurrent revenue did not keep pace with expenditure, leading to increasing deficits which had to be financed through government borrowing. As a result mainly of the increasing recurrent deficits, the total government deficit (i.e. government domestic borrowing) rose from 2.6% of monetary GDP in 1976/77, to more than 25% in 1981/82.

One major cause of the increasing recurrent deficits was the break-up of the East African Community in October 1977. Another factor was the doubling of oil prices in December 1978, which added \$ 150 mill. to the costs of oil imports and increased the government's oil bill, despite the fact that the volume of oil imports was contained at about the 1973-level. A third major cause was the war with Uganda which broke out in November 1978. In his Budget Speech to Parliament in June 1979, the Minister for Finance indicated that the cost to the economy, including expenditures on reconstruction, would be nearly TShs 4100 mill., or about equal to one year's export earnings.

Another major cause of soaring budget deficits was the increase in transfers and subsidies to parastatals and interest payments on government loans which accelerated towards the end of the 1970s. From 1978 onwards, interest payments rose by almost 30% per year, and in 1983/84 accounted for 11% of recurrent expenditure.

The increase of budgetary transfers to parastatals was a phenomenon emerging around 1980. Total transfers to crop authorities rose from TShs 135 mill. or 1.7% of total government recurrent revenue in 1979/80, to TShs 2138 mill. or 19.5% of total government revenue in 1981/82. Transfers to crop authorities and defence spending amounted to 41% of total government revenue in 1981/82, and 33% in 1982/83.

As a result of increasing deficits, the share of government net borrowing (incl. parastatals) in total net borrowing in the economy rose to a peak of 88% in 1979/80, leaving only 12% of total net credit expansion in that year to the private sector. From 1976 to 1986, net claims on the government increased 11.7 times, whereas lending to other domestic sectors increased only by 4.4 times in the same period. (Cf. BOT: Economic and Operations Report, June 1986, p. 52.)

The enormous increases of government net borrowing was the single major cause of the large total credit expansion, averaging 30% per year in 1976/77 to 1981/82. This credit expansion combined with the production shortfalls in the economy, was, in turn, a major cause of the increasing rate of inflation, rising from an average of 10% per year in 1975-1978, to 28% per year in 1979-1986, according to official statistics.

It should be noted that the increasing government deficits were not caused by increased social sector spending (education, health, etc.) or increased expenditures on physical infrastructure, such as electricity and water, roads and bridges. In total, these essential activities suffered a dramatic reduction in their

share of total government expenditure from an average of 32.5% in the period 1975/76-1977/78, to only 21.7% in 1982/83-1985/86. Especially education, health facilities and roads are now in such a bad state that much of the investments in these infrastructures must be considered as lost. This rises a big question-mark about the priorities of government budget allocations since the end of the 1970s, and it indicates the necessity to give high priority to these sectors in order to reach lasting results from the ERP.

1.4. The role of foreign aid

Table 1.4.1 shows that total foreign aid net of technical cooperation grants reached a peak of \$ 525 mill. in 1981, and then declined every year until 1985. Also in 1986 total foreign aid was lower than in 1980-81. Both net loans and grants declined after 1982 and 1980, respectively. The decline of net loans was not associated with increasing principal repayments of earlier loans; the principal repayments actually declined from \$ 9.8 mill., in 1982 to 7.8 mill., in 1985. Thus the reduction of net loans by 60%, from \$ 193.8 mill. in 1982 to 79 mill. in 1985 was the result of a reduction in new lending, mainly by the IMF and the World Bank which held back credits while negotiating with Tanzania on a new economic policy. (Cf. table 1.4.1.)

From 1980 onwards, there was also a reduction of grants, from a peak of \$ 485.7 mill. (net of technical cooperation grants) in 1980 to 272.4 mill. in 1985, i.e. a 44% reduction. The reduction of grants came about partly because donors were hesitant to continue their aid at former levels as long as Tanzania did not reach an agreement with the IMF, and partly because Tanzania had problems in financing the local currency costs of new projects due to the economic crisis. Apparently, the crisis was so severe in 1984-86, that the only way of increasing foreign aid again to a considerable extent was to change its composition away from project aid, in favour of budgetary support, balance of payments support, or CIS.

Table 1.4.1. Foreign aid disbursements to Tanzania, 1970-1986.
US \$ mill.

Year	Net loans ¹	Total grants	Total (net) aid	Grants as % of total foreign net aid	Technical cooperation grants	Total aid net of techn. cooper. grants ²	Total aid net of techn. cooperation grants as % of imports ³
1970	23.7	27.5	51.2	53.7%	21.3	29.9	9.4%
71	31.8	30.6	62.4	49.0	23.8	38.6	10.1
72	16.6	44.5	61.1	72.8	34.7	26.4	6.4
73	35.4	64.9	100.3	64.7	41.3	59.0	11.9
74	63.1	99.4	162.5	61.2	47.6	114.9	15.6
75	114.4	187.9	302.3	62.2	60.2	242.1	31.3
76	71.3	195.7	267.0	73.3	76.7	190.3	29.5
77	124.7	215.4	340.1	63.3	80.2	259.9	34.8
78	-32.5	456.6	424.1	107.7	106.0	318.1	27.8
79	101.2	487.0	588.3	82.8	138.2	450.1	41.8
1980	8.5	657.7	666.2	98.7	172.6	493.6	40.5
81	193.4	508.5	701.9	72.5	176.4	525.5	45.3
82	193.8	490.2	684.0	71.7	181.2	502.8	45.2
83	164.0	429.9	593.9	72.4	173.9	420.0	51.5
84	128.3	429.5	557.8	77.0	138.7	419.1	47.9
85	78.9	408.0	486.9	83.8	135.6	351.3	35.2
86	n.a.	n.a.	680.0	n.a.	260.0	420.0	40.1

1) Loans less principal repayments.

2) In order to compare aid with total imports we have deducted technical cooperation grants, because it can be argued that such grants contribute little or nothing to the economy's capacity to import.

3) As a percentage of merchandise imports.

Source: OECD: Geographical Distribution of Financial Flows to Developing Countries, Paris, several editions up to 1987. For import figures see table 1.5.1. Aid figures for 1986 are from UNDP, Dar es Salaam 1987.

The reduction of foreign aid since 1980/81 did not cause the crisis which already existed, but it contributed to worsening it. At the same time as foreign aid was reduced, export revenues also declined from \$ 511 mill. in 1979 to a low of \$ 286 mill. in 1985 (cf. table 1.5.1). In this situation Tanzania increasingly had to resort to short term commercial loans and suppliers credits to finance necessary imports.

However, payment arrears piled up, increasing from an accumulated \$ 296 mill. in 1981 to \$ 589 mill. at the end of 1985, or almost

twice the export earnings in that year. (Cf. Bank of Tanzania: Economic and Operations Report, June 1986.) With payment arrears of such a magnitude Tanzania's possibilities to borrow on international credit markets had been drastically reduced, and an agreement with IMF became of vital importance.

The reduction of foreign aid in the period 1980 to 1985, was not equally distributed among donors. For example, also total Norwegian aid declined since 1983, but net of technical cooperation grants there was no decline. This could be due to the circumstance that Norway switched a rather large share of total aid to balance of payments support or CIS in the early 1980s, thereby to some extent avoiding the constraint of local costs project financing to an increase of foreign aid.

In the period 1972 to 1981, foreign aid served to maintain the volume of imports to Tanzania at a rather stable level, at the same time as export earnings stagnated, and the volume of exports declined by more than 30% from 1973 to 1981 (see chapter 1.5.). Through this process, the share of foreign aid (net of technical cooperation grants) in total merchandise imports rose from an average of 9.6% in 1970-73, to 47% in 1981-83. (Cf. table 1.4.1.) However, in the 1970s foreign aid was, in general, tied to investment projects, the idea being that Tanzania should receive aid to develop its productive capacities and social and economic infrastructures, the economy thereafter being able to sustain itself and utilise the new productive capacities. In other words, it was assumed that Tanzania's own export earnings should finance the forex costs of operating the new productive capacities.

Since this assumption did not hold true, foreign aid did not only maintain the volume of imports on the level of the early 1970s, but also brought about a profound change in the composition of imports. Especially remarkable is the period 1976-81, when the share of consumer goods in total imports decreased from 20.8 to 10.7%, and the share of intermediate goods declined from 49.4 to 39.4%. By contrast, the share of capital goods increased from 29.8% to 49.9%, implying that the imports of these goods at

current prices rose by an unprecedented rate of 25.1% per year from 1976 to 1981. In short, at the same time the Tanzanian economy suffered a balance of payments crisis and domestic production declined, investments, and hence imports of capital goods, a substantial share of which were financed by foreign aid, continued at a higher level than ever before.

By 1981, it had become quite meaningless to maintain traditional project-aid at its attained level, because the forex costs of operating new projects could not be covered by Tanzania's export earnings. In this situation, balance of payments support or CIS emerged as ad hoc measures to provide some relief in an untenable situation.

1.5. A summary of balance of payments developments

Until 1969, Tanzania enjoyed surpluses on its balances of trade in every year. For the period 1962 to 1965, the average annual merchandise trade surplus amounted to \$ 23.5 mill. per year, declining to \$ 9.5 mill. per year in 1966-69. (Cf. table 1.5.1.)

Since 1970, there has been a merchandise trade deficit in every year. Until 1973, the deficit accounted for about 20 to 25% of total imports rising to 45-50% in 1974-75, as a result of the oil price rises in 1973/74 and the agricultural production fallout in the same year.

In 1976-77 there was a temporary improvement of the trade balance, the deficit being reduced by more than 50% compared to 1974-75, and accounting for 24-27% of total imports in those years. This temporary improvement was caused mainly by the boost of international coffee prices due to crop failures after frost in Brazil. As a result of the coffee boom, Tanzania's merchandise exports rose from \$ 372 mill. in 1975, to \$ 543 mill. in 1977. (Cf. table 1.5.1.)

Table 1.5.1. Tanzania: Balance of merchandise trade 1962-1986. US \$ mill.

Year	Exports	Imports	Trade balance	Trade deficit as % of imports
Annual average 1962-65	198.0	174.5	+23.5	-
Annual average 1966-69	249.5	240.0	+9.5	-
1970	259	318	-59	18.6%
71	278	382	-104	27.2
72	319	414	-95	22.9
73	368	497	-129	26.0
74	400	736	-336	45.7
75	372	773	-401	51.9
76	490	646	-156	24.1
77	543	748	-205	27.4
78	468	1143	-675	59.0
79	511	1077	-566	52.6
1980	506	1219	-713	58.5
81	554	1161	-607	52.3
82	415	1113	-698	62.7
83	380	815	-435	53.4
84	388	874	-486	55.6
85	286	999	-713	71.4
86	348	1047	-699	66.8

Source: UNCTAD: Handbook of International Trade and Development Statistics, U.N., Geneva/New York 1983; and Minister for Finance, Budget Speech, June 1987.

In November 1978, the war with Uganda broke out, causing disruptions of agricultural production and transport services and a sharp increase in imports of military equipment and fuel for military vehicles. Moreover, in 1978-79, there was another doubling of oil prices which added nearly \$ 150 mill., to the import bill. On top of this the average export price declined by about 6% from 1977 to 1978. As a result of these developments combined with the underlying trend of a declining volume of exports, Tanzania's imports shot up from \$ 748 mill. in 1977 to \$ 1219 mill. in 1980, whereas export earnings declined from \$ 543 mill. in 1977 to \$ 506 mill. in 1980, resulting in an accumulated overall balance of payments deficit of about \$ 540 mill. in 1978 to 1980.

The "external shocks" we have now mentioned, were, no doubt, the factors which triggered off the acute balance of payments crisis around 1980. However, over the whole period 1973 to 1980, a persistently declining volume of exports, due to declining production of export crops (cf. chapter 1.1.) worked as the major underlying cause which determined the severeness and long-term character of the balance of payments crisis.

For 14 export crops (including the processed form of some of them) accounting for more than 80% of Tanzania's total export value in 1973 to 1982, we have estimated that the total volume of exports was 36% lower in 1980 and 1982 than in 1973. On the other hand, the average export price for these commodities in US \$ was 55% higher in 1982 than in 1973. As a result, the total export value of these commodities was 30% higher in 1982 than in 1976, despite the dramatic fall of the volume of exports. This indicates that the falling volume of crop exports was the major cause of the seriously deteriorating trade balance since 1973 (cf. Havnevik and Skarstein 1987).

Moreover, as we have shown in chapter 1.2, the industrial sector's import dependency rose dramatically in the second half of the 1970s. There can be little doubt that the declining agricultural surplus combined with the industrial sector's increasing net forex consumption were the major causes of the balance of payments crisis from about 1980 onwards.

2. TANZANIAN POLICY RESPONSES TO THE BALANCE OF PAYMENTS CRISIS

2.1. The National Economic Survival Programme (NESP) 1981/82-1982/83

In the early 1980s, the Tanzanian authorities realised that the economic crisis which was unfolding could not be handled by the regular five year planning system. NESP, an emergency programme attacking the economic crisis was launched in May 1981. The NESP's analysis maintained that by far the most overwhelming causes were factors "outside our control". These were stated to be petroleum price increases, increases in the prices of imports, stagnant or declining export prices and unfavourable weather.

The NESP proposed action in six areas:

- (i) Increase foreign exchange earnings from exports of various commodities.
- (ii) Greater care in the utilisation of the meagre foreign exchange.
- (iii) To reduce and ultimately eliminate the problem of food shortage.
- (iv) Government recurrent expenditure control.
- (v) Enhancement of the country's capacity for self-reliance.
- (vi) Proper incentives to farmers and workers.

The targets fixed for production increases both in agriculture and industry were not realistic. In spite of a 10-15% shortfall on targets for the year 1981, the targets for 1982 were raised by 31% above those of 1981. (NESP: 6) The NESP contained no programme or plan for how to mobilise institutions, people and resources in order to achieve the targets. The programme had appearance of being hurriedly formulated.

