

Educational policy and its financial implications in Tanzania

As can be seen from Table 48, the drastic fall in sisal exports has been made up for by increased exports of other products such as cashew nuts, cloves and tobacco. Exports of petroleum products from imported crude oil have also increased encouragingly. This trend, however, will change when Zambia has its own petroleum refineries. The fact remains that Tanzania, in common with other developing countries, is in difficult situation in the field of foreign trade; while prices of manufactured goods and particularly those of capital goods are steadily increasing, prices for exported agricultural products are on a downward trend. It is this deterioration in terms of trade which is at the root of the unfavourable trade balance of the last few years.

The unfavourable export situation has had its effect on the balance of payments, as can be seen from Table 49. Since 1968 the trade balance has constantly been negative, and in spite of the improvement of the balance on services and of the balance on transfer, which have been both favourable, the balance on current account has deteriorated. While it showed a surplus of 226 million shillings in 1964, in 1971 it showed a deficit of 572 million. The following year it improved slightly but the deficit was still sizable, amounting to 374 million shillings. We shall see later on how this deficit was covered by net entry of capital from external sources, and what its effect was on the reserves of foreign exchange of the country.

To round off this brief examination of development in recent years, the following conclusions may be drawn:

1. Although the ambitious targets of the first and second five-year plans have not been entirely achieved, growth of the economy has been relatively high, averaging, in real terms, a rate of 5.5 per cent from 1964 to 1969 and of 5.1 per cent from 1960 to 1972.
2. This growth however has called for a high level of investment, and the share of monetary GDP (at factor costs) devoted to fixed capital formation has been on the increase, going up from 13.8 per cent in 1964 to 34.8 per cent in 1971 and 30.1 per cent in 1972.
3. There has been a steady increase in the part played by the state in the sector of capital formation. At present, either directly or indirectly, through the parastatal enterprises, it is responsible for nearly three-fourths of the amount of investment made.
4. The increase in the amount of investment has caused a rapid increase in imports of capital goods. However, exports have not increased at the same rate, principally because of the fall in prices on world markets, and as a result the trade balance is largely in deficit.
5. Consequently, Tanzania's growth is conditioned by the situation of foreign trade and particularly by the trend of prices of exported primary products. It is also conditioned by the level of foreign aid, since almost all equipment has to come from abroad.

TABLE 49. Trend of the balance of payments, 1964-72 (in million shillings)

Item	1964	1966	1968	1969	1970	1971	1972
<i>Goods</i>							
Exports ¹	1 521.4	1 774.9	1 676.0	1 754.0	1 809.7	1 945.0	2 305.0
Imports ¹	-1 252.1	-1 738.7	-1 890.7	-1 790.1	-2 337.3	-2 787.1	-2 975.2
Trade balance	269.3	36.2	-214.7	-36.1	-527.6	-842.1	-670.2
<i>Services</i>							
Receipt	195.7	296.5	382.8	431.3	593.3	722.0	855.4
Payment	-261.4	-359.4	-361.7	-366.6	-405.9	-517.9	-576.2
Balance on services	-65.7	-62.9	21.1	64.7	187.4	204.1	309.2
<i>Transfer</i>							
Receipt	154.3	125.7	189.4	198.2	265.8	260.3	350.3
Payment	-132.2	-135.0	-112.8	-113.9	-177.1	-193.9	-363.2
Balance on transfer	22.1	-9.3	76.6	79.3	88.7	66.4	-12.9
Balance on current account	225.7	-36.0	-117.0	107.9	-251.5	-571.6	-373.9

¹ Because of differences of definitions, the exports and imports figures of the balance of payments are not exactly the same as the figures provided by the customs statistics given earlier.

SOURCE: Bank of Tanzania, *Economic and operation reports*, June 1969, June 1971, June 1973, Dar es Salaam.

Economic growth: past trends and prospects for the 1970s

Prospects for economic development during the present decade

In order to project the economic growth of the country during the present decade, our starting-point will be the targets set by the second five-year plan, covering the period 1969-74. Our assumptions will, however, be slightly less ambitious for two main reasons: first, because our projection period is longer, it is more difficult to maintain a high and steady growth rate during this time, and second, because the growth of the economy during the last few years has been slower than had been projected in the plan.

Before embarking upon the economic projections, it would be of interest to examine in some detail two important problems which are closely connected to the future growth of the economy: financing of fixed-capital formation and trends in the balance of payments.

Financing of capital formation during the second five-year plan

As we have previously shown, because of the concentration of investment in economic infrastructure, which is quite normal at the present stage of development of the country, the growth in capital formation has been much more rapid than the growth of the economy, and the share of monetary GDP devoted to investment has steadily increased. The question may thus be asked whether the financing of investments of such a large size will run into difficulties.

It is true that during the last years of the first five-year plan, and notably in 1967 and 1968, the proportion of GDP taken up by investments was already a large one. The situation at the beginning of the second five-year plan may therefore appear to be only an upward swing in the trends of the previous years. The reason for the high level of investment in the last few years is not to be found in any drop in consumption but rather in the steady widening of the trade-balance deficit as can be seen in Table 50.

Between 1964 and 1970, total consumption fluctuated but little around 83 per cent of total GDP. The proportion of private consumption went down slightly, but this fall was more than offset by an increase in public consumption.

TABLE 50. GDP and its appropriation (in million shillings)

Item	1964		1965		1966		1967		1968		1969		1970	
	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age
<i>Consumption</i>														
Public consumption	588	9.8	642	10.5	725	10.3	803	10.9	884	11.2	997	11.9	1 181	12.9
Private consumption	4 363	72.3	4 458	72.6	5 284	75.0	5 238	70.7	5 789	73.3	5 938	71.0	6 363	69.5
SUBTOTAL	4 951	82.1	5 100	83.1	6 009	85.3	6 041	81.6	6 673	84.5	6 935	82.9	7 544	82.4
<i>Investment</i>														
Public investment	234	4.0	252	4.1	400	5.7	642	8.7	683	8.6	601	7.2	1 291	14.1
Private investment	440	7.3	537	8.8	591	8.4	629	8.5	635	8.1	616	7.4	856	7.2
SUBTOTAL	674	11.3	789	12.9	991	14.1	1 271	17.2	1 318	16.7	1 217	14.6	1 947	21.3
<i>Change in inventories</i>	93	1.5	107	1.7	111	1.6	80	1.1	94	1.2	90	1.1	100	1.1
<i>Exports-imports</i>	280	4.6	56	0.9	110	1.6	21	0.3	-196	-2.5	-50	-0.6	-530	-5.8
<i>Errors or omissions</i>	32	0.5	88	1.4	-175	-2.5	-13	-0.2	8	0.1	173	2.0	92	1.0
TOTAL														
(AT MARKET PRICES)	6 030	100.0	6 140	100.0	7 046	100.0	7 400	100.0	7 897	100.0	8 365	100.0	9 153	100.0

SOURCE: United Republic of Tanzania, *National accounts 1964-1970*, op. cit.

Educational policy and its financial implications in Tanzania

The percentage of gross capital formation during the same period went up from 11.3 per cent to the exceptionally high level of 21.3 per cent. However, this high percentage was achieved only at the cost of a large deficit in the trade balance.¹ In reality, in 1970, gross national savings covered only 78.6 per cent of gross capital formation.

Such a situation, of course, is not abnormal in a country undergoing rapid development, and with investment partly financed through foreign aid. None the less, foreign aid, taking mainly the form of loans plus a rapid increase in the amount of external debt and the servicing of it (repayment of capital and interest) can lead to difficulties. In 1970 for instance, in spite of net capital receipts amounting to 529 million shillings, foreign-exchange reserves fell by 43 million shillings. This figure related to both Zanzibar and mainland Tanzania; it would have been higher if only mainland Tanzania was taken into account.

Bearing in mind the major part played by the state in gross fixed-capital formation, let us try to look more closely at how the state's capital expenditures are financed. According to the second five-year plan, state expenditures for investment purposes, including the subsidy to parastatal enterprises and the contribution to the local cost of TAZARA, should amount to 3,665 million shillings. Table 51 shows the way in which the financing of this amount is planned; it also indicates, for comparison purposes, the actual expenditures of the period 1964-69.

TABLE 51. Financing of government capital expenditures (including the subsidy to parastatal enterprises and the contribution to TAZARA (in million shillings))

Capital expenditures	1964-69		1969-74		Increase coefficient
	Amount	Percentage	Amount	Percentage	
<i>Domestic sources</i>					
Governmental savings	393.4	27.7	620.0	16.9	1.58
Domestic borrowing	466.3	32.8	1 295.0	35.3	2.78
Others	—	—	150.0	4.1	—
SUBTOTAL	859.7	60.5	2 065.0	56.3	2.40
<i>External sources</i>					
Loans	459.8	32.3	—	—	—
Grants	102.6	7.2	—	—	—
SUBTOTAL	562.4	39.5	1 600.0	43.7	2.84
TOTAL	1 422.1	100.0	3 665.0	100.0	2.58

SOURCE 1964-69: United Republic of Tanzania, *Appropriation accounts*. 1969-74: United Republic of Tanzania, *Second five-year plan*, op. cit.

01 1. As we have previously indicated, in 1964 the trade balance showed a surplus of 280 million shillings, but in 1970 it showed a deficit of 530 million.

