Press Release:
IMF Executive Board Completes Fourth Review under the Policy Support Instrument for Tanzania and Approves a US$224.9 Million Precautionary Arrangement under the Standby Credit Facility July 06, 2012

Tanzania: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 21, 2012

The following item is a Letter of Intent of the government of Tanzania, which describes the policies that Tanzania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Tanzania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
LETTER OF INTENT

Dar es Salaam
June 21, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madam Lagarde:

1. The Government of Tanzania remains committed to policies that will sustain macroeconomic stability while promoting accelerated economic growth and poverty reduction. These goals are being successfully pursued under the economic and financial program supported by the Policy Support Instrument (PSI).

2. All quantitative assessment criteria under the program were met at end-December 2011, and all quantitative indicative targets but one were met for March 2012. All five structural benchmarks for the period through end-June 2012 have been implemented.

3. Tanzania’s economy continues to grow strongly. Despite power shortages, real GDP grew by 6.4 percent in 2011. With rapid growth in foreign direct investments in the offshore gas sector, even stronger growth is projected for 2012 and beyond.

4. Inflation rose in 2011 due to higher global oil prices and a surge in regional and global food prices. With tighter fiscal and monetary policies and a slowing of food price inflation, headline inflation has gradually begun to fall. In the absence of further shocks, headline inflation is projected to return to single digits by end-2012.

5. The Government is pursuing continued fiscal consolidation in 2012/13 to progressively rebuild fiscal buffers after responding to the last global recession with counter-cyclical fiscal policies in 2009/10 and 2010/11. The budget aims to reduce the overall fiscal deficit to 5½ percent of GDP in 2012/13, down from the 6–6½ percent of GDP range in the preceding year. Over the medium-term, a further reduction in the deficit to debt-stabilizing levels is targeted.

6. With a temporary reduction in Tanzania’s hydroelectric generation requiring increased reliance on liquid petroleum-based thermal generation, and high global oil prices, Tanzania’s current account deficit is projected to increase to around 15 percent of GDP in 2011/12. Over the year ahead, the deficit is projected to narrow as domestic savings are
boosted through fiscal consolidation, the recent power tariff adjustment, and tighter monetary policies.

7. While Tanzania’s macroeconomic prospects are generally favorable and it has no immediate exceptional financing needs, the country is vulnerable to a worsening of the global economic outlook. With the fiscal deficit, public debt stock, and inflation higher than at the start of the last global recession and lower reserve cover, Tanzania’s room for macroeconomic maneuver is more limited than in the past. To safeguard adjustment plans against the downside risks of a global slowdown, the Government is requesting approval of an 18-month precautionary Standby Credit Facility (SCF) in an amount of 75 percent of quota.

8. Following discussions and consultations with the Fund staff, I hereby transmit this Letter of Intent and the attached Memorandum of Economic and Financial Policies (MEFP), which reviews the implementation of the program through the first nine months of 2011/12 and the policies that the Government intends to pursue in 2012/13 under the program supported by the PSI and requested precautionary SCF.

9. The Government of Tanzania requests completion of the fourth review under the PSI based on overall performance under the program and the Government’s policy intentions going forward. The Government is confident that the policies and measures set forth in the attached Memorandum will deliver the objectives of the program. We stand ready to take any further measures that may become appropriate for this purpose. The Government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the fifth review will take place before end-December 2012, and the sixth and final review before June 3, 2013.

10. The Government of Tanzania intends to disseminate this letter, the attached MEFP and Technical Memorandum of Understanding (TMU), as well as related Fund staff reports, and hereby authorizes the IMF to publish the same on its website after consideration by the Executive Board.

Yours Sincerely,

/s/ Dr. William A. Mgimwa (MP)  
MINISTER FOR FINANCE  
UNITED REPUBLIC OF TANZANIA

/s/ Prof. Benno Ndulu  
GOVERNOR, BANK OF TANZANIA  
UNITED REPUBLIC OF TANZANIA
Attachments:
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the Program supported by the PSI and SCF
Attachment I. Memorandum of Economic and Financial Policies
June 21, 2012

I. Macroeconomic Developments and Program Performance

A. Macroeconomic Prospects for 2011/12

Output and inflation

1. Tanzania’s economic growth performance remains strong, despite power shortages in the first three quarters of 2011. GDP growth was 6.4 percent in 2011, up from a programmed 6.0 percent, supported by strengthened activity in transport, communications, financial intermediation, and construction. Economic growth in financial year 2011/12 is projected to be at least 6½ percent.