At the end of the period most targets were not achieved, actually most variables, exports and industrial output etc., moved in the opposite direction of what was projected. Better utilisation of the existing foreign exchange could not be realised in the absence of a prioritized list of industries or firms which should be allocated the meagre resources available. Efforts to reduce expansions in the industrial sector were not successful either. New investment projects continued to emerge, though at a slower pace, while completion of already initiated projects was attempted on so many projects that resources were spent thinly with marginal results.

The economic crisis intensified throughout the programme period and the Tanzanian Government then decided to embark upon a sustained programme of structural adjustment.

2.2. The Structural Adjustment Programme (SAP), 1982/83-1984/85

The Structural Adjustment Programme (SAP) was formulated by the Tanzania Advisory Group (TAG), appointed by the World Bank and Tanzania in cooperation. The programme was adopted by the Tanzanian government in June 1982 and had "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 payment support". (our emphasis), and
- "(b) Structural adjustment then could be pursued in an environment which is more conducive to effective implementation of the policy measures which, in the medium term, would reduce dependence on external support as well as restore growth momentum". (SAP: 6).

The objectives of structural adjustment were summarized as follows:

- "(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". (SAP: 6, our emphasis.)

It is noteworthy that no measures aiming specifically at the agricultural sector were included. Agriculture would only be affected indirectly, e.g. by measures to improve parastatal efficiency and through liberalisation of interregional trade. This omission was later compensated for by a special government document on "The Tanzania National Agricultural Policy" (1982).

2.2.1. The economic crisis

The SAP document devoted only two short paragraphs to explaining the economic crisis in Tanzania. According to the document, the crisis "has resulted from a series of shocks which, since 1978, have weakened the economy". (SAP: 5.) Some of these "shocks" are "global in origin". Thus, "the second round of oil price increases, increases in the prices of (imported) manufactured goods, together with the fall in the prices of our exports resulted in unprecedented balance of payments crisis for Tanzania, particularly in 1981". (SAP: 5-6.)

2.2.2. Import support

A major short term objective of SAP was to restore industrial and agricultural production as well as the balance on the external account. To realize this, foreign aid was envisaged to play a decisive role. The declining production and low rate of capacity utilization in manufacturing industry were seen mainly to result from shortage of foreign exchange to pay for imports of raw materials, spare parts, etc. Also in the transport sector and agriculture foreign exchange shortage was considered a major production constraint. The SAP document therefore envisaged an

increase of foreign aid in the short term and a switching of "about US \$ 80 million annually from project aid to import and local cost support for the rehabilitation programme". (SAP: 53.)

The SAP document stressed the necessity of making "effective use of aid to increase capacity utilization in industry, agriculture, tourism, transport and other sectors in order to get the economy moving again". (SAP: 52.) To achieve these objectives, "clear-cut areas of priorities and a workable system of vetting projects and programmes which require aid will be established". (SAP: 53.)

With respect to agriculture and the transport sector, SAP neither indicated allocation priorities for import support, nor did it commit the authorities to establish such priorities.

2.2.3. Industrial priorities of SAP and forex inflows

The SAP was somewhat more specific regarding foreign exchange allocation to industry as compared to agriculture. The priority objectives; to increase the supply of basic consumer goods, inputs for agriculture and incentive goods to encourage cash crop production and to generate a higher level of exports were contingent on an increased inflow of forex. However, already for 1982/83 indications emerged that aid was not coming forward as projected by SAP. Aid from bilateral donors at best remained constant in nominal terms, and decreased in real terms, and the switch from project to import support as well experienced a decline in 1982/83 as compared to 1981/82. Donors were holding out for an agreement between Tanzania and IMF/IBRD and subsequent clarification of Tanzanian macro-economic policies.

However, an important reason for the slow switch from project- to import support assistance was the lack of proper guidelines and criteria for the allocation of CIS. The all-embracing priorities put forward for support to agriculture and transport produced no workable criteria. And likewise for the industrial sector, allocation of foreign exchange to the most efficient plants

producing priority goods could not be implemented without a proper identification of priority goods and the relative levels of efficiency among different producing units.

2.3. Economic Recovery Programme (ERP), 1986/87-1988/89

The ERP represents an important watershed in Tanzanian official policy by emphasising that the imbalances in the economy leading to acute crisis were mainly the responsibility of the Tanzanian authorities themselves: "... however caused, a country's economic problems are primarily its own responsibility" (ERP, p. i).

When adopting the ERP, the Government of Tanzania acknowledged a number of structural imbalances and policy mistakes in the past.

Key elements in the ERP include the following:

- Step-by-step devaluations of the TSh, "aimed at gradually achieving an equilibrium exchange rate by mid-1988", thereafter manage the currency in a flexible manner.
- A supporting macroeconomic framework that will involve further reductions in the Government budget deficit, monetary and credit policy consistent with alleviating the imbalances in the economy, and measures that will lead to positive real interest rates.
- Immediate and substantial increases in producer prices of agricultural crops, with the objective to "set producer prices at a level equivalent to 60 to 70% of fob prices or increase them by 5% per annum in real terms, whichever is the higher". This measure is concomittant with the reestablishing of cooperative unions and the transforming of crop authorities into marketing boards.
- Reduction of the number of items subject to price control.
- Improvements in the allocation mechanism for foreign exchange.
- Liberalisation of internal (deconfinement) and external trade.

The ERP contains a combination of deflationary measures - "to restore internal and external balances by pursuing prudent fiscal, monetary and trade policies" - and expansionary policies: "to increase the output of food and export crops through appropriate incentives for production, improving marketing structures, and increasing the resources available to agriculture", "to rehabilitate the physical infrastructure of the country in support of directly productive activities", and "to increase capacity utilisation in industry through the allocation of scarce foreign exchange to priority sectors and firms".

The ERP thus constitutes a continuation of SAP, but with a stronger emphasis on the objective of "getting the prices right". The austerity parts of ERP have mainly consisted of a further restraint of fiscal expenditures, in combination with a credit squeeze (the agreement with the IMF contains a number of restrictions on public expenditures and domestic credit expansion). Domestic trade has been further deconfined; among other things, the earlier restrictions on trade in foodstuffs between regions have been abolished, and competition with the marketing boards and other parastatals has been allowed.

Foreign trade has also been further liberalised. The own-funds imports scheme has been expanded, and more commodities included in the list of items that are allowed to be imported. The export incentives, in particular the export retention scheme, have also been expanded, and some new export incentives have been introduced.

The most fundamental change, however, is the policy of drastic devaluations. Before 1986, the only major devaluations were made in June 1983, when the TSh was depreciated from TShs 9.60 per US \$, to TShs 12.00 per US \$; and in June 1984, from TShs 12 to TShs 17 per US \$. In late 1986, the TSh had been gradually depreciated to TShs 40 per US \$. Subsequently, the devaluations have continued with approximately 2% per month. By mid-1987, the rate had reached TShs 62 to the US \$; and in May 1988, the official exchange rate was TShs 95 per US \$. Through the process of

devaluations, the ratio between the black and the official rate of exchange has been reduced from about 10:1 in early 1986, to about 2:1 in May 1988. The Government's aim is to reach an "equilibrium rate of exchange" by mid-1988. What this equilibrium actually will amount to has never been stated, however.

The rate of interest, earlier strongly negative in real terms, has also been adjusted. If inflation goes down to around 25% in 1988, as some observers expect, Tanzania would, for the first time in many years, get a positive real rate of interest.

Despite the adjustments made, the credit market is still in disequilibrium, however. The huge credit requirements of the marketing boards, and the fiscal deficit, still absorb the lion's share of the available credit. On the parallel, "gray" credit market, the rate of interest is around five per cent per month, which gives an indication of the shortage of domestic currency that has developed over the last few years. It must be stressed that the credit market will remain in disorder as long as the big parastatals, and in particular the National Milling Corporation, continue to absorb vast amounts of credit which are never settled.

It should also be noted that a significant change in the pattern of allocations of forex to the industrial sector has not taken place. Extremely import-intensive industries are still receiving large amounts of forex at the expense of other industries and sectors. (Cf. chapter 3.4.)

3. THE DESIGN AND ROLE OF COMMODITY IMPORT SUPPORT (CIS)

3.1. Growth and composition of CIS

By 1981, it had become meaningless to maintain traditional project aid at its attained level, because the forex costs of operating new projects could obviously not be covered by Tanzania's export earnings. In this situation there were two options; either to reduce foreign aid, or to switch some part of total aid to balance of payments support, budgetary support or CIS as ad hoc measures to provide some relief in an untenable situation.

Apparently, some donors chose the first option, whereas others chose the latter one or a combination of the two. In any case, foreign aid net of technical cooperation grants declined from \$ 525 mill. in 1981, to 420 mill. in 1983, and \$ 351 mill. in 1985 (cf. table 1.4.1). Hence, foreign aid (net of techn. coop. grants) was 33% lower in 1985 than in 1981.

Most probably, there was some decline also in total CIS after 1981/82. In any event, CIS cash cover payments to the Treasury, converted to US \$ at the average official exchange rate, declined from \$ 116 mill. in 1981/82, to 73 mill. in 1982/83, and \$ 49.6 mill. in 1983/84 (cf. BOT: Economic and Operations Report, June 1982, and table 4.5.1).

After adoption of the ERP and the agreement with the IMF in 1986, the number of CIS donors as well as the amount of CIS from each donor increased considerably. In 1986/87, CIS reached about \$ 282 mill. or about 44% of total foreign aid. Major contributions to this high figure came from the Netherlands, Sweden, Norway and the World Bank with its MRC (cf. table 3.1.1).

Cash cover is paid to the Treasury for only a fraction of total CIS disbursements. For example, for 1986/87, CIS cash cover

payments accounted for an estimated 55.7% of total CIS. (Compare tables 3.1.1 and 4.4.1.) But in spite of that, these payments should give an indication of CIS disbursements over time. Cash cover amounted to \$ 69.4 mill. in 1984/85, 58.4 mill. in 1985/86, and then made a leap to \$ 156.9 mill. in 1986/87 (cf. table 4.4.1).

As table 3.1.1 shows, about \$ 164 mill. or 58% of total CIS in 1986/87 was due to extra commitments linked to the ERP which were made at the Paris meeting in 1986. Hence, there can be little doubt that the adoption of the ERP resulted in a substantial increase in CIS and consequently also an increase of total foreign aid to Tanzania. According to estimates made by the Treasury and BOT, there will be some further increase also in 1987/88.

Table 3.1.1. CIS disbursements in 1986/87 with disbursements due to extra commitments linked to the ERP specified. US \$ mill.

Donor	CIS	Extra CIS commitments linked to ERP	Total
Canada	7.3	10.7	18.0
Denmark	15.8	2.0	17.8
Finland	8.2	6.0	14.2
India	1.4	-	1.4
Ireland	-	0.4	0.4
Italy	7.1	-	7.1
Japan	10.4	-	10.4
Netherlands	23.0	22.4	45.4
Norway	20.8	9.5	30.3
Sweden	23.4	10.4	33.8
Switzerland	-	9.2	9.8
United Kingdom	-	21.5	21.5
World Bank/IDA	-	72.1	72.1
Total	117.4	164.2	281.6

Source: Figures from GOT, the Treasury, estimatead by Bertil Oden who was at that time working in the Treasury.

Available figures indicate that industry received a larger share of CIS than envisaged in the ERP, whereas agriculture and

transport received smaller shares. In our view, this pattern of sectoral distribution reflects a problem rooted in lack of adequate institutions for channelling CIS to agriculture.

3.2. Norwegian CIS, 1979-1988

3.2.1. The elements of CIS

Commodity import support is a term which covers two similar forms of Norwegian aid, commodity assistance and import support. The purchase of goods under commodity assistance is to be administered from Norway, and Norwegian suppliers can be selected provided that their price quotations do not exceed world market prices by more than 10%. Commodity assistance was originally included as part of the Norwegian country programme for Tanzania. Every delivery was handled as an independent project for which a plan of operation agreement was issued. Commitments to commodity assistance could be treated in the same way as other types of project finance for which the Ministry of Development Cooperation bears responsibility, which meant they were transferrable to the following budget year.

Regarding import support the purchasing is in principle the responsibility of the recipient. There is no competitive edge regarding price given to Norwegian suppliers. But indirectly the stipulation in the agreements of import support favour Norwegian suppliers through preference or priority given to Norwegian supported projects. (Refer section 3.2.2.) From the 1987 agreement there is also a clause giving priority to purchases from other Third World countries. Import support allocated to Norwegian linked or assisted projects has, however, often been paid directly from the Ministry of Development Cooperation (MDC).

In 1979, Norway, on own initiative, granted for the first time balance of payments support to Tanzania in the form of a cheque amounting to NOK 45.4 mill., to be utilized for any balance of payments purposes. In 1980, NOK 82.1 mill. were granted, "to be

utilized primarily for the financing of inputs in agriculture and manufacturing industries".

Table 3.2.1. Total Norwegian bilateral aid disbursements and CIS allocations to Tanzania, 1980-1988. NOK mill.

	Total aid disbursements	CIS allocations	CIS as % of total aid	CIS spent on purchases from Norway as % of total CIS
1980	218.1	82.1 ¹⁾	37.6%	-
81	230.1	94.4 ²⁾	41.0	22.9%
82	335.0	147.5 ³⁾	44.0	42.7
83	400.3	185.9 ⁴⁾	46.4	30.0
84	378.8	111.3	29.4	55.4
1985	390.5	156.7	40.1	40.8
86	531.2	225.5	42.5	7.6
87	513.5	185.6	36.1	18.8
1988	606.0 ⁵⁾	213.2	35.2	n.a.
Total				
1980-88	3603.5	1402.2	38.9%	26.7% ⁶⁾

- 1) Only balance of payments support.
- 2) Including NOK 72.8 mill. of balance of payments support.
- 3) Including NOK 78.6 mill. of balance of payments support.
- 4) Including NOK 115.4 mill. of balance of payments support.
- 5) Allocation
- 6) 1980-87.

Sources: Total aid 1980-1986, CIS 1980-1984, and CIS spent on purchases from Norway: NORAD accounts. Remaining figures: NORAD Office Dar es Salaam, April 1988.