Government capital expenditures, as provided for under the second plan, are two-and-a-half times higher than what was actually spent during the first plan. One of the reasons for this enormous increase is that under the first plan, government capital expenditures were almost exclusively related to development expenditures by the various ministries. In the meantime, government's responsibilities have increased, and both the subsidy to the parastatal enterprises and the contribution to the local cost of the TAZARA project will entail a large increase in capital expenditures.

If we now look at the source of funds, we will see that the proportion of funds coming from abroad should increase from 39.5 to 43.7 per cent. This means that in cash terms these funds must treble. The plan did not explicitly give the distribution between loans and grants, but on the basis of past experience it may be said that the major portion of it (probably nine-tenths) will be in the form of loans.

For the domestic sources of finance, the planners are counting on an increase of government savings from 390 million to 620 million shillings. However, the largest increase will be under the head of domestic borrowing, which is multiplied by a factor of 2.8.

To what extent may we expect the plan's rather ambitious forecasts to be fulfilled? Some idea of the answer can be obtained from comparing the planned figures with the actual government capital expenditures in the last few years, as shown in Table 52.

TABLE 52. Financing of government capital expenditures during the first three years of the second plan (in million shillings)

Capital expenditures	1969/70	1970/71	1971/72	Total, 1969/72	Plan forecasts, 1969/74	Ratio, (4) as percentage of (5)
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic sources						
Governmental savings	50	52	78	180	620	29.0
Borrowing from the banking system	252	314	179	745	630	118.3
Short-term borrowing	125	143	110	378	705	53.6
Others	62	50	21	133	150	88.7
SUBTOTAL	489	559	388	1 436	2 105	68.2
External sources	122	270	351	743	1 600	46.4
TOTAL	611	829	739	2 179	3 705	58.8
External sources as percentage of total expenditures	20.0	32.6	47.5	34.1	43.2	

SOURCE 1969-72: United Republic of Tanzania, *The economic survey, 1972-73*, p. 33. 1969-74: United Republic of Tanzania, *The second five-year plan*, op. cit.

During the first three years of implementation of the plan, government capital expenditures amounted to 58.8 per cent of the forecast figure for the five years. Although the plan's forecasts are made in real terms, while the investments achieved are expressed in terms at current prices, it may none the less be said that the amount of the government capital expenditures is roughly in line with what was projected in the plan. However, the proportion of funds from external sources was lower than the plan's assumption. In the period 1969-72 they accounted for only 34.1 per cent of total expenditures whereas the plan expected them to cover 43.2 per cent.

Looking again at financing from domestic sources, we see that the contribution from government savings has been much lower than expected because the growth of recurrent expenditure has been more rapid than that of government revenue. According to the plan, government savings should be almost equal to the amount of loans from the banking system. In fact, government savings came to only 180 million shillings, and a large proportion of investment was financed through loans from the banking system which amounted to 745 million shillings. In other words, after three years of implementation of the plan the amount of loans from the banking system was already 18 per cent more than what had been projected for the five-year period.

It is obvious therefore that the high level of total government capital expenditure has been achieved only at the cost of an increase in public debt. What we have in reality is only an upward swing in past trends. In recent years the internal and external public debt has increased very rapidly from 693 million shillings in 1963 to 2,574 million shillings in 1972.

Movements in the balance of payments during the second five-year plan

Another obstacle which may hamper the increase of investment at the rate set in the plan is the situation of foreign trade, since the greater part of equipment has to come from abroad.

In 1966, Tanzania's exports stood at 1,878 million shillings. They fell in the following years and it was only in 1970 that they more or less climbed back to their 1966 level. Since then, the growth of exports has been encouraging, and it is quite possible that the target set in the plan will be achieved.

Tanzania's exports consist of seven main products: cashew nuts, cloves, coffee, cotton, diamonds, petroleum products and sisal, which accounted for about 77 per cent of total exports in 1972. The price trends of these products on the world market will consequently have a major influence on the level of future export earnings.

The future for two of these products appears to be a poor one. Sisal has fallen in price in the last few years. At present, the situation is improving, but, according to the plan, it is expected that production will fall off. It is further expected in the plan that the production of diamonds will decline. Exports of

these two products will therefore decline even if prices are stabilized at their present level.

Any increase in exports will thus be dependent on the other five products. In 1972 export of cotton has improved owing to the rise in prices caused by a decline in world production. However, this favourable trend is being reversed. It is difficult to know what may be the long-term prospects, although the probable increase in prices of synthetic textiles, resulting from the oil situation, may improve the cotton export situation.

So far as coffee is concerned, the latest international agreement has given Tanzania a quota of 41,000 metric tons a year. Annual coffee production, by the end of the plan, will probably stand at 67,000 metric tons, and consequently one-third of coffee exports will have to be made outside the quota. Prospects on the world market have been good in the last few years and the difference between the price of coffee sold outside the quota, and the price for coffee sold under the quota, has narrowed. At the same time, prices have been rising. It does not look as though this situation will continue, however.

Prospects have also been good for cashew nuts and for cloves. In general, it may be said that the situation of agricultural exports of Tanzania has considerably improved at the beginning of the decade as compared to what it was at the end of the preceding one.

Production of petroleum products has increased rapidly in the recent past and it has been possible to export part of this production since 1967. At present, however, production is based on the importation of crude oil, and the effect of any increase in the exports of petroleum products on the trade balance is marginally or completely offset by the need to import an equivalent quantity of the raw product. In addition, petroleum products are mainly exported to Zambia, which is now building its own petroleum refinery. It may thus be expected that exports will decline in the future.

When we come to examine imports (see Table 53), a distinction has to be made between consumer goods, capital goods and raw materials. It was stipulated in the plan that imports of consumer goods should be stabilized at 750 million shillings. In fact, from 1966 to 1969 imports of consumer goods tended to decrease; they then became stabilized, but increased sharply after a period for reasons we have already discussed.

TABLE 53. Imports of consumer goods and monetary GDP (in million shillings)

Item	1966	1967	1968	1969	1970	1971	1972
Consumer goods imports	800	578	731	642	682	690	880
Monetary GDP	4 464	4 688	4 991	5 325	5 869	6 273	6 973
Consumer goods imports as a percentage of monetary GDP	17.9	12.3	14.6	12.0	11.6	11.0	12.6

Source: United Republic of Tanzania, *The economic survey, 1972-73*.

Disregarding 1972, which appears to be an exceptional year, the proportion of imports of consumer goods in monetary GDP has regularly diminished. This relative decrease of imports of consumer goods was due to the expansion of domestic industry during the years of the first plan which made it possible to replace by local production, to a certain extent, products hitherto imported. There was a particularly large fall in imports of clothing, footwear and furnishings (see Table 54).

TABLE 54. Percentage share of private consumption expenditure met out of imports

Type of expenditure	1964	1966	1968	1970
Clothing	41.9	38.0	33.1	23.2
Entertainment and education	32.4	30.3	29.6	29.1
Food, beverages and tobacco	6.9	6.1	4.8	5.2
Footwear	64.4	47.8	36.2	25.2
Fuel and power	9.7	7.0	6.5	8.7
Furnishings	31.0	26.4	19.8	18.3
Health expenses	24.3	27.1	29.8	31.2
Transport	23.8	22.8	24.1	20.6
Other	20.7	24.1	21.7	23.8
All expenditures	15.5	14.4	12.5	11.4

SOURCE: United Republic of Tanzania, *National accounts, 1964-1970*, op. cit.

If this trend in the gradual substitution of imported consumer goods by local products continues, the target set by the plan may be achieved. However, the situation is quite different concerning the import of capital goods and intermediate products. The data of the last few years show that the projections made in the plan were rather optimistic. The accelerated capital formation at the beginning of the second five-year plan has caused an increase in imports of capital goods and intermediate goods at a rate much higher than what was expected by the plan (Table 55).

TABLE 55. Actual and projected amounts of imports (in million shillings)

Year	Capital goods and intermediate products			Total imports		
	Actual imports	Second Plan projection ¹	Differences	Actual imports	Second Plan projection ¹	Differences
1969	1 068	1 181	-113	1 710	1 931	-221
1970	1 592	1 324	+268	2 274	2 074	+200
1971	2 035	1 484	+551	2 725	2 234	+491
1972	2 049	1 645	+404	2 929	2 395	+534

1. The figures have been adjusted to take into account the fact that the plan refers to the fiscal year instead of the calendar year.

If in 1969 the amount of imports of capital goods and of intermediate products was below the estimate given in the plan, it grew very rapidly during the following year. As a result, total imports were much higher than the figures projected in the plan. In 1972 they reached 2,929 million shillings, i.e. 22.3 per cent more than the plan forecast. From the trends of exports and imports observed during the last few years, it may be concluded that if gross capital formation is to take place at the rate laid down in the plan, the deficit of the trade balance will tend to increase, and will be much higher than that estimated by the planners. To give a more complete picture let us try to compare the actual results of the balance of payments with the figure projected by the second five-year plan. This is done in Table 56, which gives both the actual figures for the 1967/72 period and the projections made by the plan.

When the second plan was being drawn up the final data concerning the 1968 balance of payments were not yet available. The projections were therefore based on figures for 1967 and for previous years. But in 1968 itself there were some important changes in the trends. The trade balance, which up to then had been in surplus, began to show a deficit. On the other hand, the balance on services was favourable for the first time, thanks to the increasing traffic to and from Zambia, and to the expansion of the tourist trade. These changes in the trends were not temporary, as can be seen from the figures in Table 56.

