THE IMF AND WORLD BANK CONDITIONALITY:* TANZANIAN CASE

By

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I. – INTRODUCTION

The economic difficulties confronting the developing countries today have, once again, focussed our attention of the role and relevance of the international financial institutions created in 1944 at Bretton Woods. There is no doubt that, on the one hand, as the economic crisis in the developing countries has deepened, these countries have increasingly looked to the international financial institutions for extra foreign exchange resources, in order to finance desperately needed imports. On the other hand, however, the advanced capitalist countries which control those international financial institutions have used them as means for controlling the economies of the Third World, and more specifically as an instrument for prescribing and promoting the economic system they prefer (i.e. free market capitalism). The few countries which have resisted such concerted international pressure have been living under the shadow of constant pressure from all sorts of – often unsuspected – sources and countries.

The Tanzanian experience graphically illustrates, in the words of a noted West Indian economist, Clive THOMAS, the «important danger confronting the small underdeveloped economy pursuing a socialist strategy of economic transformation. When faced, as it seeks to disengage from international capitalism, with the short period problems of domestic resource bottlenecks, foreign exchange availability and slowly rising income levels, the temptation is to tone down socialist policies and to seek various accommodations and partnerships with capitalism, since it is believed these account for the other countries' successes. In addition the spectacle of industrialized socialist countries contending for «similar» partnership arrangements with capitalism (trade treaties, management contracts, etc..), and making other political accommodations in order to ease their resource bottlenecks, will strengthen the temptation to tone down socialist policies and thus weaken the will to persevere»*** There is no doubt that even the anti-Tanzania propaganda that one sometimes reads in the Western media, which blames the country's present economic problems on her socialist policies, is calculated to achieve such an objective. In such polemics the obvious fact that the present economic difficulties face all developing countries, and cut across the whole range of differing socio-political strategies, is conveniently and mischievously obscured.

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*** *Clive Thomas,* Dépendence and Transformation, *Monthly Review Press, New York, 1974, p. 117.*

In a rigorous examination of Tanzania's economic plight, one finds a chain of external factors which account for most of the present difficulties. The first is the inescapable fact that Tanzania, like all other primary products exporting countries, is forced to sell cheap and buy dear. In other words, while the prices of her exports have either been stagnant or falling, those of her imports have been rising. Thus, more and more of our products are needed in order to purchase less and less of what we require from outside. If such an arrangement cannot possibly be viable for an individual businessman, it can hardly be otherwise for a country. In 1973, for instance, we needed no more than 5.4 tons of tea in order to purchase one tractor, while in 1983 the same tractor required us to export 10.1 tons of tea. Consequently, such an international environment, aggravated in practice by drought, has given rise to a very acute foreign exchange crisis with ramifications in practically every economic sector.

The lack of foreign exchange, for instance, has meant an inability to import essential spare parts, replacement equipment, and industrial raw materials, all of which are needed for domestic production, as well as transport and other services; it also means an inability to buy from abroad the consumer goods which still cannot be produced locally. The productive capacity of our domestic industry is thus grossly underutilized because of the lack of imported spare parts and raw materials, creating a grave shortage of essential industrial commodities. This situation has further fueled domestic inflation, the current rate of which is estimated to be 30–35 per cent per year, – much higher than we were used to until the end of the 1970's. Inevitably therefore, as the utilization of domestic productive capacity has been reduced, on the average, to about 25–40 per cent, the revenue base for the government has also been eroded. Unprecedented budgetary deficits have resulted. For since very little is being produced or imported, government revenues in the form of sales, import, as well as Corporation income taxes, have been drastically reduced. These external and budgetary imbalances have also starved the domestic transportation services, the educational system, and the health services, as well as rural water supply services, of critical spare parts, replacement equipment and other essential materials, hence adversely affecting our most cherished basic needs programme.

The devastating impact of the foreign exchange crisis extends to agriculture as well. In Tanzania, agriculture accounts for over 75 per cent of the output of the productive sector, 80 per cent of the export earnings, and provides 85 per cent of all employment. Thus, agriculture has truly been described as the backbone of the Tanzanian economy. However as in most developing countries, Tanzania's agriculture is extremely dependent on imported farm implements, fertilizers, insecticides, seeds and even various packing materials. Where the basic farm implements and fertilizers, for instance, can be, and are, produced locally, the requisite raw materials have still to be imported from outside. Consequently, with the dearth of foreign exchange, agricultural production in Tanzania has not only been adversely affected by weather but also by the lack of various and critical agricultural production inputs.

