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Vol. 1

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

ECONOMIC DEVELOPMENTS IN EAST AFRICA

(in five volumes)

VOLUME I - THE ECONOMIC REPORT

A. EAST AFRICAN COMMUNITY
B. KENYA
C. TANZANIA
D. UGANDA

June 28, 1971

Eastern Africa Department

EQUIVALENTS

Currency

1 Kenya/Tanzania/Uganda Shilling (Sh)	=	U.S. $0.14
U.S. $1	=	Sh 7.14
£ Stg. 1	=	Sh 17.1428

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PREFACE

This report is based on the findings of a Bank mission which visited Kenya, Tanzania and Uganda during November-December 1970. The mission had a two-fold purpose. The first was to examine recent economic developments in each of the three countries and in the Community as a whole. This, the economic part of the mission's work, is presented in Volume I of the Report.

A second and wider purpose of the mission was to undertake a comprehensive review of the major sectors of each economy and to prepare a program of preinvestment studies in each sector. The results of this part of the mission's work are presented in Volumes II, III, IV and V, each of which is introduced by a note on the objectives, scope and approach of the proposed program of preinvestment studies.

Most of the sectors for which preinvestment programs have been recommended are sectors in which the Bank Group has been active in the past, and which have from time to time been examined in some depth in past Bank reports. The most recent comprehensive economic reports prepared by the Bank on the three countries were as follows:

"Economic Development Prospects in Kenya", October 22, 1969 (with annexes on agriculture, rural development and tourism and appendices on population and housing).

"The Economic Development and Prospects of Tanzania", March 17, 1970 (with an annex on agriculture and rural development and appendices on population and housing).

"Current Economic Position and Prospects of Uganda", June 9, 1969 (with annexes on agriculture, transport and tourism and an appendix on population).

In addition, the Bank has recently prepared a report on the industrial sector, "Industrial Development in East Africa: Progress, Policies, Problems and Prospects" (in four volumes), April 16, 1971.

Other sectors - health, urban development and water supplies - are, however, relatively new fields of interest for the Bank Group, and in these cases it was considered appropriate to undertake a comprehensive study of the sector as a whole in determining the structure of a preinvestment program. These studies are presented as annexes to the volumes on preinvestment programs. The annexes to the Tanzania Report on water supplies and urban development are to be prepared at a later stage.

The content of the five volumes of the final Report is shown below:

Volume I - <u>The Economic Report</u>

A. East African Community
B. Kenya
C. Tanzania
D. Uganda

Volume II - <u>Kenya</u>

Part I - A Program of Preinvestment Studies
Part II - Annexes
A. Population and Health
B. Water Supply and Sanitation
C. Urban Development and Housing

Volume III - <u>Tanzania</u>

Part I - A Program of Preinvestment Studies
Part II - Annex
A. Population and Health

Volume IV - <u>Uganda</u>

Part I - A program of Preinvestment Studies
Part II - Annexes
A. Population and Health
B. Water Supply and Sanitation
C. Urban Development and Housing

Volume V - <u>A Program of Regional Preinvestment Studies</u>

A. EAST AFRICAN COMMUNITY

ECONOMIC DEVELOPMENTS IN EAST AFRICA

VOLUME I: THE ECONOMIC REPORT

A. EAST AFRICAN COMMUNITY/1

The Background

1. The East African Community (EAC) and the East African Common Market which is an integral part of the Community, were created by Kenya, Tanzania and Uganda in 1967 to continue arrangements which had been in force since 1947, first under the East Africa High Commission and, later, the East African Common Services Organization (EACSO). The change from the High Commission to EACSO became necessary since the former which had been imposed by U.K., the former ruling power, could not be continued after Tanganyika attained independence in 1961.

2. Almost from the very inception of the Common Market and the Common Services, there had been dissatisfaction among Uganda and Tanzania with the manner in which the benefits of these arrangements had been distributed. They claimed that the benefits accrued disproportionately to Kenya and that their own development suffered in consequence. Some ad hoc devices such as a distributable pool which would help transfer resources from Kenya to these countries had been tried before independence, but their results were not very significant.

3. After the three countries attained independence, they began to move apart as each strove to establish an independent identity. Separate currencies and separate central banks were established. The Common Market began to break apart as a result of various restrictions imposed by the three countries. The lack of coordination in industrial development was resulting in the duplication of industries and hence excess capacity. The atmosphere was characterized by mutual suspicion and recrimination, and grave doubts began to be expressed concerning the future of the existing arrangements.

4. In 1965 the three countries decided that a comprehensive review of all existing arrangements was essential to the determination of future policy concerning economic cooperation in East Africa. A Commission for East African Cooperation was appointed for this purpose. The Commission was charged with the responsibility of reviewing ongoing arrangements and making recommendations for the future, taking into account the wishes of the three countries. The report of this Commission later became the basis of the Treaty for East African Cooperation.

/1 This report deals principally with the East African Community, the Common Market and the Common Services. It also reviews progress in the field of economic coordination in East Africa. The report has to be read in conjunction with the separate reports on Kenya, Tanzania and Uganda.

5. The Treaty for East African Cooperation must be judged against a background of events extending over more than two decades. It was an attempt to halt and reverse the disintegration of the Common Market and to preserve some of the advantages which the enforced cooperation in the pre-independence period had left behind. However, the desire that economic integration and cooperation should benefit all members of the Community, as evenly as possible, is reflected in the provisions of the Treaty.

6. The Treaty has certainly achieved a measure of success despite the occasional frictions which have arisen among members and the effects these have had on the operations of the Community institutions. The more serious problems which arose within the Community are referred to the East African Authority for resolution. The Authority consists of the Heads of State of the three countries and much of the success which the Community has achieved, as well as its initial creation, is due to the determination of the East African leaders to strengthen existing cooperation.

7. During its three-year existence, the Community was called upon to handle a number of complex and pressing tasks, and successfully dealt with them. Existing institutions which operated the Common Services had to be reorganized into new corporations, relocated and, to some extent, decentralized. The Common Market which was an integral part of the Treaty was henceforward to be based on a wholly new system of taxation on trade in manufactured goods among the Partner States, and this involved the immediate creation of machinery to deal with these problems. The headquarters of the Community itself had to be shifted from Nairobi to Arusha. The East African Development Bank - the principal instrument for reducing imbalance in industrial development among the Partner States - had to be established, and provided with resources. Preliminary discussions - followed, in some cases, by more active parleys - had to be conducted with some neighboring countries which had expressed interest in joining the Community. And finally, negotiations had to be undertaken with the European Economic Community to obtain "Association" status for the three Partner States.

8. The recent coup in Uganda has created a problem for the Community, the long-run consequences of which are not yet clear. Tanzania has so far declined to recognize the new government in Uganda, and as long as this position is maintained, it is unlikely that any meeting can be convened of the Authority - the highest executive organ of the Community consisting of the three Heads of State. So far the three countries have shown a willingness to seek pragmatic ways of ensuring continuity in the day-to-day business of the Community and the Corporations. For example, while the various ministerial-level Councils of the Community have not met officially since the military government assumed power in Uganda, routine operations which require the cooperation of the three countries are being conducted through informal contact. It appears that the Community can therefore continue to operate during this period of political stress, at least as long as no major problem arises which will require action by the Authority.

Economic Coordination

9. The Treaty recognizes in principle that some coordination of planning and policy-making is essential to the success of the Common Market. While the plans for the Common Services themselves are the subject of consultation and approval by the Partner States through the appropriate Councils of the Community, this procedure has not been followed in the formulation of national development plans. Hence, these plans include projects which, if implemented, will duplicate the production of goods and services in the three countries. Moreover, their Plan periods do not coincide - the Ugandan Plan begins when the Kenyan and Tanzanian Plans are midway - and this makes coordination more difficult.

10. The EAC's principal instrument for dealing with issues concerning the coordination of planning is the Economic Consultative and Planning Council (ECPC), comprising the three East African Ministers and three Ministers from each of the Partner States. At the official level, the ECPC is served by an East African Committee of Planners, comprising the permanent secretaries of the economic ministries from the three countries, with the secretary of the EAC's Common Market and Economic Affairs Secretariat acting as chairman. The ECPC began its work somewhat later than the other Councils of the Community but, during the past 18 months, a number of technical sub-committees have been established to work under the Committee of Planners. Some of these sub-committees have already been assigned an agreed work program and, in some cases, their preliminary findings have become the basis of specific guidelines for further investigation. To date, sub-committees have been set up on transport and communications, tourism, statistics, agriculture, industry and the General Fund Services.

11. The transport and communications sub-committee has made recommendations for strengthening the planning units in the Corporations and also for preparing the next round of their medium-term investment programs. The sub-committee's work program includes studies on the coordination of commercial road transportation. Some of the items on which work has already started are road and traffic regulation, methods of project appraisal, road transport, taxation and analysis of road design standards. If the Community is able to allocate adequate staff resources to ensure the completion of this work, it could serve as the basis of important policy decisions by the Partner States.

12. The sub-committee on tourism has obtained ECPC approval for two studies. One will analyze the demand for skilled manpower in the field of tourism in East Africa and identify the required training facilities. A second study will be the development of tourism potential in the so-called "contiguous" areas, that is areas adjacent to the borders between the Partner States.

13. The sub-committee on statistics not only provides statistical support for the other sub-committees, but provides a forum for consultation among representatives of statistical agencies in the three countries.

The sub-committee initiated some useful work on balance of payments in the three countries, particularly the treatment of inter-country flows on account of the East African organizations. This work is of special interest to the Bank Group which is now a major source of capital for the Corporations of the Community. At present, for want of detailed information, it is assumed that the Bank's loans to the Corporations accrue in equal proportions to the three Partner States; similarly, in calculating debt service obligations, a notional assumption is made that each country is responsible for servicing one-third of the EAC debt, although each of them is liable, both jointly and severally, for the repayment of the debt. In part, as a result of some complex problems which came to light during the course of the sub-committee's work, a separate sub-committee on trade and balance of payments is expected to be set up. The sub-committee on statistics has already prepared a report on tourism statistics.

14. In November 1970, the ECPC also established a sub-committee on agriculture. This is a welcome development since the Treaty specifically excluded agricultural products from the rules governing the movement of manufactured goods within the Common Market and recognized that these rules would extend to agricultural products only in the long run. The work program of the sub-committee on agriculture is modest. It covers topics such as the expansion of agricultural trade, particularly trade in the border areas and seasonal trade, collaboration among national marketing organizations, particularly with regard to trade within the Common Market, standardization of agricultural statistics, cooperative exploitation of Indian Ocean and Lake Victoria fisheries, and finally, joint training. The sub-committee has not been asked to concern itself at this time with the coordination of production plans, since this matter has obvious political implications. As predominantly agricultural societies, the Partner States have aimed at self-sufficiency in food, and hence they are reluctant to rely on each other for food imports. Moreover, they are in competition with each other in the production and sale of many agricultural products.

15. The EAC Secretariat has assumed what might eventually turn out to be a key role in coordinating industrial development in East Africa. A major task which has recently been completed is the preparation by a working party of a report and recommendations on harmonization of fiscal incentives among the Partner States. This report has not yet been reviewed by the Governments, but is believed to be favorably received and, if adopted, could have important implications for policy. Under the auspices of EAC, UNIDO is about to complete a study on the East African textile industry which, owing to uncoordinated development, has considerable excess capacity and is badly in need of rationalization. Some specific studies on the so-called multi-national industries, that is those which require access to the market of more than one Partner State in order to be viable, are currently being carried out under the auspices of the Community.

16. The ECPC has also given approval for the preparation of a five-year development Plan for the General Fund services (covering all activities and institutions of the Community other than the Corporations and the East African Development Bank). Assistance is being sought in carrying out an inventory of the assets of the Community (except those noted above) to serve as a basis for the new Plan.

The Common Market

17. The East African Common Market is an integral part of the Treaty for East African Cooperation. In establishing the Common Market the Partner States have agreed to abolish all quantitative restrictions and to pursue policies which will secure the "most favorable development of the freest possible international trade".

18. The Treaty provides that, subject to any exchange control laws and regulations, the Partner States should (a) permit the exchange of their respective currency notes at par through their central banks, and (b) permit remittances of all bona fide payments (listed in an annex to the Treaty) on current account. Since the Treaty came into force, exchange control has been extended on two occasions to transactions among the Partner States. In May 1970 Uganda subjected transactions with Kenya and Tanzania to exchange control, and this is still in force. Recently both Tanzania and Kenya have extended exchange control regulations to their Partner States. It will be a while before all the implications of this situation become clear and, in particular, whether the exchange control measures contravene the agreement by each Partner State "to pursue an economic policy aimed at ensuring the equilibrium of its overall balance of payments and confidence in its currency".

19. In order to promote new industrial development in those Partner States which are less developed, the Treaty permits the imposition of a transfer tax. This tax is limited to manufactured goods and can be imposed only (i) to correct a trade deficit in manufactured goods and (ii) to protect a domestic industry, and only when the industry concerned meets at least 15 percent of the domestic demand for its product. The transfer tax shall not exceed 50 percent of the external duty charged on a comparable commodity and shall have a maximum life of 8 years from the date of its coming into force. Finally, all transfer taxes are to cease 15 years after the Treaty came into force.

20. In view of the complex conditions which govern the use of the transfer tax, it was only to be expected that difficult issues of interpretation and implementation would arise and, in fact, the imposition of the tax on a wide range of commodities became the subject of dispute. However, it is encouraging that the great majority of the cases have been resolved within the Common Market Council. Two accomplishments deserve special mention: the introduction of new rules to prevent discrimination in trade by the State Trading Corporations, and the adoption of an improved method for determining whether or not a good is "locally produced". The Treaty provides for a Common Market Tribunal for the purpose of resolving disputes concerning the operation of the Common Market. However, most disputes have been resolved within the Common Market Council and, therefore, it has not been felt necessary to activate the Tribunal.

21. In the period immediately prior to the Treaty, various restrictions had been introduced by the three countries on the flow of trade. Since the Treaty came into force, there has been some liberalization.

In particular, Kenya's exports to Uganda and Tanzania, which had declined prior to the Treaty, have shown a steady increase. Kenya's exports of manufactures have also been increasing, thereby indicating that the transfer tax has not been an insuperable barrier. The table below shows the growth of East African trade since 1964.

EAST AFRICAN TRADE, 1964-69
(Sh million)

	1964	1965	1966	1967	1968	1969	1970
Exports from							
Kenya							
To Uganda	250	306	312	296	264	319	334
To Tanzania	265	281	263	224	261	257	295
Total	515	587	575	520	525	576	629
Tanzania /a							
To Kenya	82	91	76	65	73	81	119
To Uganda	20	26	16	15	17	24	29
Total	102	117	92	80	90	105	148
Uganda							
To Kenya	144	142	146	203	173	158	201
To Tanzania	48	52	62	49	41	34	40
Total	192	194	208	252	214	192	241

The East African Development Bank

22. Among the new institutions created by the Treaty, the East African Development Bank (EADB) is perhaps the most important. The EADB is the principal instrument for reducing the imbalance in industrial development among the Partner States. EADB's capital - which is contributed in equal shares by the Partner States - is to be invested, over a five-year period, in the ratio of 38.75 percent each in Uganda and Tanzania and 22.50 percent in Kenya. This implies that Kenya will, in practice, be providing some of the capital required for industrial development among its partners.

23. Although there is continued lack of coordination in policies concerning industrial development, the EADB has made some encouraging progress. By the end of October 1970 the major proportion of EADB's capital (provided by the Partner States) had been earmarked. The table below gives EADB's operations by country.

/a From 1968 onwards, including Zanzibar.

(Sh '000)

Country		No. of Projects	Amounts Approved	% of Total	Amount Disbursed
Kenya		5	30,420	39.9	11,255
Tanzania		6	32,250	42.3	2,500
Uganda		6	13,500	17.8	7,480
	Total	17	76,170	100.0	21,235

24. Although the Treaty requires that Uganda and Tanzania be allocated a higher proportion of EADB's investment capital, amounts approved so far show that Kenya has received a higher share both in relative and absolute terms. In a sense, this is encouraging since it shows that the EADB's Board, on which the three Partner States have equal representation, has overcome narrow national considerations and has supported viable projects irrespective of their location. However, it also means that, as the end of the five-year period is approached, the EADB will have to find ways of ensuring that its investment over the whole period does conform to the agreed proportions. With less than two years of the five-year period still remaining, this may well pose some problems for the EADB.

25. The subject of industrial development has for long been a difficult issue in East Africa, particularly for Uganda and Tanzania, since they feel that Kenya's manufacturing industry has grown, in no small measure, by having unfettered access to their markets. In the sixties, both these countries established a number of consumer goods industries which replaced manufactured imports from Kenya. However, owing to its longer standing and wider range, Kenya's industrial sector has continued to be strong. While there may yet be some further scope for consumer goods industries in each country, an important determinant of industrial development in East Africa and, in particular, the prospects for coordinated development will depend on the Partner States' approach to the so-called "multi-national" industries.

26. A mission from the Bank reviewed the industrial problems and prospects of the three countries and of the Community as a whole. It concluded that the EAC had played a useful role in highlighting the need for cooperation and in undertaking specific assignments to further it. The mission also took the view that the high level of effective protection afforded by the common external tariff has had some adverse effects both on the structure of industry and on the economy as a whole. The situation has been aggravated, to some extent, by the absence of a perfectly working common market.

Research

27. The East African Community operates research institutes /1

/1 There are ten organizations under the Community covering agricultural and fisheries research, medical research and industrial research.

covering a wide field of study. There has in the past been some dissatisfaction in the three countries about the general direction of research, particularly on the ground that research in the Community institutions was not always responsive to national needs. In 1968 a Working Party was appointed to review the research programs of these institutions and to recommend ways and means of making East African research more relevant to national needs and also to develop closer collaboration with national research institutions. The report of the Working Party was submitted early in 1970. It is believed that the Partner States are not in agreement concerning some important recommendations in the report. In the meantime, the Research Council is approving specific research projects on an ad hoc basis, but the delay in reaching agreement may adversely affect the planning effort of the research organizations concerned.

East African Corporations

28. The four East African Corporations responsible for Railways, Airways, Harbours, and Posts and Telecommunications together provide most of the communications services in Kenya, Tanzania and Uganda, which share equally in the ownership and control of the Corporations. The East African Railways Corporation (EARC) administers about 6,000 km of railway and 2,250 route km of shipping services on Lakes Victoria and Tanganyika, as well as road services feeding various railheads. The services operated by EARC form the backbone of the transport system in the region and carry the bulk of heavy, long distance traffic. The 1,600 km rail section from points in Uganda to the port of Mombasa is the principal outlet to the sea for both Kenya and Uganda and, to some extent, northern Tanzania, Rwanda and the north eastern part of the Congo (Kinshasa). The 1,600 km long Central Line linking Kigoma on Lake Tanganyika and Mwanza on Lake Victoria with the port of Dar es Salaam plays a similarly vital role in serving the transport needs of the western, central and southern parts of Tanzania. The Corporation employs about 35,000 people, and its total net fixed assets currently amount to about $250 million.

29. East African Airways Corporation (EAAC) provides international and domestic air services. Air cargo service is at an early stage of development, but both cargo and passenger traffic have increased rapidly.

30. The East African Harbours Corporation (EAHC) operates the two principal ports of East Africa at Mombasa and Dar es Salaam. It also operates the ports at Mtwara and Tanga which, although much smaller, are steadily growing in importance. These ports together handle virtually the whole of the export - import trade of the three countries as well as a substantial portion of the foreign trade of Rwanda, Burundi, eastern Congo and, to an increasing extent, Zambia. Mombasa is the largest port in the region, handling some two million tons of dry cargo a year. Trade through Dar es Salaam, currently just over one million tons a year, has been growing rapidly, in part, as a result of the diversion of Zambian traffic to Dar es Salaam following Rhodesia's Unilateral Declaration of Independence in 1965. The port will become even more important when the new Tanzania-Zambia Railway between Dar es Salaam and the Zambian copperbelt has been completed. The Corporation, which employs about 2,500 people, has net fixed assets amounting to about $80 million.

31. The East African Posts and Telecommunications Corporation (EAPTC) has the exclusive right to operate telecommunications and postal services throughout East Africa. The total number of telephone subscribers in the region in 1969 was 60,000, with telephone densities for the individual countries of 0.64 telephones per hundred people in Kenya, 0.32 in Uganda and 0.27 in Tanzania, as against a density of 0.90 for Africa as a whole. The East African figures are low in relation to the state of development and demand. The waiting list for telephone service is over 15,000, and prospective subscribers have to wait from two to three years before they can obtain service. Most of the main long distance telephone routes are seriously overloaded. Although these problems will be alleviated by the Corporation's current development program, further substantial expenditure on new facilities will be required to meet the demand. International service is satisfactory since the recent commissioning of a satellite ground station.

External Relations

32. The Community provides the secretariat for the negotiation and functioning of the Association Agreement between the European Economic Community and the three East African States. The first Association Agreement was signed in July 1968. It was purely a trade agreement and as such is different from the more comprehensive form of association between the EEC and 18 West and Central African countries, based on the Yaounde Agreement of 1963. The limited trade agreement permits East African exports to enter the EEC without duty and in exchange provides lower duties on some 58 items which the EEC exports to East Africa. The reduction in duty varies from 2 to 9 percent and is, on the average, 3½ percent.