Even if we take into account the encouraging trends of the balance on services which, instead of the deficit foreseen in the plan, showed an increase in surplus of 21 million shillings in 1968 and 309 million shillings in 1972, the fact remains that the deficit of the balance on current account is widening because of a growth in imports much more rapid than that of exports. This deficit of the balance on the current account created difficult problems in 1970 when foreign exchange reserves began to run down. The situation improved very much during the two following years in spite of a sizable trade-balance deficit. However, this was due to a very large inflow of foreign capital which amounted to close on 1,600 million shillings, both in 1971 and in 1972. It is also to be noted that in the last few years the outflow of capital and the amount of 'errors and omissions' have been abnormally high. This was mainly due to the illegal export of private capital and unrecorded imports from neighbouring countries (especially from Kenya). These unrecorded exports and imports were facilitated by the free movement of currency between the partners of the East African Community. That is why in March 1971 exchange control was introduced, and responsibility for import control was transferred to the Bank of Tanzania, which took positive action to allocate foreign exchange to each category of import items in a manner consistent with public demand and national priorities.

From the above analysis, it can clearly be seen that the inflow of foreign capital plays a very important role in the development of the Tanzanian economy. This inflow of foreign capital has increased at a very high rate in the last few years, as can be seen in Table 57, and has contributed, to a large extent, to the high level of capital formation of the country.

TABLE 56. Balance of payments: actual and planned figures (in million shillings)

Item	1967	1968	1969
<i>Goods</i>			
Exports	1 760	1 718	1 793
Imports	-1 625	-1 834	-1 710
Adjustment	-143	-99	-119
Trade balance	-8	-215	-36
<i>Services</i>			
Earnings	328	383	472
Payments	-350	-362	-367
Balance on services	-22	21	105
Net transfers	69	77	61
BALANCE ON CURRENT ACCOUNT	39	-117	130
<i>Capital</i>			
Inflow	—	87	270
Outflow	—	-39	-118
BALANCE ON CAPITAL ACCOUNT	159	48	152
<i>Errors and omissions</i>	-82		-125
<i>Balance on ordinary transactions</i>	114		157
<i>Special transactions</i>	-8		6
NET CHANGE IN FOREIGN EXCHANGE	106	92	163

SOURCE United Republic of Tanzania. *The economic survey, 1972-73.*

The government has received a large share of this inflow, particularly with respect to the TAZARA project, but the parastatal enterprises have also benefited from it a great deal. Needless to say, success in the implementation of the plan will largely depend on Tanzania's possibilities of mobilizing large amounts of foreign capital. At present, the quantity of capital aid available to Tanzania does not appear to be out of line with the country's requirements.

Tanzania receives development aid from a large number of donors, and most of this aid is provided on very favourable terms. Supplier credits have been kept to a minimum. In view of Tanzania's commitment to development and its generally favourable development performance, it may be expected that foreign aid will continue to increase. The external-debt service burden is currently around 8 per cent of the country's exports and should remain within manageable proportions for the foreseeable future provided that foreign loans continue to be made on concessionary terms.

It is also to be added that Tanzania will need more aid of a different kind. Up to now capital aid has been linked to the procurement of imported equip-

Prospects for economic development during the present decade

1970	1971	1972	Plan projections	
			1969/70	1973/74
1 851	1 989	2 313	1 982	2 467
-2 274	-2 726	-2 929	-1 997	-2 640
-105	-105	-54	-63	-76
-528	-842	-670	-78	-249
593	722	885	332	458
-406	-518	-576	-369	-550
187	204	309	-37	-92
89	66	-13	—	—
-252	-572	-374	-115	-341
679	1 599	1 388	—	—
-150	-741	-477	—	—
529	858	1 111	273	406
-360	-207	-274	—	—
-83	79	463	158	65
40	64	41	—	—
-43	143	507	158	65

ment and materials for large infrastructural and industrial projects. This type of aid will continue to be required, but it is expected that Tanzania will require a growing proportion of aid for smaller agricultural and rural development projects which may have less appeal for foreign donors, but which are nevertheless very important for the development of the country.

Economic growth during the 1970s

Bearing in mind the problems we have previously referred to, i.e. the financing of the considerable amount of investment called for under the second plan and the foreseeable consequences for the balance of payments, we have assumed, in our projections, rates of growth that are slightly lower than those fixed in the plan. In spite of this reduction in growth rate, the effort required for the development of productive investment will still be sizable, and the financing of the investment involved implies a high level of net capital inflow during

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TABLE 57. Balance on capital account, 1968-72 (in million shillings)

Item	1968	1969	1970	1971	1972
Inflow					
Government					
TAZARA project	—	—	291.6	20.7	675.9
Other projects	87.0	148.0	221.8	324.6	300.0
SUBTOTAL	87.0	148.0	513.4	945.3	975.9
Parastatals	—	93.7	152.0	224.8	197.2
Private loans	—	28.6	12.8	39.9	46.1
Other	—	—	—	389.2	368.7
TOTAL INFLOW	87.0	270.3	678.2	1599.2	1587.9
Outflow					
Government	-17.9	-9.8	-10.6	-44.3	-45.6
Parastatals	—	-35.3	-81.2	-119.3	-92.7
Private loans	—	-11.7	-13.4	-26.4	-58.1
Other	—	—	—	-502.5	-240.6
TOTAL OUTFLOW	-17.9	-56.8	-105.2	-692.5	-437.0
Compensation payments	-21.2	-61.7	-44.6	-48.7	-40.4
BALANCE ON CAPITAL ACCOUNT	47.9	151.8	528.4	858.0	1110.5

Source: United Republic of Tanzania, *The economic survey, 1972-73*.

the whole period. The rate of growth forecast in the second plan is 6.5 per cent per annum, 7.6 per cent for the monetary sector and 3 per cent for the subsistence sector. In our projection for the period 1971-80 the overall rate is 5.7 per cent, i.e. 6.7 per cent for the monetary sector and 2.8 per cent for the subsistence sector.¹

The detailed assumptions of growth rates for the various economic sectors are given in Table 58, which indicates also, for comparison purposes, the rate of growth achieved during the first five-year-plan period, the targets set in the second five-year plan and actual growth during the last few years.

In the agricultural sector we have assumed a rate of growth lower than that fixed in the second plan. As we have seen, in the last few years the terms of trade have been relatively unfavourable for most of the products concerned. At present the prospects for coffee, cashew nuts and cotton still seem to be good, but this may not be the case in the future.

TABLE 58. Achieved and projected growth rates of the various economic sectors

Sector	Achieved during the 1964-69 period	Projected in the 1969-74 plan	Achieved during the 1969-72 period	Assumed in our projections
	(%)	(%)	(%)	(%)
Agriculture				
Subsistence sector	2.9	3.0	3.0	2.8
Monetary sector	3.7	7.2	2.7	4.5
Both sectors	3.3	5.1	2.9	
Mining and quarrying	0.9	-2.5	-2.6	1.0
Manufacturing and handicrafts	11.8	13.0	6.6	9.0
Electricity and water supply	9.9	10.0	11.0	9.5
Construction				
Subsistence sector	2.8	—	2.9	2.8
Monetary sector	10.9	—	8.8	8.5
Both sectors	9.1	12.0	7.8	
Trade and tourism	7.8	8.0	4.7	6.0
Transport and communications	10.7	9.0	9.5	9.0
Finance, insurance and real estate				
Subsistence sector	2.8	—	2.8	2.8
Monetary sector	8.1	—	0.4	6.0
Both sectors	4.0	6.0	2.3	
Administration	4.4	5.0	9.8	6.0
ALL SECTORS	5.5	6.5	5.0	5.7
Subsistence sector	2.9	3.0	3.2	2.8
Monetary sector	6.7	7.6	5.8	6.7

SOURCE Computed from data provided in: United Republic of Tanzania, *The economic survey, 1972-73*.

1. These rates are very much the same as those, at constant prices, achieved during the first five-year-plan period (1964-69) and during the last few years (1969-72).

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It was estimated in the plan that there would be annual decline in output of 2.5 per cent for the mining sector because of the foreseeable reduction of diamond and gold production resulting from the gradual working out of the mines. However, investigation of the large coal and iron-ore deposits in the extreme south-west of the country has indicated that the coal is cokable. It has also been established that the vanadium content of the iron ore is probably of more value than the iron itself. In addition, there are plans to expand the production of other minerals such as tin, salt, magnesite, black sands and various gemstones. Taking these various possibilities into consideration, we have assumed a change in the trend of production.

