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TANZANIA, THE IMF AND THE WORLD BANK SINCE THE ARUSHA DECLARATION

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Introduction

This paper examines flows of finance from the World Bank and the IMF to Tanzania in the periods before and after the Arusha Declaration. The first section evaluates the general economic background, dividing the years from 1962 to 1984 into three periods from the viewpoint of the main economic indicators. The second section examines overall loan commitments by the World Bank to Tanzania, and the sectors of the economy to which they were assigned. The third section focuses on the balance of payments, and the contributions of IMF and World Bank financial flows to Tanzania's international payments. The final section considers some of the propositions that have been put forward regarding the influence of the World Bank and the IMF on the domestic economic strategy of Tanzania as this strategy has sought to implement the principles of the Arusha Declaration.

Tables have been grouped together at the end of this paper, together with details of the sources of the data.

Economic Background, 1962 to 1984

Table 1 sets out the main economic indicators since independence.

The 23 years since 1962 can be divided into three periods. The first 8 year span, up to 1969, was a period of positive economic growth averaging 6% a year, with significant increases in GDP per head, averaging 3.3% per year. The inflation rate, as measured by annual changes in the consumer price index, was modest, but with indications of an acceleration to double figure annual price rises in the latter half of the period. The proportion of GDP devoted to investment averaged 14%. The current account of the balance of payments was, in overall, surplus.

During these first eight years, Tanzania performed on these main indicators better than the average for the whole of Sub–Saharan Africa[1] and even better when compared with the low–income group of African countries.[2]

For the second period, from 1970 through to 1979, Tanzania experienced growth of GDP which averaged 5% per year, which allowed an increase of GDP per head at 1.8%. Inflation increased to 10.5%. The development effort increased, with 20% of GDP being devoted to investment. The current account of the balance of payments was in continual deficit, averaging close to – 6% of GDP.

This second period was characterised by external difficulties occasioned by an increase in the international price of oil in 1974, drought in 1974 and 1975, and the end of the East African Community in 1977. However, the decade also included substantial increases in world prices for coffee and tea in 1976 and 1977. Nevertheless, Tanzania again performed better than the average for Sub–Saharan Africa, and for the Low Income African group as regards GDP per head growth, but slightly worse for price stability. Tanzania's investment to GDP ratio was twice that achieved by other African low–income countries.[3] Other low–income African countries had current account deficits as a percentage of GDP approximately one percentage point greater than that averaged by Tanzania over the period.[4]

The most recent five years up to 1984, show a marked downturn in all the indicators for Tanzania. GDP growth averaged 0.1% per year, with GDP per head declining at −2.5% per year. Inflation averaged close to 30% per year, investment slipped to 18% of GDP over the period, and the current account of the balance of payments was in continuous deficit at −7% of GDP.

For this period, data[5] would indicate that the GDP and GDP per head growth rates were lower than those of all Sub−Saharan Africa low−income countries. Although this group of countries experienced falling GDP per head since 1980, it was, on average, falling at a slower rate than in Tanzania. However, as much as can be judged from the patchy coverage available, Tanzania's price stability was better than of the rest of Africa. Investment as a percentage of GDP was sustained at a higher rate in Tanzania than it was in the low−income Sub−Suharan African group. Tanzania's current account deficit as a percentage of GDP was a couple of percentage points worse.

Tanzania, in common with all low−income African countries, sustained the impact of the second major rise in oil prices in 1979 over this period. Further, Tanzania shouldered the burden of the military excursion into Uganda in 1979, and a subsequent period of peace−keeping occupation.

There is some controversy regarding the accuracy of official figures in the latter half of the 1970s[6] but following generally acknowledged good performance in the 1960s and early 1970s there is clearly cause for concern at the performance of the economy in the 1980s.

Much has been written concerning the impact of external conditions as against the consequences of domestic policy measures[7] and it is not the purpose of this paper to enter into this debate. Rather, it is to look at the lending records of the IMF and World Bank since 1962 against the broad background of Tanzanian economic performance in this period, and to examine whether the flow of funds altered to reflect changes in the policy emphasis of the Washington institutions. The period after 1980 is of particular interest as the World Bank and IMF began to press African countries to adopt policies which relied more heavily on market forces[8], a set of recommendations directly at variance with the strategy followed by Tanzania since the Arusha Declaration.