33. The Community also provides a secretariat for the East African Negotiating Team of Ministers. Strictly speaking, the Community itself is not responsible for the negotiations. Instead the Partner States have direct responsibility through the two ministers which each appoints to the Negotiating Team. Applications for admission to the Community have been made by Zambia, Ethiopia, Somalia and Burundi. The most active negotiations have concerned Zambia's application. A position paper setting forth Zambia's proposals on the manner and extent of her association with the Community was submitted to the Negotiating Team in July 1970. Since then ministerial level meetings have been held covering proposed arrangements concerning trade and the Common Market, cooperation in all the Corporations except the EARC and collaboration in research. It is not known at this time as to when a final decision may be taken on Zambia's application.

Conclusion

34. While the East African Community has from its inception been beset by a number of difficult problems, it has found ways of overcoming them and maintaining continuity in the work of the various organizations and institutions which it inherited. These institutions have been transformed and relocated according to the provisions of the Treaty.

Entirely new institutions such as the East African Development Bank have got off to a very good start. The future of the Community is very much dependent on the wishes of the three Partner States and, despite some problems which now underlie the situation, there is good prospect that they will take every possible step to strengthen the Community.

B. KENYA

ECONOMIC DEVELOPMENTS IN EAST AFRICA

VOLUME I: THE ECONOMIC REPORT

B: KENYA

TABLE OF CONTENTS

KENYA

BASIC DATA

Area: Total - 225,000 sq. miles = 582,750 square kilometers
Land area - 219,800 sq. miles = 569,282 square kilometers

Population: 1969 Census: 10.89 million
Rate of growth: 3.3 percent
Population density (land area): - 19 persons per sq. kilometers

Political Status: Republic since Independence on December 12, 1963
Member of the British Commonwealth and East African Community
Associate Member of the European Economic Community

National Accounts:	1964 £	1969* £	Growth Rate %
GDP at factor cost - current prices	331 m	476 m	7.6
GDP at factor cost - constant prices	331 m	449 m	6.3
GNP per capita	38 ($107)	47 ($132)	4.3

Distribution of Production	Percent of GDP at constant prices 1964	1969
Subsistence agriculture	27	24
Commercial agriculture	17	15
Manufacturing and construction	12	14
Transport and communications	8	8
Commerce and banking	13	13
Services	17	20
Other sectors	6	6

Investment & Savings:	K£ million 1969*
Gross Fixed Capital Formation	95.5
Change in Stocks	-3.0
Gross Capital Formation	92.5

Gross Capital Formation as percentage of GDP at factor cost 19.4%
Gross National Saving percentage of GNP at market prices 16.3%

Central Government Budget:	K£ million 1968/69 Actual	1970/71 Estimated
Current Revenue	84.9	103.8
Current Expenditure	75.2	92.7
Current Surplus	9.7	11.1
Capital Revenue	0.6	-
Balance	10.3	11.1
Capital Expenditure	24.5	46.0
Overall Deficit	-14.2	-34.9
Financed by: Domestic Borrowing	8.1	21.7
External Grants & Loans	8.1	12.0
Changes in Cash Balance	+2.0	-1.2

* Provisional

Balance of Payments:

	US$ million 1964	1969*
Exports	216.4	249.5
Imports	-242.7	-338.2
Net trade balance	-26.3	-88.8
Net travel	7.3	25.5
Other net current items	68.0	41.7
Balance on current account	49.0	-21.6
Net long-term capital movements:		
private	-42.0	44.8
public	-1.7	24.1
Net short-term and monetary movements	8.7	-65.0
Balancing item	-14.0	17.7

External Debt (31 December 1969):

	US$ million Disbursed	Including Undisbursed
Total Debt Outstanding		
Kenya:	265.8	368.8
Notional 1/3 Share of East African Community Debt:	57.1	72.1
TOTAL	322.9	440.9
Total Debt Service - 1969		
Kenya:	19.0	
Notional 1/3 Share of East African Community Debt:	5.4	
TOTAL DEBT SERVICE	24.4	

Debt Service Ratio (1969)*: 6.4%

Foreign Exchange Position:

Foreign exchange reserves at June 30, 1970: K£ 72.4 million ($203 million)
(Equivalent to over 7 months' imports at the 1969 rate)
Exchange rate: K£ 1 = Sh 20 = US$2.8

IMF Position:

	US$ million 1964	Mar.31, 1971
Quota	25.0	48.0
Drawings	-	-
S.D.R.s: Allocations	-	10.5
Holdings	-	12.0

* Provisional

I. INTRODUCTION

1. A comprehensive report/1 on the Kenyan economy was prepared in October 1969 following an economic mission to Kenya earlier that year. The report examined and assessed the new 1970-74 Development Plan which was in draft form at the time of the mission's visit. The main purpose of this section of the present report is to describe the principal economic developments which have taken place since the Plan was launched. This section on the Kenyan economy needs to be read in conjunction with Section A of this volume on the East African Community and the various technical reports and annexes of the preinvestment survey of Kenya contained in Volume II of the report.

2. Kenya has experienced a period of very satisfactory progress over the past two years. The 1970-74 Development Plan, which was published towards the end of 1969, presents a balanced development program and a generally realistic set of targets, and the economy has made a good start towards achieving these targets. In spite of a rather disappointing year in 1969, economic growth surged ahead again in 1970 and, assisted by the unexpected boom in coffee prices, is once again approximately back on the guidelines set by the Plan. Many of the longer-term economic problems referred to in the last economic report still seem just as intractable, however, and it is becoming clear that planning will have to be conceived in a longer term time frame if fundamental issues such as unemployment, rural development and urbanization are to be tackled in the right perspective.

3. Politically the period has been a mixed one. The civil disturbances of 1969 which followed the murder of the then Minister of Planning, Mr. Mboya, and culminated in the banning of the opposition Kenya People's Union, gave some cause for concern about the future of democratic institutions. However, the general election at the end of 1969 was conducted in a fair and orderly manner despite the absence of an organized opposition, and many previous members of Parliament were defeated in the election. Many younger and well-qualified politicians were elected to office and the new Parliament has quickly demonstrated its concern with national problem and the urgency for devising appropriate policies.

4. A significant development during this period has been the emergence of a more clearly defined government strategy towards state participation in economic activity. Since Independence Kenya has been in favor of private enterprise as the mainspring of the economy, but recently the Government has made some cautious moves towards extending its control over certain key sectors of the economy. Among the more significant actions has been the acquisition of substantive shareholdings

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/1 Economic Development Prospects in Kenya: (Report No. AE-69) October 22, 1969

8. The monetary sector grew at an average rate of 7.1 percent a year between 1964 and 1969, while the non-monetary sector grew at 4 percent. By far the fastest rate of growth in real terms was recorded by the construction industry, which expanded at a rate of over 15 percent a year. The tourist industry, although not separately recorded in the national accounts, has also experienced a very rapid growth since 1964. One of the slowest growth rates was in the monetary agricultural sector, which contributed only about 10 percent - or less than subsistence agriculture - to the increased value added over the period. The previous economic report, in drawing attention to the rather slow growth of the agricultural sector, suggested that commercial agriculture would need to play a more significant role in economic development if the impetus for rapid growth were to be maintained in the Kenyan economy.

9. The rate of growth in output in 1969, according to preliminary figures, was 5.6 percent, compared with 7.5 percent in 1968. A number of factors were responsible for this slower growth rate. A rather poor agricultural season had an adverse effect on production, particularly subsistence cereal production, although this was partly offset by a recovery from the worst effects of coffee berry disease, by increases in both the production and price of tea, and a continued expansion in sugar production. While not directly reflected in the national accounts, a temporary lull in the development of the tourist industry - with a consequent depressing effect on all the sectors of the economy serving it - also contributed to the slower rate of growth in 1969. The government service sector, which now represents the second largest sector in the economy after agriculture, also expanded at a rather slower rate in 1969 (6.5 percent) than in previous years. On the other hand the manufacturing sector, partly assisted by a recovery of exports within the Common Market, experienced a year of record growth (11 percent) and the construction industry continued to expand at a very high rate.

10. There was a significant upturn in the economy during 1970 and it is expected that growth during the year will prove to have been between 7 and 8 percent in real terms. Agricultural gross farm revenue was estimated to be 10 percent higher than in 1969, once again led by the dominant growth crops: coffee, tea and sugar. This was the first full year in which the effects of the recent high level of coffee prices was felt, and this factor alone should have added some Sh 90 million to farmers' incomes in 1970 and raised GDP by nearly one percent. Other sectors of the economy were also operating at higher levels, however. Of particular importance was the rapid recovery and expansion of the tourist industry after a year of stagnation in 1969. There was also evidence of renewed investment activity by the private sector - particularly in construction - and of a restocking by commerce.

Employment, Wages and Prices

11. One of the most disturbing features of Kenya's economic growth since 1964 has been the failure of employment - particularly wage employment - to expand in step with production. In the private sector (including large farms) wage employment has remained virtually constant

since 1965 and, while employment in the public sector and on small farms has increased at a more satisfactory rate, and self-employment has also absorbed a significant proportion of new workers, the incidence of unemployment and underemployment is clearly increasing. This problem will be discussed at greater length in Part V.

12. Part of the reason for the slow growth of wage employment - particularly in the private sector - has been the rapid increase in wage rates since 1964. In private industry and commerce, for example, total earnings increased by 45 percent between 1964 and 1969, while wage employment increased by only 10 percent. Similarly, in the public sector, earnings increased by 68 percent over the same period, while employment increased by 30 percent. It is clear that rapid increases in wages have not only encouraged the increasing substitution of capital for labor but have worked against attempts to achieve a more even distribution of income in Kenya.

13. Most of this increase in wages and salaries secured by the employed over the last 5 years represents an increase in real income, since Kenya has enjoyed a period of remarkable price stability since Independence. In spite of the rapid growth of the economy and the continuing inflation experienced by developed countries, the rate of price inflation in Kenya (as measured both by the consumer price indices and national account deflators) has typically been around 1½ percent a year. While certain rapidly expanding sectors - particularly the building industry - have experienced substantial cost increases in recent years, the relative stability of prices in the economy as a whole is one reason for thinking that the economy could support a significantly faster pace of development (See Part V).

III. MOBILIZATION AND USE OF RESOURCES

Savings and Investment

14. As a result of a rapid rate of development, the Kenyan economy has moved from a resource surplus in 1964 to a resource deficit position over the last four years, but a larger volume of savings in both the public and the private sectors has kept the resource gap relatively small and has enabled Kenya to finance nearly 90 percent of gross investment since 1964 from domestic savings. Savings have been generated at a moderately high rate since 1964, ranging from nearly 17 percent to over 20 percent of GDP (See Table 2). However, the peak rate of savings achieved in 1966 and 1967 has not been maintained in the last two years and, when the large increase in public savings since 1966 is taken into account, it appears that savings in the private sector have fallen in absolute terms. This fall in private savings is partly due to the successful channeling of a greater proportion of domestic savings to the public sector, but probably also reflects a reduced average propensity

to save caused by the emigration of non-Africans over this period./1

15. Gross fixed capital formation has grown at a rate about twice as fast as savings since 1964 - over 16 percent a year in current prices or 12.7 percent a year at constant 1964 prices. As a percentage of GDP, gross investment increased from 14.3 percent in 1964 to 23 percent in 1967, but the rate then slackened and fell to 19.4 percent in 1969. Nearly half of all fixed capital formation since 1964 has been in three sectors - transport and communications (19%), manufacturing (15%) and agriculture (15%). The private sector undertook about two-thirds of this investment, although there has been a noticeable tendency for the public sector's share of investment to increase.

16. The slackened rate of investment since 1967 is of some concern since it probably represents the major cause of the under-utilization of available resources in Kenya during the last few years. In 1968 fixed capital formation increased by only 3 percent as a result of a reduced rate of investment in the private sector, and the rate of accumulation of stocks also fell. In 1969 there was renewed activity in the private sector (particularly in construction and machinery) but the rate of investment in the public sector fell, despite increased spending by central government, owing to reduced capital spending by the East African Railways, the statutory boards, and local authorities. There was also a run-down in stocks in 1969, largely related to the disruption in Asian-owned businesses, but probably also partly due to a run-down in maize stocks. In 1970 the rate of investment seems to have increased in most sectors, but particularly in the construction industry, while import figures suggest that trading activity has returned to a more normal level and that the commercial sector has again been building up stocks. Until the 1970 figures are available, however, it will not be known whether the rate of investment has regained the level reached in 1967.

Development Planning

17. At the time of the last economic mission to Kenya in 1969, the new 1970-74 Development Plan was still in draft form; since then the Plan has been accepted by the Government and published. The 1969 economic mission found the Plan to be generally well-conceived, with realistic overall growth targets and appropriate sectoral priorities, although it was thought that an even larger emphasis might have been given to agricultural development in the allocation of development

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/1 The 1969 census has shown that the non-African population fell by 23 percent between 1962 and 1969. Many of the European emigrants left before Independence, but the emigration of Asians has accelerated since the introduction of more stringent work permit regulations.

resources./1

18. At the end of 1970, the growth of the economy in terms of GDP was about in line with the projections of the Plan, in spite of a rather poor year in 1969. The growth of Central Government development expenditure (as reflected in the revised estimates for 1969/70 and the 1970/71 budget) has also been in line with the Plan targets./2 But fixed capital formation has not grown at the rate projected in the Plan, and, if the annual level of over Sh 3,200 million (at constant 1967 prices) forecast for 1974 is to be achieved, investment will have to increase at over 11 percent a year over the period 1969-74, compared with the 9 percent projected in the Plan. An increase in Central Government development expenditure has only a limited effect on boosting total investment because only 55-60 percent of development expenditure represents capital formation, and the Central Government in any case directly contributes only about one-fifth of total national investment. The last economic report suggested that the rate of investment was likely to be the most critical factor in realizing the growth targets set by the Plan. Taking into account the modest 5.3 percent increase in fixed capital formation which was achieved in 1969, it seems even more likely that an inadequate rate of investment will prove to be the major constraint to development. In the last section of this report it is concluded that additional economic and financial resources could be made available for a higher rate of development, particularly in the public sector. A critical factor in accelerating the rate of investment, however, will be an increased capability in the identification, preparation and implementation of development projects.

19. Since the last economic mission to Kenya in 1969, there have been some significant improvements in the planning capacity of government, particularly by the strengthening of the planning division of the Ministry of Agriculture and the establishment of a project registry in the Ministry of Finance and Economic Planning. The merging of the two ministries of Finance and Planning promises a more effective coordination between the plan and the budget than has been achieved in the past. Closer coordination and consistency between the development budget and the recurrent budget should also be achieved following the unification of the two budget offices and the organization of budgetary responsibilities along functional lines. The priority need is still to establish - or strengthen -

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/1 For a full examination and appraisal of the 1970-74 Development Plan, see Economic Development Prospects in Kenya (Report No. AE-6a, October 22, 1969), Chapter III.

/2 The recent supplementary development budget of Sh 306 million puts the total provision for 1970/71 far ahead of the Plan target expenditure. The larger part of the additions provision, however, is for injections of capital into government financial institutions in excess of those provided for in the Plan.

planning units in the major operational ministries, however, particularly in the ministries responsible for the productive sectors, such as tourism and wildlife and commerce and industry. But there is also need to strengthen planning in such important sectors as health, education, housing and cooperatives, and social services, where there are often discernible gaps in long-term development strategy. The transfer of the functions of roads, primary education and health services from the county councils to the Central Government, which became effective on January 1, 1970 has also created an urgent need to strengthen the planning capability of the ministries affected.

20. Two areas of macro-economic planning also need to be strengthened. The first is the preparation of perspective plans for the long-term development of the economy. It has become increasingly clear that the solutions to some of Kenya's most pressing problems can only be sought in the context of a much longer-term view than provided by 4-5 year development plans. This is perhaps most evident in approaching the increasingly serious problem of unemployment, but it is also becoming evident that a rational strategy towards rural development will require major decisions to be made in critical areas of policy, such as land tenure and land use, which should be reached only with an understanding of the long-term issues at stake. The recent establishment of an Urban Studies unit to prepare a long-term master plan for the development of the Nairobi metropolitan area also serves to underline the need for long-term perspective planning. It will be difficult for the City Council - or any other regional or sectoral planning unit - to make its long-term planning a basis for realistic action programs unless these plans form part of a long-term development strategy for the economy as a whole.

21. A second field of macro-economic planning which needs strengthening is the preparation of the recurrent budget, which has traditionally been given less attention than the development budget by economic planners. As indicated below the recurrent budget has at times acted as a brake to development in Kenya, but the creation of the new Ministry of Finance and Economic Planning, and the various internal improvements that have been made, should improve recurrent expenditure planning in the future.

Public Finance

22. Central Government expenditure has increased rapidly over the last five years, from Sh 1,410 million in 1964/65 to an estimated Sh 2,454 in 1969/70, or at an average rate of around 12 percent a year. The most rapid rates of increase have been in community services (28% a year) and social services (20% a year). General services have increased at the average rate of 12 percent a year, but economic services have expanded at an average rate of only 6 percent.

23. Recurrent expenditure has grown by nearly 10 percent a year up to 1969/70. The 1970/71 recurrent budget provides for an increase of Sh 279 million in net recurrent expenditure over the revised 1969/70

estimate, or a further increase of nearly 16 percent. However, Sh 196 million of this increase is for increased debt servicing and the increased subscription to the IMF. If these financial obligations are deducted, net recurrent expenditures voted to ministries is only 5 percent higher than in 1969/70, compared with a projected growth of 9.7 percent in real terms provided in the Plan./1 While expenditure appears to be running at a higher actual rate than budgeted, and there may well be further supplementary estimates before the end of the current financial year, it seems most probable that development in some sectors is being restrained by an undue restriction of the growth of recurrent expenditure.

24. Development expenditure has been growing by over 19 percent a year since 1964/65, with budgetary provision for an even faster expansion in 1970/71. The main development budget for 1970/71 provided for a total Central Government expenditure very close to that projected for that year by the Plan, although there were quite large differences between plan and budget allocations for individual categories of expenditure. In March, a supplementary budget added over 40 percent to the main budget, bringing the total provision for development expenditure in 1970/71 to some Sh 1,030 million. This is some 56 percent larger than the estimated development expenditure in 1969/70 and 36 percent higher than the plan target expenditure for 1970/71. Since the supplementary budget was presented late in the financial year, it is unlikely that all this additional provision will be spent before the end of the year. However, actual expenditure during 1970/71 will probably be significantly higher than projected in the Plan. There is, however, no information on the budgeted expenditure of public institutions other than the Central Government in 1970/71.

25. Despite the very rapid growth in both recurrent and development expenditure, the Government has been very successful in mobilizing domestic resources to finance an increasing proportion of its development effort. Recurrent revenue has been boosted rapidly, by around 14 percent a year, with the result that the large recurrent deficits of the early post-independence years have been converted into useful surpluses in the last three years, and the budget surplus in 1969/70 was sufficient to finance some 18 percent of development expenditure. On the development budget too, Government has made rapid strides to increase domestic revenue, particularly through local borrowing, which in 1969/70 amounted to some Sh 346 million. Domestic capital has been mobilized both from the issue of local stock and by borrowing from the National Social Security Fund, which has become a major source of domestic savings and now holds about one third of the public debt. As a result of increased domestic financing,

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/1 The comparison between 1970/71, 1969/70 and earlier budgets is still a little confused by the transfers of functions from local county councils. If the ministries chiefly concerned with the transfer (Education, Health, Works, and Local Government) are excluded, the recurrent expenditure budgeted for other ministries in 1970/71 is only 1.6% higher than the previous year.

external sources of finance have become relatively less important to the development effort, although roughly 30-40 percent of the development budget still has to depend upon external sources of financing. In 1969/70, the development budget was financed in the following proportions:

recurrent budget surplus	18%
domestic borrowing	53%
external borrowing	34%
less changes in cash balances	-5%

Money and Banking

26. In the last three years there has been a significant move towards the localization of the banking system in Kenya. In 1968 two new local banks were created. The National Bank of Kenya was set up as a government-owned commercial bank in competition with the existing foreign-owned banks, and the Co-operative Bank of Kenya was established, initially under statutes regulating cooperative societies, to provide credit to cooperatives, particularly agricultural marketing societies.

27. Towards the end of 1970 a new commercial bank, the Kenya Commercial Bank Ltd., in which Government has a 60 percent shareholding, was formed to take over the domestic banking functions of the National and Grindlays Bank Ltd. Another new bank, Grindlays Bank International Ltd., in which Government holds 40 percent of the shares, was formed to take over international banking transactions previously handled by National and Grindlays. More recently, it has been announced that Government is negotiating to acquire a 50 percent shareholding in the other two major banks operating in Kenya: Barclays Bank DCO and the Standard Bank Ltd. Government participation is expected to make commercial bank operations more relevant to the needs of the country, but the Government has emphasized that these partnerships will be required to operate on commercial principles.