In the industrial sector (manufacturing, electricity/water supply and building) the rates assumed by us are also lower than those in the plan. The main reason is that, while expansion in the industrial sector has been rapid during the first five-year-plan period because the starting level was a rather low one, this may not be the case in the future. In fact, during the last few years, the growth of this sector has slowed down. With a few exceptions, there is a surplus capacity in most new factories. With the expansion of the production of current consumption goods (brewing, food products, cigarettes, textiles, sawmill production)

TABLE 59. Projection of GDP, 1971-80 (in million shillings)

Sector	1971		1980	
	Amount	Percentage	Amount	Percentage
Agriculture				
Subsistence sector	1 905	21.5	2 442	16.8
Monetary sector	1 589	18.0	2 361	16.3
SUBTOTAL	3 494	39.5	4 803	33.1
Mining and quarrying	121	1.4	132	0.9
Manufacturing and handicrafts	893	10.1	1 940	13.4
Electricity and water supply	91	1.0	206	1.4
Construction				
Subsistence sector	67	0.8	86	0.6
Monetary sector	414	4.6	863	5.9
SUBTOTAL	481	5.4	949	6.5
Trade and tourism	1 170	13.2	1 976	13.6
Transport and communications	788	8.9	1 712	11.8
Finance, insurance and real estate				
Subsistence sector	601	6.8	770	5.3
Monetary sector	189	2.1	319	2.2
SUBTOTAL	790	8.9	1 089	7.5
Administration	1 018	11.6	1 719	11.8
TOTAL	8 846	100.0	14 526	100.0
Subsistence sector	2 573	29.1	3 298	22.7
Monetary sector	6 273	70.9	11 228	77.3

SOURCE 1971: United Republic of Tanzania, *The economic survey, 1972-73*. 1980: IIEP projection.

the potential local demand will gradually be met, and further increase in production may turn out to be more difficult.

The problem for Tanzania is that industrial development should be adapted to the small size of the monetized market, particularly when the tendency is for partner states in the East African Community to duplicate industries, rather than to specialize in order to benefit from the larger, combined market.

The growth rate for the service sector, closely dependent as it is on the level of production in industry and agriculture, has also been reduced, in relation to the assumptions for the industrial and agricultural sectors. On the basis of the previous sets of assumptions, the growth of GDP may be projected as shown in Table 59.

In spite of the assumed reduction in the growth rates, relative to what has been forecast by the plan, the level of investment required is still a high one. It may be estimated that gross capital formation will have to go up from 1,947 million shillings in 1970 to 3,100 million shillings in 1980. An assessment of the allocation of resources is shown in Table 60.

TABLE 60. Appropriation of GDP at market prices (in million shillings)

Resource allocation	1970		1980	
	Amount	Percentage	Amount	Percentage
Public consumption	1 181	2.9	2 250	14.0
Private consumption	6 455	70.5	11 100	68.9
Gross fixed capital formation				
Government and local authorities	531	5.8	950	5.9
Parastatal enterprises	640	7.0	1 200	7.5
EAC enterprises	120	1.3	200	1.2
Private enterprises	656	7.2	750	4.7
SUBTOTAL	1 947	21.3	3 100	19.3
Change in inventories	100	1.1		
Exports minus imports	-530	-5.8	-350	-2.2
TOTAL GDP (AT MARKET PRICE)	9 153	100.0	16 100	100.0

SOURCE 1970: United Republic of Tanzania, *National accounts 1964-70*, op. cit. 1980: IIEP projections.

After this brief review of past economic growth and of prospects for the present decade, which will help in assessing the resources available for education, let us now try to see how the future development of education, and the increase in expenditure which it implies, may be financed from public sources.

Public revenue and educational expenditures

Here again it would be of interest to analyse past trends before looking at the prospects for the near future.

Government revenue

Increase in government recurrent revenue in recent years

Government recurrent revenue has increased at a very rapid rate in recent years (Table 61). It went up from 705 million shillings in 1963/64 to 1,860 million shillings in 1971/72, i.e. at a growth rate of 13 per cent per annum at current prices. If the rise in prices is taken into account the real rate of increase may be of the order of 10 per cent.

This increase in revenue is due, of course, to economic growth, and to the introduction of new taxes (such as the development levy in 1966, the transfer tax in 1968, and the sales tax in 1969), to increases in tax rates and, last but not least, to improvements in the collection of taxes. Thanks to this fiscal effort, government revenue, as a percentage of monetary GDP, increased from 18.5 per cent in 1963/64 to 28.2 per cent in 1969/70. Since the latter date, however, the percentage has levelled off. It is true that the tax burden was already very high and it seems difficult to increase the fiscal pressure any further.

DIRECT TAXES

Direct taxes constitute about one-quarter of total revenue. Income tax, which applies both to persons and to companies, has made up by far the greater part. The development of this tax over the period is rather exceptional in character, and the calculation of an elasticity coefficient for it in relation to the growth of monetary GDP would appear to be of comparatively little significance.¹

1. For more details see Table 15 in the Appendix.

TABLE 61. Trends of public revenue, 1963-72 (in million shillings)

Revenue	1963/64	1964/65	1965/66	1966/67	1967/68*	1968/69	1969/70	1970/71	1971/72
Income tax	120.4	130.8	153.9	158.6	170.0	251.6	254.7	301.6	396.2
Other direct taxes	20.3	21.3	69.6	74.2	83.7	87.0	97.3	140.8	135.8
SUBTOTAL	140.7	152.1	223.5	232.8	263.7	338.6	352.0	442.4	532.0
Customs duties	208.2	245.3	259.7	296.6	344.9	368.6	343.9	366.8	321.4
Export duties	18.1	29.1	12.3	37.9	35.5	53.0	47.4	54.9	44.5
Excise taxes	77.9	91.1	100.1	121.8	143.6	161.6	173.9	188.5	241.6
Sales tax	—	—	—	—	—	—	196.3	217.4	218.6
Motor vehicle tax	12.4	21.0	21.4	25.4	25.5	27.8	39.7	44.0	36.5
Other indirect taxes	12.8	13.9	20.0	25.1	39.4	49.8	25.9	50.3	36.0
SUBTOTAL	329.4	400.4	413.5	506.8	588.9	660.8	827.1	921.9	898.6
Income from property	64.1	84.9	70.6	73.2	107.9	92.9	116.2	111.9	131.9
Sales of goods and services	15.9	17.4	27.7	30.6	35.1	42.2	46.1	50.6	88.2
Other revenues	155.0	181.7	209.0	180.6	132.9	135.3	235.5	156.3	208.5
TOTAL REVENUE	705.1	836.5	944.3	1 024.0	1 128.5	1 269.8	1 576.9	1 683.1	1 859.2
Monetary GDP	3 813	3 835	4 154	4 576	4 840	5 163	5 602	6 071	6 624
Revenue as percentage of monetary GDP	18.5	21.8	22.7	22.4	23.3	24.6	28.1	27.7	28.1

SOURCE United Republic of Tanzania, Appropriation accounts.

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From 1962 to 1968, the increase in income tax kept in line with that of GDP and, in percentage terms, amounted to 3.5 per cent of monetary GDP. From 1968 onwards, its rate of growth increased markedly, and revenue from income tax rose to 6 per cent of GDP in 1972. This growth would seem to be due partly to an increase in income, and partly to an improvement in the collection of income tax.

The two other direct taxes are the personal tax and the development levy introduced in 1966. Collection of these taxes was combined in 1968. Their growth appears to be rather irregular.

INDIRECT TAXES

The three traditional indirect taxes are customs duties, export taxes and excise taxes. In 1969 a sales tax was added. Customs duties have not increased at the same rate as imports. Since 1968 they have tended to decrease. This is mainly due to recent changes in the pattern of imports. For obvious reasons, customs duties are lower for equipment than for consumer goods, and as we have noted there has been some substitution of imported consumer goods by local products (notably textiles, cigarettes, beverages). This trend will certainly continue and may lead to a relative reduction of revenue derived from customs duties. It is precisely in view of this foreseeable reduction that the government decided to introduce a sales tax.

Export taxes constitute a fairly small part of indirect taxes. Since 1968, they have also tended to decrease as a result of the fall-off in prices of exports. Coffee, cotton and cashew nuts are the three main products subject to export tax, and account at present for roughly 90 per cent of the revenue from this source.¹ The increase in revenue from this tax will, therefore, depend on the position of the products on the international market, from the point of view both of the quantities exportable, and of prices. A fall in prices could lead to change in the rate of taxation.

The revenue coming from the excise tax has grown quickly. Its elasticity coefficient in relation to monetary GDP has been fairly high since 1965. This high elasticity coefficient is in particular the result of the development of the industrial sector and the gradual replacement of imported products by local products. It should be noted, however, that a new tax was introduced in 1969, after the product concerned has been subjected to either customs duty or excise tax. In view of this new tax and of its direct effects on prices, it is unlikely that the rate of excise tax can still be further increased in the future, so that its elasticity coefficient in relation to the monetary GDP will no doubt tend to decrease.

1. For more details see Table 14 in the Appendix.

NON-FISCAL REVENUES

The non-fiscal revenues include, on the one hand, income from government property and, on the other, certain miscellaneous revenues. Government property includes the forests and mines, and while income from forestry may continue to increase in the future, the same may not be true for the mines. It may be expected, in particular, that royalties from diamond mining will tend to decrease.

As far as miscellaneous revenues are concerned, these range from sales of goods and services to interest and dividends from government assets. On the whole the non-fiscal revenues amounted to a sizable proportion of total revenue.

Projection of government recurrent revenue over the present decade

On the basis of the trend of the various forms of government revenue previously analysed, we have attempted to project this revenue into the future. We have based our projection on the government revenue of 1971/72, which is the last year for which data on actual revenues and expenditures are available. For more recent years only budget estimates can be obtained.

For the direct taxes we have adopted an elasticity coefficient, in relation to monetary GDP, of 1.4 per cent for the income tax and 1.2 per cent for the other direct taxes.