CIS allocations from 1980 onwards, including balance of payments support up to 1983, are shown in table 3.2.1. As a share of total bilateral aid disbursements, CIS reached a peak of 46.6% in 1983, declining to 40-42% in 1985 and 1986, and about 35-36% in 1987 and 1988.

CIS spent on purchases from Norway as a share of total CIS reached a peak of 55% in 1984 and has since declined to about 19% in 1987. A large share of CIS purchases in Norway is accounted for by TANELEC and Norwegian assisted projects receiving commodity assistance.

The six most important recipients of Norwegian CIS and the total amounts they received in the period 1981 to 1988 are as follows:

Tanzania Fertilizer Company	NOK 161.4 mill.
Tanzania Coffee Marketing Board	" 153.8 mill.
TANELEC	" 147.1 mill.
General Tyre	" 75.9 mill.
Steel Rolling Mills	" 43.0 mill.
Sao Hill Saw Mill	" 33.8 mill.

Together, these companies received 46.6% of total Norwegian CIS in the period 1981 to 1988.

Commodity assistance and import support (CIS) represent aid which is not entirely at the free disposal of the recipient government. The conditions stipulated for the use of such Norwegian aid are given in section 3.2.2. When grants are placed at the free disposal of the recipient government, normally the term general balance of payment support is used. All Norwegian/Tanzanian agreements between 1979 to 1985 are termed agreements regarding balance of payment support. However, only the 1979 agreement did not contain conditions, and as such can be termed a general balance of payment support.

3.2.2. Norwegian/Tanzania CIS-agreements and criteria for CIS allocations

The first agreement between Tanzania and Norway on balance of payment support in 1979 contained no specification of the use of the funds. It was simply stated that the support should be utilised for balance of payments purposes. The 1980 agreement on balance of payment support stated that the grant was "to be utilized primarily for the financing of inputs in agriculture and manufacturing industries". This is the only agreement in which Tanzania is given the responsibility to forward a report describing the use of the funds.

The 1981 agreement on balance of payment support is the first covering two consecutive years. Here the transport sector is

added as a priority target alongside inputs to agriculture and existing industries. The grant is to be made available in instalments which are to be determined through consultations at least twice a year. This clause on consultations occurs in all the following agreements. For the first time, however, an article is included in the agreement (art. II) which relates to Norwegian supported projects/activities: "Priority will be given to urgent import requirements connected with Norwegian-supported activities in Tanzania, including joint ventures". It is further stated as in all subsequent agreements that "allocations will only be made to applicants who have applied through the Bank of Tanzania in accordance with general regulations in force". Two modes of disbursements are contained in Art. III, proceeds of the grant to be transferred by Norway could go either directly to the individual suppliers, which is normally used in case of NORAD supported activities/projects, or to a designated account held by Tanzania in a Norwegian bank (i.e. DNC). It is stated in Art. IV that Tanzania shall upon request by Norway provide all information that may be relevant in connection with utilisation of the grant.

The 1983 one-year agreement, is stated to be for balance of payments support. The overall priority areas are identical to those of the 1981 agreement and so is the clause giving priority to imports requirements of Norwegian-supported activities. Stipulations regarding applications procedures, disbursements and information also match the 1983 agreement. The 1984 agreement was identical to that of 1983, except for the size of the grant.

The 1985 agreement is the first with the heading of import support. The overall priority sectors are as in the 1981 and 1983 agreements (agriculture, transport and existing industries), but in addition the following clause has been inserted in Art. I: "The main objective of this assistance is to support Tanzania's efforts to rehabilitate and restructure its economy". Otherwise the agreement is identical to that of 1983 in terms of priority to Norwegian-supported activities, disbursements procedures and demand for information about the use of the funds.

The 1986 agreement regarding import support is identical to that of 1985 except for an insertion in Art. III on disbursements by opening of letters of credit on terms and conditions to be agreed upon. The 1987 agreement includes one new element in relation to its predecessors. In Art. I it is stated that the grant is "to be utilized for the financing of Tanzanian imports, preferably from developing countries, of raw materials, spare parts and other inputs to the agricultural sector, the transport sector and the energy sector and to supporting industries". And further that priorities shall not only be given to Norwegian supported activities (as above), but also to industries which use local materials and produce intermediate goods that substitute import or which produce basic consumer goods. The 1987 agreement is bi-annual, otherwise its terms are similar to those of the 1985 and 1986 agreements.

From 1981 to 1987 the transport sector is added as a priority target for Norwegian import support and in 1987 the energy sector. However, the overriding priority of the 1981 to 1987 agreements is given by the clause stating that, "Priority will be given to urgent import requirements of Norwegian supported projects/activities in Tanzania, including joint ventures". Only the 1987 agreement represents a modification of this condition as industries using local materials producing basic consumer goods or intermediate goods which substitute imports shall be given equal priority.

During the development cooperation consultations between Tanzania and Norway on March 17-20 1987 the two parties confirmed that the priority areas for CIS will continue to be agriculture, transport and industry. It was agreed to look into the possibilities of deriving clearer criteria for CIS allocation to various recipients and in addition to extend the planning perspective. Economic effectiveness and adequate follow-up routines were stressed. (Agreed Minutes 20/3 1987: 6.)

3.2.3. Procedures for allocations of Norwegian CIS

Every year indicative planning figures for the amount of CIS are agreed to in the five year Country Programme. Then the MDC negotiates with the Tanzanian Ministry of Finance who the beneficiaries of Norwegian import support are to be. This is the crucial point when Tanzanian and Norwegian criteria and priorities are juxtaposed.

It is clear that important premises for the allocation of CIS are given by the annual general country programme negotiations. Norwegian priorities, as they appear in the agreed minutes from these negotiations, shall be taken care of in the process of identifying receivers for the Norwegian CIS. The Tanzanian Ministry of Finance is, according to the Norwegian view, supposed to play the leading role in this identification process. It appears, however, that the process is problematic as clear criteria for CIS allocations were desired by both parties during the March 1987 consultations. (Agreed Minutes 20 -87:6.)

3.3. CIS-programmes of other major donors

3.3.1. The Dutch programme

Disbursements of Dutch CIS were US \$ 35 m in 1985/86, an estimated US \$ 40 m in 1987/88 and US \$ 40-45 m in 1988/89. After the IMF-Tanzania agreement, the Dutch CIS programme increased by 20-25%. During 1986 the share of CIS disbursements out of total Dutch aid disbursements increased to 67%, a level which was maintained in 1987. The Dutch CIS is partly tied to purchases in the Netherlands or in eligible Third World countries. The Dutch embassy in Dar es Salaam stated that about half of the CIS purchases were made in the Netherlands, but that this share is decreasing.

Before 1984 there was no clear objective of the Dutch CIS programme. In 1982 Dutch CIS was mainly channelled to the agricultural sector and to tyre production. From 1983 onwards CIS allocations to the industrial sector expanded. From 1984 the objective of the Dutch CIS programme has been to improve the utilisation of existing productive capacities, thus obstructing the importation of capital goods (NEI 1987:19). In 1984 Netherland and Tanzania agreed that requests for CIS should "be examined on the basis of"; (i) relation with already Dutch supported activities/projects, (ii) importance to essential sectors and branches of the economy and (iii) relieve of emergency situations. These criteria were concretised as: continued support to cotton and sugar production/processing, support for deteriorated sectors in agriculture of high export potential, emphasis on consumer goods as incentives for agricultural production and support to a number of key firms. A Dutch country policy paper of 1986 recommended a similar set of criteria for CIS allocations, but added that support should as well be given to agriculture supporting industries and infrastructure in the regions.

3.3.2. The Swedish programme

During the 1980s there seems to be three phases in Swedish/Tanzanian development cooperation, i.e. support to rural development and economic growth during the first years of the decade, then a shift to increase capacity utilisation and industrial rehabilitation, and subsequently emphasis on economic restructuring linked to the ERP. Swedish CIS has been employed from the late 1970s onwards as an instrument in pursuing the above objectives. Table 3.3.1 shows the Swedish country frame and the share of import support, planned and disbursed, for the period 1978/79 to 1987/88.

Table 3.3.1 indicates that disbursed Swedish CIS shows a tendency of increase which is much faster than that planned for. This development indicates that CIS is considered an effective instrument to attain the aid objectives of the 1980s, but as well

that alternative channels for aid have lost this potential during the 1980s.

Table 3.3.1. Swedish country frame and CIS to Tanzania 1978/79-1987/88. SEK mill.

Year	Country frame (disbursed)	Share of which for CIS planned	disbursed	Amount of CIS disbursed. SEK mill.
1978/79	316	16%	22%	70
1979/80	316	11%	26%	82
1980/81	304	10%	22%	67
1981/82	466	24%	35%	161
1982/83	410	21%	37%	153
1983/84	489	30%	32%	156
1984/85	479	30%	35%	166
1985/86	420	30%	55%	231
1986/87	491	30%	40%	196
1987/88	n.a.	37%	n.a.	n.a.

Source: SIDA 1987

Notes: The planned CIS share refers to the planned country frame which differs from the disbursed one, however, in no systematic way. In 1985/86 when CIS jumps to 55%, the disbursed country frame is SEK 40 m below the planned one. This indicates particular aid disbursement problems in that year with regard to projects.

In the period 1982-86 the distribution of Swedish CIS on sectors was 40% for physical infrastructure industries, 30% for other industries and 30% for agriculture (NCG 1987:10). This underlines the dominant role of the industrial sector as recipient of Swedish CIS. From 1985/86 onwards manufacturing units producing inputs to the agricultural sector, like UFI and ZZK, and transport related manufacturing, like TAMCO and SAAB-Scania, receive the lion's share of Swedish CIS. Smaller manufacturing units are obtaining Swedish CIS through the allocation to the Metal and Engineering Industries Development Association (MEIDA) and the Small Industries Development Organisation (SIDO). Several of the smaller manufacturing units are wholly dependent upon Swedish CIS for their operation. This is particularly so for the many SIDA supported units within the so-called industrial estates which

have established extremely import dependent production activities (Havnevik et al. 1985:esp. 191-195).

An evaluation of Swedish CIS carried out in early 1988 indicates a growing uncertainty about the role of CIS to meet Swedish aid objectives. At least the evaluators are led to search for a more well defined Tanzanian/Swedish agreement, which includes re-distribution of resources away from CIS to programmes and projects (cf. ICS 1988).

3.3.3. The Danish programme

Statistics for Danish CIS to Tanzania could not be obtained, but information from the Dar es Salaam DANIDA office states that about 25% of Dkr 350 m Danish aid to Tanzania in 1987 is of some type of CIS character. A Danish aid strategy document from 1987 indicates that Danish CIS will continue in the next years, but in the medium- and long term this type of assistance should be gradually reduced. The most dominant commodities purchased from Denmark under CIS like arrangements include fertilizers, pesticides, tallow and caustic soda for soap production, and steel.

3.4. Criteria for allocations of CIS

Since 1986, the CIS agreements between Norway and Tanzania have emphasised that the major role of Norwegian CIS is to support the ERP. In this chapter we will therefore discuss to what extent forex allocation criteria specified in the ERP may serve as guidelines for CIS allocations to particular firms or organisations.

Neither NORAD nor the Tanzanian authorities have elaborated well-defined and operational criteria for allocations of CIS on the firm level. The only criteria which do exist, are applicable only to whole sectors or large subsectors of the economy.

In its Board meeting of January 1988, NORAD adopted, as "preliminary" criteria, the following priorities in allocations of CIS:

- agriculture;
- industries producing agricultural inputs;
- industries producing incentive goods;
- net forex earning industries;
- industries supporting the transport sector;
- transport;
- energy; and
- NORAD-financed projects.

These priorities reflect broad outlines of the ERP, which NORAD has as a major objective to support. NORAD has therefore stated that more specific criteria for CIS allocations should be derived from the criteria for forex allocations in general which are laid down in the ERP and in documents supplementing the ERP.

However, the ERP is not specific on the issue of criteria for allocations of forex in general or CIS in particular. Instead, the programme sets "minimum import requirements" for the different sectors. For the economy as a whole, these requirements amount to about \$ 1200 mill. in each of the financial years 1986/87 and 1987/88, and about \$ 1300 mill. in 1988/89. These requirements do not at all appear to be high, since they only imply a return to the level of imports of 1219 mill. in 1980 (cf. table 1.5.1). But the minimum requirements are not related to specified production and/or efficiency objectives for each sector.

The ERP states that the criteria for resource allocation (i.e. forex allocation) and for "identification of priority activities" are as follows:

- "(i) Rehabilitation of critical areas of the economy which have been inadequately maintained due to the prolonged shortage of foreign exchange;
- (ii) provision of key recurrent inputs and other products, in order to increase productive efficiency, and the availability of basic consumer goods;

- (iii) completion of ongoing investment projects where relatively small additional resources would enable the project to become operational, or where delays might lead to penalties and other contractual obligations;
- (iv) improvement of social services (especially health and education) as basic necessities and as minimum incentives for a productive population". (ERP, p. 21)

With regard to imports of recurrent inputs, as distinguished from investment/rehabilitation (capital) goods, the ERP emphasises that "the recurrent requirements have been derived from an analysis of the productive inputs required to stimulate productive activity in priority areas (in particular with the aim of improving agricultural output and of increasing capacity utilisation among efficient manufacturing enterprises) to relieve bottlenecks in transportation, and to provide essential social services". (ERP, p. 23. Our emphasis.)

This statement relates to two types of allocation problems i.e. allocations among sectors and allocations to particular recipients within each sector. With respect to intersectoral allocations, the ERP sets the objectives shown in table 3.4.1 for "minimum import requirements" of recurrent inputs.

Table 3.4.1 Sectoral "minimum import requirements" for recurrent inputs according to the ERP

	1986/87		1987/88		1988/89	
	Mill. \$	%	Mill. \$	%	Mill. \$	%
Agriculture	91.9	12.1	105.1	12.9	122.7	13.7
Transport & Comm.	100.7	13.2	111.1	13.7	114.0	12.8
Energy and water	190.5	25.0	210.5	25.9	240.5	26.9
Manufacturing	148.7	19.5	151.7	18.7	157.7	17.7
Other sectors and import requirements*	230.8	30.2	234.3	28.8	258.0	28.9
Total recurrent imports	762.6	100.0	812.7	100.0	892.9	100.0

*) Includes: Mining, construction, community services and others.