28. Money supply has been increasing rapidly in 1969 and 1970, and there has been an even faster increase in quasi-money (time and savings deposits). The expansion of private deposits partly reflects a real increase in savings but is also partly due to the accumulation of blocked capital of non-citizens, involuntarily retained in local deposits as a result of exchange control. The main factors behind the changes in money supply since 1966 are shown below:

(Sh million)

	Dec. 1966	Dec. 1967	Dec. 1968	Dec. 1969	Sept. 1970
Money Supply:	1333	1401	1625	1931	2153
Currency outside banks	399	452	492	586	636
Demand deposits	934	949	1133	1345	1517
Time and Savings Deposits	552	676	690	821	1004
Domestic Credit:	1000	1291	1340	1429	1611
Claims on public sector	-49	7	94	103	68
Claims on private sector	1049	1284	1246	1326	1543
Foreign Assets (net)	775	594	789	1259	1506

29. A major expansionary factor in 1969 and 1970 has been the increase in domestic credit which has been almost wholly in the private sector. Yet the expansion of deposits has been even more rapid, resulting in a further increase in the liquidity of the banking system referred to in the last economic report. The ratio of commercial bank advances to deposits continued to fall - from 70 percent at the end of 1968 to about 65 percent in August 1970 - and their cash ratio increased from around 15 percent to about 22 percent (compared with the minimum requirement of 12½ percent). Over the same period commercial bank deposits with the Central Bank also increased by over Sh 300 million (133 percent).

IV. EXTERNAL ECONOMIC RELATIONS

External Trade and Balance of Payments

30. Kenya's balance of payments position has steadily improved since 1967, as shown in Table 5. In 1969 there was a large reduction in the adverse balance of trade owing to a 9 percent increase in exports and an almost constant level of imports. The large increase in exports was largely due to the recovery of coffee from the worst effects of coffee berry disease, a further expansion in tea production, and a shift to the export of petroleum products of higher unit value. The small increase in imports was mainly attributable to expanded purchases of capital and intermediate goods. Imports of consumer goods (particularly food and textiles) were lower in 1969 than in 1968, partly as a result of the continuing process of import substitution and partly due to the run-down of stocks in the private sector. Government imports were also lower, however, reflecting the lower level of investment in the public sector in 1969. Table 5 also depicts Kenya's trade with the other two Partner States of the East African Community, and shows that in 1969 Kenya's favorable balance of East Africa trade had almost returned to the levels of 1965 and 1966, despite the limitations imposed by transfer taxes (see Section A on the East African Community).

31. There was also a significant improvement in the balance of invisible items in 1969. Net non-factor payments increased slightly, in spite of reduced earnings from tourism, as a result of higher receipts for transportation and freight services. There was also a fall (for the first time since 1964) in net factor payments. While factor payments continued to increase, Kenya's receipts from international investment rose sharply, presumably reflecting the earnings on her high level of foreign exchange holdings. The effect of those favorable developments in both the visible and invisible balances was a sharp reduction in the deficit on current account to Sh 147 million, or only a little over half the deficit recorded in 1968.

32. A significant feature of the balance of payments in 1969 was the large net inflow of foreign capital, amounting to Sh 494 million, or 48 percent more than in 1968. This was primarily due to the large inflow of private long-term capital (Sh 376 million), which was twice the flow

recorded in the previous year. Rather more than Sh 100 million of this capital inflow can be attributed to the transfer of funds by commercial banks to satisfy the requirements of the Banking Act of 1968 in regard to their holdings of assigned capital, but the remainder must represent a net increase in foreign investment in private Kenyan enterprises.

33. The total net in flow of foreign capital has for two years exceeded the deficit on current account, with the result that foreign exchange reserves have built up rapidly from Sh 859 million at the end of 1968 to Sh 1,302 by the end of 1969. In practice, the reserves have increased by more than the recorded net foreign exchange earnings of the country, as shown by the relatively large values of the balancing item in 1968 and 1969. It is probable that some part of this unrecorded inflow of foreign exchange may be the result of illegal transfers of capital into Kenya from neighboring countries. If so, the recent tightening of controls in both Uganda and Tanzania should limit such capital movements.

34. In 1970 there has been a further increase in export earnings - primarily as a result of the coffee price boost - and a sharp rise in imports, due both to restocking and an apparent general rise in activity in the private sector. As data are only available for the first half of 1970, however, it is still not possible to predict the trade balance for the whole year. Foreign exchange reserves have, however, continued to rise, and in August 1970 had reached a level of Sh 1,512 million, or the equivalent of seven months' imports at the 1969 level (or over six months at the level reached in the first half of 1970).

External Assistance and External Debt

35. Kenya has received a large amount of both financial and technical assistance since Independence. The nature of external aid has changed over the years in response to both the evolving needs of the country and the changing composition of donors. In the early post-independence years, a large proportion of aid was being channeled into land purchase and transfer. By 1968, however, this program had tapered off, and a larger amount of aid was being directed to roads and other infrastructure, education and training, and agricultural programs. At the last meeting of the Consultative Group in February 1970, the priority of aid for rural development was stressed, and several donors are now committed to supporting the Special Rural Development Program in Kenya. Technical assistance has been numerically most important in the fields of education, health and other social services and in agriculture, although expatriate advisors continue to bear responsibility in many key positions in other fields as well.

36. By the end of 1969, Kenya's total external debt, including amounts undisbursed, stood at nearly $369 million - or $441 million if Kenya's notional one-third share of the EAC debt is added. The cost of servicing this debt in 1969 amounted to $24.4 million ($19.0 million Kenya + $5.4 million share of EAC debt), giving an overall debt service ratio of 6.4 percent. During 1970, Kenya contracted additional debts to the value of $39.5 million, of which $27.7 million were IDA credits and $8.3 million Bank loans.

37. Nearly two-thirds of Kenya's external debt at the end of 1969 was held by foreign governments, nearly one-fifth by the Bank Group, and about one-sixth by private lenders. By far the most important bilateral source of loan capital has been the British Government, which still holds nearly half of Kenya's external public debt. However, in the last few years, Kenya's external borrowing has become more diversified: eight new governments have entered the aid scene, while the Bank Group has emerged as the largest single source of external capital. Since 1966, very little use has been made of suppliers' credit or other publicly guaranteed private capital.

38. The terms on which Kenya has obtained aid in the past have been generally favorable, and the low debt-service burden implies that the economy could still absorb some aid on conventional terms. As the development effort in Kenya builds up, however, it is expected that the resource gap will widen, creating a need for an increased flow of capital from external sources. It will be necessary for a large part of the aid to be on concessional terms if the debt service payments are not to mount too rapidly in the future. It will also be necessary for aid to cover a proportion of the local costs of eligible projects, particularly as the emphasis shifts to rural development programs and other projects with a high local cost component.

V. SOME ISSUES FOR THE FUTURE

(i) The Scope for Accelerated Development

39. At the time of the most recent economic mission in October/November 1970 there was some evidence that Kenya's actual and potentially available resources were not being used to the fullest extent and that, notwithstanding the remarkable progress achieved in the past, an even more rapid rate of development could be achieved if the remaining slack in the economy were taken up. Some of the indicators of the scope for accelerated development - particularly the liquidity of the financial system, the high level of exchange reserves and Government's large cash balances - have been referred to earlier in the report.

40. Perhaps the most obvious scope for a greater development thrust lies in the public sector, where the rate of investment has lagged behind the private sector in recent years. The main 1970/71 Central Government development budget, while providing for a substantial increase in expenditure, was really quite modest as an exercise in mobilizing potential resources, given the magnitude of Government's own deposits with the Central Bank and the scope for increased local borrowing and foreign aid. On the supply side, the remarkable stability of prices in recent years - and the prospect of a continued limitation on wage increases - tended to suggest that domestic demand could be significantly increased without causing undue inflationary pressure. Nor was foreign exchange any significant constraint, since the level of reserves continued to grow, passing the seven month mark, despite a sharp increase in imports early in 1970.

41. Since the October/November mission, Government has returned to Parliament with a supplementary development budget which, by seeking an additional Sh 306 million, will increase the total development budget in 1970/71 by over 40 percent. Coming so late in the financial year it is doubtful whether all the extra provision can be spent before June 30, even though the larger part of the supplementary provision (to finance Government's contributions to the National Bank of Kenya and other state financial institutions) will presumably be paid immediately. No details are available concerning the financing of this additional expenditure, and in particular, whether it will be financed mainly from running down cash balances or increased local borrowing. In either event it is clear that this budget will take up much of the slack referred to earlier.

42. The real constraint to accelerated development in Kenya remains the rate at which investment opportunities can be opened up, however, particularly in the productive sectors. In the private sector, the climate for investment remains good as a result of increasing internal demand and the reassuring manner in which the public sector has extended its participation in the economy, although the displacement of Asian businessmen has reduced both the stock of entrepreneurial ability in the economy and the amount of capital available for investment. There is still an urgent need not only to equip small-scale African businessmen to fill the vacuum that has been created but also to provide a productive outlet for the capital and managerial talents of the Asian businessmen who remain in the country.

43. The greatest scope for increasing investment lies in the public sector, which has recently lagged behind the private sector in its rate of development. Here, as the last economic report pointed out, the rate of new investment will be closely geared to planning and project preparation capacity. As the planning capacity builds up, a greater flow of viable investment opportunities can be expected; but this is essentially a long-term process. In the meantime, there are a number of fields in which a greater development effort might be possible in the short to medium term without over-straining the public sector's absorptive capacity. Some of the possibilities for accelerated development through the government development budget directly, through the recurrent budget, or through other agencies of the public sector, are outlined in the following section.

(ii) Some Priorities for the Future

44. In any program to mobilize additional resources for development, priority would need to be given to the agricultural sector which has had a dwindling proportion of expenditure allocations over the years. If the agricultural sector is to provide the necessary impetus to development it will have to devise relatively large programs designed to increase both the area of land under production and unit productivity. The last economic report, in stressing the need for a greater development thrust in the agricultural sector, emphasized the importance of an accelerated program of high density settlement, both as a means of increasing agricultural output, incomes and exports and as the most practicable way of increasing

employment. In the intervening period, as the problem of unemployment (particularly among school leavers) has started to assume alarming proportions, it has become even more important to devise a feasible program for bringing together Kenya's under-utilized resources of man-power, land and money to increase agricultural production.

45. But there is a wide range of other expenditures in agriculture which could be useful in increasing present or future production and which do not require very sophisticated planning or preparation. These include the whole range of economic services (such as extension, veterinary and animal health services), economic infrastructure (simple roads, water supplies, cattle dips, stock routes, markets and storage facilities), a number of possibilities for immediate direct production (particularly through the under-utilized capacity of the Agricultural Development Corporation), and expenditure on increasing the potential future productive base (technical and market research, feasibility studies). In many cases, these programs will require a larger allocation of recurrent funds than have been available in the past, and may also require a more flexible approach to agricultural lending on the part of aid donors.

46. A second field into which presently under-utilized resources could be usefully channeled is housing - particularly low-cost housing. The rapid development of the economy since Independence has resulted in a shortage of housing of all kinds, most noticeably in the major urban areas where development has been most rapid. The most keenly-felt need has been for minimum cost housing to accommodate the rapidly increasing wage-earning and self-employed population of the towns. Most of the investment in housing by the public sector has been in middle- and high-cost housing, and even the cheapest government or local authority housing has generally been too costly for the majority of urban families, unless greatly sub-sidized. The private construction and real estate industry, on the other hand, has been discouraged from meeting the demand for low-cost housing for a number of reasons, including the limitations imposed by unrealistic minimum building standards and the distortions in housing values caused by subsidies injected into civil service, local authority and some private housing.

47. Because of the inability of either the private entrepreneur or the public sector to meet the large and growing demand for minimum-cost housing, the new city residents have had to find their own solution to the basic need for shelter, with the consequent flush of illegal peri-urban squatter settlements, shanty towns and slum conditions. The reaction of both Central and Local Government to the growth of these areas has been largely negative in the past, culminating in the Nairobi City Council's recent intensification of its previously sporadic efforts at demolishing squatter settlements within its city limits. It is apparent that a policy of destroying unsightly and unsanitary shanties, however well intentioned, will achieve nothing unless the occupants (most of whom are permanent city residents) can be provided with better homes at a rental they can afford. There is therefore a pressing need for the problem of low-cost housing to be tackled far more vigorously, positively and on a much larger scale than in the past.

48. Many preconditions for a more effective low-cost housing program now exist. The 1970-74 Development Plan provides the policy framework for an emphasis on low-cost housing, and much valuable technical research on cheap housing and site-and-service schemes has been carried out. The past self-help activities of the people themselves and, more recently, the dramatic growth of private African housing companies suggest that practical means can be found to construct acceptable structures provided sufficient serviced sites can be supplied. Finally there is now a greater willingness on the part of local authorities, particularly the Nairobi City Council, to re-assess the relevance of building standards and to adopt a more positive and realistic attitude towards existing squatter settlements and particularly to means of improving them. The prospects for dealing with the housing problem in the context of the urbanization process as a whole are examined in detail in Annex C of this report.

(iii) The Problem of Chronic Structural Unemployment

49. Since the last economic mission, increasing concern has been expressed in Kenya about the growing problem of unemployment, and it is now widely accepted that the difficulty of providing work opportunities for the rapidly expanding labor force is likely to be the greatest single economic and social challenge facing the country in the future. The prevailing disquiet about employment has been increased by the publication of first results from the 1969 census, which confirm the previous estimate of a 3.3 percent population growth rate, and reveal that nearly half of the 1969 population were under 15 years and will therefore be of working age by 1985.

50. There are no accurate estimates of unemployment in Kenya, and the boundaries between employment and unemployment are in any case rather arbitrary. On the announcement of the recent Tripartite Agreement (see below) about 250,000 were registered for employment. Assuming this to be a rough order of magnitude of unemployment/1 it is clearly not a very significant proportion of the total labor force (roughly 5 million), but is a very significant proportion of the total number of wage-earners in 1970 (estimated to be about 1 million) and a very high proportion of the number of urban jobs (less than 500,000) which most job seekers look for. What is alarming is not so much the magnitude of present unemployment as the rate at which the growth of the labor force is outstripping the provision of employment opportunities.

/1 It is difficult to know how useful this figure is as an estimate of real, hard-core unemployment. A number of people already employed in low-wage jobs registered under the Agreement in the hopes of improving their position, while it is generally believed that the publicity surrounding the scheme induced "self-employed" people in the rural areas to join the ranks of the job seekers. On the other hand, it is fairly certain that very many people considered the chances of finding a job so poor as not to warrant registering. From time to time it is also reported that the large-scale farm sector is unable to recruit labor, even while thousands are registered as unemployed in the major urban areas.

51. The most pressing problem in the short term is to find work opportunities for the increasing number of school leavers. The school system is presently throwing young people onto the labor market at the rate of about 100,000 a year, of whom no more than a fifth are likely to find a paid job. Moreover, as the labor force rolls over, the younger, better educated entrants are less inclined to be satisfied with the relatively poor rewards offered by subsistence farming or farm labor than were the older men they replaced.

52. In response to the growing threat of unemployment, Government introduced an emergency 10 percent increase in employment, applicable to both the private and public sectors, as the basic component of the 1970 Tripartite Agreement between Government, employers and the trade unions. In return for this increase in employment, the unions agreed to a wage freeze during the duration of the Agreement, and Government undertook to work out proposals for longer term solutions for increasing employment. It is estimated that between 30,000 and 40,000 additional workers will have been taken on under the Agreement, which became effective on October 31, 1970, and expires in the middle of 1971. However, these figures are a little misleading as a measure of the employment effects of the Agreement. It is accepted, for example, that a proportion of these additional jobs would have been provided anyway, even in the absence of the Agreement. On the other hand, employers who took on more workers than they needed are under no obligation to maintain the expanded labor force after the Agreement terminates on June 1971. Experience with a similar agreement in 1964 suggested that employers tended to retain most of the extra workers when the Agreement expired, but reduced their scale of new hiring until natural attrition caught up. The Agreement can probably be expected to have very little long-term effect on employment, and even this may have been largely offset by the repatriation of Kenyan workers from Uganda.

53. Accepting that the Tripartite Agreement is, at best, only a short-term palliative, Government is now seeking longer term solutions to the problem of unemployment. At the time of the last mission, Government's plans were still under consideration, but it is understood that the major emphasis will be on the evolution of an incomes policy, with more direct control of wages imposed through a strengthened Industrial Court. In the past, free collective bargaining has resulted in generous wage increases in the modern sector, which have encouraged the introduction of capital-intensive methods of production and increased the pressure of rural-urban migration by perpetuating or increasing the large differentials between urban and rural incomes. Proposals are also being drawn up for fiscal and other measures designed to increase the labor component of value added in the economy as a whole.

54. While these proposals to increase employment are very timely and will, it is hoped, obtain strong support from government, employers and labor, there are two reservations which need to be made. The first is that any successful interference with the structure of production to increase employment might adversely affect the costs of production and the competitiveness of Kenya's exports in world markets. It is

possible that the employment problem will become so serious that some reduction in the rate of economic growth, in return for a larger increase in employment, may be necessary and acceptable. However, some sectors of the economy (such as the sisal industry which was exempted from the recent 10 percent employment increase) are very sensitive to cost increases, and it will be necessary to devise more selective measures of stimulating employment than the across-the-board type of measure used in the Tripartite Agreement. Unfortunately, this is an area in which technology is inadequate and there are few ground rules: it is hoped that the proposed visit by a World Employment Program mission in 1971 may throw more light on the alternatives open to Government in the difficult process of increasing employment without jeopardizing rapid economic growth.

55. The second reservation is that no program for increasing the labor component of production in the modern sector - however successful - can be looked to for a complete solution to the problem of using Kenya's growing labor force productively. This is a simple matter of arithmetic. Even to absorb the number of young people leaving school each year, wage employment would have to increase at about 10 percent a year, and this rate would have to increase rapidly as the output of the schools accelerates. Clearly this is simply not feasible, and the majority of these young people will have to be provided some other form of productive activity if they are to contribute to the economic capacity of the economy. This will require a major planning effort to examine all possible ways of increasing opportunities for further employment or self-employment. Three areas, by virtue of their size, will prove to be of particular importance. The first, self-employment in agriculture, will have to employ the largest proportion of the expanding labor force for many years to come and it is in this context that the need for an accelerated program of settlement and increased unit productivity of the land already under cultivation has been stressed in this report. The second major field of concern is agricultural wage employment where the potential for increasing employment is probably immense given increasing productivity and entrepreneur ability in the small farm sector. The third field is non-agricultural self-employment which is probably the hardest, and yet one of the most valuable fields of employment to be stimulated. Little is known of the extent and nature of the many forms of self-employment, and there appear now to be a pressing need for a comprehensive study of the sector to discover the major constraints faced by small-scale businessmen and service workers and how increased employment and incomes in this sector can best be stimulated.

APPENDIX

STATISTICAL TABLES

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Table 1: INDUSTRIAL DISTRIBUTION OF GDP, AT FACTOR COST AND CONSTANT PRICES, 1964-69/1

Industry	1964 Sh. million	1964 %	1969/1 Sh. million	1969/1 %	Increase 1964-69/1 Sh. million	Increase 1964-69/1 %	Rate of Growth, 1964-69/1 Constant Prices %	Rate of Growth, 1964-69/1 Current Prices %
Monetary Economy								
Agriculture, forestry, fishing	1,094	16.5	1,346	15.0	252	10.7	4.2	3.3
Mining	29	0.4	40	0.4	11	0.5	6.6	10.6
Manufacturing	675	10.2	939	10.4	264	11.2	6.8	10.4
Construction	136	2.1	278	3.1	142	6.0	15.4	20.4
Electricity and water	97	1.5	114	1.3	17	0.7	3.3	7.5
Transport	503	7.6	811	9.0	308	13.0	10.0	10.2
Commerce	660	10.0	844	9.4	184	7.8	5.0	6.5
Banking	232	3.5	358	4.0	126	5.3	9.1	10.4
Ownership of dwellings	267	4.0	280	3.1	13	0.5	1.0	4.0
General government	860	13.0	1,330	14.8	470	19.9	9.1	11.2
Other services	296	4.4	482	5.4	186	7.9	10.2	9.2
Total monetary economy	4,849	73.2	6,822	75.9	1,973	83.5	7.1	8.5
Non-Monetary Economy								
Agriculture, forestry, fishing	1,509	22.7	1,844	20.5	335	14.2	4.1	4.0
Other	269	4.1	323	3.6	54	2.3	3.7	10.2
Total Non-Monetary economy	1,778	26.8	2,167	24.1	389	16.5	4.0	5.1
TOTAL GDP AT FACTOR COST	6,627	100.0	8,989	100.0	2,362	100.0	6.3	7.6

/1 Provisional

Sources: Quarterly Economic Report, September 1970; data supplied by Statistics Division, Ministry of Finance and Economic Planning.