With regard to indirect taxes, it has been assumed that customs duties will increase at a slightly lower rate than exports because of the change in the pattern of imports (fewer consumer goods and more capital goods and raw materials). The same assumption has been made for export tax because of the price trends on the world market for the three main products subjected to this export tax. Let us recall that the revenue coming from both customs duties and export taxes has tended to decrease since 1968.

The excise tax has been assumed to increase at a faster rate than monetary GDP, and the sales tax at the same rate. As we have indicated, the sales tax is additional to customs duties and to excise tax, and its rate is uniform.

On the basis of this set of assumptions, public revenues in 1979/80 have been projected as shown in Table 62. As can be expected, the share of direct taxes will substantially increase. In 1979/80 they will represent one-third of government revenue.

The annual rate of growth of government revenue, according to the projection just given, is 7.5 per cent, whilst that of monetary GDP is 6.7 per cent and that of total GDP 5.7 per cent. It has been assumed, in other words, that the burden of taxation will increase in the future. The recurrent revenue of the government as a proportion of monetary GDP will increase, in fact from 28 per cent in 1971/72 to 30 per cent in 1979/80.

TABLE 62. Projection of government recurrent revenue, 1972-80 (in million shillings)

Revenue	1971/72		Assumed rate of growth, 1971-80 (percentage)	1979/80	
	Amount	Percentage		Amount	Percentage
Direct taxes					
Income tax	396.2	21.3	9.5	818.9	24.7
Other	135.8	7.3	8.0	251.2	7.6
SUBTOTAL	532.0	28.6	9.1	1 070.1	32.3
Indirect taxes					
Custom duties	321.4	17.3	5.0	474.7	14.3
Export duties	44.5	2.4	3.0	56.4	1.7
Excise tax	241.6	13.0	8.5	464.1	14.0
Sales tax	218.6	11.8	6.7	367.2	11.1
Other indirect taxes	72.5	3.9	6.7	121.8	3.7
SUBTOTAL	898.6	48.4	6.5	1 484.2	44.8
Non-fiscal revenue					
Income from property and sales of goods and services	220.1	11.8	8.0	407.4	12.3
Miscellaneous revenue	208.5	11.2	6.7	350.3	10.6
SUBTOTAL	428.6	23.0	7.4	757.7	22.9
TOTAL	1 859.2	100.0	7.5	3 312.0	100.0

SOURCE: IIEP projection.

Projections of government expenditures

Capital expenditure will be projected first since it is closely linked to the rate of growth of the economy. The development of recurrent expenditure will then be dealt with.

Capital expenditure

The rate of growth of government capital expenditure has been very high in recent years. From 1964 to 1971, government capital expenditures, including transfer to parastatal enterprises, have increased fivefold. The distribution of expenditures by sector was as shown in Table 63.

Investment in the economic infrastructure has increased at a very rapid rate. By comparison investment in land improvement appears to be rather modest. Since 1969, the transfer to parastatals went up tremendously and at present

TABLE 63. Distribution of government expenditure by sector over the period 1964-71 (in million shillings)

Sector	1964/65	1966/67	1968/69	1969/70	1970/71
Fixed capital formation					
Land improvement	4.0	6.9	6.2	23.5	27.5
Residential building	3.0	7.5	4.1	10.7	21.2
Non-residential building	50.0	44.6	53.6	68.2	181.0
Public works	62.3	117.3	225.2	225.1	304.7
Transport equipment	10.2	10.1	19.6	12.9	23.1
Other equipment	11.9	21.2	20.9	42.1	31.8
SUBTOTAL	141.4	207.6	329.6	382.5	589.3
Capital transfer					
Transfer to parastatals	20.3	18.5	40.1	147.3	270.9
Transfer to local authority	—	—	20.0	20.0	23.8
Other capital transfers	21.2	14.1	10.0	8.1	15.5
SUBTOTAL	41.5	32.6	70.1	175.4	310.2
Other capital expenditures	21.0	54.2	60.5	52.6	93.5
TOTAL	203.9	294.4	460.5	610.5	993.0

SOURCE United Republic of Tanzania, *National accounts, 1964-1970*, op. cit.

accounts for more than one-fourth of government capital expenditure. Details as to the financing are shown in Table 64 overleaf.

The financing pattern of public capital expenditure has changed to a large extent during the 1964-70 period. In general, the proportion of domestic sources has tended to increase. In these domestic sources, however, the share of public saving has decreased regularly from 29.6 per cent in 1964/65 to only 3.1 per cent in 1970/71. In the same way, external grants decreased from 19.5 per cent to 2.2 per cent over the same period. In fact, the financing requirement created by heavy development spending has been met either by long-term borrowing (both domestic and external) or by short-term borrowing. In 1970/71, for instance, out of the 320 million shillings put under the heading 'other domestic sources', 228 million in reality consisted of short-term borrowing provided by the central bank by way of direct advances or treasury-bill holdings. The important role played by domestic and foreign loans has led to a rapid increase in the national debt (see Table 65).

The annual rate of increase from 1966 to 1972 was 18.3 per cent. It is obvious that such a rate of increase cannot be maintained in the future, because of the growing burden of the national debt. The servicing of that debt has already absorbed a large and increasing share of public revenue, as is shown in Table 66.

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TABLE 64. Financing of public capital expenditures, 1964-71

Amount and percentage distribution	1964/65	1966/67	1968/69	1969/70	1970/71
<i>Absolute amounts</i> (in million shillings)					
Public saving	60.4	42.1	83.8	50.2	30.8
Domestic borrowing	16.3	78.7	132.5	230.7	323.0
Other domestic sources ¹	48.6	46.3	121.4	207.7	319.6
External loans	59.1	116.4	122.7	121.5	317.4
External grants	19.5	10.9	0.1	0.4	2.2
TOTAL	203.9	294.4	460.5	610.5	993.0
<i>Percentage distribution</i>					
Domestic sources					
Public saving	29.6	14.3	18.2	8.2	3.1
Domestic borrowing	8.0	26.7	28.8	37.8	32.5
Other domestic sources ¹	23.8	15.8	26.4	34.0	32.2
TOTAL	61.4	56.8	73.4	80.0	67.8
External sources					
External loans	29.0	39.5	26.6	19.9	32.0
External grants	9.6	3.7	—	0.1	0.2
TOTAL	100.0	100.0	100.0	100.0	100.0

1. Mainly short-term borrowing.

SOURCE United Republic of Tanzania, *National accounts, 1964-1970*, op. cit.

TABLE 65. Trends in the national debt, 1966-72 (in million shillings)

Debt	1966	1967	1968	1969	1970	1971	1972
Internal debt	261.6	335.9	455.5	588.6	819.9	1 021.0	1 099.1
External debt	679.4	802.9	707.7	881.7	1 015.8	1 410.9	1 475.2
TOTAL	941.0	1 138.8	1 163.2	1 470.3	1 835.7	2 431.9	2 574.3

SOURCE United Republic of Tanzania, *The economic survey, 1971-72*.

TABLE 66. Servicing of national debt and recurrent revenue, 1963-72 (in million shillings)

Year	Servicing of national debt	Recurrent government revenue	Column (1) as a percentage of column (2)	Year	Servicing of national debt	Recurrent government revenue	Column (1) as a percentage of column (2)
	(1)	(2)	(1)		(2)		
1963-64	47.4	705.1	6.7	1968-69	112.8	1 369.8	8.9
1964-65	53.4	836.5	6.4	1969-70	176.3	1 576.9	11.2
1965-66	70.3	944.4	7.4	1970-71	167.6	1 654.2	10.1
1966-67	98.5	1 024.0	9.6	1971-72	238.8	1 859.2	12.8
1967-68	142.3	1 129.5	12.6				

SOURCE United Republic of Tanzania, *Appropriation accounts*.

We have previously tried to estimate the amount of government capital expenditure on the basis of the assumptions made about the potential for economic growth during the present decade. The pattern of financing of public investment has two important consequences which must be taken into account in the projection of recurrent expenditure. On the one hand, if public savings are to cover one-third of ministries' development expenditures (excluding the transfer to parastatal enterprises), recurrent revenue, as previously projected, must show a surplus over recurrent expenditures of about 300 million shillings. Even in this case, the proportion contributed by loans will continue to be large over the period 1972-80, so that the national debt will increase still further. A corresponding increase in the cost of servicing of the national debt must therefore be expected. In other words, the need to mobilize public savings, and the increase in the cost of debt servicing, will absorb a large part of the revenue. Only the remainder will be available for financing government recurrent expenditures.

Recurrent expenditures

TRENDS OF RECURRENT EXPENDITURES IN RECENT YEARS

Expenditures are classified in Tanzanian appropriation accounts and budgets not by function but by ministry. In Table 67 the various ministries have therefore been regrouped, for the sake of clarity of presentation, in terms of their major functions, although it is realized that such a regrouping may to some extent be arbitrary in character.

During the period 1964-72, total recurrent expenditures increased at an annual rate of 12.6 per cent. The cost of national-debt servicing has increased most rapidly over the period, namely at a rate of 24 per cent per annum. The corresponding proportion of the recurrent expenditures has thus increased from 6.9 per cent to 13.4 per cent. This problem has already been mentioned and it has been shown that the financing of government capital expenditure, which is effected largely by means of loans, whether domestic or foreign, has led to a rapid increase in the national debt in the past.