It is, of course, true that some of the problems afflicting agricultural production in Tanzania are internal, and Government's effort and attention are presently directed at dealing with these as effectively as possible. Thus, for a long time, the proportion of public investment allocated to agriculture was not commensurate with the importance and dominant role which the sector plays in our economy. During the ten year period of 1972–1982, the share of public investment going into agriculture was 10–13 per cent. At the Party Congress in October 1982, it was therefore decided that the Government should re-examine the National Development Plans in order to accord to agriculture the importance it deserves. Since then the share of public investment going into agriculture has been raised from 13 per cent in financial year 1982/83, to 28 per cent in 1984/85. Secondly, while government now accords great importance to the setting of remunerative agricultural producer prices, an exercise which is undertaken annually, it has been vividly recognized that the whole question of incentives to the farmers encompasses not just producer prices but also timely provision of agricultural production inputs as well as cheap technology on the one hand, and availability of incentive consumer goods on the other. Thirdly, the question of efficient and responsive institutions, in order to serve agriculture and the farmers, is equally being tackled with the carefully planned reintroduction of cooperatives, which were abolished in 1976, as well as by redefining the role and structures of the various Crop Authorities.

In general, however, the severity of the economic difficulties which Tanzania, like most developing countries, presently faces underlines the inherent weakness and vulnerability of her economic structures to external shocks and disturbances. Indeed, the inescapable conclusion remains that, while the internal factors like declining agricultural production may have made an extremely grave situation worse, they were not decisive. Indeed, even if Tanzania is slighted by her detractors for her failure to adopt what they call «appropriate» economic policy reforms, there are surely other developing countries which have adopted those so-called «correct» policies and are today still facing as severe, if not more severe, economic problems as Tanzania. In fact, according to the *World Development Report* (1983), produced annually by the World Bank, the socio-economic performance of Tanzania, compared with other countries in Sub-Sahara Africa with differing socio-political strategies, looked as follows:

	Adult Literacy Rate (1980)	GDP per capita Growth (1960-1981)
Tanzania	79%	1.9%
Kenya	47%	2.9%
Ivory Coast	35%	2.3%
Malawi	25%	2.7%
Nigeria	34%	3.5%
Senegal	10%	–0.3%
Zaïre	55%	–0.1%

Thus, the above indicators of adult literacy rates as well as GDP per capita annual growth rates, clearly demonstrate, that, if anything, it is «socialist» Tanzania which has perfomed best with the limited resources at the disposal of the developing countries in question. For, not only was Tanzania able to attain a modest, but comparatively above average, income per capita growth rate during her first twenty years of independence, but what was even more spectacular, she achieved one of the most impressive rates of adult literacy in Africa. The long term importance of general education in any economic transformation effort cannot be overemphasized.

II. – A CRITIQUE OF IMF/WORLD BANK CONDITIONALITY IN THE LIGHT OF TANZANIAN EXPERIENCE

The foregoing exposition of the root causes of the economic difficulties faced by Tanzania, provides the necessary background for appraising the standard IMF prescriptions offered to all developing countries as a panacea for their economic ills.

The World Bank is also controlled by the large and developed wealthy nations so that it favours capitalist development strategies. But its development requirements also force it to think in relation to the longer term, and to accept at least the basic realities of underdevelopment. It is therefore somewhat more amenable to rational argument, and is constrained in its assistance rather more by being starved of resources and the rigidity of its basic allocation and repayment rules than by a doctrinaire approach to development projects proposed to it. That does exist, but is not an impenetrable obstacle to the usefulness of the World Bank to poor countries, whether socialist or capitalist inclined especially as all in fact have both public and private sectors. Further, the existence of the International Development Association marks a World Bank recognition that terms and conditions for assistance appropriate to poor countries are not the same as those which can be applied to richer ones. The IMF, of course, makes no such distinctions.