Source: ERP, p. 23.

It should be noted that the industrial sector is at present consuming about twice as much forex as foreseen in the ERP, and this is taking place at the expense of other sectors in the economy. Also the sectoral distribution of Norwegian CIS contributes to this situation. (In 1987, 48.6% of total Norwegian CIS was allocated to the manufacturing sector.) When implementing the ERP, a main task will be to reduce the industrial sector's forex consumption by about 50% compared to the 1987-level. We doubt that this will be possible without making the CIS allocations more consistent with the ERP objectives. The authors of the ERP seem to be aware of the problem of reallocations away from industry:

"The demand for foreign exchange to meet the rehabilitation and recurrent costs of manufacturing enterprises is likely to be in the foreseeable future several times greater than the resources available for the purpose". (ERP, p. 30.)

Against this background the ERP reports that "the Government is in the process of establishing a mechanism to review applications comparatively for foreign exchange allocations in this sector. The review process would be aimed at ensuring that preference is given to: (1) enterprises in the priority activities; (2) those enterprises which have the highest economic return prospects be they public or private; and (3) producers operating at lower levels of import dependence. (ERP, p. 30. Our emphasis.)

In other words, efficient producers with low import intensity in production should be given priority in allocations of forex. The efficiency criterion is reiterated in a Government Supplementary Paper to the ERP presented to the Paris meeting in July 1987. There it is stated that the aim of the ERP with respect to the manufacturing sector is, "to raise capacity utilization to 60 to 70% level. Given the foreign exchange constraints anticipated over the medium term, the approach adopted in the recovery programme consists of allocating resources only to efficient enterprises engaged in activities to which the government attaches high priority".

We may conclude that the ERP, explicitly or implicitly, sets three major objectives for the industrial sector:

- (1) It should receive about 18% of total forex allocations for 1986/87, and about 14 to 15% of total for the two following years.
- (2) Only industrial activities to which the Government attaches high priority should be allocated forex.
- (3) Only efficient enterprises with low import content in production should be allocated forex.

None of these objectives has been attained so far. One reason for this is, no doubt, that a system of forex allocations, including allocations of CIS, which is consistent with the ERP objectives has not yet been elaborated.

In its latest report on the industrial sector in Tanzania the World Bank concludes that "the guidelines that have been designed for administrative allocation of foreign exchange (by the BOT) ... have been useless. Simply by allocating the foreign exchange randomly the administrative allocation would have been more effective than at present in providing resources to efficient industries and away from very unproductive firms". (World Bank 1987, Vol. 1, p. 52.) We think that this conclusion is basically correct, although it may be somewhat exaggerated. However, we think that there may have been some improvement of the BOT allocations since the ERP was adopted. On the other hand we are convinced that CIS allocations are even less effective than allocations made by the BOT in providing resources to efficient industries.

Actually, such characteristics as efficiency and net forex earning/saving capacity are not considered at all either by BOT allocations of free forex or by Treasury allocations of CIS. Since the ERP was written, we cannot see that the Government has made any progress in "establishing a mechanism to review applications comparatively for foreign exchange allocations" in the

industrial sector. (ERP, p. 30.) There is no agreement on how efficiency should be defined and measured, and net forex earning/saving capacity is treated in the most superficial way without being based on empirical evidence.

4. EFFECTS OF CIS

4.1. Effects at the level of production

When trying to assess production effects of Norwegian CIS, we face several problems. First, the effect may be very indirect and blurred by numerous other factors. In our view, the CIS effect on agricultural production represents such a case. Most of the Norwegian (and other) CIS to agriculture has comprised of fertilizers. However, it is virtually impossible to measure the production effect of increased use of fertilizer over a few years, because agricultural production is affected by numerous other factors, such as weather conditions, pricing policies, transport- and storage problems, supplies of agricultural implements and incentive goods, etc.

Moreover, the questionnaires returned from many recipients of Norwegian CIS could not be used because of inconsistent data, lack of data or other shortcomings. Thus, out of the 70 industrial firms which received our questionnaire 1, only 33 returned acceptable data for all the three years 1984-1986. (The data for 1987 are generally inaccurate for almost all firms, because they are based on preliminary estimates or pure guess-work.)

Of the 33 industrial firms presenting acceptable data for all three years 1984-1986, making it possible to assess development over time, 19 firms received Norwegian CIS in at least one of the years 1984-1986, whereas only 9 firms received Norwegian CIS in at least two of the three years. Only six firms, i.e. Tanzania Bag Co, TANELEC, Tanzania Oxygen, Steel Rolling Mill, General Tyre Co. and Tanzania Fertilizer Co. received Norwegian CIS in all three years. Among these latter firms, Tanzania Fertilizer Co. and Tanzania Bag Co. received Norwegian CIS almost exclusively for imports of finished goods - i.e. fertilizer and jute

bags, respectively - for local distribution. (In the period 1984-1986, TFC received a total of NOK 83.4 mill., while Tanzania Bag Co. received NOK 17.0 mill. for this purpose.) Because these two firms did not receive Norwegian CIS for imports of inputs in production, they have been left out in the following analysis.

Regarding industrial firms which were allocated Norwegian CIS for imports of inputs in 1984-1986, it is worth noting that their (direct) import intensity in production was higher than for those firms which did not receive any Norwegian CIS. Moreover, those firms which received CIS in at least two of the three years 1984-1986, showed an almost twice as high import intensity in production than those which did not receive any Norwegian CIS in 1984-1986. This pattern is much the same either the import intensity is estimated at domestic or at international prices (cf. table 4.1.1). This is an indication that a firm's "need" of forex, e.g. expressed in its direct import intensity in production, has been an important criterion for allocations of Norwegian CIS.

Another feature in table 4.1.1 which is worth noting is that the direct import intensity of all three categories of firms, estimated at domestic as well as at international prices, appears to have declined from 1984 to 1986. This indicates that manufacturing firms facing shortage of forex, have to some extent replaced directly imported inputs by inputs bought on the domestic market.

With regard to production, the 31 questionnaire respondents show a decrease in their total VA at constant (1986-) prices of 3% from 1984 to 1986. On the other hand, the 19 firms which were allocated Norwegian CIS at least once in the three years 1984-1986, show an increase in their total VA of 0.6%, whereas, the firms receiving CIS at least twice during the three years show an increase of 28%, from TSh. 136 mill. at constant (1976-) prices in 1984 to 174 mill. in 1986.

Table 4.1.1. Import intensity in production of industrial firms responding to NORAD CIS study questionnaire.

<u>Percentages</u>									
	12 firms which received no NORAD CIS in 1984-86			19 firms allocated NORAD CIS in at least one of the years 1984-86			7 firms allocated NORAD CIS in at least two of the years 1984-86		
	1984	1985	1986	1984	1985	1986	1984	1985	1986
Direct imports as % of total input costs at int. prices	50.4	51.1	42.8	68.8	66.6	61.3	77.9	74.2	71.5
Direct imports as % of total input costs at dom. prices	35.9	34.3	31.8	54.3	50.2	48.9	67.1	60.9	61.8

Another indicator of the production effect is the rate of capacity utilisation. Table 4.1.2 shows weighted average rates of capacity utilisation for the three categories of manufacturing firms. It appears that the 7 firms being allocated Norwegian CIS in at least two of the years 1984-86 reached considerably higher rates of capacity utilisation (51 to 53% in 1984-85 and 1987) than those firms which received no Norwegian CIS (32-34% in 1984-85 and 24% in 1987). Moreover, the average rate of capacity utilisation seems to have been falling for the respondents which did not receive any Norwegian CIS (from 32% in 1984 to 24% in 1987), whereas such a tendency is not clear for those being allocated Norwegian CIS in at least two of the years 1984-86.

Although our data provide no basis for strong conclusions, they do indicate that Norwegian CIS has a positive impact on the production of manufacturing firms. Whether CIS also has a positive effect on their net forex earnings is another question which we will deal with in section 4.3.

Table 4.1.2. Rates of capacity utilisation for manufacturing firms in NORAD CIS study. Weighted averages. %.

	1984	1985	1986	1987
The 12 firms receiving no Nor. CIS in 1984-1986	32	34	30	24
The 19 firms being allocated Nor. CIS at least in one of the years 1984-86	42	42	31	36
The 7 firms being allocated Nor. CIS at least in two of the years 1984-86	53	53	37	51
All 31 firms	39	39	31	33

4.2. Effects at the level of consumption

Virtually the entire Norwegian CIS to Tanzania has consisted of raw materials, and various kinds of intermediate goods. Also, much of the CIS has been financing raw materials for production of non-final capital goods or intermediate goods. It is therefore difficult to measure the consumption effects of Norwegian CIS. However, in chapter 4.1 we provided evidence indicating that there has been a positive production effect from Norwegian CIS, and in turn this should as well imply a positive consumption effect.

Among the industries producing final consumer goods which received Norwegian CIS in 1986 and/or 1987, we find Tropical Foods (canned beverages and food), Rajani Industries (edible oil), Vegetable Oil Industries (edible oil), Keko Pharmaceutical Ind. and Tanzania Pharmaceutical Ind. (medical drugs). Among these, edible oil is, no doubt, the most important incentive good. The two firms producing edible oil were allocated a total of NOK 1.5 mill. in 1985, and NOK 5 mill. in each of the years 1986 and 1987. Together, they increased their production of sunflower oil from 273 tonnes in 1984, to 590 tonnes in 1985, and

963 tonnes in 1986. In 1987, there was a drop in their total production to 471 tonnes, apparently mainly due to shortage of local oil seeds. Regarding raw material supplies, both firms state that transport represents a major problem. Also containers for manufactured oil represents a constraint; however, Rajani has established an own factory producing containers. Both firms are still operating at very low rates of capacity utilisation. However, Rajani has increased its rate of capacity utilisation from 5% in 1984 to 20% in 1987, whereas Vegetable Oil has been operating at about 10% in all years 1984-1987.

There is an enormous demand for edible oil in Tanzania compared to the present supply. Both firms sell some part of their production to cooperative unions in exchange for oil seeds. We may hope that a small share of this oil will reach peasant households. However, most of their production is sold in Dar es Salaam (Rajani) and Mwanza (Vegetable Oil) and the near surroundings of these towns.

The case of vegetable oil production shows that a multitude of problems have to be tackled in order to increase output and satisfy demand. Among the main constraints, both firms rank supply of local raw materials, transport, electricity and fuel shortage/interruptions and imported spare parts.

It is our impression that shortage of local oil seeds along with transport represents the major constraints; and these constraints cannot be removed only by CIS allocations to these two firms.

4.3. Effects on net foreign exchange earnings

In the present situation of the Tanzanian economy characterized by severe shortages of forex, it is important that CIS should contribute to increased net forex earnings/savings. In the following we will discuss this question relating to the same three categories of manufacturing firms as in chapter 4.1. Again,

the data for 1987 are in general so unreliable that we had to reject them.

We have estimated net forex earnings/savings by using international prices reported by the firms as well as shadow exchange rates. We applied the following shadow exchange rates, with official exchange rates in TShs per \$ presented for comparison:

	Shadow rate TShs/\$	Official rate TShs/\$	Ratio of shadow rate to official rate
1984	40	15.30	2.6
1985	55	17.50	3.1
1986	70	32.70	2.1

There are two components of imported inputs, first, those inputs which a firm imports directly itself, and second, inputs bought domestically from other firms which in turn import inputs, i.e. indirect imports. We have estimated the indirect imports by using the input-output table for Tanzania from 1976. It may be argued, rightly, that that table is out of date. But in lack of any alternative we feel convinced that we make a smaller mistake by estimating net forex earnings/savings using that input-output table than by ignoring indirect imports altogether.

We have estimated net forex earnings/savings related to direct imports only as well as to direct and indirect imports. Moreover, all estimates have been made by using international prices reported by the firms as well as shadow exchange rates when converting domestic values into values in forex terms, cf. table 4.3.1.

Whatever method is used in the estimates, table 4.3.1 shows unequivocally that the 19 firms being allocated Norwegian CIS in at least one of the years 1984-86 have a lower average performance in terms of net forex earnings/savings than the 12 firms

which did not receive any Norwegian CIS. And even worse, the 7 firms being allocated Norwegian CIS in at least two of the years 1984-86 are on average net forex consumers. The only positive aspect here is that the 7 firms show marginally positive net forex earnings/savings estimated at the shadow exchange rate for 1986. However, the reason for this seems to be that we have assumed a far too low shadow exchange rate (of TShs. 70 per \$ and only 2.1 times the official exchange rate) for 1986. This explanation is supported by the fact that the two other categories of firms show an unlikely strong increase of their net forex earnings/savings estimated by the shadow exchange rate from 1985 to 1986 (cf. table 4.3.1).

It is significant that the 7 firms which on average show negative net forex earnings/savings in 1984-1986, received 83% of total Norwegian CIS allocated to the firms presented in table 4.3.1 in that period.

Our general conclusion is that the pattern of allocation of Norwegian CIS in 1984-86 did not contribute to increased net forex earnings/savings in the Tanzanian economy as far as the manufacturing sector is concerned. Rather, the allocations of Norwegian CIS contributed to increasing the net forex consumption of the manufacturing sector.

Against this background we would like to point out that NORAD should put far more emphasis on net forex earnings/savings per unit of imports as a criterion of CIS allocations in future. Industrial firms which are clearly net forex consumers should not be allocated any CIS.

Unless NORAD puts more emphasis on the forex earnings/savings aspect, Norwegian CIS will not contribute to restructuring the manufacturing sector according to the ERP, but will rather contribute to increasing its import dependency which is one of the major causes of the stagnation of the whole economy.