Table 2: TOTAL SUPPLY AND USE OF RESOURCES, 1964-69 /1

(Sh millions)

	1964	1965	1966	1967	1968	1969 /1
GDP and GNP						
GDP at factor cost	6,628	6,610	7,700	8,134	8,838	9,526
+ indirect taxes	500	540	616	694	762	816
- subsidies	8	10	14	32	52	48
GDP at market prices	7,120	7,140	8,302	8,796	9,548	10,294
- net factor payments	142	133	128	167	93	73
Gross National Product	6,978	7,007	8,174	8,629	9,455	10,221
Total Resources						
GDP at market prices	7,120	7,140	8,302	8,796	9,548	10,294
+ net imports of goods and services	- 294	- 70	10	224	302	186
Total Resources Available	6,826	7,070	8,312	9,020	9,850	10,480
Investment						
Gross fixed capital formation	902	930	1,224	1,746	1,800	1,910
Increase in stocks	46	110	324	134	52	- 60
Total Gross Investment	948	1,040	1,548	1,880	1,852	1,850
Consumption						
Public consumption	998	1,058	1,154	1,288	1,486	1,612
Private consumption	4,880	4,972	5,610	5,852	6,512	7,018
Total Consumption	5,878	6,030	6,764	7,140	7,998	8,630
Savings						
Gross investment	948	1,040	1,548	1,880	1,852	1,850
- net imports of goods and services	- 294	- 70	10	224	302	186
Gross Domestic Savings	1,242	1,110	1,538	1,656	1,550	1,664
- net factor payments	142	133	128	167	93	73
Gross National Savings	1,100	977	1,410	1,489	1,457	1,591
Ratios and relationships:						
Gross domestic savings as % of GDP	18.7	16.8	20.0	20.4	17.5	17.5
Gross national savings as % of GNP	15.8	13.9	17.2	17.3	15.4	15.6
Gross investment as % of GDP	14.3	15.7	20.1	23.1	21.0	19.4
GNS as % of gross investment	116.0	93.9	91.1	79.2	78.7	86.0

/1 Provisional.

Source: Economic Survey 1970.

Note: Balance of payments items shown in this table are not wholly consistent with the data in Table 5 which are revised figures supplied by the Government.

Table 3: DISTRIBUTION OF FIXED CAPITAL FORMATION, BY INDUSTRY, 1964-69 /1

	Sh. million						Total: 1964-69 /1		Rates of Growth 1964-69 /1	
	1964	1965	1966	1967	1968	1969 /1	Sh. million	%	Current Prices	Constant Prices
Monetary Economy										
Agriculture, forestry, fishing	162	156	230	226	228	238	1,240	14.6	8.0	5.8
Manufacturing	140	152	190	298	254	230	1,264	14.8	10.4	8.3
Building and construction	28	42	34	86	98	130	418	4.9	35.9	33.3
Electricity and water	26	44	50	124	78	106	428	5.0	32.5	28.5
Transport	218	164	268	334	340	324	1,648	19.4	8.3	5.8
Ownership of dwellings	42	42	56	102	136	140	518	6.1	28.4	22.4
Services	40	34	58	98	92	122	444	5.2	24.9	21.0
Other sectors /2	54	40	32	70	98	96	390	4.6	12.2	8.3
General Government:										
Public administration	14	20	22	36	40	34	166	2.0	19.4	15.9
Health	10	26	18	26	26	40	146	1.7	32.0	28.9
Education	12	12	18	36	54	48	180	2.1	32.0	27.3
Agricultural services	20	24	24	32	26	28	154	1.8	7.0	4.4
Other services	32	60	94	128	164	198	676	7.9	43.9	37.5
Total Monetary Economy	798	816	1,094	1,596	1,634	1,734	7,672	90.1	16.8	13.5
Non-Monetary Economy /3	104	114	130	150	168	174	840	9.9	10.9	5.9
TOTAL FIXED CAPITAL FORMATION	902	930	1,224	1,746	1,802	1,908	8,512	100.0	16.2	12.7

/1 Provisional

/2 Mining, commerce and banking

/3 Traditional dwellings

Source: Economic Survey 1970

Table 4 - CENTRAL GOVERNMENT REVENUE AND EXPENDITURE
1964/65 to 1970/71

(Sh Million)

	1964/64	1965/66	1966/67	1967/68	1968/69	1969/70 Estimate	1970/71 Estimate
Recurrent Revenue	991	1153	1320	1541	1697	1913	2181
Recurrent Expenditure	1138	1265	1371	1488	1610	1795	2074
Recurrent Surplus (+) / Deficit (-)	-147	-112	- 51	53	87	118	107
Development Expenditure	272	285	327	391	489	659	726/a
Total Budget Deficit (-)	-419	-397	-378	-338	-402	-541	-619
Financed by:							
Domestic Sources: Loans	21	15	156	171	163	346	360
Other	40	12	8	17	13	5	6
	61	27	164	188	176	351	366
External Sources: Recurrent loans and grants	153	96	101	59	18	11	2
Development grants	96	51	13	4	3	19	13
Development loans	160	145	112	126	140	197	266
	409	292	229	189	161	227	281
Balancing Item /b	-51	+78	-12	-39	+65	-37	-28

/a Plus a supplementary budget provision of Sh 306 million

/b Includes changes in Government's cash balances and differences between recorded expenditures and actual cash payments in any given year.

Table 5 : EXTERNAL TRADE AND BALANCE OF PAYMENTS, 1965-69/1

(Sh million)

	1965	1966	1967	1968	1969/1
East Africa Trade:					
Exports, f.o.b.	598	584	530	526	576
Imports, c.i.f.	236	224	270	246	236
Net balance	+362	+360	+260	+280	+340
External Trade					
Exports, f.o.b.	1,032	1,240	1,188	1,260	1,370
Imports, c.i.f.	1,780	2,246	2,130	2,296	2,340
Net balance	-748	-1,006	- 942	-1,036	- 970
Total visible trade balance/2	- 387	- 532	- 746	- 735	- 632
Net non-factor incomes	+ 400	+ 509	+ 497	+ 528	+ 546
Balance of goods and non-factor services	+13	-23	-249	-207	-86
Net factor payments	-179	-249	-275	-283	-251
Balance of goods and services	-166	-272	-524	-490	-337
Net government interest	+56	+74	+73	+27	+26
Net transfers	+114	+65	+21	+179	+164
BALANCE ON CURRENT ACCOUNT	+ 4	-133	-430	-284	-147
Private long-term capital	+29	+96	+264	+183	+376
Private short-term capital	- 4	-52	-103	+26	-13
Central government	+150	+216	+77	+133	+128
Local government	-26	- 6	- 9	- 9	+ 3
Total non-monetary movements	+149	+254	+229	+333	+494
Net increase (-) or decrease (+) in foreign exchange reserves	-35/3	-234/3	+114	-132	-430
Other monetary movements			+ 5	-94	-36
Balancing item	-118	+113	+82	+177	+119

/1 provisional

/2 after adjustment to a balance of payments basis

/3 estimated

Source: Quarterly Economic Report, September 1970, Annual Reports of the Central Bank of Kenya; data supplied by Statistics Division, Ministry of Finance and Economic Planning.

Table 6: EXTERNAL PUBLIC DEBT

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

	Debt Outstanding December 31, 1969		Additions January 1, 1970 to December 31, 1970
	Disbursed only	Including undisbursed	
TOTAL EXTERNAL PUBLIC DEBT	265,818	368,817	39,500
Privately held debt	60,956	61,124	
Publicly issued bonds /2	48,149	48,149	
Suppliers	6,966	7,134	
Germany (Fed. Rep. of)	6,966	6,966	
United Kingdom	-	168	
Financial institutions	4,936	4,936	
United Kingdom	4,850	4,850	
United States	86	86	
Privately placed bonds	905	905	
Loans from international organizations	29,107	74,633	36,000
African Development Bank	334	2,300	
IBRD	3,633	29,733	8,300
IDA	25,140	42,600	27,700
Loan from governments	175,755	233,060	3,500
Canada	-	463	
Denmark	7	2,667	
Germany (Fed. Rep. of)	10,946	15,605	
Israel	1,732	1,986	
Italy	-	7,520	
Japan	414	5,600	
Norway	-	1,400	
Sweden	-	3,673	
United Kingdom	148,111	177,746	
United States	14,134	15,989	3,500
U.S.S.R.	411	411	

/1 Debt with an original or extended maturity of one year or more.
/2 Net of accumulated sinking fund of $32,160,000.

Statistical Services Division
Economics Department
February 9, 1971

Table 7: ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
		TOTAL EXTERNAL PUBLIC DEBT		
1970	356,942	16,152	11,545	27,696
1971	378,978	9,036	11,272	20,308
1972	368,806	9,830	11,150	20,980
1973	357,939	10,923	10,892	21,816
1974	345,909	12,604	10,620	23,224
1975	332,125	12,888	10,339	23,227
1976	317,981	14,930	9,931	24,861
1977	301,717	13,135	9,349	22,483
1978	287,247	28,561	8,008	36,569
1979	257,855	12,438	7,572	20,010
1980	245,140	13,428	8,005	21,433
1981	231,415	13,941	7,482	21,424
1982	217,157	17,164	6,688	23,851
1983	199,827	13,626	5,887	19,513
1984	186,201	14,043	5,342	19,385
1985	172,158	14,216	4,774	18,990
1986	157,942	13,829	4,192	18,021
1987	144,113	14,676	3,643	18,319
1988	129,437	12,102	2,994	15,096
1989	117,334	11,897	2,554	14,450
1990	105,438	11,317	2,131	13,448

Note: Includes service on all debt listed in Table 1a prepared February 9, 1971 with the exception of the following, for which repayment terms are not available:

Financial institutions (U.K.)	$ 242,000
Loans from governments	
Israel	254,000
Japan	5,184,000
United Kingdom	6,195,000
	$11,875,000

C. TANZANIA

ECONOMIC DEVELOPMENTS IN EAST AFRICA

VOLUME I: THE ECONOMIC REPORT

C: TANZANIA

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TANZANIA

BASIC DATA

Area: 937,062 sq. kms. (including 53,483 sq. kms. of water area)

Population: (1970) 12.9 million
Rate of Growth: 2.7 percent, p.a.
Population density: 15 persons per square km.

Political Status: Independent since December, 1961
Member of Commonwealth and the East African Community

Gross Domestic Product at Current Factor Cost (1969): Sh 7,819 million, of which

Monetary Product: Sh 5,557 million (71.1 percent)
Non-monetary Product: Sh 2,262 million (28.9 percent)
Per Capita GDP (1969): Sh 606 (US$ 85)

Annual rate of growth (Constant 1966 prices):	1969	1966-1969
Total GDP	3.1	4.7
Monetary	5.7	6.1

Percent of total GDP (current prices, 1969)	
Agriculture	39.5
Mining	2.0
Manufacturing	7.6
Services including Commerce and Transport	45.2
Other sectors	5.7

Percentage of Expenditure on GNP at Current Market Prices	1969	1966-1969
Gross Capital formation	16.5	16.9
Consumption	84.2	84.4
Exports of Goods and Services	23.8	25.9
Imports of Goods and Services	24.5	27.2

Money and Credit	(Sh million)	
	1969	1968
Currency in circulation	605	529
Total deposits	1,589	1,285
Domestic credit	1,256	878

Public Sector Operations	(Sh million)	
	1969/70	1968/69
Central Government:		
Recurrent revenue	1,535	1,257
Recurrent expenditure	1,435	1,186
Surplus on Current Budget	100	71
Development Expenditure	623	460

Balance of Payments

	(Sh. million) 1969	1964
Merchandise exports	1,602	1,521
Merchandise imports	1,730	1,252
Net invisibles	65	-66
of which net factor income	-21	-76
Balance on current account	16	226
Commodity concentration of exports	(Percent)	
Sisal	10	29
Cotton	14	13
Coffee	16	14
Diamonds	11	9

Foreign exchange holdings
(Bank of Tanzania) - February 28, 1971: Sh 365.3 million (US $ equivalent 51 million)

IMF Position

		(US $ Million)
Quota		32.0
Drawings		-
Allocation of SDR's	9.9	
Minus Drawings (August, 1970)	3.5	6.4

External Public Debt

	(US $ Million) December 31 1969	December 31 1964
Total debt outstanding		
Tanzania debt	274.9	168.5
One-third of EAC debt	72.1	62.5
Total debt service		
Tanzania debt	14.7	5.1
One-third of EAC debt	5.4	4.2
Debt service ratio, percent	7.4	4.0

I. INTRODUCTION

1. Tanzania /1 is situated just south of the equator between Lakes Victoria, Tanganyika and Nyasa, and the Indian Ocean. Its total area is 937,062 square kilometers, including 5.7 percent square kilometers of water area. Most of the country, with the exception of the low, tropical coastal belt, enjoys, by reason of altitude, sub-tropical to even temperate climates. The population in 1970 was 12.9 million, and is growing at an annual rate of 2.7 percent. Gross National Product per capita amounted to $95 in 1969.

2. In terms of employment, exports, and value added, agriculture is the principal sector of the economy. Tanzania is a land surplus country, and there is ample room for agricultural expansion both in terms of acreage and yields. The Government gives high priority to rural development, and has been adapting its educational system and investment programs to serve the needs of the rural areas.

3. Public control over the economy, which started with the nationalization measures of 1967, was expanded in 1970 with the Government acquisition of a major interest in the Dar es Salaam city transport system (75 percent), the "Standard" (a newspaper - 100 percent), and petroleum distribution companies (75 percent), and also the "confinement" of all external and wholesale trade to the State Trading Corporation. With some minor exceptions, agreed settlements have been reached concerning the assets acquired in 1967. The claims in respect of the sisal estates are still being processed. Concurrently with the movement toward state control of the economy, the Government has pursued a policy of "localization" of employment in all sectors and while there has been some progress, manpower, especially high level manpower, remains a key constraint on the development of the Tanzanian economy.

4. Early in 1970, the Government announced that steps were being taken to bring about participation and representation of workers in the management of public corporations. It is intended that workers should be represented on executive councils and board of directors, and participate in planning, productivity, quality, and marketing matters.

5. General elections were held in November of 1970 and President Nyerere was reelected by a near unanimous vote. The process of integration between the Mainland and Zanzibar has been progressing slowly and Zanzibar remains to a large extent an autonomous entity within the Union.

/1 All references and statistics in this report relate to Mainland Tanzania and, unless explicitly stated, not to Zanzibar.

II. RECENT ECONOMIC PERFORMANCE

Growth of the Economy

6. During the period 1966-1969, GDP at constant factor cost rose at the rate of 4.7 percent a year, while in current prices the growth was 5.9 percent. /1 The growth rate of output during 1969 (including one-half of the first year of the Second Five-Year Plan which extends through June 1974) was 3.1 percent, which is considerably lower than the Plan target of 6.5 percent. The low growth was due mainly to reduced production of wheat, maize and cotton resulting from unfavorable weather and depressed prices for some major export crops. Moreover, the output of the services sector was affected by the decline in the primary sector as well as by the phasing out of the Zambia road haulage operation following the completion of the Tan-Zam pipeline. It is expected that the growth rate will be close to the Plan target in 1970, since favorable weather and firm export prices prevailed throughout the year.

7. Agriculture remains the most important sector of the Tanzanian economy, accounting for 40 percent of GDP and providing about 80 percent of its commodity exports. The growth of the agricultural sector has varied in accordance with the weather and the export prices of the major crops. The slow growth of this sector since 1966 is largely explained by the fact that the weather was unusually favorable for all crops in that year, but has generally been less favorable in the subsequent years.

	1966	1967	1968	1969	Growth Rate 1966-1969
Agricultural output at Constant Prices	2,952	2,954	3,062	3,044	1.1
Monetary	1,402	1,346	1,402	1,463	1.5
Subsistence	1,550	1,608	1,660	1,581	0.7

8. Sisal, cotton, and coffee remain the three most important agricultural crops, but there has been a steady expansion of minor crops such as cashew nuts, tea, and tobacco, and also staple foodstuffs such as wheat, rice, and maize. The trend of sisal production has been downward over the past four years. Diversification plans for sisal estates are being worked out since there appears to be little prospect for price improvement. Cotton production was 393,000 bales in 1969 and is expected to reach 450,000 bales in 1970, which will surpass the peak output of 435,000 bales in 1966. The 1970 crop will amount to 64 percent of the Plan's 1973/74 target of 700,000 bales. Coffee production has not shown a significant trend in the last four years. Demand has been firm and prices have been higher as a result of the Brazilian frost of July 1969. While coffee prices were expected to remain relatively high over the next three years, the increase in output is expected through higher yields rather than acreage expansion.

/1 In 1970, Tanzania published a new series of national accounts starting with the year 1966 to replace the old series which suffered from several deficiencies. The new series are used throughout this report.

9. An important objective of the agricultural program is the development of Ujamaa villages. These villages are designed as units conforming to social patterns to be worked out by the villagers themselves. Ujamaa villages seem well-suited to some of the new areas being opened for settlement, to crops which require orderly planning (e.g. tobacco and tea), and to the production and use of simple tools and equipment. The Government's support of the Ujamaa villages is based on the conviction that they provide the only means of extending a variety of services - e.g., social services, extension and credit - to the rural population. These services have in the past been provided to a small fraction of the rural population and the Government is seeking ways of extending them to larger numbers. The villages are to be established voluntarily and will be based primarily on self-help, communality of effort and an equitable sharing of rewards.

10. By the middle of 1970 it is estimated that there were about 1,200 Ujamaa villages; about half of these are in Mtwara and the remainder is distributed among the other regions. As yet less than 5 percent of Tanzania's population lives in Ujamaa villages and most villages have been in existence for less than two years. The impact on total agricultural production has therefore been slow except in the case of a few crops of rapidly growing importance, particularly tobacco. Whether the whole or even the major proportion of the rural population will regroup themselves into Ujamaa villages is not clear at this time. In general, the response has been enthusiastic in relatively less developed areas where people are seeking to establish a new crop or avail themselves of the services which government agencies provide. There is evidence that the movement is likely to become more broad based. However, the dearth of leadership at the the local level represents a bottleneck.

11. During the period 1966-1969, the secondary sector grew at the rate of 12.8 percent a year, and increased its share in GDP. The leading components of this sector were manufacturing, public utilities and construction. The rapid growth of the manufacturing sector was due largely to the expansion of processing facilities for agricultural products and the establishment of import substitution industries. About 95 percent of the manufacturing output is sold locally and 5 percent is exported. As the margin for import substitution is narrowed, the emphasis in planning new investments for this sector is shifting from consumer goods to intermediate and capital goods. The effectiveness of the import substitution process and, in particular, the role of the transfer tax in the development of the manufacturing sector are being studied.

12. The tertiary sector's growth rate was 7.1 percent in 1969. This sector has benefited in some degree from the need to cater for Zambia's trade, and also from the expansion of the tourist industry. Important structural changes have taken place in the commercial sector as a result of: (a) confining all imports of consumer goods and also wholesale trade to the State Trading Corporation (STC); and (b) the entry of cooperatives into retail trade.

Consumption, Investment and Savings

13. During the period 1966-1969, total consumption rose at an average annual rate of 6.7 percent and accounted on the average for about 84 percent of GNP. Government consumption expenditures have been rising at about 11 percent annually and average 13 percent of total consumption expenditures for the period 1966-1968. To some extent, the increase in government consumption expenditures results from measures which reflect the social and economic policies of Tanzania which favor the low income groups. At the same time, the Government curtailed private disposable income through higher taxation, particularly the sales tax which was introduced in 1969.

14. Gross National Savings have been rising at an average annual rate of 8.2 percent over the period 1966-1969. Central Government savings (contributions from the recurrent to the development budget) rose from 2.0 percent of total national savings in 1966 to 6.4 percent in 1969. This attests to the efforts of the Government to mobilize resources and to increase both public consumption and savings. However, national savings do not fully cover investment and hence there is a resource gap.

Table 1: CONSUMPTION, SAVINGS AND INVESTMENT, 1966-1969

	1966	1967	1968	1969
		(Sh million)		
GNP	6,982	7,408	8,061	8,523
Consumption	5,919	6,189	6,858	7,177
Gross Savings a/	1,063	1,219	1,203	1,346
Investment b/	1,090	1,320	1,428	1,410
Resource Gap c/	27	101	225	64
		As a percentage of GNP		
Consumption	84.8	83.5	85.1	84.2
Gross Savings	15.2	16.5	14.9	15.8
Investment	15.6	17.8	17.7	16.5

15. Gross capital formation rose rapidly during the last Plan (1964-69). As a proportion of monetary GDP it rose from under 15 percent in 1964 to 23 percent in 1968. In 1969, however, it levelled off after the completion of some major projects such as the Tan-Zam pipeline and the Friendship Textile Mill. There were also delays in the implementation of the parastatal

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a/ Defined as GNP minus total consumption expenditures.
b/ Includes gross fixed capital formation and increases in stocks in the monetary and subsistence sectors.
c/ Defined as investment minus gross savings.

Source: See Table 3 - Statistical Appendix investment program, resulting from inadequate project preparation. There are indications that capital formation rose significantly in 1970 and that it will remain high during the remainder of the Plan, since the various agencies may be able to undertake investment on a larger scale than before, provided the manpower constraint is overcome. In addition, work has now started on the Tan-Zam Railway project which will add $200 million or 8 percent to total investment during the period 1970-77.

Table 2: CAPITAL FORMATION AS A PROPORTION OF GDP, 1966-1969
(Constant 1966 Prices)

		1966	1967	1968	1969	Growth Rate 1966-1969
(1)	Monetary Capital Formation	908	1,038	1,182	1,161	8.5
(2)	Total Capital Formation	1,090	1,258	1,382	1,332	7.0
(3)	Monetary GDP	4,530	4,801	5,127	5,417	6.1
(4)	Total GDP	6,592	6,935	7,326	7,554	4.7
(5)	(1) as % of (3)	20.0	21.6	23.1	21.4	-
(6)	(2) as % of (4)	16.5	18.1	18.9	17.6	-

Source: See Tables 2 and 4 - Statistical Appendix

16. The proportion of gross capital formation taking place in the public sector (including the parastatals) rose from 48 percent in 1966 to 60 percent in 1969, which reflects the enlarged scope of the Central Government program and also the effects of nationalization. The growth of Central Government investment has been particularly rapid - from Sh 252 million in FY 1968 to Sh 411 million in FY 1970. The peak level of 1969 was maintained in 1970 but the rate of increase over the remaining Plan period is expected to be moderate. Problems of organization and staffing are still hampering the rapid expansion of investment by the parastatal sector.