The present negotiations between Tanzania and IMF date as far back as mid 1977. At that time, as a result of the temporary coffee boom, Tanzania found itself with foreign exchange reserves larger than usual. Consequently, the IMF, through its routine Article IV consultations, advised the Tanzania Government to liberalize its import control system, because it was claimed that such large foreign exchange reserves were «embarrassing» for a poor country. The Government did accept the IMF prescription in a moderated form, but it did so rather grudgingly and reluctantly, because it felt that what a country like Tanzania could least afford was general import liberalization. Indeed, it took less than twelve months of even the «liberal» importing to which Tanzania had agreed to exhaust whatever foreign exchange reserves the country had. Very soon after that, the IMF and the Tanzania Government were therefore negotiating an Extended Fund Facility. Those negotiations collapsed in October, 1979, leading to the resignation of the then Minister for Finance, because the conditions which the IMF was trying to impose were unacceptable to the

Tanzania Government. However, in August/September, 1980 the negotiations for an IMF Stand-by-Credit were resumed and concluded. The total amount involved was SDR 166.5 million, or US $ 235 million, which was to cover a period of two years, ending in June, 1982.

The first drawing of SDR 25 million, or US $ 35 million, was made as soon as the agreement became effective. This was the only drawing made by Tanzania under the IMF Stand-by-Agreement of 1980. Subsequent drawings were suspended by the Fund by December 1980, because, it was claimed, Tanzania was not fulfilling the conditions. In further efforts to reactivate the programme, a number of IMF missions have visited Tanzania since that time, but to no avail. Instead more and more stringent conditions were required of Tanzania, conditions that could not be fulfilled without avoidable, destructive – and to us unacceptable – social upheavals.

In fact, as one examines the political implication of one IMF condition after another, the argument that the IMF's main pre-occupation is with technical recommendations becomes less and less plausible. In discussing the IMF conditionality, however, a clear distinction has to be made between two issues. First, the condition that resources (including «aid» resources) should be used efficiently and also, as far as possible, for the purpose for which they were intended, is not really at issue. Unfortunately, this condition has not received as much attention or emphasis as the others, even from the agencies themselves.

What has become controversial, as well as unacceptable, especially to those developing countries with clearly defined socio-economic strategies, is the prescription of policies laid down for the recipient as a condition for receiving assistance. The standard and familiar IMF conditions, which have become the subject of heated and sometimes even acrimonious debate in the Third World today, include exchange rate policy (devaluation), interest rate policy, price and import decontrol, budgetary cuts and privatization of the national economy. It is, therefore, most illuminating to assess briefly each of those conditions and their relevance to the economic conditions existing in Tanzania.

1./ EXCHANGE RATE POLICY

In accordance with strict classical economic doctrine, devaluation of a national currency was intended to stimulate exports and decrease imports. The underlying assumption is that both exports and imports are highly responsive to small price changes. Thus, to provide the anticipated and needed relief in a country's balance of payments or foreign exchange position, devaluation of a national currency is expected to increase export earnings and reduce expenditure on imports, both of them expressed in foreign (and not local) currency, leading to an increase in the country's foreign exchange reserves and hence also an improvement in its balance of payments position.

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In an industrial market economy with idle factories and a large proportion of the labour force unemployed, on the one hand, and at the same time, importing goods and services that can be produced at home, on the other hand, devaluation may indeed provide the remedy that is needed to stimulate domestic production and exports and eventually give relief from the balance of payments difficulties. Such a measure will discourage imports in favour of domestically produced goods and services, as imports become expensive. Similarily, foreign importers who were previously discouraged to buy from the country in question, will now find that devaluation has made goods and services of the devaluing/exporting country cheaper. However, even for such industrial market economies, doubts have recently been cast concerning the efficacy and social costs of devaluation as a means for bringing about an external balance.

When it comes to a developing country like Tanzania, which is an exporter of primary commodities like coffee, cotton, tea, tobacco, cashewnuts, sisal, etc..., devaluation makes no difference to the overseas currency selling price of their export commodities, because these prices are fixed by the international commodity markets. What devaluation does mean is that the country buys its essential and irreducible imports at an even higher domestic price than before. And although the devaluation will mean that the country can pay more Tanzania Shillings to the farmers, the effect on production will not be spectacular and may even be non-existent. For it takes a year to increase the production of commodities like cotton and tobacco, and five to six years to increase appreciably the output of crops like cashewnuts, coffee, tea, and sisal. And in the meantime the farmer's costs will have gone up considerably.