Table 4.3.1. Industrial firms responding to NORAD CIS questionnaire. Net forex earnings/savings per forex unit of imported recurrent inputs. Weighted averages

	1984	1985	1986
<u>A. The 12 firms which received no Norw. CIS in 1984-1986:</u>			
(1) Net forex earn./sav. to direct imports:			
(a) Adjusted by int. prices	2.01	1.62	2.90
(b) Adjusted by shadow exchange rate	1.16	0.71	1.65
(2) Net forex earn./sav. to direct and indirect imports:			
(a) Adjusted by int. prices	1.35	1.07	1.78
(b) Adjusted by shadow exchange rate	0.78	0.47	1.00
<u>B. The 19 firms being allocated Norw. CIS in at least one of the years 1984-86:</u>			
(1) Net forex earn./sav. to direct imports:			
(a) Adjusted by int. prices	0.62	0.43	0.54
(b) Adjusted by shadow exchange rate	0.17	-0.26	0.66
(2) Net forex earn./sav. to direct and indirect imports:			
(a) Adjusted by int. prices	0.51	0.33	0.42
(b) Adjusted by shadow exchange rate	0.14	-0.20	0.52
<u>C. The 7 firms being allocated Norw. CIS in at least one of the years 1984-86:</u>			
(1) Net forex earn./sav. to direct imports:			
(a) Adjusted by int. prices	-0.19	-0.35	-0.10
(b) Adjusted by shadow exchange rate	-0.25	-0.70	0.07
(2) Net forex earn./sav. to direct and indirect imports:			
(a) Adjusted by int. prices	-0.16	-0.29	-0.08
(b) Adjusted by shadow exchange rate	-0.21	-0.58	0.06

4.4. Implications for public finance, money and credit

The increase in CIS in recent years, combined with the devaluations from 1986 onwards, has important implications for the government budget. In the government budget for 1983/84, external loans/grants financed 43.7% of the development budget; in 1984/85 and 1985/86 this share was about 68%; and in 1986/87, 162.8%. For 1987/88, it is assumed that external loans/grants will finance 165% of the development budget (cf. table 4.4.1).

The increasing share of external financing in the development budget, which exceeded the budget for 1986/87, has to some extent been caused by a declining share of local costs in actual development projects in recent years. However, a far more important cause is that an increasing share of external financing is not related to the development budget at all, but consists of cash cover payments to the Treasury from recipients of CIS. Table 4.4.1 shows that CIS cash cover payments increased their share of total external budget financing from 24.4% in 1983/84, to 33.7% in 1984/85, 37.3% in 1985/86 and 56.2% in 1986/87.

In the budget for 1987/88, it is assumed that external loans and grants will amount to TShs 28,490 mill. According to the Treasury about TShs. 13,050 mill. or 45.8% of the whole amount of external financing will consist of cash cover payments from CIS recipients. When the assumed cash cover amount is deducted from the total amount of external financing, we are left with TShs. 15,440 mill. of external grants and loans for development projects. That is still a remarkably high amount since the total development budget is TShs. 17,255, leaving a local cost component of only TShs. 1815 mill. or 10.5% of the total development budget (cf. table 4.4.1). This should indicate that CIS cash cover payments as a share of total foreign loans/grants, are not overestimated in the 1987/88-budget.

Table 4.4.1 shows that CIS cash cover payments increased from 2.1% of total government expenditure in 1983/84, to 4-5% in 1984/85 and 1985/86, 16.3% in 1986/87 and 16.9% in the 1987/88-

budget. As a result of this development, about TShs 8000 mill., or about \$ 157 mill. of foreign grants/loans served to finance recurrent expenditure in 1986/87.

Table 4.4.1. Trends in external financing of the government budget. TShs. mill.

	1982/83	1983/84	1984/85	1985/86	1986/87	Budget 1987/88
Recurrent expenditure	19276	23918	21337	29212	40279	60071
Development expenditure	4404	5736	5391	5817	8744	17255
Total expenditure	23680	29654	26728	35029	49023	77326
Total foreign loans/grants	2603	2506	3669	3988	14236	28490
- of which CIS cash cover	751	611	1236	1489	8001	13050
External financing (foreign grants/loans) of recurrent expenditure*	-	-	-	-	5492	11235
Total foreign loans/grants as % of dev. exp.	59.1%	43.7%	68.0%	68.6%	162.8%	165.1%
Total foreign loans/grants as % of total exp.	11.0%	8.5%	13.7%	11.4%	29.2%	36.8%
CIS cash cover as % of total foreign loans/grants	28.9%	24.4%	33.7%	37.3%	56.2%	45.8%
CIS cash cover as % of total expenditure	3.2%	2.1%	4.6%	4.3%	16.3%	16.9%
Exchange rate, TShs/\$	10.23	12.32	17.80	25.50	51.00	79.00
Total foreign loans/grants converted to US \$ mill.	254.5	203.4	206.1	156.4	279.1	360.6
CIS cash cover converted to US \$ mill.	73.4	49.6	69.4	58.4	156.9	165.2

* Assuming no domestic financing of development expenditure.

For 1982/83 to 1986/87: ERB/Ministry of Finance: Tanzanian Economic Trends. Quarterly Review of the Economy, Vol. 1, No. 1, DSM, April 1988.

For 1987/88: Minister for Finance: Budget Speech For Financial Year 1987/88, DSM, June 1987; and information provided by the Treasury, Jan. 1988.

Exchange rates: For 1980/81 to 1984/85: Minister for Finance: Budget Speech for Financial Year 1985/86, DSM June 1985. For 1985/86-1987/88, IMF: International Financial Statistics and own estimates.

That external loans/grants are financing not only almost all development expenditure but also a considerable share of recurrent expenditure, is a new feature of Tanzanian government financing and a direct result of the increasing role of CIS in a situation where the Treasury is in charge of collecting CIS cash cover payments. This has far-reaching consequences for the government budget, by increasing dramatically "recurrent revenue" related to foreign aid.

It should be noted that the use of CIS cash cover for financing recurrent expenditure comes in addition to normal government revenue associated with CIS, such as tariffs and sales taxes. The problem is that this normal revenue is multiplied by direct CIS revenue from cash cover payments. External financing (cash cover payments) will finance 21.7% of the recurrent budget for 1987/88. (In addition come tariff duties and sales taxes generated by CIS.) With the present levels of CIS, cash cover financing of the recurrent budget will most probably increase in the next years to come, provided that the existing system of cash cover payments continues.

In the 1987/88 budget there is a gap of TShs 2236 mill. which has to be financed through local borrowing. Without CIS cash cover payments this gap would have been more than six times larger, implying enormous government borrowing from domestic banks. The reduction of government borrowing in recent years is not a result of closing the gap between recurrent expenditure and recurrent revenue as envisaged in the ERP. What has actually happened is that CIS cash cover payments have replaced government borrowing from the domestic banks. This could not possibly be the intention of the ERP.

CIS was designed as a temporary measure, to assist Tanzania in an acute balance of payments crisis. However, the Treasury is now in the process of becoming permanently dependent on CIS as a source of "recurrent revenue".

The increasing amounts of CIS cash cover payments to the Treasury now threaten to relieve the government from the task of consolidating and expanding its tax base and of closing the gap between recurrent revenues and recurrent expenditure, in other words, to make "every effort to maximize the domestic revenue effort and to control expenditures and minimise costs" (ERP, p. 16).

It should also be noted that government expenditure financed by cash cover implies an automatic expansion of money supply which would not come about if the BOT was selling the CIS forex. The government spending of cash cover funds has, therefore, an inflationary impact which may only be counteracted by restraining credits to the non-government sector. But such a credit squeeze may, in turn, hamper the necessary restructuring process in the economy.

CIS which was introduced as a medium-term ad hoc measure to relieve balance-of-payments problems, is - in its present form - in the process of creating grave new problems in the Tanzanian economy, and an unprecedented dependence on the part of the government on foreign aid. Against this background we will recommend that the task of allocating and selling CIS forex is transferred from the Treasury to the BOT.

4.5. Possible effects on trade in the SADCC and PTA regions

There are nine members of the SADCC region, Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Of these, Angola, Mozambique and Botswana are not members of the PTA. On the other hand, the following countries belong to PTA: Kenya, Burundi, Comoros, Djibouti, Ethiopia, Mauritius, Rwanda, Seychelles, Somalia and Uganda.

In 1982 the SADCC region had a population of 63.7 mill. and a GDP of US \$ 27,196 mill. (with a GDP per capita of US \$ 427). Total exports for the region in the same year amounted to US \$ 5384

mill. with Angola and Zimbabwe being the largest exporters. Total imports amounted to approximately US \$ 7,200 mill. However, total exports between the same countries accounted for US \$ 276.0, which represents only 5.1% of the total exports of the SADCC countries.

Tanzania's exports to SADCC countries accounted for about 1% of its total exports in the period 1982 to 1985. On the other hand, imports from SADCC countries declined from 2.6% of total imports in 1982-83, to 1.2% in 1985-86.

A large share of the intra-regional trade in the SADCC area is in food and non-processed commodities, including mineral fuels. These commodities accounted for 55% of total intra-regional trade in 1982 and 47.6% in 1984. On the other hand, manufactured goods, including chemicals, accounted for 45% of total intra-regional trade in 1982, increasing their share to 52.4% in 1984. The rise in the share of manufactured goods apparently took place because total trade between SADCC countries declined from a peak of US \$ 297 mill. in 1981, to \$ 276 mill. in 1982 and \$ 230 mill. in 1984, at the same time as trade in manufactured goods did not change significantly in value.

Tanzanian exports of manufactured goods to the SADCC region is impeded because these goods in general show very limited complementarity to industrial products of other countries in the region.

Tanzania's persistent trade deficits with the SADCC region, rising from about TShs 3 mill. in 1981 to 311 mill. in 1986, represents another hindrance to increased trade with the region. Until 1984, Tanzania recorded surpluses in its trade with Zambia, due to large exports of petrol from the oil refinery in Dar es Salaam. However, in 1985, even the trade balance with Zambia turned negative, causing a considerable overall deficit with SADCC countries of TShs 311 mill. in 1986. In that year, Tanzania recorded trade deficits with all its major SADCC partners.

Tanzania's trade deficits with the SADCC countries give rise to problems in clearing these deficits in a trade which is based on bilaterally negotiated plans. The deficits therefore work as a disincentive to governments in SADCC countries to encourage increased exports to Tanzania. On the other hand, there is little incentive to Tanzania to increase imports from the SADCC region as long as additional imports result in larger deficits which have to be covered in hard currency. Against this background we may expect that Tanzania's trade with the SADCC region will not increase unless Tanzania succeeds in increasing considerably its exports to the region.

PTA, while aiming at promoting cooperation and development in all fields of economic activity, its main sphere of emphasis has so far been customs and trade, reduction of custom duties, adoption of a common external tariff, preferential treatment among members, relaxation of non-tariff restrictions and the adoption of the Most Favoured Nation treatment.

It should be noted that Kenya is not only Tanzania's most important PTA partner, but by far the most important trade partner in the whole SADCC- and PTA-region. Since the boarder to Kenya was re-opened, Tanzania's imports from Kenya rose by more than ten times, from TShs. 97 mill. in 1983 to 1058 mill. in 1986. With regard to imports, Kenya is now Tanzania's most important single trade partner.

However, Tanzania's trade deficit with Kenya increased by about the same rate as imports, from TShs. 89 mill. in 1983 to 987 mill. in 1986. These deficits are due to the fact that the more industrialized Kenya can offer a wide range of goods which are in high demand in Tanzania, whereas Tanzanian industries produce very few goods which can be exported at competitive prices and which are demanded in Kenya.

As a result of the trade deficits with Kenya, Tanzania has recorded persistent trade deficits with the PTA region as a whole, rising from TShs. 41 mill. in 1983 to 898 mill. in 1986.

These overall deficits have to be cleared in hard currency and therefore represent a hindrance to substantial increases in Tanzania's trade with the PTA in the short and medium term. It is therefore important that Tanzania increases its exports to SADCC as well as PTA countries in order to increase its trade with the region.

Conclusion

A quite inadequate transport network and the nature and composition of commodities produced and traded, giving in general little scope for complementarities, represent major medium-term constraints to increased trade with SADCC and PTA which CIS to Tanzania cannot remove. There would also be little sense in using CIS to cover Tanzania's trade deficits with SADCC and PTA. By using CIS in such a way, the deficits would be permitted to persist and grow, and Tanzania would come into an increasingly subordinate position towards its African trade partners.

On the other hand, it is important to stimulate Tanzanian exports to SADCC and PTA in order to remove the large trade deficits and hence promote further growth of trade. Generally, CIS to Tanzania can stimulate the country's trade with SADCC and PTA by being allocated to firms with a potential to export to that region. There are several such firms in Tanzania, but until now quite few of them have been recipients of Norwegian CIS.

5. CIS AND OTHER SOURCES OF FOREIGN EXCHANGE FOR RECURRENT IMPORTS - DESIGN AND PROBLEMS OF COORDINATION

5.1. Sources of foreign exchange (forex)

We can identify four sources of forex besides CIS. These are:

- (1) "Free" foreign exchange, originating from normal export revenues and allocated by the BOT;
- (2) Export retention scheme, including the seed capital revolving scheme;
- (3) Own funds; and
- (4) Multisector Rehabilitation Credit succeeded by the Open General Licence (OGL), which with regard to purpose is identical with CIS.

5.2. "Free" foreign exchange

"Free" foreign exchange refers to total foreign exchange receipts from exports of goods and services and net transfers representing resources for allocation after resources specifically tied to imports and commitments have been taken care of. The resources specifically tied to imports include import support, oil syndication, funds for retention scheme, own-imports funds, barter under countertrade, suppliers credits, and project loans and grants.

The committed payments include cash transfers (private and government), interest payments and principal repayments, reserve movements and bank payments. In 1967, free forex resources were almost completely exhausted on committed payments mainly of

external debt service, and there was nothing left for allocation through the BOT.