17. There is no information on the breakdown of the fixed capital formation among the various sectors. However, data on capital formation by type of asset reveals that the share of machinery and transport equipment in total monetary fixed capital formation was 29.4 and 19.5 percent respectively for the period 1966-1969 as a whole. This indicates that the manufacturing and the transport sectors accounted for not less than half of the fixed capital formation during that period.

18. In 1970, the Tan-Zam Railway Agreement was concluded between Mainland China, Tanzania, and Zambia. The total cost of the Railway for which China is extending a loan is estimated to be Sh 2,865 million (about $400 million equivalent) divided equally between Tanzania and Zambia. This estimate includes the local cost of the project which is expected to be about 50 percent of the total cost. However, the Chinese required that the portion of their loan which is used to cover the local cost be used for purchases in China.

19. The estimated local cost of the Tanzanian part of the Tan-Zam Railway is Sh 715 million. However, the Government intends to cover Sh 215 million through its development budget. This would leave a balance of about Sh 500 million to be covered from the Chinese loan. Whether or not Tanzania will be able to use Sh 500 million in this way depends upon whether the Chinese will be able to supply the kinds of goods which can be sold in Tanzania. If this can be done - which may be difficult since trade with China in the past has been small - the Government will not be required to make any additional budgetary allocations. However, if it cannot be done, then the burden on the Government might be sharply increased and could amount to 15 percent of the annual development budgets. This will create a direct competition between the claims of the Railway and the projects listed in the Second Plan.

20. Employment on the 1,900-kilometer Tan-Zam railway will amount to 15-20 thousands from China, Tanzania and Zambia. The railway will be the third major link between Tanzania and Zambia; a pipeline has already been built and the Tan-Zam highway is under construction. Apart from serving as an important means of transporting Zambia's exports and imports, the Tan-Zam railway will assist the development of mineral deposits, particularly coal and iron ore, and also the agricultural potential of southern Tanzania. Investment in this project could, therefore, have a far reaching effect on the Tanzanian economy.

Employment, Earnings and Prices

21. Total recorded wage employment rose from 351,711 in 1968 to 367,926 in 1969. Corresponding to the changes in the structure of the economy, agricultural employment remained approximately constant or declined slightly while non-agricultural employment increased at the rate of 4.1 percent. The growth of non-agricultural employment in 1969 was lower than the average of the preceding five years and also below the Plan target rate of 7 percent. The regional employment pattern continued to be significantly affected by construction and related activity along the route to Zambia, resulting in increased employment in the Dodoma, Singida and Iringa-Mbeya sub-zones. In general, Tanzania does not appear to be facing a serious unemployment problem, and this is attributable to a large extent, to the Government's policy of creating useful employment opportunities in the rural areas.

22. The total annual wage bill in 1969 rose by 5.2 percent and since employment grew at 4.6 percent, the average earnings per employee increased by about 0.6 percent, but those of citizen employees rose by an average of 2.6 percent. The difference is due to the continued replacement of expatriates by citizens in the higher positions in the Government, public enterprises and private sector. The increase in average earnings is less than those of previous years, and consistent with the national income policy of limiting wage increases to 5 percent. Almost three-quarters of all adult male citizen employees earned over Sh 150 per month in 1969. The percentage earning over Sh 300 per month rose from 26.4 to 28.0, while those in the salary group Sh 1,000 and over rose from 3.4 percent to 3.8 percent, reflecting the continued progress in the training of high level citizen manpower.

23. According to published figures, the retail price index for minimum wage earners in Dar es Salaam rose by less than one percent in 1969 and the cost of living for middle grade civil servants in Dar es Salaam rose by under two percent. While, in general, prices have been remarkably stable for almost a decade, the increase in 1969 was probably bigger than the official estimate, in view of the Sales Tax which was introduced in June 1969, and which averaged about 10 percent on most of the imported and locally produced manufactures. The price increase was more than offset by the statutory increase in the minimum wage, but the middle and upper groups were adversely affected.

III. MONETARY AND FISCAL DEVELOPMENTS

Domestic Credit

24. Monetary expansion was strong in 1969 when domestic credit rose by Sh 378 - an increase of 43 percent as compared with 13 percent in 1968. The Central Government accounted for nearly half of the increase and the parastatals for most of the remainder. The large increase in borrowing by the Government, in contrast to its net credit position in 1967 and 1968, reflected the larger requirements of development finance coupled with delays in the disbursement of foreign aid. The increase in credit to the parastatal organizations was mainly to finance larger stocks of cashew nuts and cotton, and to facilitate the expansion of the State Trading Corporation's import and wholesale operations. Credit to the National Development Corporation (NDC) - the biggest of the parastatal organizations - rose sharply both to finance new projects and to repay certain suppliers' credits obtained from abroad in 1968.

25. During the first half of 1970, the Bank of Tanzania's reserves fell by Sh 92 million compared with an increase of Sh 34 million during the same period in 1969. The sharp reserve decline during this period reflected heavy repayments abroad in respect of Government debt and compensations for nationalized firms, delays in drawings on foreign loans and cash payments (instead of the use of confirming house credits) for the high level of imports by the State Trading Corporation to build its stocks.

26. Tanzania's reserve position continued to deteriorate in the second half of 1970 and it was decided to draw Sh 25 million of Tanzania's holdings of Special Drawing Rights in the International Monetary Fund. In September 1970,partly because of the reserve position but also to ensure that the commercial banks were able to finance more of the Government's development program, the Bank of Tanzania, for the first time, introduced a credit ceiling and credit restrictions on the commercial banks. The credit ceiling set at one billion shillings was not to be exceeded by the National Bank of Commerce until the end of 1970, while the credit restrictions were aimed at curbing credit particularly to those sectors of the economy which use foreign exchange for imports of non-essential consumer credits. Priority was also given to the parastatal organizations. By March 1971, the Bank of Tanzania foreign exchange holdings had

declined to Sh 365 million compared with Sh 546 million the previous year. The Government decided to impose restrictions on capital transfers to Kenya or Uganda and a total ban on the export of Tanzanian bank notes to all countries.

27. Until 1970, the main credit institutions in Tanzania consisted of: the National Bank of Commerce (NBC) which was engaged in term-financing in addition to its normal commercial banking operations; the National Cooperative Bank (NCB), which extended short- and medium-term credit to farmers; and the National Development Credit Agency (NDCA) which extended mainly longer-term loans for agricultural development projects. In an effort to rationalize the financial and credit structure of the country, the Government decided to establish an investment bank, Tanzania Investment Bank (TIB) which will take over the term lending of NBC, a Rural Development Bank to replace the NDCA, and the absorption by NBC of the commercial banking activities of the NCB.

28. It is the Government's intention that both TIB and RDB should play an important part in Tanzania's economic development. The legislation establishing TIB provides that the Bank will provide medium and long-term finance for commercially-viable activities, render technical assistance for promoting industrial development and administer various capital funds which may be placed at its disposal from time to time. The financial resources of TIB are to consist of the authorized capital of Sh 100 million which is to be subscribed initially by the Government (60 percent), NBC (30 percent), and the National Insurance Corporation (NIC) (10 percent); its operational surpluses, ordinary borrowing and special borrowing consistent with its objectives. TIB's operations are to consist of making or participating in direct loans, investing in the equity of any enterprise and guaranteeing loans made by others. TIB is required to ensure that its investments are well-diversified and to finance only sound and technically feasible projects.

29. RDB's principal objective will be to assist peasant farmers, both those who are engaged in cash crop production and those in subsistence agriculture. The latter is to be accomplished through a "soft" window which will finance projects which may not have a satisfactory return at the outset. RDB will also support some types of rural, non-agricultural activities.

Government Budgets

30. The salient feature of the Central Government budget is the continuous mobilization of internal resources as well as the steady expansion in government activities. Over the period 1965/66-1969/70, recurrent revenue rose at an annual rate of 14.5 percent, while recurrent expenditure increased at the rate of 13.4 percent. The surplus on the recurrent budget, rose from Sh 4.2 million in 1965/66 to Sh 100 million in 1969/70. Development expenditure increased at an annual rate of 28 percent during the same period with external financing covering just under 30 percent of the total.

31. Revised estimates for the fiscal year 1969/70 - the first year of the present Plan - indicate that recurrent revenue was 22 percent higher than in the previous year, mostly through increased taxation. As a proportion of GDP in the monetary sector of the economy, tax revenue grew from 15.2 percent in 1966 to 19.8 percent in 1969. Indirect taxes showed the biggest rise (about 30 percent) as a result of the introduction of a sales tax at the rate of 10-20 percent ad valorem on all imported and domestically produced goods.

32. The Second Plan set a ceiling of 7½ percent for the annual growth of recurrent expenditure in real terms over the base year 1968/69. Estimated figures for recurrent expenditure in 1969/70 indicate that it grew by 12 percent. Allowing for a price increase of 3 percent, the growth rate in real terms will still be higher than the Plan's ceiling. Available data indicate that increases in the cost of debt service and related payments, defense and police, education and general administration account for the bulk of the increase. However, recurrent revenue was also higher than estimated so that the expected surplus was in fact achieved.

Table 3: ALLOCATION OF RECURRENT EXPENDITURES

	As Percentage of Total					Growth Rate(%)
	1965/66	1966/67	1967/68	1968/69	1969/70	1965/66-1969/70
A. Economic Services	21.4	22.6	22.5	23.3	21.1	12.4
B. Social Services	28.8	27.8	26.6	27.4	27.1	11.1
C. General Administration	36.6	34.3	32.5	31.1	33.3	10.1
D. Other /a	13.2	15.3	18.4	18.2	18.5	23.0

/a Includes debt service, compensation payments and pensions.

Source: Table 9 - Statistical Appendix

33. Development expenditure rose from Sh 460 million in 1968/69 to Sh 623 million in 1969/70, which represents a rate of increase of 35 percent. Of this total the ministerial program accounted for Sh 500 million and transfers to the parastatals amounted to Sh 12 million. The level attained in 1969/70 was somewhat higher than the Plan target for the year. The ministerial program was 6 percent lower than the Plan target, while transfers to the parastatals were twice the Plan estimate.

34. The sharp increase in development expenditure created a large financing requirement in fiscal 1969/70. External sources financed only about 20 percent of the total development expenditures, compared with an average of 32 percent in the last four years. The entire increase in development expenditure was, therefore, financed through domestic borrowing in the form of medium and long-term government stocks and short-term Treasury bills. The tendency of recurrent expenditure to rise above the limit stipulated in the Plan should be checked and efforts made to increase the flow of external assistance (from commitments already made) if financial

stability is to be maintained. Moreover, in view of the magnitude of the development program, it is necessary to attract increasing amounts of foreign aid, and to ensure that available resources are not diverted to projects of low priority. The establishment of the Tanzania Investment Bank (TIB) should assist in increasing and ensuring the prudent use of development funds.

35. The 1970/71 budget provides an estimated recurrent expenditure of Sh 1,537 million and recurrent revenue of Sh 1,654 million and hence a surplus on the recurrent budget of Sh 117 million. There were relatively few new tax measures in the 1970/71 budget and these were largely intended to protect some of Tanzania's growing industries, particularly the textile industry, rather than raise additional revenue.

36. The budget provides for a development expenditure of Sh 951 million in 1970/71, which represents an increase of Sh 328 million or 53 percent over the previous year. Of this total the ministerial program accounts for Sh 697 million or 73 percent of the total while the balance will be transferred to the parastatals to assist them in their development programs. It is assumed that external finance will amount to about one-half of the total development expenditures while the balance will be financed from internal resources. The estimates both of development expenditures and revenues appear to be ambitious and may not be realized. A development program in the order of Sh 600-700 million is more likely to be achieved in 1970/71.

37. Although the rapid growth of development expenditure by the Central Government is encouraging, some problems still remain. Perhaps the most serious is the limited success in mobilizing external assistance, which implies that projects which are considered suitable for external financing are not emerging at the desired rate. If external aid fails to materialize at the anticipated rate, then a growing capital expenditure can only be sustained by increasing the domestic share of financing which, beyond a point, will begin to impose a severe strain on the economy. Hence there is an urgent need to strengthen the mechanism for preparing projects, particularly those suitable for external financing. Improvement in this regard will be helpful in avoiding cost over-runs, and in making sure that available resources are allocated to projects of high priority.

The Parastatal Sector

38. Since the Arusha Declaration in 1967, the parastatal sector has steadily grown in importance and has become an important determinant of economic growth. The extension of public participation to various enterprises -- in many cases on a majority basis -- means that publicly-owned or controlled organizations now account for an increasing share of total capital formation. Investment by parastatal organizations rose from Sh 101 million in 1966 to Sh 279 million in 1968. However, in 1969 it was only Sh 131 million, reflecting the completion of two major projects in 1968. While a firm figure is not yet available, it is believed that parastatal investment was substantially higher in 1970.

39. While the parastatal sector now has a much bigger role to play in ensuring a steady rise in investment, there are indications that a number of problems remain. The chief of these is an acute shortage of manpower to prepare commercially viable projects and to manage them. The Government recognizes that some of the investments undertaken by parastatal organizations were not subjected to a thorough scrutiny, and some mistakes were made. However, the parastatal sector has undergone reorganization and some improvements have been introduced in the financial and auditing systems.

40. After the Arusha Declaration and the expansion of the parastatal sector, there was a levelling off of private investment. Private sector investment rose from Sh 434 million in 1966 to Sh 486 million in 1968, but was somewhat lower in 1969. There is some evidence that the Government's policy towards private enterprise has become somewhat more flexible -- in the field of tourism, for example, enterprises which are wholly privately owned are now permitted -- but this does not yet appear to have had any significant effect on private investment. If the share of private investment does not recover to its pre-1967 level, the task of increasing investment and improving its quality will devolve increasingly on parastatal enterprises.

41. The parastatal investment program of 1970/71 envisages total expenditures of Sh 620 million. Of this total, about 38 percent is allocated to the National Development Corporation, 12 percent for the Tanzania Tourist Corporation, and 10 percent for the Tanzania Electric Supply Company for projects in the industrial, tourist, and power sectors respectively. Government transfers to the parastatals are estimated to reach Sh 254 million and, if this materializes, it will finance 41 percent of the parastatal program, while the balance would be covered by supplier credits, foreign and domestic equity capital and borrowing, as well as internal resources.

IV. BALANCE OF PAYMENTS

42. During the 1960's, Tanzania's balance of payments showed two major changes. In the first place, the balance of trade, which had for many years shown a surplus gave way to a deficit starting in 1967. Secondly, the balance on services moved into surplus from 1968 onwards. The deterioration of the balance of trade was a result of the slow growth of exports coupled with rising imports reflecting both increased income and an accelerated development program. The slow growth of exports resulted from a combination of depressed prices and fluctuating output for Tanzania's major crops. However, there was a surplus on services resulting from the rerouting of some Zambian trade through Tanzania which contributed to higher freight earnings, and also rising earnings from tourism. On the payments side, the decline in remittances abroad following the nationalization measures of 1967 and the introduction of restrictions on travel allowances have contributed to the rising surplus on services. Tanzania's overall balance of payments was in surplus from 1966 to 1969. Transfer receipts and official capital inflows more than covered the deficit on goods and services.

Merchandise Trade

43. Unadjusted trade figures show that, over the period 1964-1969, Tanzania's exports grew very slowly. In 1969, in particular, Tanzania's exports showed no increase over the previous year, and were well below the peak level of 1966. However, figures for the first half of 1970 indicate that exports may have been much higher in the year, reflecting the increase in output caused by favorable weather and the rise in the export prices of the major commodities.

44. The share of Tanzania's traditional exports, namely, diamonds, sisal, cotton, and coffee has declined from 65 percent in 1964 to 51 percent in 1969. Other exports such as cashew nuts, tea, and tobacco have increased rapidly, and it is expected that a high growth rate will be maintained in the near future.

Table 4: PERCENTAGE DISTRIBUTION OF EXPORTS

Item	1964	1965	1966	1967	1968	1969
A. Traditional Exports of which:	64.7	60.2	59.8	54.7	51.6	50.5
1. Diamond	8.9	10.1	10.4	13.4	8.3	10.8
2. Sisal	28.5	20.4	13.1	12.1	9.7	9.7
3. Cotton	12.9	17.4	19.5	15.0	17.4	14.3
4. Coffee	14.4	12.3	16.8	14.2	16.2	15.7
B. Other Exports of which:	35.3	39.8	40.2	45.3	48.4	49.5
Cashew nuts	(4.3)	(5.9)	(5.6)	(5.5)	(6.6)	(7.3)
Tea	(2.0)	(2.1)	(2.3)	(2.8)	(2.8)	(2.9)
Livestock products	(4.6)	(5.1)	(5.7)	(4.9)	(4.6)	(5.2)

Source: Derived from the Annual Trade Reports.

45. Tanzania's imports rose by 6.7 percent over the period 1964-1969. The breakdown of imports in 1969 was: consumer goods - 31 percent, intermediate goods - 23 percent, and capital goods (including transport equipment) - 46 percent. Imports in 1969 were lower than in the previous year. This was caused by a decline of imports of both capital and consumer goods. The capital goods decline, despite increased investment expenditures, was caused mainly by the bunching of deliveries and is certain to be reversed. Fluctuations in the imports of consumer goods are not subject to a definite trend given the counterbalancing forces of growing consumer incomes and rapidly expanding domestic production. Imports of intermediate goods rose

by 12 percent over 1968 and with the expansion of the manufacturing sector and the increased use of imports in agriculture, intermediate goods imports are likely to continue to rise rapidly although the forthcoming fertilizer plant and the expansion of the cement plant may cause a temporary slackening after 1970. In the first half of 1970 total imports was 32 percent higher than the corresponding period in 1969 with all components, particularly capital goods, registering significant increases.

46. Tanzania's exports to its Partner States in the East African Community have shown a steady, but modest increase since 1967. Imports from these sources had declined between 1964 and 1967, but have shown some increase since. Imports of most categories of manufactures have shown a decrease, reflecting the increase in domestic capacity.

Services, Transfers, and Capital Inflows

47. The net balance on services, which had moved into surplus in 1968, rose significantly in 1969. On the receipts side the main increases occurred in freight earnings through transportation of goods to and from Zambia and higher port earnings by the East African Harbors Corporation. Expenditure by foreign visitors is estimated to have risen by Sh 6 million to Sh 72 million in 1969, following the continuous improvements and additions in the country's tourist facilities. Receipts of interest on foreign exchange holdings abroad were also higher than in 1968. On the expenditure side modest increases were recorded in passenger transportation, education and investment income. There was, however, a decline of about 25 percent from the 1968 figure for expenses on travel abroad reflecting the restrictions introduced in January 1969.

48. Net transfer receipts in 1969 were positive. There has been a steady decline since 1968 in payments of pensions and gratuities. The surpluses on the service and transfer accounts more than covered the deficit on trade and thus an estimated Sh 16 million surplus was realized on the current account for 1969 as against a deficit of Sh 148 million in 1968.

49. The net inflow of foreign capital to the Central Government was considerably less in 1969 than in the two previous years. The inflow fell by 22 percent while the outflow, though small, remained almost unchanged. However, outflows for compensation payments resulting from the 1967 nationalization measures increased from Sh 11 million in 1968 to Sh 51 million in 1969 and thus further reduced the net inflow of capital to the public sector as a whole.

50. Tanzania's foreign exchange reserves experienced a serious decline throughout 1970 and early 1971 owing to factors dealt with in paragraph 49 above. At the end of February 1971, the Bank of Tanzania foreign exchange holdings amounted to Sh 365.3 million, which is less than the equivalent of 3 months' imports. The credit and foreign exchange measures which the Government introduced in the last quarter of 1970 and early 1971 may contribute to the build up and maintenance of an adequate level of reserves (see paragraph 26).

Table 5: SUMMARY OF BALANCE OF PAYMENTS, 1966-1969
(Sh million)

	1966	1967	1968	1969
Balance on Trade	36.2	-40.1	-245.4	-128.3
Balance on Services	-62.9	-60.9	21.4	64.7
Net Transfers	-9.3	67.9	76.8	79.4
Balance on Current Account	-36.0	-33.1	-147.5	15.8
Net Government Capital	47.9	158.8	170.9	129.5
Compensation Payments	-	7.7	11.0	50.8
Errors and Omissions (including private and parastatal capital)	181.0	-98.5	95.3	-83.7

Source: Table 5 - Statistical Appendix

External Debt

51. At the end of 1969, Tanzania's outstanding external public debt, including undisbursed amounts, was $347.0 million equivalent (including $72.1 million representing a notional one-third share on account of the East African Community Corporations). Interest and amortization payments on account of Tanzania's own debt amounted to $14.7 million equivalent in 1969 while the notional share of payments on account of the Corporations was a further $5.4 million. Together these payments absorbed 7.4 percent of the foreign exchange earnings during the year.