Further, as a result of the austerity programme, arising from both the difficult foreign exchange position and deliberate social policies, Tanzania no longer imports inessential commodities. In fact, practically all serious observers described Tanzania's imports as having been reduced below the socially acceptable and economically efficient minimum. Thus, since all of Tanzania's present imports consist of only essential commodities which cannot be reduced further without serious and unwarranted socio-economic consequences devaluation inevitably imposes additional hardships, without an immediate compensating effect through the expansion of exports or domestic production. Indeed, in an economy like that of Tanzania, an increase in domestic agricultural as well as other productions requires a certain amount of imports, the cost of which is increased by devaluation.

Thus, while it is true that there is an unassailable need to pay farmers higher producer prices, from not only an economic but also an equity point of view, devaluation does much more than enable the payment of higher producer prices. For by raising import and domestic production costs, its effects on real producer prices cannot be predicted with any certainty. It will certainly be no incentive to the farmer if the money prices paid for his crops increase, while at the same time the prices of essential imported agricultural inputs as well as basic non-agricultural goods, which he must purchase, also increase to a compensating degree as a result of devaluation.

Thus the use of devaluation as an instrument for correcting the budgetary imbalance of the Government or export organizations should only be resorted to after examining all the available and feasible options for tackling such an admittedly genuine problem. In fact, devaluation cannot be a lasting and dependable tool for shielding exporting organizations from financial losses, because of the frequent fluctuations in the world market prices of coffee, cashewnuts, sisal, cotton, etc... This means that when such sound socio-economic arguments against indiscriminate use of devaluation are not even taken into serious consideration, the case for devaluation undoubtedly becomes political and no longer economic.

In Tanzania, for instance, while we have not yet found a convincing case for massive devaluation of 100–150 (or 60–70 per cent) per cent, in terms of local currency, we are not anti-devaluation, per se. Thus, in March 1982, June 1983 and again in June 1984, the Tanzania shillings devalued by 10 per cent, 27 (20%) per cent, and 38 (26%) per cent, respectively, in terms of local currency, when it was felt that the Tanzania shilling had appreciated very much in terms of major European currencies, largely as a result of our shilling being pegged to the U.S. dollar. Thus, we do make a clear distinction between exchange rate adjustments which have economic as well as empirical justifications, on the one hand, and the massive devaluation proposals made to us by IMF and which purport to rectify balance of payments deficits, government budgetary imbalance or even facilitate the payment of higher agricultural produce prices, on the other. For these would, it seems to us, create more problems than they solve.

2./ INTEREST RATE POLICY

In a developed market economy, the rate of interest is supposed to work as an instrument for achieving both internal and external balance. Thus, internally a higher rate of interest is intended to reduce the level of investment expenditures, by increasing the cost of capital funds in the market and by so doing eventually reduce domestic inflation. Similarly, higher interest rates are also supposed to increase the return on savings and thus encourage the population to save a larger proportion of their incomes. However, in recent years there has been increased scepticism about these theories, especially in those advanced industrial economies which suffer not only from inflation but also from unemployment and/or social unrest. Similarly, on the external sphere, an increase in interest rate is intended to discourage capital outflow and encourage capital inflow into the country concerned, and ultimately help to reduce or even eliminate the balance of payments deficit.

Whatever the validity of these arguments elsewhere, the fact is that in a developing economy like Tanzania, the main internal effect of a large increase in interest rates would be to increase domestic costs of production and other services because of the increased financial costs of operations. The bulk of investment allocation is determined by the Plan, which is drawn up in the light of the need to promote accelerated, balanced, and self-reliant development. A very large increase in interest rates has therefore been resisted for fear that its real effect will be merely to inflate the cost of investment and domestic production generally. The prime causes of domestic inflation in Tanzania being the rising prices of oil and other imports, with the consequence of low levels of productive capacity utilization and investments, substantially increasing interest rates would make desperately needed investment unnecessarily costly, and thus make an already bad situation very much worse. Indeed, the rational course in such a situation would not be to discourage investment through punitive interest rates, but to direct investment into breaking bottlenecks which exist in the productive sectors and in strategic social and economic infrastructures. Only by this means can the economy be rehabilitated and the levels of production and productivity substantially and rapidly raised. In the *external context,* the use in a developing country like Tanzania, of higher interest rates as a means of attracting short-term capital flows is obviously a figment of the imagination! The necessary and tight exchange control system and general poverty of even the most capitalist inclined developing country means that people are more inclined to take their capital out than to bring it in however high the interest rate.