5.3. Own-funds imports

Another source of foreign exchange which was initiated in 1983/84 and became popular in 1985 and 1986 (see ERP 1986 p. 33) is the own-funds imports. These are funds used to import goods without using forex from BOT. Such imports are financed by capital flows which would have been diverted elsewhere if the own-funds import scheme did not exist. Our investigation showed that there are various sources of own funds imports. They include:

- Smuggling (diamonds, gold, ivory, coffee, etc.)
- Black market purchases of foreign exchange
- Off-shore payments of property rents and other overseas incomes and remittances (students, consultants, businessmen, relatives etc.)
- Direct investment flows
- Overinvoicing in regular imports
- Under-invoicing in regular exports
- Theft of foreign exchange in the banks (e.g. NBC, 1987).

Own-funds imports accounted for almost 40% of Tanzania's total imports in 1987, which have been estimated to be no more than \$ 1200 mill.

The role of this source of forex, not only in total foreign exchange availability but also in making consumer goods imports available in the economy in large quantities is enormous. The scheme has also made available to the economy choices of goods, and this has brought about competition. However, we wish to make three observations:

- (a) Despite the increase in consumer goods supply, the prices of consumer goods except textiles have continued to remain high.
- (b) Competition has been intensified, and the domestic industries have now to improve their operations and quality in order to survive.
- (c) This is an individualised scheme, and it is very profitable for the individuals involved in it. The result has been that exporters and importers swindle foreign exchange from the free resources account to this scheme. In our opinion, the scheme has stimulated smuggling to the detriment of the economy. We wish to make an observation that the future of own-funds imports is a function of profitability. The higher the level of profitability, the more the owners of own exchange will use their forex for imports. If profits on own-funds imports decline substantially, we may expect that "own-funds" will not be utilized for imports, but rather remain abroad as flight capital, deposited on bank accounts or invested in various assets in foreign countries.

It may be noted that, devaluation has its own implications as imports are becoming more expensive. The profitability of own-funds imports will therefore depend on what is the source of foreign exchange. The price in the parallel market is also increasing simultaneously with the change in the official exchange rate of the shilling. However, it should be noted that the ratio between the parallel market rate and the official exchange rate has been reduced from about 9:1 in early 1986 to about 2:1 in mid-1988. There is also a tendency of liquidity shortage in the economy and a pile up of inventories of imported consumer goods, etc. It is therefore our opinion, that this source of foreign exchange will not increase much in the future.

5.4. The export retention schemes

Since 1980 the Government has introduced various incentive schemes to exporters so as to enable them to import raw materials and spare parts for export production without relying on bi-annual allocations based on "free" forex from BOT. The most popular incentive scheme available is the Export Retention

Scheme. This is a mechanism whereby companies are provided with automatic access to foreign exchange, out of own export proceeds, to pay for imported inputs necessary for export production. Goods to be imported under the retention scheme are intended to enhance agricultural and industrial production, to meet requirements for communications, transport and construction industry, to cater for human health and veterinary requirements as well as to meet the requirements for incentive purposes.

So far, the performance of the retention schemes has been far behind expectations. The Export Retention Scheme reached less than 30% of the planned contribution to export earnings in 1987, and the performance of the Seed Capital Revolving Scheme was even more disappointing.

5.5. Multisector Rehabilitation Credit and the New Open General Licence

Since the ERP was adopted in 1986, the World Bank has extended credits to Tanzania for imports of recurrent inputs needed for rehabilitation or production. Hence, with regard to purpose, these credits are similar with CIS from bilateral donors. The credits have so far been extended under 2 types of finances:

- (i) Multisector Rehabilitation Credit in 1986 and 1987, totalling about US \$ 130 mill.; and
- (ii) The New Open General Licence (OGL) 1988.

The Multisector rehabilitation credit which was designed to support the Government ERP, was related to a negative list of items that could not be imported.

The MRC was succeeded by the New Open General Licence (OGL), commencing in February 1988. A list of 41 commodity categories specifies goods to be imported under OGL, which amounts to about US \$ 50 mill. for 1988. Each application submitted by an importer

will be subject to a maximum value equivalent to US \$ 100.000. Each importer, which is a legal entity, will be entitled to submit applications for an aggregate not exceeding the equivalent of US \$ 200.000 per year. Issuance of Import Licences and LCs will be automatic, provided that the application confirms to the eligibility and the specified quantitative ceilings.

It may be noted that the OGL approach removes the administrative procedures of allocation of forex, whereas the OGL-list is intended to ensure that forex is channelled to the imports which are critical to the ERP. However, the approach will not be practical unless it is backed-up by enough resources for a considerable period of time.

5.6. Summary of our findings

There are serious problems in the approach "free" foreign exchange resources are allocated. First, there are too many institutions involved and this creates a problem of co-ordination. The methods, criteria of allocation and information used to process applications are vague and differ from one institution to another. In the final analysis, only ad hoc solutions are used to allocate "free" foreign exchange. Against this background, the introduction of Open General Licence (OGL) may be a step in the right direction.

Second, allocations in the export retention including Seed Capital Revolving Scheme are not based on sound criteria. Institutions which are inefficient have an easy access to forex. As a result most are inefficient users of foreign exchange. That may to a large extent also explain why the performance of these schemes is far behind expectations.

Third, we are of the opinion that own-funds imports have worked positively - to increase availability and choice of consumer and intermediate goods in the domestic market and as such instilled

industrialists to improve efficiency and quality in their production. However, this source of foreign exchange may have stimulated smuggling and capital flight. We are not recommending any intervention in this source of foreign exchange, but careful monitoring should be done to determine its legality.

The multitude of forex sources allocated by the BOT and the Treasury separately gives rise to problems of information and coordination. For example, it has happened that the BOT did not know about CIS allocations before being informed by the recipients themselves. In our view, it is important that one single institution is in charge of the allocations of all forex.

Both CIS and retention schemes involve payment of cash cover to the Treasury. While in the case of CIS it is straight forward, in the case of SCRS it is through the regulating institutions like the Board of External Trade. In our opinion the payment of cash cover to the Treasury is a wrong approach. The selling of CIS forex as well as all other forms of forex should be performed by the BOT.

If the administrative allocation of CIS cannot be improved, we will recommend that the major share of the present CIS should be put into the World Bank OGL scheme. However, we will recommend that this is done under the provision that NORAD CIS contributions to the OGL are not subject to the conditionality of the World Bank. Unless such a provision is made, bilateral donors' contributions to the OGL would increase the leverage of the World Bank's advice in a number of sectors as well as on the macro policy level. That would also imply acceptance by NORAD that their funds should be disbursed in tranches upon Tanzania's fulfilment of the World Bank's conditions.

6. PRIORITIES OF CIS IN ORDER TO SUPPORT ERP

6.1. Priorities and implementation problems within agriculture

In order for CIS to support the Economic Recovery Programme its emphasis should be on agricultural inputs, in particular fertilizers, and secure sufficient supply of steel and other materials for local production of farm implements. It seems, however, necessary with improved coordination among donors to avoid depalication of efforts and waste of resources. To the extent domestic production of fertilizer can be made reasonably efficient, CIS could also contribute to imports of raw materials for such production. To improve the supply of seeds and chemical inputs like pesticides, CIS could also play a role. The main constraint related to provision of seeds, however, seems to be the seed development activities undertaken domestically. For this purpose technical assistance may also be needed.

Improved provision of chemical inputs and farm implements is, however, conditioned by upgrading of roads and the transport, storage and distribution system in general. It is of utmost importance for efficient utilisation of inputs that the right categories are available at the right place at the right time. More work is needed by agricultural authorities and responsible companies to identify the most suitable fertilizers for the various types of crops in different agro-ecologic environments. And further, to estimate the effective demand which will be directed to these inputs given attainment of improved distribution storage, and transport systems.

As to farm implements, area-specific priorities seem to be well known. Here it is important to the production companies, UFI and Zanza Kilimo, to cater for geographical demand priorities. Due to limited demand, however, it seems obvious that some area-specific

implements are more economically produced by small scale workshops and blacksmiths. Supply of raw materials and tools to such production units, in certain regions, should thus have high priority and could be undertaken for instance by The Small Industries Development Organisation, SIDO.

Agricultural processing activities, e.g. for cotton, sugar and coffee, are also in need of considerable amounts of foreign exchange for rehabilitation and operation. Basically the point should be argued that Marketing Boards handling export crops should be allowed to retain sufficient foreign exchange for upgrading and operation of processing activities. Others, like cotton processing, could be receiving CIS for this objective.

In chapter 3.4 we observed that agriculture's "minimum import requirements" according to the ERP are \$ 154 mill., or 12.8% of total import requirements for 1986/87; \$ 185 mill. or 15% of total requirements for 1987/88; and \$ 209 mill. or 16% of the total for 1988/89. We have, moreover, noted that agriculture in 1986/87 was allocated a smaller share of total forex resources than envisaged in the ERP.

Because agriculture is an outstanding net forex earner/saver, and because revival of agriculture is a precondition for recovery of the economy as a whole, it is important that a larger share of total forex resources is allocated in an appropriate way to this sector. In order to do this, we think it may be necessary to improve the institutions which are in charge of channeling forex to agriculture.

Let us finally note that the low efficiency and high costs of the Marketing Boards and the new Cooperative Unions still represent a major obstacle to economic progress in Tanzania. CIS can contribute little to agricultural growth unless these basic problems are solved. To achieve this, comprehensive staff training and improved accountability in Marketing Boards as well as Cooperative Unions will be necessary. In addition, an improved incentive- and salary structure has to be established. NORAD and other

aid agencies should consider carefully in what ways they could support such measures.

6.2. Priorities within the industrial sector

6.2.1. General remarks

The ERP gives rather clear prescriptions on the amounts of forex that should be allocated to the industrial sector and its various subsectors. It may be argued that the priorities stated in the ERP are not adequate in order to bring about the intended structural changes. For example, it could be questioned whether the chemicals and petroleum products sector should be allocated almost 30% of total forex for recurrent inputs to the industrial sector. However, this is a question of revising the ERP priorities, and irrespective of any revisions we think that the stated priorities should serve as a guidance for allocations of forex in general as well as of CIS.

In order to make this possible, and in order to make reliable comparisons of inter- and intra-sectoral allocations over time, NORAD should adhere to an established sector classification system, preferably the ISIC system which is used in official Tanzanian statistics.

In order to support the ERP, CIS should aim at promoting:

- (1) production of priority goods and "essential goods", e.g. agricultural implements and other inputs, spares for transport equipment, important incentive goods, etc.
- (2) increased efficiency in industrial production
- (3) reduced import intensity in industrial production

As regards (1), "essential goods" and other "priority goods" are rather well defined in the ERP and its various supplementary papers. On the other hand, (2) and (3) are hardly discussed in the ERP, but only hinted at in quite general terms. It is only stated that preference should be given to "producers operating at lower levels of import dependence" (ERP, p. 30), and that, "the approach adopted in the recovery programme consists of allocating resources only to efficient enterprises engaged in activities to which the government attaches high priority" (Govt. Supplementary Paper presented to the Consultative Group for Tanzania, DSM, July 1987.) In order to make these criteria operational, measures of efficiency and import dependence have to be established.

It should be observed that there are enormous differences between industrial subsectors with respect to import intensity and net forex earnings per unit of imports. Table 6.2.1, presenting data from our own investigation of 33 industrial firms, shows that textiles, agro-processing and wood and wood products industries are by far the most efficient forex earners/savers when the forex component of capital equipment amortisation is not accounted for. On the other hand, the table shows that the Iron, steel and non-ferrous metals sector is a net forex user in the sense that Tanzania will suffer a net loss of \$ 0.27 for each \$ of imported inputs to that sector compared to importing the final goods directly paying one \$. In other words, Tanzania would save forex by importing directly the products of this sector instead of importing inputs for domestic production.

This indicates that although there may be some net forex earning/saving firms within the Iron, steel and non-ferrous metal sector, there must also be some firms which are extremely inefficient in their use of forex. To justify CIS allocations to such firms is extremely difficult, unless their efficiency in forex use is considerably improved.

The figures in table 6.2.1 are based on a rather small number of selected firms. In addition, some data used for the estimates, especially international prices, are not quite reliable. As a

consequence, the figures are not quite reliable either, and we would, for example, not maintain that domestic production of metal products in general represents a net forex loss to Tanzania compared to direct imports. On the other hand, the results from our investigation correspond quite well with the results of the World Bank study using data for 1984 (cf. World Bank 1987, especially Vol. II, table 17, pp. 141-142).

Table 6.2.1. Import intensity and net forex earnings/savings per unit of imports for industrial sub-sectors responding to NORAD CIS questionnaire. Weighted averages at international prices, 1984-1986*)

	Direct imports		Direct and indirect imports		Net forex earnings/savings per unit of imports
	as % of total inputs	as % of total sales value	as % of total inputs	as % of total sales value	
Agro processing	12	6	44	23	3.36
Textiles	44	16	61	23	3.41
Wood & wood prod.	33	15	76	34	1.90
Chemical ind.	73	68	89	84	0.20
Iron, steel & non-ferr.	99	136	99	137	-0.27
Metal products	76	82	94	101	-0.01

*) Short-term estimates, i.e. forex costs of capital equipment amortisation have not been included. In contrast to the tables in chapters 4.1 and 4.3, also Tanzania Fertilizer Co. and Tanzania Bag Co. are included in this table. Thus the table comprises a total of 33 industrial firms.

6.2.2. Suggested indicators of efficiency

The simplest way of measuring efficiency would be to use the firm's account figures for returns on capital, capital structure etc. However, the Tanzanian economy is dominated by parastatal

monopolies, supply shortages, strong protection of many industries and cost-plus pricing policies. As a consequence, efficiency criteria based on the profitability concept will result in misleading conclusions. (Cf. also World Bank 1987, Vol. II, pp. 41 and 47.) In this type of economy, such concepts as incremental capital output ratios (ICORs), which we used in chapter 1.2, the effective rate of protection or domestic resource costs are more appropriate as indicators of efficiency of particular firms, subsectors or the manufacturing sector as a whole.