52. The conclusion of the Tan-Zam railway agreement with China in 1970 increases Tanzania's external debt by Sh 1,432.6 ($200.6) million. The loan is interest-free and should be fully disbursed by the end of 1977. The loan agreement provides for 5 years of grace from 1977-1982, and repayments of the loan will be made over 30 years starting in 1983 and ending in 2012. Repayments are to be made either in hard currency or in the form of exports if China so chooses. With the conclusion of this agreement, China has become the biggest source of aid for Tanzania's development program. The Bank Group is next in importance, while the United States, Sweden, and Canada and the United Kingdom are other sources of substantial aid.

53. Tanzania has succeeded in obtaining a large proportion of external assistance on concessional terms, and has had only limited recourse to supplier credits. Although Tanzania's present debt service ratio is relatively modest, it is desirable, in view of its low per capita income and the market limitations facing its principal exports, that the major proportion of external assistance for the country's development should be on concessional terms.

APPENDIX

STATISTICAL TABLES

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Table 1 : GROSS DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRIAL ORIGIN AT 1966 PRICES, 1966-1969

(Sh million)

	1966	%	1967	%	1968	%	1969a/	%
Agriculture, hunting, forestry and fishing	2,952	44.8	2,954	42.6	3,062	41.8	3,044	40.3
Mining and quarrying	192	2.9	183	2.6	137	1.9	135	1.8
Manufacturing and Handicrafts	415	6.3	470	6.8	508	6.9	573	7.6
Electricity and water supply	61	0.9	66	1.0	72	1.0	90	1.2
Construction	217	3.3	286	4.1	320	4.4	332	4.4
Wholesale and retail trade and restaurants and hotels	817	12.4	845	12.2	942	12.9	986	13.1
Transport, storage and Communications	484	7.3	554	8.0	640	8.7	654	8.7
Finance, insurance, real estate and business services	579	8.8	645	9.3	661	9.0	700	9.2
Public administration and other services	875	13.3	932	13.4	984	13.4	1,040	13.7
G.D.P. at factor cost	6,592	100.0	6,935	100.0	7,326	100.0	7,554	100.0

Source: The Economic Survey and Annual Plan, 1970-71

a/ Provisional Estimate

Table 2 : GROSS DOMESTIC PRODUCT AT CURRENT FACTOR COST BY INDUSTRIAL ORIGIN, 1966-1969

(Sh million)

	1966	%	1967	%	1968	%	1969a/	%
Agriculture, hunting, forestry and fishing	2,952	44.8	2,855	41.5	2,973	40.2	3,094	39.5
Mining and quarrying	192	2.9	198	2.9	134	1.8	158	2.0
Manufacturing and Handicrafts	415	6.3	477	6.9	519	7.0	597	7.6
Electricity and water supply	61	0.9	64	0.9	69	0.9	82	1.1
Construction	217	3.3	296	4.3	331	4.5	358	4.6
Wholesale and retail trade and restaurants and hotels	817	12.4	854	12.4	966	13.1	1,022	13.1
Transport, storage and Communications	484	7.3	538	7.8	677	9.1	662	8.5
Finance, insurance, real estate and business services	579	8.8	660	9.6	710	9.6	754	9.6
Public administration and other services	875	13.3	941	13.7	1,019	13.8	1,092	14.0
G.D.P. At factor cost	6,592	100.0	6,883	100.0	7,398	100.0	7,819	100.0

Source: The Economic Survey and Annual Plan, 1970-71

a/ Provisional Estimate

TABLE 3 : GROSS DOMESTIC PRODUCT AT MARKET PRICES AND ITS USES, 1966-1969

(Sh million)

	1966	1967	1968	1969
GDP at Current Factor Cost	6,592	6,883	7,398	7,819
Plus: Indirect Taxes	546	627	708	760 a/
Less: Subsidies	18	19	17	25 a/
GDP at Current Market Prices	7,120	7,491	8,089	8,544
USES OF GDP				
Gross Fixed Capital Formation	979	1,240	1,334	1,321
Increase in Stocks	111	80	94	89
Exports of Goods and Nonfactor Services	2,017	1,890	1,905	1,957
Less: Imports of Goods and Nonfactor Services	1,906	1,908	2,102	2,000
Consumption: b/	5,919	6,189	6,858	7,177
Private	5,204	5,397	5,978	(n.a.) c/
Public	715	792	880	(n.a.) c/
Total	7,120	7,491	8,089	8,544

a/ Estimated.

b/ Residual item.

c/ Public consumption figures for 1969 are not available and thus the breakdown of total consumption into private and public could not be made.

Source: National Accounts of Tanzania 1966-1968; The Economic Survey 1969;

TABLE 4: CAPITAL FORMATION 1966-1969

(sh million)

	1966	1967	1968	1969[a/]
A. By Type of Asset				
Buildings:				
1. Residential	55	73	90	108
2. Rural own-account residential	118	124	133	137
3. Non-residential	122	142	207	216
4. Total buildings	295	340	430	461
Other Works:				
5. Land improvement	8	12	11	14
6. Roads, ferries and bridges	55	70	95	198
7. Water supplies	23	31	37	53
8. Other works	77	203	157	97
9. Total other works	163	316	300	362
Equipment:				
10. Transport equipment	227	206	225	165
11. Other equipment	262	326	341	310
12. Total equipment	489	534	566	475
Other:				
13. Dairy and breeding cattle	32	50	38	23
14. Fixed capital formation	979	1,240	1,334	1,321
15. Increase in stocks	111	80	94	89
16. Capital formation	1,090	1,320	1,428	1,410
Of which, non-monetary:				
17. Rural own-account residential	118	124	133	137
18. Dairy and breeding cattle	32	50	38	23
19. Increase in stock (cattle)	32	52	43	24
20. Total non-monetary	182	226	214	184
21. Monetary	903	1,094	1,214	1,226
22. Monetary and non-monetary	1,090	1,320	1,428	1,410
B. By Sector				
1. Central Government	197	226	252	411
2. Local authorities including E.A. Community	19	22	50	81
3. E.A.C. enterprises	78	119	96	67
4. Parastatal enterprises	101	261	279	131
5. Total public sector	395	628	677	693
6. Private-monetary	434	438	486	468
7. Fixed capital formation-monetary	829	1,066	1,163	1,161
8. Increase in stocks	79	28	51	65
9. Capital formation-monetary	908	1,094	1,214	1,226
Non-monetary:				
10. Private non-monetary-fixed capital formation	150	174	171	160
11. Increase in stocks (cattle)	32	52	43	24
12. Total non-monetary capital formation	182	226	214	184
13. Total capital formation (monetary and non-monetary)	1,090	1,320	1,428	1,410

a/ Provisional

Source: The Economic Survey and Annual Plan, 1970-71

TABLE 5 : ESTIMATED BALANCE OF PAYMENTS, 1966 - 1969

(Sh million)

	1966	1967	1968	1969
A. Goods 1/				
Exports (including gold and re-exports)	1,774.9	1,628.8	1,589.4	1,602.0
Imports	1,738.7	1,668.9	1,834.8	1,730.3
Balance on Trade	36.2	-40.1	-245.4	-128.3
B. Services				
Total earnings on services	296.5	303.7	382.8	431.3
Freight and Freight Insurance	38.6	82.4	107.4	119.9
Passenger transportation, etc.	78.6	63.0	79.3	87.6
Other earnings from foreign visitors	70.7	54.3	65.5	72.0
Interest, profits and dividends	54.3	42.5	67.1	76.0
Other services	54.3	61.5	63.5	75.8
Total payments on services	359.4	364.6	361.7	366.6
Passenger transportation, etc.	-	74.6	86.6	93.6
Expenditure for education	-	50.4	47.6	50.3
Other expenses on travel abroad	-	32.7	40.0	30.0
Interest, profits and dividends	192.1	125.1	94.6	96.6
Other services	167.3	81.8	92.9	96.1
Balance on Services	-62.9	-60.9	21.1	64.7
C. Transfers				
Total transfer receipts	125.7	225.3	189.4	193.2
Private and parastatal	53.6	120.0	139.3	139.5
Government	72.1	105.3	50.1	53.7
Total transfer payments	135.0	157.4	112.6	113.8
Private and parastatal	46.4	95.0	78.8	78.8
Government	88.6	62.4	33.8	35.0
Net transfers	-9.3	67.9	76.8	79.4
Balance on current account	-36.0	-33.1	-147.5	15.8
D. Government Capital				
Inflow	54.3	166.4	196.0	152.5
Outflow	6.4	7.6	25.1	23.0
Net Government Capital	47.9	158.8	170.9	129.5
E. Compensation Payments (including interest)	-	7.7	11.0	50.8
F. Errors and Omissions (including private and parastatal capital) 2/	181.0	-98.5	95.3	-83.7
Balance on Ordinary Transactions	192.9	19.5	107.7	10.8
Redemption of E.A.C.B. currency	-	49.0	6.3	6.5
Loss/Gain on foreign exchange	-	-57.1	-	0.3
Net change in Foreign Exchange Reserves 3/	-192.9	-11.4	-114.0	-17.6

1/ Exports f.o.b. and imports c.i.f. Excluding exports and imports of Zanzibar.
2/ This item includes adjustments relating to the exclusion of Zanzibar foreign trade.
3/ Refers to reserves attributable to the Mainland only. Increase (-).

Source: Annual Trade Reports; Bank of Tanzania Reports; and data supplied by the authorities.

TABLE 6 : MONETARY SURVEY, JUNE 1968 - JUNE 1970 a/

(Sh million)

	June 1968	June 1969	June 1970
Net Foreign Assets of Banking System b/	699.5	755.8	839.8
Domestic Credit			
Net claims on the Government	-89.4	89.9	75.7
Lending to other domestic sectors	705.6	898.8	1,058.1
Money Supply			
Currency in circulation outside banks	430.8	507.9	616.7
Demand deposits	618.4	746.2	822.3
Time deposits	293.2	455.9	551.9
Savings deposits	152.4	163.9	189.5
Other Items, net	179.1	129.4	206.8

a/ Includes Zanzibar

b/ Includes SDR's and IMF Gold trenche position. The increase in foreign assets in 1969 and 1970 is attributable to the rise in Zanzibar's share.

Source: Bank of Tanzania, Economic and Appraisal Report - June 1970.

Table 7 : TANZANIA - EXTERNAL PUBLIC DEBT OUTSTANDING AS OF DECEMBER 31, 1969 WITH ADDITIONS THROUGH DECEMBER 31, 1970 /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Source	Debt outstanding December 31, 1969		Additions Jan. 1, 1970 to Dec. 31, 1970
	Disbursed only	Including undisbursed	
TOTAL EXTERNAL PUBLIC DEBT /4	167,621	276,155	251,646
Privately held debt	49,531	49,531	3,003
Publicly issued bonds /2	20,014	20,014	-
Suppliers	4,358	4,358	3,003
Italy	-	-	867
Netherlands	244	244	-
United Kingdom	4,114	4,114	2,136
Financial institutions	24,915	24,915	-
Italy	14,851	14,851	-
Netherlands	1,169	1,169	-
Switzerland	1,606	1,606	-
United Kingdom	7,289	7,289	-
Other privately held debt	245	245	-
Loans from international organization	27,676	60,600	39,000
IBRD	2,477	12,200	30,000
IDA	25,199	48,400	9,000
Loans from governments	81,691	156,895	209,642
Canada	1,851	3,191	-
China (Mainland)	11,244	45,398	200,557
Denmark	577	5,333	-
Germany (Fed.Rep.of)	8,243	10,898	-
Israel	487	487	-
Japan	1,567	5,600	-
Sweden	6,533	23,313	9,085
United Kingdom	25,510	25,510	-
United States	22,008	30,239	-
U.S.S.R. /3	81	3,333	-
Zambia	3,591	3,591	-
Nationalization	7,375	7,375	-
Unclassified	1,348	1,754	-

/1 Debt with an original or extended maturity of over one year.
/2 Net of accumulated sinking funds of $11,042,000.
/3 An amount of $19,998,000 assumed to be a frame agreement with the U.S.S.R. has not been included above.
/4 Includes $29,000 arrears of principal.

Statistical Services Division
Economics Department
February 16, 1971

Table 8 : TANZANIA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1969 WITH ADDITIONS THROUGH DECEMBER 31, 1970

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		TOTAL EXTERNAL PUBLIC DEBT		
1970	272,725	7,059	5,418	12,476
1971	516,882	8,905	6,169	15,075
1972	507,513	15,385	6,300	21,685
1973	491,712	12,970	6,341	19,312
1974	478,378	8,475	6,173	14,648
1975	469,703	12,791	6,326	19,118
1976	456,696	12,191	6,480	18,671
1977	444,270	12,650	6,295	18,945
1978	431,366	12,947	5,992	18,939
1979	418,144	13,323	5,708	19,031
1980	404,525	12,640	5,354	17,994
1981	391,566	12,627	5,027	17,654
1982	378,596	15,687	4,482	20,168
1983	362,729	19,089	3,876	22,965
1984	343,639	18,530	3,543	22,073
1985	325,109	14,729	3,260	17,989
1986	310,380	13,834	2,965	16,799
1987	296,546	11,887	2,717	14,604
1988	284,659	11,932	2,511	14,443
1989	272,727	12,451	2,315	14,766
1990	260,276	12,614	2,119	14,733

Note: Includes service on all debt listed in Table 1 prepared February 16,1971 with the exception of the following, for which repayment terms are not available:

Financial institutions	$ 1,606,000
Loans from governments (Germany, Fed.Rep.of)	42,000
Unclassified and arrears as follows:	1,754,000
Loans from governments - U.K.	29,000
	$ 3,431,000

TABLE 9 : CENTRAL GOVERNMENT FINANCES, 1965/66 - 1970/71

(Sh million)

	1965/66	1966/67	1967/68	1968/69	1969/70 Estimated Act.	1970/71 Budget
Recurrent Revenue	891.9	1,017.2	1,123.6	1,257.3	1,535.0	1,654.0
Recurrent Expenditure	887.7	979.7	1,065.0	1,186.0	1,435.0	1,537.0
Surplus deficit	4.2	37.5	58.6	71.3	100.0	117.0
Development Expenditures	229.9	294.4	344.1	460.1	623.0	951.0
Total Surplus deficit	-225.7	-256.9	-285.5	-388.8	-523.0	-834.0
Financed By:						
External Sources	83.5	127.3	84.0	122.8	113.2	368.0
Internal Sources	87.4	79.7	161.2	132.5	361.1	317.0
Over all Surplus deficit	54.8	49.9	40.3	-133.9	48.7	-149.0

Source: Ministry of Finance, The Economic Survey and Annual Plan, 1970-1971; and the Budget 1970/71

Table 10: PARASTATAL SECTOR STATISTICS, 1966-1969
(Sh million)

A. Current Account of Parastatal Enterprises

Receipts:	1966	1967	1968	1969
1. Sales income	1,281.2	1,774.3	2,151.8	2,385.6
2. Subsidies from Government	3.5	2.3	3.1	0.6
3. Other operating income	23.2	30.7	45.4	38.0
4. Increase in stocks	15.1	-4.2	36.7	33.7
Total receipts	1,323.0	1,803.1	2,237.0	2,457.9
Expenditure:				
5. Wages and salaries	100.1	162.5	238.3	282.6
6. Interest paid on borrowed capital	17.9	36.7	67.2	94.5
7. Rent	2.1	3.8	5.8	4.2
8. Depreciation provision	31.3	51.7	84.4	88.0
9. Miscellaneous purchases	1084.7	1342.4	1707.5	1827.8
10. Net operating profit	86.9	206.0	133.8	160.8
Total expenditure	1323.0	1803.1	2238.0	2457.9

B. Appropriation Account of Parastatal Enterprises

Receipts:	1966	1967	1968	1969
1. Net operating profit	86.9	206.0	133.8	160.8
2. Interest and dividends	31.4	124.3	123.8	139.0
3. Rent received	3.3	5.6	6.8	6.8
Total receipts	121.6	335.9	264.4	306.6
Expenditure:				
4. Corporation tax	50.0	152.8	114.1	149.3
5. Profit distributed	22.1	119.9	27.5	39.5
6. Retained profits	49.5	63.2	122.8	117.8
Total expenditure	121.6	335.9	264.4	306.6

C. Capital Account of Parastatal Enterprises

Receipts:	1966	1967	1968	1969
1. Retained profits	49.5	63.2	122.8	117.8
2. Depreciation provision	31.3	51.7	84.4	88.0
3. Loans from Tanzania Government	4.7	55.0	46.2	33.7
4. Grants from Tanzania Government	8.1	18.8	52.2	32.2
5. Loans from abroad	8.0	24.2	126.2	24.6
6. Grants from abroad	0.8	0.7	0.8	14.4
7. Local borrowing	6.9	62.7	76.7	97.6
8. Other sources and cash balances	36.2	95.5	47.6	105.9
Total receipts	145.5	371.8	556.9	514.2
Expenditure:				
9. Land improvement	4.2	4.3	2.3	2.8
10. Residential buildings	8.6	10.9	18.0	18.1
11. Non-residential buildings	14.7	35.8	71.4	46.4
12. Other works	26.6	142.8	129.4	23.6
13. Transport equipment	3.6	19.4	5.0	12.6
14. Other machinery and equipments	44.0	47.3	99.5	47.4
Fixed Capital Formation	101.7	260.5	325.6	152.9
15. Increase in stocks	15.1	-4.2	36.7	33.7
Capital Formation	116.8	256.3	362.3	186.6
16. Net acquisition of financial assets	28.7	115.5	194.6	327.6
Total expenditure	145.5	371.8	556.9	514.2

Source: Ministry of Finance, The Economic Survey and Annual Plan, 1970-1971; and the Budget 1970/71

D. UGANDA

ECONOMIC DEVELOPMENTS IN EAST AFRICA

VOLUME I: THE ECONOMIC REPORT

D: UGANDA

TABLE OF CONTENTS

UGANDA

BASIC DATA

Area: 235,886 sq. km. (land area: 193,503 sq. km.)

Population (1970): 9.82 million

Rate of growth: 3.1% p.a.
Population density (per sq. km. of land area): 51

Political Status: Independent since October 9, 1962

Gross National Product (1969): Sh 8,012 million ($1,122 million)

GNP per capita (1969): Sh 841 ($118)

Gross Domestic Product at current factor cost (1969): Sh 7,329 million ($1,026 million)

of which
Monetary Product: Sh 5,088 million
Non-monetary Product: Sh 2,241 million

Annual Rate of Growth (1966 prices):	1969	1961-69
Total GDP	11.0	5.6
Monetary GDP	13.0	6.2

Percent of total GDP (1969):	100
Agriculture 1/	56
Industry 2/	9
Transport and Commerce	17
Other sectors	18

Percent of GNP at market prices:	1969	1961-69
Gross capital formation	16.5	13.7
Gross national savings	16.0	14.2
Balance on Goods and non-factor services	0.8	2.0
Net factor income payments	-1.3	-1.5
Government Current revenue 3/	13.9	12.5 4/

Money and Credit:

Relationship to large monetary or customs area:	Member of East African Community and the Sterling area; associate member of the European Economic Community since July 1968.

1/ Including crop processing, forestry, fishing and hunting

2/ That is, manufacturing, mining and quarrying, electricity and construction

3/ Figures for calendar years are estimated as the arithmetic average of fiscal year figures

4/ Refers to 1962-69 only

	June 30, 1970 (Sh million)	Rate of Change p.a. 1966-1969
Currency in circulation	503	13%
Commercial bank deposits	1,072	9%
Demand	608	7%
Time and savings	463	12%
Commercial bank credit	1,055	9%
Cost of Living Index (Kampala):[5/]	High Income	5.0%
	Middle Income	4.2%
	Low Income	3.8%

Public Sector Operations:	1969/70 (Sh million)	Rate of Change p.a. 1966/69 - 1969/70
Central Government:		
Current Revenue	1,136	5.6%
Current Expenditure	1,122	9.2%
Current Surplus	14	49.0%
Capital Expenditure	465	27.9%

External Public Debt (U.S. $ million):	Dec. 31, 1969
Total debt outstanding	
Uganda debt	173.1
One-third EAC debt	72.1
Total annual debt service (1969)	23.9
Uganda debt	18.5
One-third EAC debt	5.4
Debt-service ratio, percent	10.0

Balance of Payments (Sh million):	1969	Rate of Change p.a. 1966-69
Merchandise exports	1,521	1.1%
Merchandise imports	1,390	1.3%
Net invisibles	-166	-12.7%
of which net factor income	-103	-6.0%
Trade balance	131	-0.5%

Commodity Concentration of Domestic Exports (coffee and cotton)	1969	1963-68 Average
	64%	65%

Gross International Reserves (Dec. 31, 1970)		
Sh million		4.09%
Months of imports		2.9%

5/ Excluding rent; annual index = average of quarterly indices

I. INTRODUCTION

1. Since it attained independence in 1962, Uganda has had a troubled political history. The compromise constitution which was introduced in 1962 was intended to reconcile the seemingly conflicting interests of the hereditary rulers, of whom the Kabaka (King) of Buganda was the most important, and Dr. Obote, the leader of the Uganda People's Congress which emerged victorious at the elections. The Kabaka became the first President and Dr. Obote the first Prime Minister, but relations between them deteriorated steadily and the inevitable confrontation took place in 1966. After a brief struggle the Kabaka was forced to flee the country and Dr. Obote became President, abolished the Kingdoms and proclaimed Uganda a republic.