Finally, there remains the argument for interest rates as means of mobilizing domestic resources, primarily from the small savers. In the first place, in Tanzania about 85 per cent of the population live in rural areas, with the vast majority of the people earning incomes which are barely adequate to keep body and soul together. Secondly, the main constraint to savings mobilization has been found to be the proximity and availability of banking services. It is extremely implausible that people would travel long distances, sometimes between 80–160 kilometres, in order to deposit their modest funds, merely because the rate of interest has been raised to a theoretical «optimum». The decisive factor in such a situation has been the spread of banking services to the rural areas. In Tanzania that means, ideally, to each of the over 8,000 villages – an objective which at the moment appears attainable only in the far distant future.

In short, the proposals that interest rates in Tanzania should be increased to 30–35 per cent, has been resisted because it is irrelevant to the real problems and could cause seriously adverse socio-economic consequences. As in the case of exchange rate policy, the critical question for Tanzania is the level of interest rates which would on balance bring the best macro-economic result in light of objective reality. Thus in August 1983 the levels of Tanzanian interest rates, for both deposit and lending, were increased, on the average, respectively, from 6.15 and 9.75 per cent to 7.25 and 10.5 per cent. Those rates are kept under constant review by the Central Bank in order to determine if any further revision is necessary or appropriate.

3./ REMOVAL OF PRICE CONTROL

It is claimed that dismantling the price control system would eliminate the need for government subsidies to parastatals and the incidence of the black marketing. The case for agricultural subsidies in developing countries is clearly very similar to that for agricultural support prices as practiced by the governments of Europe and North America. That is, the imperative of paying the farmer (producer) remunerative and equitable prices, and on the other hand, of ensuring reasonable food prices to the urban and non-agricultural population.

Further, the objective of general price controls is normally to achieve a certain amount of equity, so that no one should be denied the basic essentials of decent living because the pricing system has made such commodities inaccessible. In that sense, price control is essentially an integral part of an income policy. The claim that price control brings about black marketing is not substantiated by the twelve year practical experience of price control in Tanzania. When there are reasonably adequate supplies of a commodity the black market problem is non-existant. Thus, it is very much preferable to cure the illness (shortages as a result of a drastic decline in import capacity and therefore domestic production), rather than deal with the symptoms (black marketeering).

In Tanzania, in June 1984, the subsidies on maize flour and fertilizers were removed, and wages and agricultural producer prices, respectively, were enhanced as compensation for the removal of those subsidies. Similarly the number of commodities subject to price control has been substantially reduced and the system of supervision has been simplified. Time will tell if we made a correct judgement about the greater efficiency, from the point of view of economic production and social equity, of these steps. But they are another indication that we are committed to certain social goals and not to particular means of reaching those goals.

4./ *REDUCTION OF GOVERNMENT EXPENDITURE AND FREEZING OF WAGES*

When considered alongside proposals for massive devaluation, substantial increases in interest rates, and the decontrol of all prices, the proposal that government recurrent expenditures must also decrease, – or at the very least not increase, – is bound to have very grave socio-political consequences. In the case of Tanzania, among the first casualties of such a cutback in government spending would certainly be essential social services, like education, health services, and rural water supply, since these together take the lion's share of the country's government recurrent budget. But how can developing countries, like Tanzania, be advised to direct their socio-economic programme to the poor, and then be asked to cut back on precisely those very programmes which meet the basic needs of the people? To answer such a question by saying that let the people pay for such services is, at best begging the issue. For, how, in turn, can people who are last able, be asked to pay for services which everyone agrees are absolutely essential?

In addition to all those very harsh measures normally included in the IMF conditionality list, there is usually also a requirement that there should be no general increase in wages, or at best a nominal one. The real question then, is, how can a rational Government, especially in a poor country like Tanzania, increase the price of a staple food, like maize flour, at once by 200 per cent, without at the same time offering any increase in wages, which are in the first place at a subsistence level ? What incentive would there be for the workers to increase production, without resorting to repression? Some observers have aptly described such measures as a prescription for social disorder. That is why in Tanzania we could not, in conscience, remove food and fertilizers subsidies, as we did in June 1984, without at the same time making compensating increases in both wages and agricultural producer prices.