2. Earlier inflationary pressures are now gradually unwinding. Headline inflation peaked at 19.8 percent in December 2011, driven mostly by the food price impact of the drought in the Horn of Africa and higher global oil prices. With some spillovers to other prices, and currency depreciation in late-2011, core inflation (excluding food and fuel) rose from 3.7 percent in December 2010 to 8.7 percent in December 2011. The 40 percent rise in domestic power tariffs in January 2012 had only a limited impact on prices, due to the low weight of power costs in the consumer price index and because the impact on business costs was offset by savings from reduced usage of standby generators. Following steps to tighten fiscal and monetary policies in 2011, headline inflation eased to 18.2 percent in May 2012. With projected declines in food prices after seasonal rainfalls in March-May, headline inflation is projected to decline to single digits by around end-2012.

Fiscal performance

3. Overall fiscal position. The January 2012 mid-year budget review adopted plans to reduce the overall fiscal deficit (including grants) to 6.6 percent of GDP in 2011/12. This required savings of 1.1 percentage points of GDP relative to the approved 2011/12 budget—to be achieved by slowing nonpriority expenditure growth while protecting key infrastructure projects and social spending. Despite shortfalls in revenues and grants, this deficit target is expected to be surpassed, with the overall deficit declining to the 6.1 percent of GDP range, down from 6.9 percent of GDP in 2010/11.

4. Revenues: Tax revenues were buoyant in the first nine months of 2011/12, supported by strong economic growth and administrative measures taken by the Tanzania Revenue Authority (TRA). The latter included the establishment of tax service centers to support tax compliance; introduction of intensified risk-based and quality tax audits; and roll-out and enforced usage of electronic fiscal devices (EFDs) to track tax collections at point-of-sale. In addition, the resolution of tax disputes with a mining company contributed to favorable
corporate income tax collection. With continuing strong economic growth, tax revenues are projected to rise by 0.3 percentage points of GDP in 2011/12. Despite this, overall revenue collections are projected to fall 0.4 percent of GDP below programmed levels on account of a shortfall in nontax revenues, which were adversely affected by delays in introducing business licence fees by local governments (LGAs).

5. **Foreign grants:** Delays in grant disbursements early in the year were largely but not entirely eliminated by end-December 2011. As a result, and with an upward revision to GDP, grant receipts in 2011/12 are projected to be 0.6 percent of GDP lower than programmed.

6. **Expenditures:** Cash management was tight through 2011/12. Recurrent and domestically-financed development spending in the first nine months were 61 and 65 percent of programmed full-year totals, respectively. With continuing tight management, the government projects that spending will be kept below ceilings adopted in the mid-year budget review. On current projections, overall expenditures are projected to be about 1.5 percent of GDP lower than programmed, largely reflecting savings in the wage bill and capital spending as a percentage of GDP.

7. **Financing:** Good progress is being made in contracting planned non-concessional financing, with disbursements in the first nine months equivalent to about 53 percent of the full-year plan. Domestic financing of the deficit was below programmed levels through March 2012, and is projected to remain below the 1 percent of GDP program ceiling for the full year.

**Monetary policies**

8. After meeting reserve money targets at end-December 2011, monetary policies were further reinforced in early-2012 to tackle inflationary pressures. Reserve money was held 7 percent below the end-March 2012 program ceiling, and tighter liquidity conditions have been associated with increased market interest rates and a stronger currency after weakness in the second half of 2011. Liquidity and credit growth have slowed. At end-March 2012, annual growth rates of M3 and private sector credit were 15.7 and 21.9 percent, compared to programmed growth rates of 21 and 25 percent, respectively.