2. In the ensuing years, Uganda enjoyed an uneasy peace. An emergency which was first proclaimed in 1966 was never lifted and many prominent people were detained without trial. While President Obote made an effort to harness the forces of national unity, the absence of elections made the Government less responsive to popular needs, and there were signs of increasing disaffection for the regime. On January 25, 1971, the army took over the Government and Major General Idi Amin, the Army Commander assumed power as the new Head of State. A wholly new Cabinet has been appointed, and political activity has been suspended for two years. The Government has declared its intention to restore civilian rule in the future.

3. Uganda is now in the final year of its Second Five-Year Plan (1966-71), the first phase of a 15-year perspective plan aimed at transforming the structure of the economy and at doubling real per capita income between 1966 and 1981. The current Plan projected an average annual growth rate of 6.3 percent for aggregate GDP and 7.2 percent for monetary GDP. It emphasizes diversification, which is to be achieved by developing new crops and activities within agriculture such as tea, tobacco, livestock and fisheries, and by enlarging the industrial base. It also stressed the desirability of increasing the wages of lower-paid workers, expanding social services, improving rural living standards and promoting employment.

4. During the first four years of the Plan, the growth of the economy fell far short of Plan targets in virtually all sectors. The principal reason for the slow growth was a shortage of high-level manpower which hampered the preparation and execution of projects. Unfavorable weather was also a contributory factor. The prevalence of political difficulties from the very inception of the Plan may have also contributed to slower growth through the overcentralization of authority and a cumbersome decision-making process.

5. Preparations for the Third Five-Year Plan are currently underway. A number of problems have impeded progress in preparing the Plan, the chief of which is the shortage of personnel in the ministries concerned. By July 1, 1971 - the date on which the Plan should start - only a general document defining broad goals but without an adequate project content is likely to appear. The Third Plan will, in any case, include many projects carried over from the Second. The extent to which the timing of the Third Plan or its contents will be influenced by the recent change of government is not yet clear.

6. It is not considered likely that the Third Plan will include an explicit population policy. "The Common Man's Charter" - a 1968 document which spelled out a strategy for improving the lot of the common man - indirectly recognized rapid population growth as a possible deterrent to per capita income growth, but for action it placed emphasis on accelerating total income growth. There was no stated position on what to do if population growth increasingly frustrated this goal. Present indications are that the Government may not be able to avoid the adoption of a population policy much longer. Preliminary figures for the 1969 census indicate a faster population growth rate than was assumed in the Second Plan, and hence the long-term objective of doubling per capita income during the perspective plan period is highly unlikely to be realized. The continuing frustration of its economic goals by population growth might make the Government more receptive to the need for a population policy.

Other Recent Developments

7. On May 1, 1970, the Government of Uganda announced that it was acquiring with immediate effect a 60 percent share interest in some 80 enterprises - both foreign and locally-owned - covering all major sectors of the economy. The main objective of this measure appeared to be to increase of the Government's control over the economic life of Uganda. This objective was consistent with the "move to the left" philosophy as outlined in the Common Man's Charter.

8. Negotiations for compensating the nationalized companies are in progress and will probably engage much of the Government's attention during 1971. Agreements which have actually been signed show that the Government was more flexible and the terms of settlement more reasonable than might have been expected last May. The new Government has decided that the list of firms to be acquired will be much smaller than originally announced, and that it will lower its participation to 49 percent. It is yet too soon to evaluate the long-run impact of these measures on foreign investment in Uganda. However, few foreign firms are expected to discontinue their Ugandan operations as a result of the partial nationalization. In general, the new Government appears anxious to restore investor confidence which was badly shaken following the measures announced in May.

II. RECENT ECONOMIC DEVELOPMENTS

Growth of the Economy

9. An extensive revision of Uganda's national accounts was completed in 1970 and a new series adjusted back to 1961 has been published. According to the new series - in current prices and in constant 1966 prices - the gross domestic product was at much higher levels since 1961 than was indicated by previous estimates. The pattern of growth of the economy also appears to have been different from that indicated by the old series.

10. The years immediately preceding the Second Plan were marked by fairly rapid growth of the economy. During the period 1961-65 aggregate GDP grew at an annual rate of well over 5 percent. Real growth rates slowed down considerably thereafter, with aggregate GDP growth rates of 3.0 percent and 2.3 percent in 1967 and 1968 respectively. In 1969, however, the growth rate jumped to 11.0 percent, the highest during the 1960s. Since 1969 was an exceptionally good year, a very modest growth rate of 1.1 percent is forecast for 1970, with virtually no change for monetary GDP.

11. Over the first four years of the Second Plan, growth in real gross domestic product fell far short of Plan target. The average annual growth rate of GDP was only 4.3 percent, in spite of exceptionally high growth in 1969. Most sectors of the monetary economy virtually stagnated during 1966-68 and shared in varying degrees in the great upsurge of 1969. The average annual growth rates during 1966-69 are therefore somewhat inflated. However, figures pertaining to the period 1966-70 give a much better indication of the growth achieved during the Plan. The growth rates during these two periods may be compared in the following table with the Plan targets.

Table 1: ACTUAL AND TARGET GROWTH RATES OF GDP IN THE MONETARY SECTOR (at constant 1966 prices)

	Average Annual Growth Rates (%)		
	Actual 1966 - 69	Estimated 1966 - 70	Plan Target 1966 - 71
Agriculture	7.5	3.9	5.1
Crop Processing	5.8	3.2	5.6
Forestry Fishing and Hunting	10.3	11.2	6.0
Mining and Quarrying	4.3	4.2	6.6
Manufacture of Foods	4.7	5.1	10.8
Other Manufacturing	3.4	3.4	12.6
Electricity	8.6	8.4	9.8
Construction	11.0	9.0	11.3
Commerce	2.4	2.4	7.0
Transport and Communications	7.4	6.8	8.5
Rents	0.9	1.3	7.4
Miscellaneous Services	6.3	6.2	8.5
TOTAL	5.8	4.3	7.2

Source: Background to the Budget 1970-71

12. The dominance of the agricultural sector continued during the 1960s and was not significantly affected by the Second Plan. The following table illustrates the trend in the share of primary production (agriculture, forestry, fishing and hunting) in the gross domestic product.

Table 2: SHARE OF PRIMARY PRODUCTION IN GDP

	1961	1964	1965	1968	1969
Primary Production as % of:					
Total GDP	53.1	52.8	52.6	50.2	51.8
Monetary GDP	36.6	37.8	35.2	33.2	35.9

Source: Background to the Budget 1970-71

13. Cotton and coffee remain the mainstay of the Uganda economy. A record coffee crop of 247,000 metric tons (an 85.7 percent increase over the previous year) and a very good cotton crop of 423,000 bales (a 22.6 percent increase over the previous year) were the main contributors to the exceptional growth of GDP in 1969. These two crops still account for about three-fourths of the value of Uganda's exports outside the East African Community. However, there has been some noteworthy progress in the diversification of agricultural output. The output of tea, tobacco, sugar and livestock have all expanded rapidly. In the period 1966-70, the physical output of tea and tobacco doubled. On the other hand, progress in industrialization has been less rapid than was anticipated by the Plan, and the share of this sector in total GDP remained at about 7 percent throughout the Plan period.

Employment and Wages

14. The main employment objective of the Second Plan was to create 100,000 new jobs during the Plan period, consisting of 85,000 jobs in wage employment and 15,000 in self-employment, particularly in the tea and sugar development projects. The increased employment opportunities were expected to come about primarily as a result of production growth rather than of a deliberate policy of adopting labor-intensive techniques which might slow down the overall rate of income growth.

15. Enumeration of Employees statistics indicate that total wage employment increased by 52,000, or 62.0 percent of the Plan target, during 1966-69. This gives an average growth rate of five percent per year for the period. This rate of employment generation since 1966 is particularly impressive when viewed against the steady decrease in employment which had taken place between 1960 and 1964. The relatively high rate of employment generation during the Plan period is due, at least in part, to the deceleration in the rate of average wage increases during the period, in comparison with the earlier years of the decade. This is evident from the figures in Table 3 below:

Table 3: EMPLOYMENT AND WAGES/1

	Total Wage Employment		Average Wage Rates	
	'000 Persons	% increase	Sh	% increase
1965	241.7	7.5	3,400	9.5
1966	246.0	1.8	3,620	6.3
1967	256.8	4.4	3,790	4.8
1968	281.8	9.7	3,800	0.2
1969	294.4	4.5	3,960	4.2
1965-69 Average		5.0		3.9

/1 Based on the annual Enumeration of Employees
Source: Background to the Budgets

It can be seen that over 71 percent of the net employment increase was generated in 1968 (25,000 new jobs) and 1969 (12,600 new jobs) alone.

16. The figures above probably understate the achievement to date because employment in peasant agriculture and domestic service are not covered. When adjustments have been made for these omissions, total employment would be significantly higher, although net additions will fall short of Plan target. The main explanation for the shortfall appears to be the disappointingly low growth of GDP. Data pertaining to self-employment are deficient.

Capital Formation and Saving

17. As part of the recent revision of Uganda's national accounts, a new series for capital formation has been prepared covering the period 1960-69. The new series is more comprehensive than the old and appears to be a considerable improvement in a number of respects. While the old estimates covered only the monetary sector, the new series includes both construction within the non-monetary economy and changes in stocks as well. A statement of the sources and methodology used is not yet available, and hence a thorough evaluation of the new series cannot be made at this time.

18. The level of total gross capital formation has fluctuated greatly from year to year since 1961 but its trend has been upward. In 1969, it reached an estimated high of Sh 1,320 million, or 30.7 percent above the previous year. Although a large part of this was accounted for by an increase in stocks, fixed capital formation itself grew at the high rate of 11.1 percent. As seen in Table 4 below, most of the capital formation has taken place in the monetary sector, and investment in the subsistence sector has been a small part of the total.

Table 4: GROSS CAPITAL FORMATION
(Sh million; current prices)

	1961	1965	1966	1967	1968	1969 Estimate
Subsistence Construction	97	105	108	111	113	116
Monetary Sector	419	750	735	879	866	971
Construction	239	356	324	397	442	492
Plant and Machinery	141	274	281	361	310	349
Transport Equipment	39	120	130	121	114	130
Total Fixed Capital Formation	516	855	843	990	979	1,087
Total Capital Formation/1	420	825	851	1,013	1,010	1,320

/1 Includes changes in stocks
Source: Background to the Budget 1970-71

19. The share of Uganda's Gross National Product devoted to gross capital formation rose steadily from 9.9 percent in 1961 to 15.0 percent in 1964. Thereafter it tapered off slightly but remained quite high, averaging about 14.5 percent over the period 1965-69. For the monetary sector alone, the figures are higher but the trend is the same.

20. During 1966-69 gross fixed capital formation in the monetary sector amounted to Sh 3,451 million. This may be compared with the Plan target (adjusted to the same basis as the new capital formation series) of Sh 3,772 million over the same period. Actual performance was thus about 91.5 percent of the Plan target. It is likely that, over the entire Plan period, this ratio will be maintained and that total fixed investment in the monetary sector will fall short of Plan target by about nine percent.

21. Estimates of national savings in Uganda can be made only indirectly by means of data for capital formation and the balance of payments. A series so derived for the period 1961-69 can be found in Appendix Table 5. It indicates that total national savings rose rapidly between 1961 and 1964, slowed down for the next two years and, resuming its steady growth thereafter, reached an estimated record high of Sh 1,285 million in 1969. In relation to the GNP, the average saving rate increased from 11.7 percent in 1961 to a peak of 19.8 percent in 1964, and then fell to an average of 13.6 percent during 1965-69, which corresponds roughly to the first four years of the Plan. It may be noted that, during the first four years of the Plan, there was only a small difference between investment and national saving rates. Accordingly, the resource gap was generally very small in relation to the GDP.

Recurrent Budget

22. During the first two years of the Second Five-Year Plan a large surplus was generated in the recurrent budget, but this performance has

not been maintained in the subsequent years. The recurrent surplus averaged Sh 100 million during the first two years of the Plan, but fell to Sh 76.4 million in 1968/69 and even further to an estimated Sh 13.8 million in 1969/70. In 1970/71 there may be a slight improvement, but the surplus will still be much lower than in the initial years of the Plan. Large increases in recurrent expenditures unmatched by comparable increases in recurrent revenue have been the principal factor behind the lower current surpluses (see Appendix Table 6). A modest improvement is forecast for 1970/71 and this is expected to be primarily a result of holding the increase in recurrent expenditure. Since actual recurrent expenditures generally tend to exceed budget estimates, even this may not be realized unless recurrent revenues grow by a larger than anticipated amount.

23. Recurrent expenditure increased from Sh 812 million in 1965/66 to an estimated Sh 1,122 million in 1969/70 or at an average annual rate of 8.4 percent. The budget estimate in 1970/71 is Sh 1,146 million. Government expenditures on wages and salaries have been the main factor in the growth of recurrent expenditures, although an increase of about 32 percent in expenditures on goods and other services in 1968/69 did make its impact felt. The increase in recurrent expenditure has not been unusually high taking into account the rapid rise in Government investment in the preceding years.

24. The General Services (general administration, justice, police and defense) account for a large and growing share of total recurrent expenditure, rising from about 26 percent in 1965/66 to about 30 percent in 1968/69. Defense alone accounts for a steadily growing proportion which has been between seven and ten percent during the Second Plan period. The fastest growing category of recurrent expenditure, however, is social services total outlays on which nearly doubled during 1965/66-68/69. The main element in this category is expenditure on education. Its total amount increased by 133 percent and its share of total recurrent expenditure rose sharply from 12 percent to 23 percent during the period. It should be pointed out, however, that a considerable part of this increase resulted from the recent transfer from local authorities to the Central Government of the responsibility for payment of certain teachers' salaries. This transfer was accompanied by a correspondingly large reduction in Government transfers to local governments (see Appendix Table 7).

25. Total recurrent revenue rose steadily from Sh 790 million in 1965/66 to Sh 1,136 million in 1969/70, an average annual rate of increase of 9.5 percent. The budget estimate in 1970/71 is Sh 1,174 million. Before 1968/69, growth in direct taxation, and particularly in export taxation, was the main determinant of total recurrent revenue. In 1968/69 poor harvests led to an absolute decline in total export earnings and hence export taxes. An increase of nearly 38 percent in indirect tax revenues during this year more than offset the latter. Practically all of this increase in indirect tax revenues came from the sales tax which was introduced in 1968. The sales tax is likely to make the biggest contribution to the growth of indirect taxation in the years ahead, since

increasing import substitution and the growing proportion of Ugandan imports from East African Community sources suggest that little growth can be expected in customs revenue. In the case of intra-Community trade, it should be recalled that even when transfer taxes can be imposed, they cannot exceed half the external duty rate on the commodity in question. Indications are that excise tax revenues also may not increase rapidly in view of the high production costs and the slow growth in excisable goods industries.

Development Budget

26. Development expenditure more than doubled from Sh 222 million in 1966/67 to Sh 465 million in 1969/70. Most of the increase took place in the last two years of the period, the figure for 1969/70 being equal to that for the first two years of the Plan. Total development expenditure for the first four years of the Plan amounted to about Sh 1,351 million or 75 percent of the target of Sh 1,800 million over the Plan period. Over the entire period, total development expenditure may be slightly above 90 percent of the Plan target. Actual performance in physical terms is less impressive. Underspending by some Ministries has been offset by overspending in others, and project costs have generally been higher than expected. The result is that projects which were undertaken have absorbed a higher proportion of total expenditures, and some of the expenditure has been for projects for which it was not originally intended. This means that, although actual development expenditure over the Plan period is likely to be close to the target, a number of projects will be carried over into the Third Plan.

27. In addition to the recurrent surplus, development expenditure has been financed by other miscellaneous revenues accruing to the development budget, but they constitute a relatively small item. The overall budgetary deficit increased very rapidly from Sh 89 million in 1966/67 to Sh 431 million in 1969/70. External loans and grants covered a high proportion of the deficit at the beginning of the Second Plan; although the total fell from Sh 98 million in 1966/67 to Sh 54 million in 1967/68, it still financed over 50 percent of the overall deficit in the latter year.

28. During the first four years of the Plan the overall budgetary deficit amounted to Sh 933 million. External loans and grants covered Sh 414 million or nearly 45 percent of this deficit. During the first two years of the Plan there was no domestic borrowing - it was, in fact, negative - but in the next two years Sh 395 million was raised through domestic medium and long-term stock issues, and covered a further 42 percent of the deficit. During these two years domestic borrowing played a far more important role in financing development than external loans. The relatively smaller share of external loans is attributable, however, not to a dearth of commitments but to the tying of aid or local cost financing problems and to delays in preparing and executing projects. In 1970/71 - the final year of the Plan - the overall budget deficit is estimated at Sh 625 million, which will be covered to the extent of about Sh 300 million by domestic borrowing and Sh 148 million by external

borrowing, leaving a large uncovered deficit of around Sh 180 million. Since the budget was approved about a year ago, it has become evident that the uncovered deficit will be much larger than this. Recent reports indicate that the deficit may be as high as Sh 700 million.

Money and Banking

29. Most of the commercial banks in Uganda were branches of foreign banks until October 1969 when the Banking Act was amended to require all expatriate banks and credit institutions to incorporate locally. The new legislation also required a minimum paid-up capital of Sh 20 million for banks and Sh 2 million for other credit institutions. Two mergers took place as a result and the number of commercial banks in Uganda decreased from eight to six. On May 1, 1970 the Government announced that it was acquiring a 60 percent interest in the equity of the five foreign-owned banks and of the credit institutions and insurance companies. In order to forestall the possibility of capital flight following the announcement of public participation, all transactions with Kenya and Tanzania were brought under the exchange control legislation on May 3, 1970. Negotiations for compensating the banks have been substantially completed.

30. During the fiscal year 1969/70 total money supply increased by 32 percent. Over two-thirds of this was accounted for by the increase in private demand deposits, mostly in the second quarter of 1970. By comparison, the increase in money supply was only 9.6 percent in 1968/69 and 19.5 percent in 1967/68. The principal reason for the increase in money supply in 1969/70 was the higher surplus in the balance of payments, reflecting both increased exports and lower imports. There was a substantial increase in commercial bank advances to the private sector. The ratio of advances to deposits rose from 78.9 to 92.2 percent between June 1968 and June 1969. However, it dropped back to 79.7 percent by June 1970, reflecting to some extent the uncertainty caused by the nationalization measures of May 1970.

Table 5: MONETARY SURVEY/1
(Sh million)

	1967	1968	1969	1970
Foreign Assets (net)	173.5	312.1	302.0	487.5
Domestic Credit	738.6	753.3	957.0	1,097.1
To Government (net)	48.8	44.1	115.3	210.2
To Private Sector	689.8	709.2	841.7	886.9
Money Supply	590.1	705.3	772.9	1,019.7
Currency in Circulation	316.0	344.9	429.6	503.4
Private Demand Deposits	274.1	360.4	343.3	516.3
Quasi-Money	320.4	377.0	451.2	463.4
Other Items (net)	1.6	-16.9	34.9	101.5

/1 Figures relate to June 30 in each case
Source: Bank of Uganda

The net foreign assets of the banking system in 1969/70 increased by Sh 185.5 million or 61.4 percent. This improvement reflects mainly the capital inflow resulting from the local incorporation of commercial banks during the final quarter of 1969. Total domestic credit increased by only 14.6 percent during 1969/70 as compared to 27 percent in the previous fiscal year. The reduction in the rate of increase is entirely due to the private sector, for claims on Government increased by 161.4 percent in 1968/69 and by 82.3 percent in 1969/70.

Balance of Payments

31. Uganda is a very open economy; during recent years exports have amounted, on the average, to about one-fifth of the GDP while imports have been running at a slightly lower rate. Movements in external trade thus have widespread repercussions throughout the economy. Some 85 percent of Uganda's export earnings is derived from countries outside East Africa. Two crops, coffee and cotton, account for about three-quarters of these overseas exports. Minor crops and non-factor services, particularly tourism, have increased considerably in importance as foreign exchange earners but their share in export earnings remains very small. Uganda has traditionally had a surplus on its trade balance, but it has been diminishing since 1967. The balance on non-factor services, net transfers and net factor income receipts - and consequently the current account balance - have consistently been negative for the past five years. Net factor income payments abroad claim over six percent of total export earnings. In recent years there have been substantial long-term capital inflows, particularly on public account.

32. Preliminary data indicate that Uganda had an overall balance of payments surplus of Sh 70 million in 1969. While this is an improvement over the 1968 figure, it is considerably lower than the surplus achieved during the two preceding years. The improvement in 1969 was primarily a result of a net increase in long-term capital inflow. Most of this resulting from the stipulation that all foreign commercial banks and credit institutions in Uganda should be incorporated locally with a minimum paid-up capital of Sh 20 million and Sh 2 million respectively which should be brought from abroad. In 1969, owing to a reduction in the trade surplus and reduced transfer receipts by the Government, the current account deficit increased somewhat, in contrast to the rapid decrease in the deficit since 1966. The lower trade surplus resulted both from higher imports and lower exports. The fall in exports was the result of a poor coffee crop in the 1967/68 season and low coffee prices during 1968/69. Earnings from invisible exports have increased considerably since 1967 reflecting the growth of tourism. Accordingly, the traditional deficit balance on non-factor services has been falling steadily. The nationalization measures of May 1970 are expected to result in lower factor payments abroad.