World Bank Lending to Tanzania

Table 2 lists the loan commitments of the three lending bodies of the World Bank to Tanzania. IFC loans have clearly been sporadic and of minor importance, comprising under 1% of World Bank lending to Tanzania and East Africa, and the rest of the table concentrates on IBRD and IDA lending. The fourth column shows total IBRD and IDA aid to thirteen countries in East Africa. There is some uniformity among these countries as aid recipients, for with the exception of two small Island economies, Mauritius and Seychelles, they are all classified by the World Bank as low income. The fifth column gives IBRD and IDA aid commitments to Tanzania as a percentage of those to the East African group. The population of Tanzania comprises 13% of the total population of the East African group of countries, and this provides a banchmark for the distribution of aid among the East African group. The final column presents IBRD and IDA aid commitments to Tanzania as a percentage of Tanzania investment.

The picture that emerges is as follows. From 1962 to 1969, IBRD and IDA lending varied from year to year but was more concentrated toward the end of the period, with IDA providing roughly 26% more than IBRD. Tanzania received 13% of all aid going to East Africa, giving it levels of aid per head at the East African average. This aid comprised 8% of Tanzania's investment.

In the decade 1970 to 1979, again IDA receipts were 25% greater than IBRD loans, but now Tanzania received 21% of the World Bank aid going to east Africa, and these flows represented 12% of Tanzania's investment. Both these percentages are 50% more than those of the earlier period.

Since 1980, IDA lending has comprised 93% of World Bank aid received, but this comprises 12% of the total going to East Africa, and in the later years, 1983 to 1985, Tanzania received only 7% of the East African total. For the five years of available data, these aid flows represented 8% of Tanzania's investment.

For completeness, it might be mentioned that Tanzania received 9% of IFC loans to East Africa between 1962 and 1969, 4% in the 1970s, and 3% in the 1980s.

The distribution of aid across sectors is given in Table 3. The column 'OTHER' includes technical assistance, funds allocated to development banks, oil and gas exploration, and programme aid.

In the first period, aid was mostly directed to infrastructure, with some disbursements to education and agriculture. In the 1970s, this pattern changed – there was still substantial lending for infrastructure projects and some aid for education, but agriculture received the largest sectoral commitment, with, toward the end of the decade, lending also being made for urban services, rural development and industrial projects.

Since 1980, there has been a reversion toward the pattern of the 1960s with most lending being for infrastructure projects, and with educational, agricultural, urban, rural developemnt and industrial projects receiving no loans from 1984 on.

To a great extent, this pattern of lending over time is in line with the general evolution of World Bank lending priorities, which have accorded increasing emphasis with the years to agriculture, urban services and rural development. However, both the reduced amounts and changed pattern of lending to Tanzania after 1980 might be interpreted as reflecting World Bank dissatisfaction with the Tanzanian development strategy.

Tanzania's balance of payments are presented in Table 4. The emphasis is on separating out World Bank flows of funds in the long−term capital account, and the contribution of IMF credit to the finance of the overall balance. As the current account did not move into continuous deficit until 1970. Table 5 concentrates on the subsequent 15 years. The years 1976 and 1977 are fairly abnormal years with the boom in coffee and tea prices reducing the current account deficit considerably, and the figures, expressed as percentage of the deficit, exaggerate the importance of Washington institution finance in those years. Excluding those two years, World Bank and IMF finance funded 20% of the deficit in the 1970s, and 22% from 1980. Other sources, mainly bilateral long term aid and short term credits, were responsible for four−fifths fo the finance.

Table 6 gives the percentage of merchandise imports financed by World Bank and IMF funds. The beverage−boom years of 1976 and 1977 have less of a distorting volatile than the current account deficit. Taken together, the two lending institutions financed slightly over 7% of imports, but was greater for the latter half of the decade, being then close to 10%. In the 1980s, it fell to 6%. Other sources of finance averaged 26% of imports in the 1970s and 35% of imports in the 1980s.