**External developments**

9. During the first nine months of 2011/12, the current account deficit (excluding official transfers) rose to $3,952 million compared to $1,773 million recorded in the first nine months of 2010/11, reflecting a surge in imports of oil and capital goods. The increase in oil imports reflects higher global prices as well as greater volumes of oil imports to fuel new petroleum-based thermal and back-up power generators. The rise in imports of capital goods reflects higher foreign direct investment for oil and gas exploration. Exports of goods and services were 8.8 percent higher than the amount recorded in the corresponding period in 2010/11, largely on account of the increase in travel receipts and the price and volume of gold.
10. In 2011/12, the current account balance (excluding official transfers) is estimated to show a deficit of 15 percent of GDP compared to about 9½ percent of GDP in 2010/11. The deficit is projected at 14½ percent of GDP in 2012/13, before declining in subsequent years as a rise in hydro-electric power generation eases demand for imported petroleum fuels and as fiscal consolidation reduces other import needs.

11. The shilling depreciated by an average of 10.3 percent against the dollar in 2011 compared with 6.7 percent in 2010. This was associated with increased foreign currency demand to finance rising oil imports; general strength in the dollar globally; and high domestic inflation relative to that of trading partners. In line with measures taken by the Bank of Tanzania to tame inflationary pressures and exchange rate volatility, the shilling strengthened from end-November 2011 and stabilized starting January 2012. Gross international reserves stood at $3,533.4 million at end-March 2012, equivalent to 3.7 months of projected 2011/12 imports of goods and services.

B. Program performance through March 2012

Quantitative targets

12. All PSI assessment criteria for end December 2011 were met (Table 1 attached). Reflecting strong revenue collection and tight limits on recurrent spending, net domestic financing through December was 1.4 percent of GDP lower than programmed. The change in net international reserves (NIR) through end-December was 0.7 percent of GDP above the adjusted program floor, and average reserve money was 0.3 percent below the program ceiling. The continuous criterion on the non-accumulation of external payments arrears was met, while contracts for external non-concessional borrowing (ENCB) were less than half of the program ceiling of $1,050 million.

13. Indicative targets for end-March 2012 were also met, except for the floor on the accumulation of NIR, which was missed by 0.3 percent of GDP (MEFP Table 1). This shortfall reflected increased demand for foreign exchange to finance the rising oil import bill and infrastructure investments at a time when external non-concessional borrowing fell significantly short of programmed levels. The June 2012 NIR floor is projected to be narrowly met given the progress made in contracting external non-concessional borrowing.

Structural benchmarks

14. All five structural benchmarks for the period through end-June 2012 were implemented (MEFP Table 3):

- The Ministry of Finance posted to its internet website copies of the full four volumes of revenue and public expenditure estimates for the 2011/12 budget as approved by the National Assembly; this was completed in December 2011, well ahead of the March 2012 benchmark date.

- The increase in domestic power tariffs of not less than 40 percent was met with a two-week delay in mid-January 2012.
• In January 2012, the government submitted legislation to Parliament (February benchmark) to tighten the existing anti-money laundering framework in line with Financial Action Task Force (FATF) recommendations; this legislation has been approved and was signed into law by the President on February 20, 2012.

• In March 2012, the Bank of Tanzania issued Social Security Scheme Investment Guidelines as mandated in the Social Security Regulatory Authority Act 2008 (end-March 2012 benchmark, carried forward after being missed in 2011).

• And in May 2012, the authorities provided IMF staff with two technical and economic evaluations by independent consultants of the proposed gas pipeline project (end-June 2012 benchmark).

II. Economic Program for 2012/13 and the Medium Term

A. Economic prospects for 2012/13 and the medium term

15. Medium-term growth prospects are generally favorable. Private investor confidence has been buoyed by robust growth in the East African regional market and by initial investments in Tanzania associated with oil and gas exploration. Growth is also benefitting from implementation of MKUKUTA II, the Five Year Development Plan, and initiatives under the Southern Agricultural Growth Corridor of Tanzania (SAGCOT). The program assumes growth of 6½–7 percent in 2012/13 rising to the 7–7½ percent range over the medium term. The near-term growth outlook is potentially vulnerable to a deterioration in global growth and also depends on ensuring adequate power supplies. For the medium term, investments in the gas sector are expected to rise sharply and there will be scope to reduce energy prices using existing domestic gas supplies; there may be, therefore, some upside potential to growth over this period.