In Tanzania, the Government is of course, more than acutely aware of the need to bring the annual rate of increase of government recurrent expenditure into line with government revenues, as well as the monetary gross domestic product (GDP). The problem, however, has been that the government revenue base, as explained previously, is very much tied to the availability of foreign exchange, necessary for making possible efficient domestic production and the purchase of essential goods not domestically manufactured. Under such circumstances one cannot trim government recurrent expenditure simply because government revenues are falling due to declining imports and domestic production, without weighing the ensuing socio-political consequences. Adjustments have to be made. But if the burden of such adjustment is not to be borne solely by the most vulnerable segments of the population, a three to five year perspective is definitely needed in order for such adjustment to be achieved relatively smoothly.

5./ PRIVATIZATION OF THE ECONOMY

Another aspect of IMF conditionality which has received great prominence recently, is an emphasis on the magic of the private sector in solving the problems confronting poor countries. In the first place, a realistic assessment of the situation obtaining in all developing countries would reveal that in none of them are the activities of the private sector non-existent; it is merely the relative size of the public and private sectors which differs – and even this partly for historical and nationalist reasons rather than because of ideology. Thus, even in Tanzania, whose stated socio-political objective is to build a socialist economy, the private sector still plays a very important role in almost all activities including agriculture, industry, transport and commerce.

Secondly, even conventional development theory accepts the fact that the private sector cannot be expected, at least in the currently underdeveloped countries, to build the required economic infrastructures, like roads, railways, harbours and power stations. These have to be provided by the State if any development is to take place at all. Even in the industrial market economies which are most actively preaching the gospel of private enterprise as the panacea to all the Third World's economic problems, the public sector is not absent!

No one in Tanzania disputes the fact that public corporations have to be run efficiently. But we do not accept that the solution to loss making public enterprises is to hand them over to the private sector or even to close them down. The latter could mean that an essential service may not be provided at all, (and both USA and Britain have sometimes found it necessary to subsidize key private enterprises – or to nationalise them). And looking at contemporary Africa, as I have already pointed out, the difference between «socialist» Tanzania, on the one hand, and the «non-socialist» Kenya, Ivory Coast, Malawi, Senegal and Zaire, on the other, in terms of their respective socio-economic indicators during the last twenty years, does not do much, if anything, to strengthen the case for relying entirely on unfettered private enterprise in our economies.

6./ LIBERALIZATION OF IMPORTS

The other major IMF condition is usually a demand for the removal of all forms of import and exchange control in a developing economy. In the case of Tanzania, import and exchange controls were instituted for the sole purpose of husbanding scarce foreign exchange resources, in order that they may be utilized for the benefit of all the people, instead of a select and privileged few. Thus, if at the moment, despite such controls, we are unable to import even the minimum industrial raw materials, spare parts, medicines, educational materials, etc..., which we require, it is difficult to see how import liberalization will help. What is obvious is that such import liberalization can only work at the expense of highly essential imports, as the little foreign exchange would be offered to the highest bidder, who may well import luxury goods. Indeed, our experience of liberalization of 1977/78 is still a sombre reminder to every serious Tanzanian of how things can go. We felt the effects of that debacle for many years.

III. – CONCLUSION: CONDITIONALITY AND ADJUSTMENT

The gravity of the economic situation, throughout the Third World, is getting worse from one year to the next. I have already pointed out that it is no longer rational to ascribe the economic plight facing a developing country like Tanzania to particular socio-economic policies; the difficulties do indeed cut across countries with differing socio-political perspectives. Those who continue to pursue that line of reasoning are, indeed, doing so primarily for self-serving political purposes, or looking for an alibi for the failures of the international economic systems. For certainly such political postering cannot be the result of an objective assessment of the actual situation obtaining in the developing countries.

Thus, what we are witnessing in Tanzania and other developing countries today, is a new and even more pernicious form of colonialism. The carrot of very limited financial support is being dangled before countries in a desperate economic situation. But concealed in that carrot is a denial of sovereignty. Thus, one developing country after another is put under immense pressure to abandon any kind of enlightened and equitable socio-economic policies based on social justice, in favour of the privatization of their economies. Unless they are able to muster enormous reserves of political strength so that they can resist this pressure, and either hold out until they can get a tolerable IMF Agreement or rehabilitate their economy by some other means, the result of getting IMF Aid is all too often «IMF Riots» or other forms of political instability – to say nothing of the suffering of the weakest people in the population.