In recent years, export proceeds have covered less than 35% of Tanzania's total import expenditures, and a major objective of the ERP is to improve the country's balance of payments position. Against this background, we think that net forex earnings per unit of imported inputs should be used as one criterion for allocations of CIS. When VO is value of output at international prices, DI is direct imports at international prices and INDI is indirect imports at international prices, we can write net forex earnings per unit of imported inputs as:

$$\frac{VO - DI - INDI}{DI + INDI}$$

If this ratio is negative, it means that importing inputs, directly and indirectly, for domestic production is more expensive in terms of forex than importing the final product. A firm or sub-sector with negative net forex earnings/savings per unit of imported inputs is extremely inefficient in its use of those inputs; and most probably, there must be a considerable destruction or waste of imported inputs. Such a firm or sub-sector contributes to a deterioration of the country's balance of payments position compared to importing directly the product(s) of the firm or the sub-sector.

We will suggest, as a minimum requirement, that net forex earnings per unit of imported inputs should not be negative for any firm to be allocated CIS.

Many firms may be heavily import-dependent only in the sense that they purchase inputs with a high import content from other domestic firms. It is therefore important to include indirect as well as direct imports in the above ratio. To estimate indirect imports it is necessary to use data from an input-output table. The most recent input-output table for Tanzania is for 1976. Since then, considerable structural changes have taken place within the manufacturing sector, and indirect imports estimated on the basis of that table may be quite misleading. It is therefore desirable that the input-output table for 1976 is updated.

To arrive at net forex earnings/savings per unit of imported inputs, correct international prices cif Tanzanian border, are needed for the output value as well as for direct and indirect inputs. In many cases it may be difficult to find international prices and quite often, the firms themselves have no information on such prices. We would assume that the Société Générale de Surveillance (SGS) in Geneva may be the institution which possess the most comprehensive and reliable information on international prices. Possibly, such information could be provided by the SGS. In some cases, the Board of External Trade (BET) may also possess information on international prices.

It should be noted that the above net forex earnings/savings ratio does not include any forex costs of fixed capital amortisation. It is therefore a short-term concept, applicable only to existing production capacities or plants, implying that forex costs of amortisation are considered as sunk costs.

The same applies to the Inverted Domestic Resource Cost Ratio which we suggest to be used as an additional measure of efficiency. When LAC is the (shadow) value of labour costs at international prices (converted to international prices by using a shadow exchange rate), VO is value of output at international prices and RI is the value of all recurrent material inputs and services at international prices, the inverted domestic resource cost ratio (IDRC), may be expressed as:

$$\text{IDRC} = \frac{\text{VO} - \text{RI}}{\text{LAC}}$$

If the IDRC is less than one, the value added of the firm at international prices is not sufficient to cover its labour costs. That means that the costs of recurrent resources (at international prices) required to produce the firm's output exceeds the value of its output (at international prices). The production of the firm is then inefficient in this sense. Only when the IDRC is larger than one, will there be room for payments for the use of fixed capital equipment.

The higher the IDRC is, the higher is the efficiency of the firm in the above sense. IDRC-values of firms may therefore be used to rank them according to efficiency.

On the other hand, if the IDRC is less than zero, the firm is producing a negative value added at international prices, and may therefore be considered as highly inefficient. In most cases where the IDRC is less than zero, net forex earnings/savings of the firm will also be negative. Such firms represent a heavy burden to the Tanzanian economy, and in our view, they should not be allocated any CIS or forex in general.

For a technical discussion of the IDRC concept and estimates of IDRC for firms responding to the NORAD CIS questionnaire, we refer to SINTEF/Division of Applied Economics 1988.

It should be noted that the IDRC does not say anything about causes of inefficiencies, and especially whether they are external or internal to the firm. Here we will warn against treating efficiency as an intra-firm phenomenon. Inefficiencies may well be caused by factors external to a firm, e.g. transport problems and shortages or interruptions of electricity and water supplies. If a particular firm turns out to be inefficient in terms of the IDRC, it is necessary to find out to what extent

this is caused by internal or external factors, and to what extent these factors can be removed, before making any definite conclusions on the firm's viability and CIS worthiness.

On the other hand, efficiency criteria alone in terms of IDRC-ranking are not sufficient in order to assess whether a firm should be allocated CIS or forex in general. In addition, the firm's capacity to develop technology, to promote industrial know-how and to foster and disseminate skills and technical knowledge, as well as its linkages with other sectors and firms should be given appropriate weight.

6.3. Priorities within transport and infrastructure

It is well known that an efficient transport sector is important for the smooth operations of the Tanzanian economy. The ERP has given priority to this sector. Commitments in the Donors' conference in Arusha in December 1987 indicate some seriousness both by the donors and the GOT to finance the required rehabilitation in this sector for the period 1988-1992. However, the massive financial requirements both for recurrent and rehabilitation/investment is still a problem to be solved.

For many years there has been a tendency for the government to neglect the transport sector. Thus, government expenditure on roads and bridges was reduced from 5.2% of total government expenditure in 1976-78, to 4.7% in 1979-82, and 3.8% in 1983-86.

Priorities agreed upon at the donors' conference in Arusha on the transport sector focussed on the rehabilitation of the existing key assets in the trucking sector, THA and the railway lines. The total investment programme requirement for the period 1988-1992 is about \$ 550 mill. Donors' commitment is about \$ 468.4 mill., and the rest will be Tanzanian Government investment. These priorities have implications for the recurrent budget in the different Ministries involved as well as for forex allocations.

However, we emphasise here that the transport sector recovery programme should be adhered to so as to provide the leverage for other sectors, particularly agriculture.

We have observed that for the period 1981-1987 a total NOK 154.4 mill., were allocated to the transport sector which is 8.7% of the total CIS programme. For the year 1987, NOK 41.3 mill. were allocated to the sector, of which 13.3 mill. was an oil consignment. In our opinion, and considering the importance of this sector to the economy and the serious neglect in the budget allocations, the CIS amount allocated to this sector is inadequate. With a more correct classification of the transport sector, this inadequacy also becomes apparent in the statistics. Including the oil consignment, the transport sector in a strict sense was allocated only NOK 13.3 mill. in 1987, i.e. 11% of total NORAD CIS allocations.

The total CIS allocated to the transport private sector is not large compared to the amounts allocated to parastatals and government together. Since a greater support is required in the trucking sector, and it is the private trucking sector (rather than RETCOs) which is efficient, there is a need to re-examine the allocation process. This is especially the case in the areas of spare parts. But we find that the CIS is thinly distributed to these companies. We recommend the following criteria to be used for this sector.

- (1) Efficiency criteria; i.e. domestic resource cost ratio and ton-km per unit of imported inputs
- (2) Companies which manufacture spare parts locally for the trucking sector, e.g. Auto Mech, General Tyres, Afro Cooling, etc.
- (3) Companies or institutions which deal with rehabilitation of roads, e.g. TRM
- (4) Rehabilitation of roads, e.g. NORADs role in 6th highway.

NORAD's CIS allocations to the Ministry of Transport and Communications amounted to NOK 21.1 mill. for the period 1981-87. In

order for the Ministry to utilise the CIS, they must raise in local currency an equal amount as cash cover to Treasury. But this institution lacks funds to raise such counter value amounts. They cannot therefore benefit much from CIS funds. The priorities outlined at the donors conference are meaningless unless the issue of cash cover for the transport sector is tackled. We are not recommending that the transport sector should not pay cash cover. One area which can enable the Ministry meet its cash cover requirements is through receipts from road insurances, road toll and road licences which are currently channelled to the Treasury and utilised for other purposes than transport.

TACOSHILI is an organisation where NORAD has been involved from the very beginning. In the period 1981-1987, TACOSHILI received a total of NOK 12.5 mill. of CIS, in addition to other forms of NORAD support. However, the company has incurred large financial losses and been plagued by persistent management and operational problems. Even if the freight rates are increased, we doubt whether these problems will disappear. In view of the enormous need for forex in other parts of the transport sector we also doubt the appropriateness of allocating CIS to TACOSHILI. In our view, CIS to TACOSHILI should be carefully reconsidered and discontinued if it is not possible to improve vastly the accountability and efficiency of the company.

6.4. Priorities within education and social services

Since the late 1970s there has been a tendency for the government to neglect the recurrent expenditure requirements of education and health in the budget. These essential activities suffered a dramatic reduction of their share in total government expenditure from an average of 21.2% in 1975/76-1977/78, to 14.3% in 1982/83-1983/84. At constant (1976-)prices, the average annual rate of decline of expenditure on education and health combined was about 10% per year from 1975/76-77/78 to 1982/83-83/84.

In 1977/78, Tanzania implemented a Programme for Universal Primary Education, implying that the number of children enrolled in primary schools rose from 2.19 mill. in 1977 to 3.53 mill. in 1981, or by 62% within 3 years. Facing decreasing resources in real terms, the primary schools could not provide the increasing numbers of pupils with minimum quantities of pencils and writing pads, not to mention books and other teaching materials. Today, primary schools in Tanzania lack the most basic necessities for carrying out their function, and quite many of them are on the verge of collapsing.

The situation is generally not much better in secondary schools and at the university level. The authorities have pointed out that the quality of form IV as well as form VI leavers has deteriorated seriously in recent years. At the University of Dar es Salaam, a process of decay can also be observed. The selection of books in the University Book Shop is alarmingly poor, and the students lack books and other teaching material. Also the University Library is in a precarious situation. In recent years it has been compelled to interrupt subscriptions of important international scientific journals, and books have hardly been imported for many years. Heavy investments in international journals and books are now necessary in order to raise the library to its former standards.

The situation is generally even worse in government hospitals and dispensaries which lack the most basic equipment and medicines. In some cases the complete lack of drugs may be due to purchases or thefts for sales in private shops, as has sometimes been indicated in the newspaper. However, such activities would hardly be possible in a situation of sufficient supplies of medicines.

Today, the quality of services within education and health in Tanzania has reached a stage where all former investments within these sectors and the significant progress that was achieved, threaten to get lost. The ERP seems to be aware of this precarious situation, and it presents "improvement of social services (especially health and education) as basic necessities and as

minimum incentives for a productive population" among four "criteria for resource allocation and for identification of priority activities" (ERP, p. 21). The ERP estimates the minimum import requirements of community services at \$ 30 to 35 mill. per year for investment/rehabilitation and \$ 66 to 70 mill. per year for recurrent inputs (ERP, p. 23). This implies that an average of about 8% of total imports in the ERP-period should be for community services.

Lack of forex is not at all the only cause of the deterioration of educational services and health services in Tanzania. However in some areas, for example the provision of drugs and equipment in government hospitals and dispensaries and international books and journals in the University Library, forex represents a real constraint.

In our view, it is extremely important that CIS is allocated for such purposes.

7. RECOMMENDATIONS

7.1. The balance of payments crisis and recurrent forex implications of new aid projects

Tanzania is still facing a severe balance of payments crisis which has been relieved mainly by the increase in own-funds imports and increased foreign aid inflows since 1986. Export proceeds covered 41% of import expenditures in 1984/85, falling to a historical low of 31% in 1985/86 and 32% in 1986/87. This means that attainment of a foreign trade balance at the present level of imports, which is low even in a historical perspective, will require a trebling of export revenues. Even the most optimistic forecasts do not indicate such an export growth in the foreseeable future.

The heavily import dependent industries which were built up from the mid-1970s onwards, are a major cause of Tanzania's persistent balance of payments crisis. At the present rates of capacity utilisation of less than 30% on average, the industrial sector's net recurrent forex consumption amounts to more than \$ 200 mill. per year. As a consequence, the industrial sector accounts for about 30% of Tanzania's foreign trade deficit before inclusion of amortisation costs of industrial fixed capital equipment, while contributing no more than 5% of the country's GDP.

Any new project with a net recurrent forex consumption will worsen this dismal situation. Against this background we recommend that the future net recurrent forex costs of any project which is to be supported by Norwegian aid should be carefully assessed, and provision should be made at the project planning stage for covering recurrent forex costs in the future.

7.2. Avoiding permanent dependency on CIS

If properly designed and allocated, CIS can contribute to overcoming Tanzania's present crisis. A basic condition for such a development, however, is a mutual understanding between donors and Tanzania that CIS is a medium-term measure. We therefore recommend that Tanzania and Norway make a general CIS agreement, indicating the duration of this arrangement, general priorities and annual amounts of CIS, concomittant with Tanzanian policy measures to overcome the crisis, and a time schedule for the phasing out of Norwegian CIS.

For CIS to be a temporary measure, it is required that no institution or firm in Tanzania becomes permanently dependent on it. It is problematic therefore that the Treasury has become increasingly dependent on CIS cash cover payments as a source of "recurrent revenue". CIS cash cover payments have actually replaced government borrowing from domestic banks. The reduction of government borrowing in recent years is hence not a result of closing the gap between recurrent expenditure and recurrent revenue as envisaged in the ERP.

At present, CIS cash cover revenue finances most of the government recurrent deficit and, therefore, conceals the government's actual need for domestic borrowing. When CIS ceases, the Treasury's present use of cash cover revenue will make evident that the structural problems of government finance have not at all been resolved.

It should also be noted that government expenditure financed by CIS cash cover implies an expansion of money supply which would not come about if the BOT was selling the CIS forex. The government spending of cash cover funds has, therefore, an inflationary impact which may only be counteracted by restraining credits to the non-government sector. But such a credit squeeze may, in turn, hamper the necessary restructuring process in the economy.

The forex sources for recurrent imports (i.e. "free forex", SCRS, export retention, own-funds, OGL and CIS) are administered by the BOT and the Treasury separately. This creates problems related to information and coordination. Treasury's role in particular in allocating CIS and collecting the cash cover, causes serious coordination problems in relation to the Bank of Tanzania which may intensify the grave imbalances in the economy. It should also be noted that the allocation and selling of forex is basically a central bank function. Against this background we recommend that the authority of allocating and selling CIS forex is transferred from the Treasury to the BOT.

In order for the devaluations and other ERP measures to have the intended effect, it is important that potentially efficient firms get access to credit for bringing about necessary internal adjustments. It is further of importance that forex recipients are treated equally with respect to cash cover payments in order to avoid distortions of their liquidity positions. The BOT should therefore apply the same regulations for CIS cash cover payments that are used for "free forex" cash cover.