16. Based on appropriately tight fiscal and monetary policies, the goal is to reduce core inflation over the year ahead. In the absence of new external price shocks, headline inflation is projected to decline to single digits by end-2012 and to the 5 percent range over the medium term.

17. In the external sector, the large trade deficit for 2011/12 is projected to slowly unwind as domestic gas and hydro power generation substitute for petroleum-based thermal capacity under the emergency power plan. Over the medium term, improved trade performance will also be needed to offset any decline in donor grant and loan funding relative to Tanzania’s fast-growing economy. Given the need for smaller trade and current account deficits in future years, economic policies will be focused on strengthening the business environment and maintaining a competitive currency. While non-concessional financing will partly serve to underpin infrastructure spending in the context of a projected decline in donor project funding relative to GDP, borrowing will be strictly limited to levels consistent with maintaining favorable debt sustainability characteristics.
18. Following countercyclical fiscal policies in 2009/10 and 2010/11, which helped Tanzania weather the global recession, a first step toward rebuilding fiscal buffers was taken in 2011/12. This process will continue over the coming years with a view to reducing annual borrowing and stabilizing the public debt-GDP ratio at less than 50 percent of GDP. Consistent with this strategy, the fiscal deficit will be reduced to 5½ percent of GDP (after grants) in 2012/13 with further reductions in subsequent years to achieve a medium-term debt-stabilizing deficit. This fiscal consolidation will help support the adjustment toward smaller current account deficits. The pace of consolidation in 2013/14 and beyond will be reviewed ahead of the 2013/14 budget, taking into account economic conditions at that time.

B. Fiscal policies for the 2012/13 budget

19. The 2012/13 budget is guided by Tanzania’s five-year development plan and its development strategy, MKUKUTA II. The deficit target represents a projected consolidation of about 3 percentage points of GDP in the overall balance before grants and approaching 1 percent of GDP after grants. The budget balances an increase in tax revenue collections with savings in expenditures.

20. The budget will slow but not fully halt the upward trend in the public debt-GDP ratio. The rise in the debt ratio from about 41 percent of GDP at end-June 2012 to 45½ percent of GDP at end-June 2013 largely reflects borrowing equivalent to 3.1 percent of GDP contracted to finance construction of a new gas pipeline to be managed commercially by the Tanzania Petroleum Development Corporation (TPDC) (see below).

Revenues

21. Revenue collections are budgeted to increase by 1 percentage point of GDP in 2012/13, driven by higher tax collections. The increased yields reflect favourable economic growth, continuing steps to strengthen tax administration, and tax policy measures included in the 2012/13 budget.

22. A number of steps are being taken to strengthen tax administration:

   • The TRA will further strengthen its audit, enforcement, and valuation capacities. It will extend the use of EFDs to non-VAT traders, and will enhance IT systems (including by implementing a single window system for customs administration and an e-tax revenue system for domestic revenue administration). It will also improve the management of tax exemptions by scrutinizing applications and conducting risk-based audits of beneficiaries. National Identification Cards (IDs) will be introduced in August 2012 to help expand tax coverage of the informal sector. These combined measures are projected to have a revenue yield of 0.3 percent of GDP.

   • The TRA expects to resolve outstanding tax disputes with a mining company. The associated reduction in the government’s refunding liabilities to this company, combined with strengthened mining tax administration, is projected to have a revenue yield of 0.1 percent of GDP.
• For nontax revenues, user fees and charges will be increased to reflect the value of services provided and to compensate for recent inflation;

• A study on integration and harmonization of revenue collection systems will be completed with findings implemented to improve systems of collection and administration of non-tax revenue focusing on issuing receipt, licensing and improve retention schemes’ rates;

• A review will be conducted of the laws/acts governing the various institutions and agencies that collect fees, levies, and duties with a view to enhancing their contributions to the consolidated fund; and

• Steps will be taken to enhance the capacity of the MDAs, RSs and LGAs to strengthen monitoring of revenue collections.