The Policy Impact of IMF & World Bank Lending since the Arusha Declaration

Several sources have been critical of IMF and World Bank policies toward Tanzania.

Ergas[9] and von Freyhold[10] point out that the World Bank is on record as advising against communal production in agriculture. Ergas argues that World Bank finance in the mid–1970s was made conditional on communal production being abandoned. Von Freyhold stresses that although the World Bank lent substantial sums to Tanzania for agriculture in the 1970s, it lent very little for domestic foodstuff production, and the bulk of its lending was directed to export crop production.

However, these arguments overlook the fact that World Bank finance has provided a small proportion of Tanzania's overall investment budget – in the peak period in the 1970s it contributed one–eighth. Allied to this, Tanzania has devoted substantial resources to capital formation – in the 1970s investment was running at 20% of GDP. Fungibility and the relatively low contribution of the World Bank to overall investment would prevent the government being constrained in allocating investment to communal agriculture or foodstuff production if that was its priority.

Ergas[11] offers the point the World Bank loans must be paid back and interest charges met, whether they are successful or not, and he contends that this is unfair, with all the risks being taken by the borrowing country. However, over half the funds provided by the World Bank to Tanzania up to 1980, and 90% thereafter, have been from IDA sources and a large portion of these loans are equivalent to outright gifts. OECD[12] indicates that, in the 1980s, multilateral lending to Tanzania, of which IBRD and IDA are a part, has had a grant equivalent of over 75%.

Singh[13] argues that the IMF is attempting to use financial leverage to force Tanzania to abandon the socialist development strategy followed since the Arusha Declaration. But the funds disbursed by the IMF and the World Bank together, when positive use of IMF credit was being made between 1974 and 1977 and World Bank aid was at a peak, did not finance more than 13% of imports. It is not credible that the principles and aspirations of almost two decades should have been sacrificed for what are relatively small amounts of balance of payments support.

Although, since 1980, the IMF has withheld credit and the World Bank has reduced its flow of funds to Tanzania, and redirected such funds as have been recently made available toward infrastucture projects, it is argued that changes in financial flows from the Washington institutions are not the major influence on economic policy.

The World Bank and IMF are powerful purveyors of ideas as well as finance. It organises workshops for Central Bank employees on stabilisation policies and it publishes an academic journal, *IMF Staff Papers*, which has disseminated important theoretical and empirical work which has tended to support IMF policy prescriptions.

More successful, however, in influencing attitudes has been the World Bank. It supports a powerful team of research economists of high technical ability, comprising the largest group of professional economists anywhere in the world working on development problems. These economists are highly paid and are recruited world–wide. In 1985, the World Bank conducted 11 Senior Policy Seminars, 19 Trainers' Seminars and 46 Direct Training Sessions for senior employees of the governments of LDCs.[14] The Bank has begun to publish a particularly popular and expensively prepared annual review of development problems, the *World Development Report*, as well as publications in similar style on particular problems, e.g., the Berg Report.[15] These documents are designed to be readily assimilated by those concerned with development problems without a strong background in economic theory or statistical methods. These publications, it might be argued, are selective in the case–study evidence they present and occasionally gloss over technical objections to the methods used to obtain results, as, for example, in the price distortions analysis of World Bank publications.[16]

These ideas have been important in changing attitudes in both the industrial countries and in Tanzania. In Europe and North America, donors and commercial lenders have increasingly been persuaded that aid will be unproductive, and lending riskier, in the absence of market–orientated policy reforms. For some countries, such as Sweden, this resulted in adding their voice to those urging change. Others, such as the UK and the Netherlands, suspended aid disbursements until agreement was reached with the IMF.