Expenditure on education has also increased very rapidly, at an average of 17.7 per cent per annum, and its share of total expenditure has risen from 15.4 per cent to 21.0 per cent. If expenditure related to the servicing of the national debt and to pensions is excluded so as to take into account only expenditures by other ministries, the share taken up by education is larger, rising from 17.4 per cent to 24.8 per cent.

The growth in educational expenditure is matched only by that of social expenditures, including health. By comparison the growth in expenditure for administration and economic services appears to be modest. It is true that for economic services, the level of capital expenditure is more significant than that of recurrent expenditure.

TABLE 67. Distribution of recurrent expenditure by major sector of government activities (in million shillings)

	1964/65	1966/67	1968/69	1969/70	1970/71	1971/72	Rate of growth, 1964-72
<i>National debt and pensions</i>							
National debt	53.4	98.5	112.8	176.3	167.6	238.8	24.0
Pensions	27.4	28.4	29.2	30.0	29.7	33.7	3.0
SUBTOTAL	80.8	126.9	142.0	206.3	197.3	272.5	
<i>Administration and defence</i>							
General administration	—	—	—	257.7	282.5	249.7	
Public order and safety	—	—	—	141.0	150.3	154.9	
Defence	—	—	—	81.2	98.8	136.3	
SUBTOTAL	312.4	389.2	400.0	479.9	531.6	540.9	8.2
<i>Education</i>	119.4	145.5	203.0	255.7	313.7	374.4	17.7
<i>Social services</i>							
Health	—	—	—	105.8	132.6	149.7	
Housing and other	—	—	—	73.7	82.3	71.9	
SUBTOTAL	72.5	67.3	115.0	179.5	214.9	221.6	17.3
<i>Economic service</i>							
Agricultural development	—	—	—	132.5	140.4	149.6	
Other	—	—	—	—	—	—	
SUBTOTAL	191.0	253.0	326.0	405.2	373.7	371.3	10.0
TOTAL	776.1	981.9	1 186.0	1 526.6	1 631.2	1 780.7	12.6
<i>Education as a percentage of expenditures</i>	15.4	14.8	17.1	16.7	19.2	21.0	

Source: United Republic of Tanzania, Appropriation accounts.



Projection of recurrent expenditures

It seems very unlikely that expenditures can increase in the future at the same rate as in recent years. Public revenue has increased rapidly in the past, thanks to improvements in the collection of taxes, increases in the rates of taxation and the introduction of certain new taxes. As a result, the burden of taxation has increased rapidly, and in 1971/72 government recurrent revenue already amounted to 28.1 per cent of monetary GDP. It would be difficult to increase it much further in the future. According to the estimates previously made, recurrent revenue will amount to 3,312 million shillings in 1979/80. If it is assumed that one-third of ministries' capital expenditures (excluding the transfer to the parastatal enterprises) will have to be financed by public savings, the amount available for recurrent expenditure will be 3,012 million shillings.

If the increase in the national debt over the period 1971-80 is taken into account, expenditure on national-debt servicing and on pensions should amount to 485 million shillings. As a result, the amount available for expenditures by all ministries taken together must not exceed 2,530 million shillings.

Expenditure on education, as estimated in the first part of this study¹ will amount to 695 million shillings in 1979/80. For this expenditure to be financed, expenditures of the other sectors of government activity will have to be in line with, for example, the projection shown in Table 68.

It is important to note that the economic-growth projection has been made at constant prices. The projection of government recurrent revenue, which is

TABLE 68. Projection of government recurrent expenditures

Expenditure	1971/72		Growth rate, 1971-80	1979/80	
	Amount	Percentage		Amount	Percentage
National debt and pensions					
National debt	238.8	13.4		440.0	14.6
Pensions	33.7	1.9		45.0	1.5
SUBTOTAL	272.5	15.3		485.0	16.1
Administration	159.7	14.0	5.2	375.3	12.5
Public order and safety	154.9	8.7	5.2	232.7	7.7
Defence	136.3	7.7	5.2	204.8	6.9
Education	374.4	21.0	8.1	695.6	23.0
Health and housing	221.6	12.4	7.0	380.7	12.6
Economic services	371.3	20.9	7.0	637.9	21.2
SUBTOTAL	1 780.7	100.0		3 012.0	100.0
Government savings	78.5			300.0	
TOTAL	1 859.2		7.5	3 312.0	

SOURCE 1971-72: United Republic of Tanzania, *Appropriation accounts*. 1979-80: IIEP projection.

1. See above, pages 72-74.

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closely linked to economic growth, has therefore also been made at constant prices. As a result, the growth rate given in the Table should be considered as growth in real terms.

The growth of educational expenditures is by far the highest one—8.1 per cent per annum. If a balance is to be achieved between revenue and expenditure, expenditures of the other sectors of government activity should increase only at a moderate rate. We have assumed for social services and economic services a relatively high increase, but this can be made possible only if expenditure on general administration, public order and safety, and defence, rise slowly, i.e. at a rate markedly less than that seen in the past.

Finally it should be noted that in our projection of educational expenditure we have assumed that the salary scale will be maintained at the present level. An increase in salaries, which could not be restricted of course to the Ministry of National Education alone, would completely upset the previously indicated balance.

Conclusions

The aim of this study was to consider the problems involved in the financing of education in Tanzania over the present decade. The analysis of such financing in the past shows a quite marked tendency towards an increase in the part played by the government. An effort was indeed made, during the preparation of the first plan, to transfer to the local authorities part of the expenditure on primary education. This effort was initially successful, since the share of the local authorities during the first two years of the plan increased rapidly to 40 per cent of all expenditure at this level, nearly the same as that by central government. Many local authorities, however, very quickly found themselves unable to handle this increase in their expenditure; their budget deficits increased and, in certain cases, there were long delays in the payment of teachers' salaries. In view of this situation, the government gradually increased its subsidies and, in 1968, this amounted to 75 per cent of total expenditure. At the end of 1968, in order to put an end to the difficulties facing the local authorities and to underwrite the new priority given to development of primary education, the government decided to pay all teachers' salaries directly. As a consequence of this decision, expenditure on primary education by the Ministry of National Education has practically doubled in two years (increasing from 64.2 million shillings in 1967-68 to 124.3 million shillings in 1969-70).

In 1973, school fees were abolished and the government took over both the salary and the non-salary expenditures of primary education. Thus, it can be said that all expenditure on education (except that of private non-aided schools) is financed by the government. It is for this reason that we have considered the problem of the financing of educational expenditures against the background of government revenue and expenditure.

Government revenue has increased rapidly in the past as the result of improvements in the collection of taxes, increases in taxation rates, and the introduction of a number of new taxes. This effort in taxation has made it possible to increase the share of public revenue in the monetary GDP from 18.5 per cent in 1963/64 to 28 per cent in 1969/70. Since then the percentage seems to have levelled off and it would be difficult indeed to increase it much further. Part of this revenue, however, has been used for the servicing of the national

debt. This servicing of the national debt has increased at a rate of 24 per cent per annum over the period 1964/71.

In order to analyse the development of revenue in the future, we have attempted, on the basis of the information currently available, to project economic growth over the present decade. Based on this economic growth, it is estimated that public revenue might amount to 3,312 million shillings in 1979/80, i.e. 30 per cent of the monetary GDP. This means that some increase in the burden of taxation over the present decade has been assumed.

If the teachers' salary scales are maintained at their present level, expenditure on education (including not only the expenditure of the Ministry of National Education but also that of other ministries engaged in various forms of training) may be estimated at about 700 million shillings, on the basis of the objectives fixed by the government. Bearing in mind the foreseeable increase in the cost of servicing the national debt and the need to achieve a current budget surplus so as to cover part of the financing of government capital expenditure, it is clear that the financing of this amount of expenditure on education implies that the expenditure of the other sectors of government activity should increase at a moderate rate, lower than that seen in the past. If the required recurrent budget surplus which we have just referred to and the cost of servicing the national debt are taken into account, the amount available for expenditures on all the ministries and extra-ministerial departments would be 2,500 million shillings. In other words, the share of expenditure on education would be 28 per cent as compared to 24.8 per cent in 1971/72 and only 17.2 per cent in 1964/65. In terms of total GDP at factor costs, there would be the same increasing trend (3.4 per cent in 1964/65, 4.4 per cent in 1971/72 and 5.5 per cent in 1979/80).

In addition, two apparently fundamental problems should be emphasized which could upset the previously described balance between government revenue and expenditure.

The first is that this balance can be maintained only if the present policy, which consists in restricting enrolments in secondary education to a level consistent with manpower needs and which results in fact in access to such education becoming increasingly difficult for children who have completed primary education, can be applied. The transition ratio between primary and public secondary education (including grade C teacher training), which has already decreased from 40.1 per cent in 1961 to 16.3 per cent in 1972, will have to decrease further to 6.9 per cent in 1980. How will parents react to this restriction? It would appear that in the past this policy has encouraged the development of non-aided private education. Enrolment in private non-aided secondary schools, over the period 1965-72, increased from 1,065 to 10,773, i.e. from 4.6 per cent to 24.5 per cent of total enrolment. Although the data cover only a short period, this trend would appear to be quite significant.

The second problem is that it has been assumed, in projecting expenditure on education, that teachers' salary scales will be kept at their present level. Needless to say, expenditure on education is very sensitive to teachers' salaries.