23. A number of revenue measures were introduced in the 2012/13 budget with a projected overall yield of 0.5 percent of GDP:

• A large part of the tax effort will come through new and uprated excise taxes. A new excise duty will be imposed on natural gas of TSh0.35/SCF; a new excise duty will be applied on CDs and DVDs; excises for non-petroleum products will rise by 20 percent (25 percent for beer); the mobile phone airtime duty will be increased from 10 to 12 percent; exemptions from motor vehicles excises will be abolished; and a new excise duty will apply to fruit juices. The overall yield is estimated at 0.30 percent of GDP.

• Initial steps will be taken to reduce other tax exemptions. The import duty exemption for motor vehicles with engine capacity over 3,000 c.c. will be abolished and the exemption for “deemed” capital goods will be reduced by an initial step from 100 to 90 percent of the due tax. The combined yield is estimated at 0.04 percent of GDP.

• On income taxes, a new 10 percent withholding tax will be applied to nonresident interest income, and a 10 percent withholding tax will apply to inter-company dividend distributions, with an estimated yield of 0.02 percent of GDP.

• Other tax policy reforms will yield an estimated 0.14 percent of GDP in 2012/13. These include an increase in the airport service charge from $30 to $40 per person; an increase in the export tax on hides and skins from 40 to 90 percent; and the launch of a scheme to make available vanity auto license plates at a charge of about $3,000 for a five-year period. In addition, current beneficiaries of VAT relief under Schedule III will be subject to a reduced-rate VAT rate of 10 percent. Although the government strongly favors a VAT regime with a single rate, this will extend the VAT to exempt activities pending a more comprehensive review of the regime. The government will finalize in the coming months, with technical assistance from the IMF, a draft new VAT law, in line with international standards and with minimal exemptions. The
intention is to adopt the law by December 2012 and to begin implementation from July 1, 2013.

- On non-tax revenues, land rents, which have remained unchanged for some years, will be increased, yielding a projected TSh 74 billion (0.15 percent of GDP). This increase will be administered by the Ministry of Lands, and the projected additional collections will finance an urban development project. The latter will be financed entirely from the Ministry’s retained incomes, and the Ministry will not proceed with the project before ensuring that the rent increase is in place and that revenue collections are coming in on track. Under this approach, there is no risk that the project will require financing from the consolidated fund or result in expenditure arrears. Royalty rate for gold mining companies, which is administered by the Ministry of Energy and Minerals, will also be raised from 3 percent to 4 percent, yielding a projected TSh 39 billion (0.08 percent of GDP).

**Expenditure policies**

24. Overall expenditures are projected to decline by about 1.3 percentage points of GDP in 2012/13. The decline is driven by lower foreign-financed capital spending, with both loan and grant financing budgeted to decline in comparison with 2011/12 levels. For outlays financed from domestic resources, the budget shifts from recurrent to development spending.

- The wages and salary bill (excluding parastatals) will decline from a projected 6.7 percent of GDP in 2011/12 to a budgeted 6.5 percent of GDP in 2012/13. With tight recruitment limits, public sector employment will expand no faster than in 2011/12, while wage and salary increases would be somewhat lower than the average for recent years, consistent with plans to reduce underlying inflation.

- Non wage, non-interest recurrent spending will be broadly unchanged at 11.2 percent of GDP in 2012/13. This will be achieved through continuing tight limits on low-priority spending.

- Domestically-financed development spending is budgeted to increase from a projected outturn of 3.6 percent of GDP in 2011/12 to 4.6 percent of GDP in 2012/13. The 2012/13 budget includes a provision of 0.4 percent of GDP to cover any carry forward of unpaid bills from 2012/13.

25. With the budgeted rebalancing from recurrent to development spending, the ratio of recurrent spending to recurrent incomes (revenues plus program grants) is projected to decline from 100 percent in 2011/12 to 95 percent in 2012/13. This compresses into one year the earlier plans for a phased reduction of this ratio to 97 percent in 2012/13 and 95 percent in 2013/14 and beyond.
Fiscal contingencies