Thus, in a conspiracy of silence or indifference on the part of the developed countries, the independence and political integrity of Tanzania and other economically weak Third World countries is being undermined. What is worse, the medicine offered is often worse than the disease, hence bringing not only a short-term nightmare, but also a bleak future, without any ray of hope for a better tomorrow, especially for the poor and vulnerable groups. How much more suffering, one may ask, should befall those innocent and helpless victims, before an enlightened and concerned public opinion in the advanced capitalist countries comes to their long-overdue rescue?

In belabouring the question of conditionality it is not my intention to underplay the need and importance of adjustment in the developing countries. The present unfavourable economic conditions, by all indications, are going to be with us for quite some time, and they present a challenge to both the developing countries and the developed countries to implement some adjustment policies in an orderly manner. Such adjustments would undoubtedly involve difficult choices for both types of economies, but the longer such adjustment measures are delayed, the tougher will be the measures required at a future date.

In Tanzania, for instance, we have come to associate the process of adjustment necessary to cope with a changing and hostile external environment as consisting essentially of three elements. The first involves adjustment in favour of production in contrast with services. Given the fact that resources are extremely limited, it is not possible to increase appreciably the share of investment going into productive activities and at the same time also expanding considerably the social services. In the case of the latter, we have therefore decided to place emphasis on the consolidation of the social services that we have already established. In the case of productive sectors, the priority will be agricultural production in order to meet the growing requirements for food, raw materials for the domestic industries, as well as export (foreign exchange) earnings.

The second element of adjustment concerns production techniques that predominantly favour or rely on locally available raw materials and spare parts, instead of imported ones. Thus, on the one hand, adjustment requires expansion of the export base, to include not just primary products but also semi-finished manufactured products. On the other hand, the drive for *export promotion* in order to relieve the foreign exchange bottleneck, has to go together with an aggressive programme of *import-saving*. To mention only a few, as an illustration, the increased use of hydro-power, coal, solar and wind energy, etc..., instead of imported fuel is a clear example of such an effort although even these require foreign exchange in the first instance.

The third element involves adjustment in consumption habits and patterns, in order that they be sustainable by domestic production and incomes. This last element essentially has three interrelated implications. First, the need for the Government itself to live within its means so that, as far as politically possible, government expenditures should be brought into line with government revenues – or vice versa. Secondly, in the external accounts also, exports of goods and services should at least finance recurrent import requirements. Thirdly, the consumption habits of the general population as a whole have also to be consistent with domestic production of both food and other commodities. This may sometimes mean using locally available but somewhat lower quality products, instead of the usually preferred and «superior-quality» imports. Thus, the importance of adjustment in all these three aspects, especially for a country like Tanzania which has embarked on an independent, socialist and self-reliant strategy, cannot be overstated.

Nevertheless, having accepted the basic tenet that some adjustment is necessary and unavoidable, especially for a country which has adopted a socialist and self-reliant development strategy like Tanzania, two paramount questions have still to be faced. The first concerns the speed of such adjustment. In other words, what is the appropriate dose which cures the illness without killing the patient? Indeed, the issue of the speed of adjustment can make all the difference between adjustment taking place at all in an orderly fashion, on the one hand, and social disintegration and disorder on the other. The wrongs of decades, or even centuries, cannot be corrected in a year.

Secondly, who bears the burden of such adjustment is another crucial socio-political question. Tanzania regards it as essential that the burden of adjustment be equitably shared among the various social groups of the population. The adjustment measures usually recommended by the international financial institutions, which attack the poor instead of attacking mass poverty, inevitably create enormous social tension and unrest, because they invariably impose a disproportionate burden on the poor and the dispossessed. Thus, as already stated, there is a definite and glaring inconsistency between the economic conditions offered as the price of aid to the developing countries by the international financial institutions, and the lip-service references to the provision of basic needs and the eradication of mass poverty which are enunciated by them.

Finally, when the present economic crisis defies any simple and ready made solutions, and when, as someone once said, the poverty of resources does not necessarily imply a poverty of creative ideas it is surely important that the right of the peoples of the developing countries to determine their own socio-political systems, objectives, and future, should be inviolable. Indeed, we cannot avoid the judgement of history if, through indifference, chicanery and chauvinism, we allow – even by default – such fundamental rights of states to be trampled upon by those with the financial jack-boots.