Increasing numbers of economic advisors to the Government and economists at the University of Dar es Salaam have been educated in American or European universities, where neo–classical economic theory is the almost universal starting–point for analysis of the operation of markets and assessment of the efficiency of economic systems. To a considerable extent, this has involved a better appreciation of the properties of competitive market systems, particularly the nature of opportunity costs, the gains from trade and the international mobility of capital, and the welfare effects of policy interventions. Many of the arguments used to dismiss reliance on market forces, primary product exports and foreign investment have not considered the full implications of the alternatives involved. The general equilibrium nature of neo–classical analysis, where a change in one market has effects on all other markets, has not proved easy for non–economic specialists to grasp. But to professional economists, the optimal properties of the smoothly operating market system have proved, over the decades, to be an extremely persuasive set of ideas.

Whereas at independence there were but a handful of graduates to staff the various ministries dealing with economic issues and the Central Bank, the expansion of higher education and wide access to postgraduate study overseas has led to these institutions increasingly being able to engage technically proficient Tanzanian staff. Some of these recruits now occupy senior positions with considerable ability to influence policy. Market–orientated advice offered by expatriate experts had hitherto been regarded sceptically in that it might be designed to further the interests of the industial countries at the expense of Tanzania.

Keyness[17] was of the opinion that the world vastly underestimates the gradual encroachment of ideas. For present day Tanzania, the ideas initiated with Keynes's defunct economists and academic scribblers who developed neo–classical theory. But the more immediate influence is likely to be an overseas–educated Tanzanian technocrat in continual close contact with the research departments of the IMF and the Worl Bank.

Table 1. Tanzania: Economic Indicators 1962–84

YEAR	GDP growth % p.a.	GDP/head growth % p.a.	Infl'n rate % p.a.	Invest. % of GDP	Current A/C % of GDP
1962	9.1	6.6	3.2	11	−1
1963	6.3	3.7	0.6	12	3
1964	5.5	2.9	−0.6	11	4
1965	3.3	0.6	5.0	13	—
1966	12.8	10.1	9.8	14	−1
1967	4.0	1.2	12.2	17	—
1968	5.2	2.4	15.6	17	−1
1969	1.8	−1.1	16.4	15	2
1970	5.8	2.9	3.5	20	−3
1971	4.2	1.2	4.7	24	−7
1972	6.7	3.7	7.6	21	−4
1973	3.1	0.0	10.5	20	−6
1974	2.5	−0.6	19.2	19	−12
1975	5.7	2.5	25.6	19	−9
1976	6.6	3.4	6.9	19	−1
1977	14.7	11.5	11.6	17	−2
1978	−3.5	−6.8	11.4	19	−11
1979	3.1	−0.3	13.8	21	−7
1980	3.5	0.1	30.3	19	−9
1981	−1.7	−1.7	25.6	20	−4
1982	−3.3	−6.7	28.9	19	−5
1983	−0.4	−3.4	27.1	16	−8
1984	2.5	−0.9	35.8	16	−10

Table 2 IBRD, IDA & IFIC Loan Commitments, ($USm).

YEAR	Tanz'ia IBRD	Tanz'ia IDA	Tanz'ia IFC	E. Afr. IBRD+IDA Total	Tanz'ia % F. A. IBRD+IDA	Tanz'ia IBRD+IDA % Inv.
1948–61	2.6	—	2.8	139.5	2	—
1962	—	—	—	13.1	0	—
1963	—	—	—	13.5	0	—
1964	—	18.6	1.9	49.1	38	22
1965	—	—	—	16.5	0	—
1966	12.7	5.0		87.1	20	14
1967	4.3					

Table 2. Cont.

1968	5.2	3.0	—	90.2	9	5
1969	7.0	14.3	—	73.7	29	13
1970	29.2	7.5	—	158.4	23	14
1971	—	42.3	—	217.7	19	13
1972	8.0	17.3	—	168.5	15	7
1973	19.6	28.8	—	242.8	20	14
1974	26.0	23.5	—	261.4	19	12
1975	24.0	37.7	—	372.3	17	12
1976	30.0	45.0	—	317.3	24	12
1977	75.0	39.2	—	422.5	27	14
1978	40.0	100.5	1.7	475.6	29	15
1979	55.0	62.5	1.5	543.3	22	12
1980	25.0	111.5	—	697.3	20	12
1981	—	92.8	—	547.7	17	10
1982	—	75.0	—	520.2	14	6
1983	—	46.8	—	691.0	7	6
1984	—	35.0	3.9	769.1	5	7
1985	—	45.0	—	509.5	9	na

Table 3. Tanzania: World Bank Loans By Sector. ($USm).