33. Prospects for Uganda's balance of payments are considerably brighter in 1970. Preliminary unadjusted figures for the first half year indicate that total exports are 31.4 percent higher than for the same period in 1969. Exports to Kenya and Tanzania are running at a slightly

higher rate. At the same time total imports are about 3.5 percent below the level for the same period in 1969. The export performance was due to an improvement in the volume and average price of coffee, an increase in the total value of cotton exports despite a fall in unit value and a substantial increase in the price of copper. Through a rise in the price of coffee and an upward adjustment in its 1969/70 quota, Uganda has benefited from the severe frost which adversely affected Brazil's 1968/69 and 1969/70 coffee crops. From a level of Sh 412.9 million at the end of March 1970 the foreign exchange reserves of the banking system had increased to Sh 581.3 million (including Sh 38 million in SDR's and Sh 32.4 million in IMF gold tranche) at the end of September 1970. This unusual improvement in the reserve position was primarily the result of a slowdown in imports owing to stock depletion and administrative delays. By the end of the year, the initial confusion following the sudden nationalization of foreign trade had been cleared. Partly on account of this and partly as a result of a seasonal dip in export earnings, Uganda's international reserves had fallen by the end of 1970 to Sh 408.6 million.

III. FOREIGN AID AND EXTERNAL DEBT

34. At the end of October 1970, external aid amounting to Sh 939 million was available for Uganda's development program, but only Sh 392.5 million or 41.8 percent of this aid had been disbursed. The chief constraints on the utilization of foreign aid have been the tying of aid, limited absorptive capacity arising from difficulties in project identification and preparation and, to some extent, problems in financing local expenditures. It is noteworthy that the rate of disbursement accelerated and almost doubled during the past two years in marked contrast to the slow pace of disbursement in the earlier years.

35. External assistance to Uganda comes from a variety of sources including the U.S.S.R., Mainland China and Yugoslavia, but the bulk of it is from Western sources. This assistance is all on very soft terms, and carries an interest of generally under three percent, with maturities of 20-50 years and grace periods of 5-10 years. For many years the United Kingdom was the most important source of aid and remains the largest bilateral donor. British aid has been primarily for roads and education and, to a lesser extent, agriculture. The U.K. also provides a great deal of technical assistance. The next two most important donors are Germany, which has financed roads and water storage, and the United States, which has provided assistance for education and livestock development. The U.S.S.R. has also been involved in education and is currently building a spinning mill which will process Ugandan cotton.

36. The IDA recently became the largest single aid donor and accounted for about Sh 264 million or 28 percent of total commitments at the end of October 1970. IDA credits have financed agriculture, education and transport. The African Development Bank, the only other multilateral aid donor to Uganda, provides only hard loans but its impact on the average terms of aid is at present insignificant.

37. Foreign aid, excluding contractor finance, contributed Sh 414 million or 31 percent of the Central Government's development expenditure during the first four years of the Second Plan. This contribution was considerably less than the Plan had projected. As has been noted in paragraph 34 the use of external resources increased substantially in absolute terms but total development expenditure increased even faster.

38. At the end of 1969 the total external public debt of Uganda was Sh 1,236.2 million ($173.1 million) or 16.5 percent above the level a year earlier. To this must be added Uganda's liability (on a notional one-third basis) for the debt of the East African Community. This share amounted to Sh 514.8 million ($72.1 million) in 1969, adding up to a total external public debt of Sh 1,760 million ($245.2 million). Interest and amortization payments on this debt amounted to Sh 170.6 million ($23.9 million) and absorbed nearly ten percent of the export earnings in 1969. The high debt service ratio in 1969 is uncharacteristic, and resulted from a peak in the debt service during the year. Apart from a lower peak in 1973, the ratio in the coming years may not exceed seven percent, but could be substantially higher when the full implications of the recently reported large budget deficit in 1970/71 become clear.

39. Uganda's reliance on contractor finance/supplier credits, which was highlighted in the Bank's 1969 report, has not changed appreciably during the past two years. This method of financing generally involves a downpayment of about 10 percent and a nominal interest rate of about 5 percent which appear quite reasonable, but it is not clear to what extent some interest charges may be hidden in project costs. A recent project to be financed in this way is an International Conference Center which has just been completed in Kampala. Contractor finance for the project amounted to Sh 38 million out of an estimated total cost of Sh 110 million.

IV. SOME ISSUES FOR THE FUTURE

Plan Implementation

40. Project identification and preparation continue to present problems. A major difficulty is the scarcity of qualified and experienced Ugandan planners, at a time when the Government is vigorously pursuing a policy of Ugandanization of the economy. There is, in fact, a general shortage of high level manpower, defined in Uganda as "people filling jobs which require at least three years education or training beyond primary school". A comprehensive manpower survey, carried out in 1967, revealed that only 53 percent of the professionals in the public sector (other than education) were Ugandans. In the private sector and in education the corresponding figures were only 20 percent and 12 percent respectively. The number of qualified technicians is small, and some who have had technical training are often called upon to work in unrelated areas such as administration. It is not clear to what extent non-technical jobs have offered higher remuneration rates and better advancement opportunities than technical jobs in Uganda.

41. The inadequacy of the statistical base hampers economic planning in Uganda. Much basic information is not available and some that is may not be very reliable. Planning could benefit considerably from a strengthening of Uganda's statistical services.

42. In the past, the task of identifying and preparing projects had suffered from a shortage of technical staff within the operating ministries. The Bank's 1969 economic report had emphasized the importance of the establishment of planning units in some of the key ministries with substantial development programs. Steps have since been taken to establish planning units in the Ministry of Agriculture (with assistance from Canada), and the Ministries of Works and Education (as part of projects being financed by IDA). When the full complement of staff for these units is assembled, there should be a significant improvement in project preparation.

Nationalization

43. The Government has now decided that the scope of the nationalization measures of May 1970 will be much smaller than was originally announced. Among the factors which led to this decision is the desire to restore the confidence of private investors which was shaken by the actions of the previous Government. It would still be necessary for the Government to delineate clearly the activities into which further public participation may be extended and those which would be open to private enterprise. If this is not done, the amounts paid as compensation settlements to Ugandans (whose assets were acquired in 1970) will remain unutilized precisely when the economy needs more investment. A clear statement in this regard is necessary as a means of encouraging further foreign investment in Uganda.

Population and Employment

44. Although Uganda does not have an official population policy, the preliminary figures for the 1969 population census appear to have stimulated new interest in the problem. The total population is put at 9.5 million and is estimated to be growing at 3.1 percent per annum. The Third Plan now under preparation is likely to assume a 3.4 percent growth rate, a much higher rate than the 2.5 percent assumed in the Second Plan. In view of this, the growth of real per capita income during the Second Plan will fall short of the target, and the hope of doubling real per capita income between 1966 and 1981 will almost certainly have to be abandoned. A large and growing proportion of the new additions to the labor force is likely to be seeking wage employment particularly in urban areas. Since only about 20 percent of the new entrants into the labor force are likely to be absorbed in wage employment, in the absence of a deceleration in the population growth rate, the prospect is that urban unemployment will grow. At present, while the Government does not have a formal population policy, it does not discourage the activities of individual leaders in support of family planning. The Family Planning Association of Uganda operates on a fairly small scale and its services are limited to those which concern maternal and child welfare.

APPENDIX

STATISTICAL TABLES

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Table 1: UGANDA - EXTERNAL PUBLIC DEBT OUTSTANDING AS OF DECEMBER 31, 1969 /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Source	Debt outstanding December 31, 1969	
	Disbursed only	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT	102,687	173,137
Privately held debt	12,043	12,139
Publicly issued bonds /2	7,116	7,116
Financial institutions - United Kingdom	4,898	4,994
Privately placed bonds	29	29
Loans from international organizations	13,970	39,558
African Development Bank	-	163
IBRD /3	6,395	6,395
IDA	7,575	33,000
Loans from governments	75,382	113,292
Denmark	666	2,667
Germany (Fed. Rep. of)	8,957	10,514
United Kingdom	57,012	72,072
United States	7,003	11,909
U.S.S.R.	1,744	16,131
Unclassified	1,291	8,148

/1 Debt with an original or extended maturity of over one year.
/2 Net of accumulated sinking fund of $2,484,000.
/3 Guaranteed by U.K. Government.

Statistical Services Division
Economics Department
September 16, 1970

Table 2: UGANDA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1969

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
		TOTAL EXTERNAL PUBLIC DEBT		
1970	164,989	5,196	3,897	9,093
1971	159,673	5,537	3,791	9,325
1972	154,005	5,923	3,677	9,600
1973	147,941	12,518	3,515	16,033
1974	135,270	6,597	2,880	9,478
1975	128,873	7,253	2,670	9,923
1976	121,420	6,707	2,456	9,163
1977	114,712	6,973	2,257	9,231
1978	107,739	7,183	2,056	9,239
1979	100,556	7,445	1,923	9,368
1980	93,111	6,155	1,703	7,858
1981	86,957	5,919	1,512	7,431
1982	81,038	5,659	1,344	7,004
1983	75,379	5,779	1,181	6,96[illegible]
1984	69,600	5,907	1,010	6,917

Note: Includes service on all debt listed in Table 1 prepared September 16, 1970 with the exception of the following, for which repayment terms are not available:

Unclassified debt - $8,148,000

Table 3: UGANDA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY INDUSTRY
(Sh million, at 1966 prices)

	1961	1962	1963	1964	1965	1966	1967	1968	1969 Estimate	1970 Forecast
MONETARY ECONOMY										
Agriculture (except crop processing)	1175	1094	1335	1421	1359	1496	1513	1485	1858	1741
Crop Processing	88	82	112	121	110	115	114	115	141	139
Total Agriculture	1263	1176	1447	1542	1469	1611	1627	1600	1999	1880
Forestry, Fishing and Hunting	49	52	54	55	58	68	70	81	91	104
Mining and Quarrying	62	73	72	86	83	73	73	79	83	86
Manufacture of Food Products	23	24	21	17	29	29	31	25	28	28
Other Manufacturing	169	187	193	202	229	264	277	289	292	302
Electricity	37	43	48	52	60	68	78	84	87	94
Construction	78	77	75	84	100	90	109	116	123	127
Commerce	601	593	679	704	822	858	837	887	923	946
Transport and Communications	159	162	174	204	202	222	244	261	275	289
Rents	207	212	210	212	212	213	212	212	219	224
Miscellaneous Services	461	518	559	609	689	745	797	803	896	949
Total Monetary Economy	3109	3117	3532	3764	3943	4241	4355	4437	5016	5029
NON-MONETARY ECONOMY										
Agriculture	1195	1332	1341	1397	1486	1503	1558	1626	1756	1808
Forestry, Fishing and Hunting	116	128	143	131	132	140	149	140	131	135
Construction	24	24	25	26	26	27	28	28	29	30
Owner-Occupied Dwellings	182	185	188	192	195	201	206	209	214	219
Total Non-Monetary Economy	1517	1669	1697	1746	1839	1871	1941	2003	2130	2192
TOTAL GDP	4626	4786	5229	5510	5792	6112	6296	6440	7146	7221

Source: Background to the Budget 1970-1971

Table 4 : UGANDA: SUPPLY AND USE OF RESOURCES, 1961-69
(Sh million; current prices)

SUPPLY OF RESOURCES	1961	1962	1963	1964	1965	1966	1967	1968	1969 Estimate
GDP at market prices	4,261	4,331	4,870	5,576	6,208	6,630	6,896	7,208	8,115
GDP at factor cost	4,085	4,131	4,557	5,129	5,843	6,112	6,235	6,516	7,329
Monetary	2,740	2,758	3,173	3,583	3,924	4,241	4,248	4,496	5,088
Non-Monetary	1,345	1,373	1,384	1,546	1,919	1,871	1,987	2,020	2,241
Indirect Taxes	234	278	394	495	527	624	672	705	816
Subsidies	58	78	81	48	162	106	11	13	30
Imports of Goods and non-factor services	904	911	1,061	1,190	1,432	1,575	1,584	1,573	1,630
USE OF RESOURCES									
Consumption Expenditure	3,749	3,774	4,087	4,393	5,313	5,771	5,821	6,096	6,727
Public	380	432	456	516	623	666	738	797	890
Private	3,369	3,342	3,631	3,877	4,690	5,105	5,082	5,300	5,837
Gross Investment	420	468	573	823	825	851	1,013	1,011	1,320
Fixed Capital Formation	516	492	537	700	855	843	990	979	1,087
Increase in Stocks	-96	-24	36	123	-30	8	23	31	233
Exports of Goods and non-factor services	996	1,000	1,271	1,550	1,502	1,583	1,646	1,674	1,698

Source: Derived from Background to the Budget 1970-71

Table 5 : UGANDA: NATIONAL SAVINGS AND CAPITAL FORMATION
(Sh million; current prices)

	1961	1962	1963	1964	1965	1966	1967	1968	1969 Estimate
1. Monetary GDP at factor cost	2,740	2,758	3,173	3,583	3,924	4,241	4,248	4,496	5,088
2. Indirect Taxes less Subsidies	176	200	313	447	365	518	661	692	786
3. Monetary GDP at market prices	2,916	2,958	3,486	4,030	4,289	4,759	4,909	5,188	5,874
4. Net factor income from abroad	-16	-60	-50	-100	-104	-124	-135	-125	-103
5. Monetary GNP at market prices	2,900	2,898	3,436	3,930	4,185	4,635	4,774	5,063	5,771
6. Non-Monetary GNP	1,345	1,373	1,384	1,546	1,919	1,871	1,987	2,020	2,241
7. Total GNP at market prices	4,245	4,271	4,820	5,476	6,104	6,506	6,761	7,083	8,012
8. Balance of Goods and Services	92	89	210	360	70	8	62	101	68
Gross Capital Formation									
9a. Total	420	468	573	823	825	851	1,013	1,011	1,320
9b. Monetary Sector only/1	323	369	472	720	720	743	902	897	1,204
10a. National Saving, Total	496	497	733	1,083	791	735	940	987	1,285
10b. National Saving, Monetary Sector	399	398	632	980	686	627	829	873	1,169
11. (9a) as % of (7)	9.9	11.0	11.9	15.0	13.5	13.1	15.0	14.3	16.5
12. (9b) as % of (5)	11.1	12.7	13.7	18.3	17.2	16.0	18.9	17.7	20.9
13. (10a) as % of (7)	11.7	11.6	15.2	19.8	13.0	11.3	13.9	13.9	16.0
14. (10b) as % of (5)	13.8	13.7	18.4	24.9	16.4	13.5	17.4	17.2	20.3

/1 Includes changes in stock

Source: Derived from Background to the Budget 1970-71

Table 6: UGANDA: SUMMARY OF CENTRAL GOVERNMENT REVENUES EXPENDITURES AND FINANCING
(Sh million)

	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70 /1	1970/71 /2
Recurrent Expenditure	734.7	812.4	861.3	870.3	1,008.7	1,122.3	1,146.0
Recurrent Revenue	830.1	790.1	965.4	972.7	1,085.1	1,136.1	1,174.3
Appropriations-in-aid (net)	153.0	143.3	148.2	90.1	79.1	97.6	..
Recurrent Revenue less Appropriations-in-aid	677.1	646.8	817.2	882.6	1,006.0	1,038.5	..
Recurrent Surplus	95.4	-22.3	104.1	102.4	76.4	13.8	28.3
Development Expenditure	216.0	233.9	222.1	254.3	409.6	464.7	671.4
Development Revenue /3	12.0	36.3	28.8	46.1	26.1	20.1	17.4
Development Budget Deficit (-)	-204.0	-197.6	-193.3	-208.2	-383.5	-444.6	-654.0
Overall Budgetary Deficit	-108.6	-219.9	-89.2	-105.8	-307.1	-430.8	-625.7
Financed by							
External	38.0	59.5	98.2	53.9	94.8	167.1	147.9
Loans /4	28.0	44.0	88.5	48.1	88.4	160.2	135.4
Grants	10.0	15.5	9.7	5.8	6.4	6.9	12.5
Use of Foreign Assets (- = accumulation)	..	..	55.5	-10.6	50.3	-	..
Internal							
Loans	2.0	25.0	-26.5	-27.4	158.4	237.0	297.7
Balancing Item	68.6	135.4	-38.0	79.3	3.6	26.7	180.1

/1 Revised estimates
/2 Budget estimate
/3 Excluding external grants
/4 Net, and exclusive of contractor finance

Source: Background to the Budget, Financial Statement and Revenue Estimates, Bank of Uganda Annual Report 1969-1970, and Ministry of Finance

Table 7: UGANDA: CENTRAL GOVERNMENT RECURRENT EXPENDITURE
(Sh million)

	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70 /1	1970/71 /2
Government Consumption							
Wages and Salaries	234.8	265.5	294.3	374.7	442.5	..	..
Goods and Services	161.4	203.4	210.6	217.6	287.2	..	..
Total	396.2	468.9	504.9	592.3	729.7	-	-
Subsidies	42.5	41.5	40.8	55.0	67.6	..	..
Interest	8.5	16.8	21.4	21.4	26.3	..	..
Transfers to:							
Households	94.5	98.7	98.9	71.4	71.6	..	..
Local Governments	122.7	128.8	124.4	67.9	22.3	..	..
Others	45.8	49.7	65.3	55.9	74.9	..	..
Total	263.0	277.2	288.6	195.2	168.8	-	-
Financial Transactions	17.9	2.7	1.3	2.9	6.4	..	..
Fixed Capital Formation	6.4	5.3	4.4	3.4	9.8	..	..
Total Recurrent Expenditure	734.7	812.4	861.3	870.3	1,008.7	1,122.3	1,146.0

/1 Revised estimate
/2 Estimate

Source: Background to the Budget 1970-71 and Ministry of Finance

Table 8: UGANDA: CENTRAL GOVERNMENT RECURRENT REVENUE /1
(Sh. million)

	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70 /2	1970/71 /3
Direct Taxation							
Income Tax	85.1	91.1	158.4	202.4	171.8	200.3	227.0
Export Taxes	193.2	99.4	162.0	176.8	137.4	199.8	237.5
Other Direct Taxes	0.8	0.6	0.6	-	-	-	-
Total	279.1	191.1	321.1	379.2	309.2	400.1	464.5
Indirect Taxation							
Import Duties	230.9	255.8	259.6	255.0	281.4	240.0	293.0
Excise	98.6	126.9	163.4	168.0	151.1	170.0	172.0
Licenses	17.9	17.5	18.4	19.2	21.5	..	..
Other	8.9	8.1	15.9	12.2	170.0	..	..
Total	356.3	408.3	457.4	454.3	626.6	..	..
Interest Dividends and Profits	20.9	23.6	9.1	23.3	31.4	..	..
Transfers from:							
Households /5	2.8	3.9	4.0	4.5	4.0	..	
Uganda Government /6	36.9	18.9	24.1	18.0	11.0	..	
Abroad	39.4	39.4	41.2	17.3	10.3	..	
Total	79.1	62.2	69.2	39.8	25.4	..	
Sales of Goods and Services	74.4	81.3	90.1	73.9	91.9	..	
Financial Transactions	19.8	22.4	17.4	1.7	-	-	
Sales of fixed Capital	-	1.0	1.1	1.0	0.5	0.2	
Total Recurrent Revenue	830.1	790.1	965.4	972.7	1,085.1	1,136.1	1,174.3

/1 Including appropriations-in-aid (net)
/2 Revised estimates
/3 Estimates
/4 Includes development tax
/5 Transfers from private persons (mainly firms) and from organizations not normally income-earning
/6 Transfers from Uganda Government Funds and from the East African Community

Source: Background to the Budget 1970/71, Bank of Uganda Annual Report 1969/70 and the Ministry of Finance.

Table 9: UGANDA: BALANCE OF PAYMENTS /1
(Sh. million)

	1961	1962	1963	1964	1965	1966	1967	1968	1969 /2
Exports of Goods and Services (f.o.b. Tororo)	996	1,000	1,271	1,550	1,502	1,583	1,646	1,674	1,698
Merchandise						1,470	1,495	1,490	1,521
Non-factor Services						113	151	184	177
Imports of Goods and Services (c.i.f. Tororo)	904	911	1,061	1,190	1,432	1,575	1,584	1,573	1,630
Merchandise						1,337	1,317	1,323	1,390
Non-factor Services						238	266	250	240
Balance of Goods and Non-factor Services	92	89	210	360	70	8	62	101	68
Trade Balance						133	178	167	131
Balance of Services						-125	-116	-66	-63
Factor Income, net	-16	-60	-50	-100	-104	-124	-135	-125	-103
Transfers, net	..	-30	-26	-30	6	8	-	-3	-15
Private						-21	-21	-33	-32
Public						29	21	30	17
Balance on Current Account		-1	134	230	-28	-108	-72	-27	-50
Long-term Capital, net		-202	-162	-250	-40	354	203	65	112
Private		-294	-210	-302	-46	71	74	-18	-13
Public		92	48	52	6	283	129	83	125
Short-term Capital, net		134	-50	-6	-46	-85	-39	10	8
Private						14	-15	4	-
Public						-99	-24	6	8
Over-all Balance		-69	-78	-26	-114	160	91	48	70
Change in reserves (- = increase)		104	8	56	174	-149	-71	-76	-70
Errors and Omissions		-35	70	-30	-60	-11	-20	28	-

/1. Data for the period beginning 1966 are not altogether comparable to those of earlier years.
/2. Provisional Estimates.

Sources: Background to the Budget and Bank of Uganda Annual Report 1969-1970.