If it is assumed that salary scales will increase by 2 per cent per annum, the projected amount of expenditure on education in 1979/80 will be increased by 14 per cent. However, in Tanzania, as in other countries, teachers' salary scales form an integral part of Civil Service salary scales, so that any increase in teachers' salaries will almost automatically have an effect on the salaries of other civil servants. As a result, expenditures of all ministries will increase. In order to deal with this increase in expenditure, while preserving the balance between government revenue and expenditure, and satisfying the conditions previously mentioned, revenue must increase markedly and amount to 34 per cent of the monetary GDP. Such an increase in the burden of taxation would seem to be difficult to tolerate, especially if its effects on private consumption and price levels are borne in mind.

Will it be possible to call on other sources of finance in order to reduce the burden to the government of expenditure on education? Past experience of making the local authorities responsible for this expenditure can hardly be said to be encouraging. Also, as we have previously indicated, the present regionalization policy does not really change the picture too much. In spite of that policy nearly all expenditure on education by the regional authorities, which are responsible for primary and adult education, is met by subsidies from central government.

As far as foreign aid is concerned, apart from the sizable contribution to development expenditure, this consists essentially of payments of overseas allowances to expatriate teachers. The policy of the Tanzania Government, however, is for these expatriate teachers gradually to be replaced, a process which will have been completed by 1977 in the case of secondary education. After this date the only foreign teaching staff remaining will be in higher education. In any case this type of aid does not affect government expenditure, since the overseas allowances are over and above the salary normally paid by the Tanzania Government, which is the same as the one paid to Tanzanian teachers.

Finally, one last alternative would be to set the present objectives for education at a lower level. This is not possible in the case of secondary and higher education, since enrolments at these levels have already been projected strictly on the basis of manpower needs, which result in access to such education becoming more and more difficult for primary-school leavers. It is therefore in the case of primary education alone, and consequently, of teacher training, that such a lowering of objectives would be possible. It could be done by postponing the date foreseen for the achievement of universal primary education, which is at present fixed at 1989.

Appendix

Appendix

TABLE 1. Trend of enrolment in public primary education, 1961-73

Level	1961	1964	1966
Standard I	121 386	140 341	154 512
Standard II	108 992	130 976	140 722
Standard III	97 340	122 718	135 022
Standard IV	95 391	114 471	131 492
Standard V	19 721	43 610	60 721
Standard VI	17 259	36 577	52 755
Standard VII	14 649	24 637	46 816
Standard VIII	11 732	20 348	18 946
Total	486 470	633 678	740 993
Transition ratio from standard IV to standard V (%)	21.4	40.8	48.0

SOURCE: Ministry of National Education, *Educational statistics: Ten years of independence*, Dar es Salaam, 1971, and *Educational statistics handbook*, Dar es Salaam, 1973.

TABLE 2. Age distribution of enrolment in public primary schools¹, 1973

Level	Age					
	5	6	7	8	9	10
Standard I	277	1 826	30 583	46 312	51 886	43 456
Standard II	12	332	2 800	23 384	38 711	47 421
Standard III	—	5	452	4 472	17 357	34 510
Standard IV	—	—	5	178	2 899	15 827
Standard V	—	—	—	26	260	3 064
Standard VI	—	—	—	—	7	388
Standard VII	—	—	—	—	—	78
TOTAL	289	2 163	33 840	74 372	111 120	144 744

1. Excluding Singida region enrolment: 49,307 pupils for whom no breakdown is available.
 2. This total plus the 49,307 from Singida (see note 1 above) differs slightly (by 839) from the corresponding total indicated in Table 1.

SOURCE: Ministry of National Education regional statistics.

Appendix

1968	1969	1970	1971	1972	1973
155 802	157 986	172 576	190 091	208 331	226 071
148 188	145 487	152 234	166 590	182 858	199 119
142 353	141 389	141 734	149 305	161 265	174 328
136 449	137 571	138 458	138 246	144 139	153 169
67 417	71 198	88 634	102 608	116 461	133 300
57 579	61 960	68 714	85 367	101 886	116 593
57 381	60 518	65 624	70 502	88 656	103 807
—	—	—	—	—	—
765 169	776 109	827 974	902 609	1 003 596	1 106 387
50.7	52.2	64.4	74.1	84.2	92.5

Age							Total
11	12	13	14	15	16	17	
22 002	11 990	6 125	1 529	277	43	8	216 314
36 309	21 764	12 575	4 427	911	235	61	188 942
39 335	34 113	22 886	9 359	3 832	594	162	167 077
30 721	37 612	31 612	16 880	7 917	2 522	535	146 708
13 651	28 264	34 696	25 539	13 479	7 059	1 740	127 778
2 110	12 236	26 464	29 509	24 346	12 183	4 391	111 634
387	2 067	11 336	24 179	27 435	21 477	12 507	99 466
144 515	148 046	145 694	111 422	78 197	44 113	19 404	1 057 919 ^a

Appendix

TABLE 3. Promotion, repetition and drop-out rates in public primary education

Group							Standard	
	I	II	III	IV	V	IV	VII	
1971								
Repeaters	2 156	1 436	1 216	4 279	321	394	4 513	
Enrolments	190 091	166 590	149 305	138 246	102 608	85 267	70 502	
1972								
Repeaters	2 429	1 512	1 181	2 865	428	517	4 187	
Enrolments	208 331	182 858	161 265	144 139	116 461	101 886	88 656	
1973								
Repeaters	2 276	1 286	884	1 345	428	639	4 889	
Enrolments	226 071	199 119	174 328	153 169	133 300	116 593	103 807	
RATES (PERCENTAGE)								
1971/72								
Promotion	95.4	96.1	94.6	83.9	98.8	99.1	—	
Repetition	1.3	0.9	0.8	2.1	0.4	0.6	5.9	
Drop-out	3.3	3.0	4.6	14.0	0.8	0.3	—	
1972/73								
Promotion	95.0	94.9	94.1	92.2	99.6	97.1	—	
Repetition	1.1	0.7	0.6	0.9	0.4	0.6	5.5	
Drop-out	3.9	4.4	5.3	6.9	2.3	2.3	—	

source: Ministry of National Education.

TABLE 4. Trends of enrolment in private primary education, 1969-73

Level	1969	1970	1971	1972	1973
Standard I	23 331	9 775	6 033	4 409	7 086
Standard II	18 533	7 980	5 181	3 563	5 258
Standard III	4 210	4 053	3 317	2 494	2 779
Standard IV	3 643	3 249	2 797	2 123	2 132
Standard V	1 091	933	706	658	938
Standard VI	1 050	1 054	729	732	871
Standard VII	1 199	1 150	711	727	714
TOTAL	53 057	28 239	19 474	14 346	19 778

TABLE 5. Trend of enrolment in public and private secondary education, 1963-73

	1961	1964	1966	1968	1969	1970	1971	1972	1973
<i>Public education</i>									
Form I	4 196	5 302	6 377	6 989	7 149	7 372	7 570	7 747	7 933
Form II	3 533	5 013	6 027	6 710	7 086	7 148	7 623	7 715	7 894
Form III	2 088	4 873	5 122	6 438	6 759	7 089	7 322	7 546	7 823
Form IV	1 603	3 630	4 723	5 763	6 328	6 713	7 044	7 052	7 371
SUBTOTAL	11 420	18 818	22 249	25 900	27 322	28 322	29 559	30 060	31 021
Form V	236	616	826	1 214	1 410	1 506	1 608	1 705	1 808
Form VI	186	463	761	929	1 226	1 389	1 436	1 523	1 673
SUBTOTAL	412	1 079	1 587	2 143	2 636	2 895	3 044	3 228	3 481
TOTAL	11 832	19 897	23 836	28 043	29 958	31 217	32 603	33 288	34 502
<i>Private education</i>									
Form I			2 329	2 610	2 511	3 022	3 254	3 716	4 379
Form II			728	2 404	2 108	2 562	2 832	2 780	3 267
Form III			407	1 867	1 924	2 166	2 369	2 326	2 513
Form IV			322	655	1 485	2 014	2 045	1 812	2 215
SUBTOTAL			3 786	7 536	8 028	9 764	10 500	10 634	12 374
Form V			2	18	49	149	113	104	124
Form VI			4	18	15	49	136	35	125
SUBTOTAL			6	36	64	198	249	139	249
TOTAL			3 792	7 572	8 092	9 962	10 749	10 773	12 623

Appendix

Appendix

TABLE 6. Trends of enrolment in adult education

Area	December 1970	December 1971	December 1972	Estimated number of illiterates	Enrolment 1972 as percentage of estimated illiterates
Aruaha	14 260	33 320	72 140	283 000	25.5
Coast	13 910	93 870	284 990	332 000	85.8
Dodoma	29 170	64 170	64 170	341 000	18.8
Iringa	44 150	21 040	135 990	283 000	48.1
Kigoma	18 110	67 090	103 990	244 000	42.6
Kilimanjaro	24 410	69 230	84 860	166 000	51.1
Lindi	—	40 590	123 770	312 000	39.7
Mara	14 130	56 430	159 350	215 000	74.1
Mbeya	20 750	43 190	186 710	419 000	44.6
Morogoro	16 910	32 480	164 670	283 000	58.2
Mtwara	18 300	83 080	127 790	195 000	65.5
Mwanza	37 950	144 600	442 180	488 000	90.6
Ruvuma	24 150	38 510	104 800	146 000	71.8
Shinyanga	20 390	66 190	187 110	458 000	40.9
Singida	15 450	37 060	119 770	215 000	55.7
Tabora	11 320	35 460	104 820	273 000	38.4
Tanga	17 150	47 930	100 320	283 000	35.4
West Lake	22 730	85 900	121 130	234 000	51.8
TOTAL	363 240	1 060 140	2 688 560	5 170 000	52.0

TABLE 7. Distribution of Tanzanian students by country of study

Country	Science	Art	Total
United Kingdom	261	291	552
United States of America	66	64	130
U.S.S.R.	100	18	118
India	63	27	90
German Democratic Republic	64	8	72
Canada	22	27	49
Other countries	136	38	174
TOTAL	712	473	1 185

SOURCE: Manpower Planning Division, *Annual manpower report to the President, 1971*, Dar es Salaam, September 1971.