YEAR	INFRA–STRUCT.	EDUCA–TION	AGRIC-ULTURE	URBAN	RURAL DEV'T	IND'Y	OTHER
1948–61	8.0	0	0	0	0	0	0
1962	0	0	0	0	0	0	0
1963	0	0	0	0	0	0	0
1964	14.0	4.6	0	0	0	0	0
1965	0	0	0	0	0	0	0
1966	12.7	0	5.0	0	0	0	0
1967	4.3	0	0	0	0	0	0
1968	8.2	0	0	0	0	0	0
1969	15.0	5.0	1.3	0	0	0	0
1970	36.7	0	0	0	0	0	0
1971	30.0	3.3	9.0	0	0	0	0
1972	6.5	0	10.8	0	0	0	8.0
1973	19.6	10.3	18.5	0	0	0	0
1974	5.0	0	38.5	0	0	0	6.0
1975	10.2	0	18.0	8.5	10.0	0	1.5
1976	0	11.0	28.0	0	0	0	36.5
1977	30.0	0	24.0	15.0	7.2	15.0	23.0
1978	15.0	0	41.5	12.0	12.0	15.0	45.0
1979	20.5	12.0	0	0	0	25.0	60.0
1980	32.5	0	79.0	0	0	0	25.0
1981	0	25.0	0	0	6.8	9	61.0
1982	27.0	0	12.0	4.0	0	0	32.0
1983	0	0	0	22.5	0	18.0	6.3
1984	35	0	0	0	0	0	0
1985	27.0	0	0	0	0	0	18.0
1986	90.0	0	0	0	0	0	0

Table 4. Tanzania: Balance of Payment ($USm)

YEAR	Exp'ts goods	Imp'ts goods	Curr't Acc'nt	Private Long	World Bank	Long Other	Short Loans	IMF	Other mon'ty
1962	152	−133	−5	−1	0	4	7	0	−5
1963	156	−137	18	−1	0	2	−10	0	−10
1964	213	−153	32	−6	0	14	−54	0	15
1965	199	−167	−2	−4	7	10	−14	0	4
1966	259	−219	−6	13	7	0	13	0	−27
1967	244	−213	−2	−7	13	10	−13	0	0
1968	238	−230	−6	0	7	15	−1	0	−15
1969	240	−281	25	11	9	2	−44	0	−2
1970	250	−284	−36	8	11	64	−51	0	15
1971	262	−345	−100	−2	15	124	−47	0	10
1972	316	−360	−66	−10	16	102	17	0	−59
1973	364	−348	−108	−8	12	147	35	0	−11
1974	399	−660	−275	0	14	99	25	45	92
1975	373	−670	−230	0	57	114	49	29	−18
1976	490	−556	−39	0	38	77	−51	27	−53
1977	539	−647	−81	0	63	49	141	4	−178
1978	479	−996	−483	0	49	89	176	−29	198
1979	546	−961	−312	0	68	135	55	25	29
1980	508	−1,069	−452	0	66	51	287	9	39
1981	688	−1,324	−239	0	90	10	149	−9	0
1982	480	−1,134	−268	0	99	61	106	−11	14
1983	400	−913	−376	7	76	123	210	−25	−15
1984	456	−782	−354	0	63	216	107	−25	−8

Table 5. Finance of Current Account Deficit. (%).

YEAR	World Bank	IMF	IMF + WB	Other
1970	21	—	21	79
1971	15	—	15	85
1972	24	—	24	76
1973	11	—	11	89
1974	5	16	21	79
1975	25	13	38	62
1976	100	71	171	−71
1977	78	5	83	17
1978	10	−6	4	84
1979	22	8	30	70
1980	15	2	17	83
1981	37	−4	33	67
1982	37	−4	33	67
1983	22	−7	15	85
1984	18	−7	11	89

Table 6. Tanzania: Finance of Merchandise Imports. (%).