26. After two years of increased tax revenues in relation to GDP, the government is confident that further gains in tax administration, growing collections from the natural resources sector, and the tax policy measures in the budget will allow it to meet its 2012/13 revenue goals. To safeguard the fiscal adjustment program, tax revenue collections will be monitored closely against a new indicative quarterly target for tax revenue collections (MEFP Table 2). In the event of a shortfall relative to this target, the government will take prompt corrective steps, as needed, to keep the fiscal program on track. Fiscal contingencies would include (a) a further effort to streamline non-wage, non-interest recurrent spending with savings in lower priority areas; and (b) a less ambitious increase in domestically-financed capital spending, possibly by delaying outlays on new projects into the subsequent year. Priority spending on agricultural inputs and health and education transfers to local government authorities will be preserved in the context of any further such tightening of the spending budget, and a new indicative quarterly floor on such spending has been adopted (MEFP Table 2).

Financing

27. Although the smaller fiscal deficit will reduce net public borrowing needs in 2012/13, the latest survey of donor financing plans suggests a decline in combined program and project loans of about 0.8 percent of GDP in 2012/13. With net domestic financing of the budget of 1.3 percent of GDP in 2012/13, a slightly higher utilization of external non-concessional borrowing to finance the budget is programmed (2.6 percent of GDP, compared to 2.3 percent in 2011/12). Preparations for this borrowing are well-advanced and the government does not see risks of a financing shortfall.

28. As part of the government’s energy strategy (see Section D below), TPDC will oversee the construction of a new gas pipeline over an 18-month period starting in 2012/13 with implications for the public sector borrowing requirement. The pipeline will be constructed at a provisionally-estimated cost of $1.2 billion (4.2 percent of 2012/13 GDP), financed by a combination of external concessional and nonconcessional loans with a small Tanzanian budget contribution. The government will contract this financing, extending a counterpart credit to the TPDC, which will operate the pipeline on a commercial footing. Operating income from the pipeline will be dedicated to servicing TPDC’s obligations to the government, which will, in turn, service the external credits. Borrowing for this project is projected at 3.1 percent of GDP in 2012/13 and 0.9 percent of GDP in 2013/14.

C. Public Financial Management

29. The government is committed to further strengthening public financial management (PFM) systems in the context of the PFMRP IV, which will be implemented over five years starting from January 2012 with assistance from international donors, including the IMF. Under the PFMRP IV, government efforts to strengthen PFM systems will focus on revenue management, planning and budget management, budget execution, transparency and accountability, budget control and oversight, change management, programme monitoring and evaluation.
Audit and payments systems

30. Steps have been taken to strengthen the internal control systems and develop risk management strategies for central government ministries, departments and agencies (MDAs) and local government authorities (LGAs). The Internal Audit Division, in collaboration with Japanese International Agency (JICA), has developed and disseminated an Internal Audit Handbook to internal auditors of MDAs and LGAs. The Handbook provides internal auditors in the public sector with modern audit tools and techniques. The division is also in the process of acquiring software for payroll audit and will develop an Audit Policies and Procedure Manual by December 2012. The Manual will include (i) an internal audit manual in line with the International Professional Practice Framework, (ii) a procurement audit manual (iii) a quality assurance improvement program procedure manual, and (iv) guidelines on implementation of institutional risk management framework.

31. The government is committed to improving the quality of public sector financial statements. In particular, the government will take measures to address the issues raised in the latest Auditor General’s audit report on the 2009/10 and 2010/11 public financial statements, including, but not limited to: (i) the lack of the balance sheet (financial position); (ii) the loss of banking evidence of certain transactions; and (iii) the nondisclosure of some investments, liabilities, and value of assets.

32. The Assistant Accountant General responsible for LGAs (AAG-LGA) has been charged with enhancing the accountability of LGAs’ financial management. A Treasury Circular No. 7 of 2011/2012 was issued on February 15, 2012 and circulated to LGAs, requiring them to comply with the activities under the AAG-LGA. Currently, AAG-LGA is establishing a database for all accountants under LGAs and reviewing the LGAs financial memorandum, Local Government Finance Act, and Local Government Accounting Manuals, Circulars, and Regulations.