TABLE 8. Regional recurrent expenditures on education, 1972-73 (in thousand shillings)

Area	Administration	Primary education	Adult education	National culture	Total
Arusha	427	7 201	636	45	8 309
Coast	576	5 014	728	—	6 318
Dodoma	387	8 943	606	47	9 983
Iringa	436	8 405	545	15	9 401
Kigoma	346	5 259	563	37	6 205
Kilimanjaro	456	16 843	608	10	17 917
Lindi	309	5 660	567	17	6 553
Mara	—	8 131	550	—	8 681
Mbeya	438	12 220	668	42	13 368
Morogoro	402	10 635	574	38	11 649
Mtwara	334	6 955	686	48	8 023
Mwanza	461	12 876	2 311	38	15 686
Ruvuma	344	8 071	549	30	8 994
Shinyanga	535	9 103	597	31	10 266
Singida	345	8 142	560	10	9 057
Tabora	383	7 822	566	52	8 823
Tanga	476	13 465	727	20	14 688
West Lake	420	13 230	601	37	14 288
TOTAL	7 075	167 975	12 642	517	188 209

source Government of Tanzania, *Estimates of public revenues and expenditures, 1973.*

TABLE 9. Distribution of Tanzanian overseas students by subject

Science		Arts	
Subject	Number	Subject	Number
Engineering	258	Accountancy	265
Medicine	156	Arts degree	64
Science	118	Economics	45
Pharmacy	51	Commerce	29
Agriculture	45	Arts education	28
Lands	28	Administration management	19
Other	56	Other	23
TOTAL	712	TOTAL	473

source Manpower Planning Division, *Annual manpower report ... 1971, op. cit.*

TABLE 10. Trend of gross domestic product at factor cost by industrial origin at 1966 prices (in million shillings)

Sector	1964	1966	1968	1969	1970	1971	1972
Subsistence agriculture	1377	1550	1660	1588	1615	1662	1752
Monetary agriculture	1246	1402	1402	1492	1574	1500	1614
Mining and quarrying	141	192	137	148	138	155	137
Manufacturing and handcraft	394	525	627	687	729	784	832
Electricity and water supply	51	62	72	82	91	100	112
Construction	190	222	315	293	322	375	367
Commerce	670	825	950	973	1051	1050	1118
Transport and communication	387	482	618	644	730	814	845
Finance, insurance and real estate	543	569	629	660	664	683	707
Administration	620	689	764	771	865	956	1020
TOTAL	5619	6918	7174	7338	7779	8079	8504

source: *The economic survey, 1972-73, p. 7.*

TABLE 11. Value added by agriculture: planned target and actual achievement, 1964-72 (in million shillings)

Sector	1964	1969	1972	First-plan target, 1964-69	Actual growth, 1964-69	Second plan target, 1969-74	Actual growth, 1969-72
<i>Growth at constant price</i>				00	00	00	00
Monetary sector	1246	1492	1614	5.2	3.7	7.2	2.7
Subsistence sector	1377	1588	1752	2.1	2.9	3.0	3.0
TOTAL	2623	3080	3366	3.9	3.3	5.1	2.9
<i>Growth at current price</i>							
Monetary sector	1448	1444	1834		0.0		8.3
Subsistence sector	1342	1630	2122		4.0		9.2
TOTAL	2790	3074	3956		2.0		8.8

TABLE 12. Trend of capital formation, 1964-72 (in million shillings)

Type of investment	1964		1966		1968		1970		1972	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
MONETARY SECTOR										
<i>Building</i>										
Residential	36	5.3	60	6.1	83	6.3	115	6.3	121	5.3
Non-residential	114	16.9	129	13.0	186	14.1	127	12.0	222	9.7
SUBTOTAL	150	22.2	189	19.1	269	20.4	332	18.3	343	15.0
<i>Infrastructure</i>										
Land improvement	4	0.6	9	0.9	7	0.5	29	1.6	32	1.4
Roads	25	3.7	55	5.6	95	7.2	149	8.2	133	5.8
Water supplies	21	3.1	23	2.3	37	2.8	50	2.8	45	2.0
Other	56	8.3	76	7.7	187	14.2	281	15.5	737	32.0
SUBTOTAL	106	15.7	163	16.5	326	24.7	509	28.1	947	41.2
<i>Equipment</i>										
Transport	102	15.2	229	23.1	223	16.9	248	13.7	210	9.1
Other	169	25.1	260	26.2	329	25.0	556	30.6	600	26.1
SUBTOTAL	271	40.3	489	49.3	552	41.9	804	44.3	810	35.2
TOTAL	527	78.2	841	84.9	1 147	87.0	1 645	90.7	2 100	91.4
NON-MONETARY SECTOR										
Construction	101	15.0	118	11.9	133	10.1	146	8.0	176	7.7
Cattle	46	6.8	32	3.2	38	2.9	24	1.3	22	1.0
TOTAL	147	21.8	150	15.1	171	13.0	170	9.3	198	8.7
Total capital formation	674	100.0	991	100.0	1 318	100.0	1 815	100.0	2 298	100.0
Index	100		147.0		195.5		269.3		340.9	

SOURCE: United Republic of Tanzania, *The economic survey, 1972-73*.

Appendix

TABLE 13. Value added by the service industries: planned target and actual achievement, 1964-72 (in million shillings)

Sector	1964	1969	1972	First plan target, 1964-69	Actual growth, 1964-69	Second plan target, 1969-72	Actual growth, 1969-72
Trade and tourism	670	973	1 118	8.0	7.8	8.0	4.7
Transport and communication	387	644	845	7.8	10.7	9.0	9.5
Finance, insurance and real estate							
Monetary sector	114	168	171		8.1		0.4
Non-monetary sector	429	492	536		2.8		2.8
SUBTOTAL	543	660	707	8.4	4.0	6.0	2.3
Other services	620	771	1 020	6.5	4.4	5.0	9.8
TOTAL	2 220	3 048	3 690	7.5	6.5	7.0	6.6

TABLE 14. Export taxes on the three main products (in thousand shillings)

Product	1966/67		1967/68	
	Amount	Percentage	Amount	Percentage
Coffee	18 800		18 500	
Cotton	4 900		5 800	
Cashew nuts	7 700		4 300	
SUBTOTAL		31 400	28 600	80.8
Other products		6 500	6 800	19.2
TOTAL		37 900	35 400	100.0

source: United Republic of Tanzania, Appropriation accounts.

TABLE 15. Income tax and monetary GDP, 1963-72 (in million shillings)

Year	Income tax	Monetary GDP	Percentage of GDP
1963/64	120.4	3 813	3.2
1964/65	130.8	3 835	3.4
1965/66	153.9	4 154	3.7
1966/67	158.6	4 576	3.5
1967/68	180.0	4 840	3.7
1968/69	251.6	5 163	4.9
1969/70	254.7	5 602	4.5
1970/71	301.6	6 071	5.0
1971/72	396.2	6 624	6.0

Source: Computed from data of Table 12.

1968/69		1969/70		1971/72	
Amount	Percentage	Amount	Percentage	Amount	Percentage
24 000		20 100		23 000	
15 000		11 700		8 000	
4 800		10 000		8 800	
43 800	82.6	41 800	88.2	39 800	89.4
9 200	17.4	5 600	11.8	4 700	10.6
53 000	100.0	47 400	100.0	44 500	100.0

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Inquiries about the Institute should be addressed to:
The Director, IIEP, 7-9, rue Eugène-Delacroix, 75016 Paris

The book

The lines of development laid down by Tanzania and its effort to integrate educational policy with economic and social objectives are now well known. In this book the authors have attempted to review this educational policy, to assess its past implementation and to analyse the trends of expenditure and costs. Looking into the future, they have tried to show all the implications of this policy on the structure of the educational system, on financial requirements and on employment. In so doing, they hope to have set in a clearer perspective the problems of compatibility between educational policy and the other economic and social development objectives of the country.

The authors

The authors are both staff members of the International Institute for Educational Planning and in recent years have carried out research into educational problems and policies in various countries, particularly in Africa. Ta Ngoc Châu's publications include *Demographic Aspects of Educational Planning* (1969) and he is the principal author of *Population Growth and Costs of Education in Developing Countries* (1972). Françoise Caillods, apart from being a contributor to this latter volume, is a co-author of a study on the location of schools in Costa Rica (1975).

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