7.3. The recipients' need for planning and foresight

Recipients of CIS need to plan their creation of funds to pay cash cover and the use of CIS forex for commodity imports. For this reason, it is important that CIS recipients are informed about the allocations well in advance of actual disbursements. We therefore recommend that a two years rolling programme is applied in allocations of CIS to individual recipients.

7.4. Priorities and allocation criteria for CIS

Regarding sectoral and sub-sectoral allocations of forex, the ERP states clear priorities. We recommend that CIS allocations should

be guided by the same priorities in order to support the ERP. To make this possible, and in order to make reliable comparisons of inter- and intra-sectoral allocations over time, we recommend that NORAD adheres to an established sector classification system, preferably the ISIC system, which is used in official Tanzanian statistics.

The ERP envisages that industry should be allocated less than 20% of total forex resources. The NORAD CIS share to industry is far above this figure, amounting to 48.5% in 1987 and as much as 76% in the 1988 allocation. This is significant because the industrial sector is generally allocated a larger share of total forex resources than envisaged in the ERP. We therefore recommend NORAD to reconsider whether the sectoral distribution of CIS is appropriate with respect to giving maximum support to the ERP and/or to improve coordination with other donors regarding this issue.

In general, it is important that CIS also covers rehabilitation, and not only imports of recurrent inputs.

The general priorities of CIS in order to support the ERP, which are presented in chapter 6, may be summarised as follows:

- (1) supplies of essential inputs for agricultural production, processing, storage and marketing
- (2) industrial production of priority goods and "essential goods", e.g. agricultural implements and other essential inputs, spares for transport equipment, important incentive goods, etc.
- (3) reduced import intensity and increased efficiency in industrial production
- (4) rehabilitation and maintenance of the transport system
- (5) supplies of basic inputs in education and health services.

So far, CIS has, in our view, not succeeded in meeting objectives (3)-(5). In particular education and health services have continued to deteriorate under the ERP. We therefore recommend

NORAD to reconsider their CIS allocations to transport, health services and education.

A major objective of the ERP is to improve the country's balance of payments position. The industrial sector pre-presents a major problem in this respect. The data we have collected indicate that the allocations of Norwegian CIS in recent years have contributed to increasing the net forex consumption of the industrial sector. Against this background we recommend that net forex earnings/savings per unit of directly and indirectly imported inputs should be used as one criterion for allocations of CIS.

We recommend, as a minimum requirement, that net forex earnings/savings per unit of imported inputs should not be negative for any firm to be allocated CIS.

As an additional indicator of efficiency we recommend that the Inverted Domestic Resource Cost Ratio (IDRC) should be used. The higher the IDRC is, the higher is the efficiency of the firm. On the other hand, if the IDRC is less than zero, the firm or sub-sector is producing a negative value added at international prices, and may therefore be considered as highly inefficient. IDRC-values of firms or sub-sectors may therefore be used to rank them according to efficiency.

It should be noted that the IDRC does not say anything about causes of inefficiencies, and especially whether they are external or internal to the firm or the sub-sector. Here we will warn against treating efficiency as an intra-firm phenomenon. Inefficiencies may well be caused by factors external to a firm, e.g. transport problems and shortages or interruptions of electricity and water supplies. If a particular firm turns out to be inefficient in terms of the IDRC, it is necessary to find out to what extent this is caused by internal or external factors, and to what extent these factors can be removed, before making any definite conclusions on the firm's viability and CIS worthiness.

On the other hand, efficiency criteria alone in terms of IDRC-ranking are not sufficient in order to assess whether a firm should be allocated CIS or forex in general. In addition, we recommend that the firm's capacity to develop technology, to promote industrial know-how and to foster and disseminate skills and technical knowledge, as well as essential linkages with other sectors and firms should be given appropriate weight.

7.5. NORAD's manpower needs related to CIS

The use of such complex allocation criteria will require personnel resources for collection, evaluation and analysis of data and monitoring of each individual CIS recipient. Unless this is done, any administrative allocation procedure will be useless, and the whole question of CIS allocations should rather be left to the market forces, for example in the form of an OGL of the type supported by the World Bank (refer 7.7).

At present, CIS accounts for about 35% of total Norwegian bilateral aid to Tanzania. This is another reason why more personnel resources in NORAD should be devoted to CIS. In particular we recommend that a minimum of one and a half posts at the NORAD office in Dar es Salaam are wholly devoted to administering and monitoring the CIS programme. An economist should be assigned to the full post. The work related to CIS will among other things consist of keeping and updating a data base on CIS recipients. The groundwork for such a data base has been elaborated through the questionnaires for the present study.

7.6. The need for coordination and cooperation among donors

For each donor to carry out the work we have now outlined will require considerable personnel resources, and it will as well imply duplication of work among donors. Moreover, many firms in

Tanzania are at present receiving CIS from many donors, and these firms are therefore assigned a large number of CIS accounts in banks in various countries. To monitor and use these accounts involves that scarce administrative capacities within firms have to be tapped.

Against this background we recommend that all donors involved in CIS to Tanzania support the establishment of an advisory group of experts, in other words, a CIS Secretariat, controlled by and with participation from the Bank of Tanzania. This group should have a consultative function towards the donors and the Tanzanian authorities and make detailed recommendations on CIS allocations and coordination of CIS among donors.

To facilitate the work of the advisory group, the donors should finance the establishment of a common data base on CIS recipients that should be in the possession of the BOT.

It is important that the work of the expert group is closely coordinated with other forex allocations, in particular allocations of "free forex" carried out by the Bank of Tanzania.

A CIS Secretariat as suggested could also make an important contribution towards improving the BOT's administrative allocation system for "free forex".

7.7. Alternative forms of CIS

If our recommendations either under 7.4-7.5 or under 7.6 cannot be implemented, we recommend that NORAD limits its present form of CIS to a small number of recipients, e.g. NORAD supported projects, provided that such CIS allocations do not contradict the ERP, and to education and health services.

Due to the grave shortcomings of the present administrative forex allocation system of the BOT we cannot recommend channelling of CIS through that system.

An alternative would be to channel the major part of the present Norwegian CIS into the Open General Licence which the World Bank is now supporting with co-financing from some bilateral donors. However, by simply adding part of their CIS to the OGL of the World Bank without making any provisions, the bilateral donors may increase the leverage of the Bank's advice in a number of sectors as well as on the macro policy level. Apparently, they also accept that their funds should be disbursed in tranches dependent upon fulfilment of the World Bank conditions, which in practice often means that disbursements are delayed.

The basic characteristics of an OGL is that it is a non-administrative foreign exchange allocation mechanism for an approved list of items, where the approval of import licence applications and establishment of letters of credit are automatic.

Hence, we recommend that if our suggestions either under 7.4-7.5 or under 7.6 cannot be implemented, NORAD - possibly together with other bilateral donors - should join the OGL of the World Bank and channel the major part of the present CIS through that scheme. This should be done only under the clear provision that NORAD CIS contributions to the OGL are not subject to the conditionality of the World Bank.

7.8. The need for information to potential CIS applicants

Until now, invitations to apply for NORAD CIS have been made through letters from the Treasury to selected firms and institutions. We have not succeeded in getting any exact information on the criteria used in this selection. In our view, this procedure involves a pre-selection of CIS recipients. Whatever form of CIS is chosen, we therefore recommend strongly that invitations to apply for CIS are made through public announcements.

SELECTED REFERENCES

(For comprehensive references we refer to our main report, pp. 315-322.)

Boesen, J., K.J. Havnevik, J. Koponen and R. Odgaard (1986): Tanzania - Crisis and struggle for survival, Scandinavian Institute of African Studies, Uppsala.

Ellis, F. (1982): Agricultural price policy in Tanzania, World Development, Vol. 10, No. 4.

ERB/Ministry of Finance and Economic Affairs (1988): Tanzania Economic Trends. Quarterly Review of the Economy, Vol. 1, No. 1, DSM.

GOT (1982): Structural Adjustment Programme for Tanzania, DSM, June 1982.

GOT (1986): Economic Recovery Programme, DSM, May 1986.

GOT (1987): Programme for Economic Recovery. Report Prepared by the Government of Tanzania for the Meeting of the Consultative Group for Tanzania, DSM June 1987.

Havnevik, K., R. Skarstein and S. Wangwe (1985): Small Scale Industrial Sector Study - Tanzania. A report presented to the Ministry of Industries and Trade, DSM, SIDA, Stockholm, October 1985.

Havnevik, K.J. and R. Skarstein (1987): Agricultural Decline and Foreign Aid in Tanzania, Mimeo, Centre for Development Studies, Bergen and Institute of Economics, Univ. of Trondheim, June 1987.

- ICS (Interconsult Sweden, 1988): Swedish Import Support to Tanzania, First Draft, Stockholm, February 1988.
- NCG (Nordic Consulting Group, 1987): A Preliminary Study on Nordic Commodity Assistance/Import Support to Tanzania. Final Report, Oslo August 1987.
- NEI (Netherlands Economic Institute, 1987): Commodity Import Support (CIS) of the Netherlands to Tanzania. Evaluation 1982-1986 and Appraisal 1988-1991.
- SADCC (1986): Intra-regional trade study, Gaborone, April 1986.
- SINTEF/Division of Applied Economics (1988): Norwegian Import Support to Tanzania. Evaluation of Applicants, Trondheim, May 1988.
- Skarstein, R. and S.M. Wangwe (1986): Industrial Development in Tanzania: Some Critical Issues, Scandinavian Institute of African Studies, Uppsala/Tanzania Publishing House, DSM.
- Vylder, Stefan de (1988): Import Support to Tanzania: The Macroeconomic Framework and Medium-Term Prospects, SIDA/Stockholm.
- World Bank (1984): Tanzania: Country Economic Memorandum, Report No. 5019-TA, Washington D.C., August 1984.
- World Bank (1987): Tanzania: An Agenda for Industrial Recovery, 2 Vols., Report No. 6357-TA, Washington D.C., June 1987.
- World Bank (1988): Parastatals in Tanzania - Towards a Reform Program. Report No. 7100-TA, Washington D.C.

ICS (Interconaut Sweden, 1988): Swedish Import Support to Tanzania, First Draft, Stockholm, February 1988.

NGC (Nordic Consulting Group, 1987): A Preliminary Study on Nordic Commodity Assistance/Import Support to Tanzania, Final Report, Oslo August 1987.

NET (Netherlands Economic Institute, 1987): Commodity Import Support (CIS) of the Netherlands to Tanzania, Evaluation 1982-1986 and Appendix 1988-1991.

RANDC (1986): Intra-regional trade study, Gaborone, April 1986.

STATF/Division of Applied Economics (1988): Norwegian Import Support to Tanzania, Evaluation of Applications, Trondheim, May 1988.

Stamstein, R. and S.M. Kwanze (1986): Industrial Development in Tanzania: Some Critical Issues Scandinavian Institute of African Studies, Uppsala/Tanzania Publishing House, DSM.

Syber, Stefan de (1983): Import Support to Tanzania: The Macro-economic Framework and Medium-Term Prospects, SIDA/Stockholm.

World Bank (1984): Tanzania: Country Economic Memorandum, Report No. 7019-TA, Washington D.C., August 1984.

World Bank (1987): Tanzania: An Agenda for Industrial Recovery, 2 Vols., Report No. 6357-TA, Washington D.C., June 1987.

World Bank (1988): Parastatals in Tanzania - Towards a Reform Program, Report No. 7100-TA, Washington D.C.

Evaluation Reports

- 1.85 LO's (Norwegian Trade Union) Development Assistance
- 2.85 Rural Water Supply Reconstruction and Development Programme - DDF, Zimbabwe
- 3.85 Opplæringsstøtteordningen
- 4.85 REDD BARNA Development Efforts - Ethiopia and Sri Lanka
- 5.85 Lake Turkana Fisheries Development Project, Kenya
- 6.85 Development Centres for Women in Bangladesh
- 7.85 Description of the Planning Model of HIRDEP, Sri Lanka

- 1.86 Stockfish as Food Aid
- 2.86 Mali - matforsyning og katastrofebistand
- 3.86 Multi-bilateral Programme under UNESCO
- 4.86 Mbegani Fisheries Development Centre, Tanzania
- 5.86 Four Norwegian Consultancy Funds, Central America
- 6.86 Virkninger for kvinner av norske bistandstiltak
- 7.86 Commodity Assistance and Import Support to Bangladesh

- 1.87 The Water Supply Programme in Western Province, Zambia
- 2.87 Sosio-kulturelle forhold i bistanden
- 3.87 Summary findings of 23 evaluation reports
- 4.87 NORAD's Provisions for Investment Support
- 5.87 Multilateral bistand gjennom FN-systemet
- 6.87 Promoting Imports from Developing Countries

- 1.88 UNIFEM - United Nations Development Fund for Women
- 2.88 The Norwegian Multi-Bilateral Programme under UNFPA
- 3.88 Rural Roads Maintenance, Mbeya and Tanga Regions, Tanzania
- 4.88 Norwegian Commodity Import Support, Tanzania
- 5.88 Nordic Technical Assistance Personnel to Eastern Africa
- 6.88 Good Aid for Women?
- 7.88 Soil Science Fellowship Course in Norway

- 1.89 Parallel Financing and Mixed Credits
- 2.89 The Woman's Grant. Desk Study Review.
- 3.89 The Norwegian Volunteer Service
- 4.89 Fisheries Research Vessel - "Dr. Fridtjof Nansen". Desk study review.
- 5.89 Institute of Development Management, Tanzania
- 6.89 En vurdering av UDs forskningsprogrammer
- 7.89 Rural Water Supply, Zimbabwe
- 8.89 Commodity Import Programme, Zimbabwe
- 9.89 Dairy Sector Support, Zimbabwe

Country studies and Norwegian Aid Reviews

(Most studies are available in English and Norwegian)

- 1985 Pakistan
- 1986 Bangladesh
- 1986 Zambia
- 1987 India
- 1987 Sri Lanka
- 1987 Kenya
- 1988 Tanzania
- 1988 Botswana
- 1989 Zimbabwe
- 1990 Mozambique