YEAR	WORLD BANK	IMF	IMF + WB	ALL FINANCE
1962	0	0	0	4
1963	0	0	0	−13
1964	0	0	0	−20
1965	4	0	4	1
1966	3	0	3	3
1967	6	0	6	1
1968	3	0	3	3
1969	3	0	3	9
1970	4	0	4	13
1971	4	0	4	29
1972	4	0	4	18
1973	3	0	3	25
1974	2	7	2	42
1975	9	4	13	34
1976	7	5	12	7
1977	10	1	11	12
1978	5	−3	2	48
1979	7	3	10	32
1980	6	1	7	42
1981	9	−1	8	23
1982	9	−1	8	24
1983	9	−3	6	44
1984	8	−3	5	45

Data Sources

Table 1 is compiled mostly from the basic data presented in IMF.[18] The inflation figures relate to the rate of increase of the consumer price index. Years since 1981 are compiled from the National Accounts Data in UN[19] but put on a basis consistent with the IMF series.

Table 2 is from World Bank[20] and IFC.[21] The series for investment was taken from IMF[22] up to 1981, and from UN[23] thereafter, and converted to $US using the official exchange rates from IMF.[24] The East African group of countries is taken to comprise Burundi, Comores, Djibouti, Ethiopia, Kenya, Madagascar, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tanzania and Uganda.

Table 3 is compiled from World Bank.[25]

Table 4 is based on IMF.[26] The data since 1981 are pieced together from UN[27] and preliminary estimates reported in Africa Economic Digest[28] and African Business.[29] Net long run capital flows from the World Bank are taken from OECD.[30]

Table 5 is derived from the data in Table 1 and 2.

Table 6 is derived form the date in Table 4.

Footnotes

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THE ARUSHA DECLARATION AND DEVELOPMENTALISM

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Chapter I

An International Conference on the Arusha Declaration is an occasion for a serious examination of the lessons to be drawn from successes and failures of the *social practice* of attempts to realise an anti–capitalist and socialist community in Tanzania[1] and Africa in general. The post–1967 period, on the main, belongs to an epoch riddled with crises. After the 1950s and 1960s' economic boom which promised miracles of social and economic growth for the 'developing' countries, the world, starting from the 1970s, entered a period of general crisis. It has become increasingly clear that the states have failed to come out with programmes and policies to overcome it.

Successful socialist revolutions in some parts of the world, the victory of national liberation struggles and the beginning of struggles for economic self–reliance (and, hence, the defeat of imperialism in large parts of the world and minor injuries at home) have led imperialism to counter–attacking with great force. As a result of this, national independence victories and socialist attempts in Third World countries have not led to socialist transformations of the capitalist relations but, rather, to more capitalist expansion (underdevelopment).

Capitalism, it seems, has benefited from socialist and national liberation revolutions. Increasingly, it has become really difficult to conceptualise (and act upon a conception of) the possibility to construct a socialist community. A correct understanding of social processes is needed if this difficulty is to be overcome. As will become apparent in this paper, socialist ideologies have become a form of ideology for capitalist development carried out by the *state.*

This paper commences with some remarks on the socio–economic crisis in Tanzania. The remarks serve to lay the groundwork for a discussion on socialist policies and developmentalism – the main focus in this paper.

Chapter II

The socio–economic crisis in Tanzania began around 1973. Consequently, most Tanzanians began to suffer a real loss of income. Officially, while among the wage/salary earners the average nominal wage/salary per month increased from T.Shs. 340/– to T.Shs. 723/– between 1969 and 1980, real wage/salary per month fell from T.Shs. 340/– to T.Shs. 189/– in the same period.[2] Estimations have shown that while the minimum wage was at T.Shs. 480/– in 1980/81, the minimum budget for *food only* in an average household of four persons per month at 1980 official price level stood at more than T.Shs. 600/–. The majority of the wage earners, in this year, earned up to T.Shs. 750/–. Officially, inflation rose at the rate of 26 per cent annually in the five years preceding 1982.[3]

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