33. The number of dormant government bank accounts has been further reduced, shifting toward consolidating LGAs’ accounts to six per council. A full transition to operating with the designated six accounts per council is expected to start from 2012/13, as soon as the remaining 3,524 dormant accounts have been closed. The government has also improved its financial management system for better service delivery. The improvements include (i) the introduction of a computerized pensions system, which improves the efficiency of pension payments, including by avoiding double payments to pensioners and (ii) the upgrade of IFMIS. The process to roll out Electronic Payments System to RAS officers and sub treasuries is ongoing, which will help to make payments on real time to customers, reduce expenditure float, and reduce number of government accounts at commercial banks.

Domestic arrears

34. To better track domestic arrears issues, the government will continue compiling domestic arrears on a quarterly basis and is sharing these data with the IMF and other development partners. An expenditure allocation was made in the 2011/12 budget for clearing domestic arrears carried over from 2010/11. In practice, with tight cash limits early in the year, domestic arrears rose from TSh 367 billion at end-June 2011 to TSh 455 billion.
(1.1 percent of GDP) at end-March 2012. Arrears on construction work were reduced over this period, but arrears on goods and services rose from negligible levels in June 2011 to 0.4 percent of GDP at end-March 2012. The government intends to clear all remaining arrears by end-2011/12, and has allocated resources equivalent to 0.4 percent of GDP in the 2012/13 development budget to cover any unexpected payment float from 2011/12. To avoid future domestic arrears, the government will strengthen financing plans for multi-year projects and contracting practices.

Public debt management

35. Tanzania’s debt management capacity is currently rated as low according to the DEMPA, CPIA and PEFA metrics. The government aims to strengthen its debt capacity rating drawing on the advice and support of the World Bank, IMF, and other development partners. In particular, efforts will be made to:

- **Ensure that Tanzania’s debt management strategy minimizes budgetary risks and ensures long-term debt sustainability.** A medium-term debt management strategy has been put in place. Going forward, nonconcessional borrowing decisions will be made under this strategy, and public investment decisions will be made with a view to maximizing returns on investments;

- **Make available adequate and current statistics on both domestic and external debt stock and flows.** As one of its recent steps to strengthen debt management, the government established a unified public debt statistics database under a single monitoring unit.

- **Facilitate effective inter-agency coordination on debt management and debt sustainability issues.** To further streamline debt management, the government intends to consolidate debt management functions by establishing Debt Management Office (DMO) in the Ministry of Finance; and

- **Task the newly established Debt Management Office (DMO) with monitoring new borrowing to ensure debt sustainability.** To improve debt monitoring, a record of all government debt guarantees will be compiled by the DMO and shared with the IMF on a quarterly basis, within 6 weeks of the end of each quarter.

36. Through April 2012, the government contracted external non-concessional borrowing (ENCB) of $433 million to finance government infrastructure projects in the energy, roads, and other sectors. By end-June 2012, the government plans to contract a further $350 million of ENCB for diverse infrastructure projects to be financed in the 2011/12 and 2012/13 budgets. In 2012/13, ENCB will include an additional $250 million to finance a multi-year gas pipeline project (see below), further external non-concessional credit of $600 million to finance infrastructure projects in 2012/13 and beyond, and a planned government guarantee of $135 million to the state power utility TANESCO. As a result, cumulative contracting/guaranteeing of ENCB under the three-year PSI is projected at $1,768 million, up slightly from the initially envisaged $1,500 million. The government requests approval for
this higher ceiling, which has no significant impact on debt sustainability. To ensure compliance with this ceiling, the government is ensuring close monitoring of any external non-concessional borrowing by the public enterprise sector.

**Fiscal transparency**

37. Going beyond the structural benchmark on fiscal transparency (Table 3), the Ministry of Finance published on its internet website the summary 2011/12 “citizens’ budget”, which provides an overview to facilitate public understanding of the budget. In the year ahead, the corresponding 2012/13 budget documents will be added to the Ministry’s website.

**D. Energy sector policies**

38. In 2011, Tanzania suffered severe power shortages when droughts in late 2010 undercut hydropower capacity. In response, the Government implemented an Emergency Power Plan (EPP), procuring temporary power generating capacity from the private sector. With expensive liquid-fuel generated thermal energy replacing cheap hydropower, the financial situation of TANESCO deteriorated. Accordingly, under emergency procedures, the Energy and Water Utility Regulatory Authority, EWURA, approved an increase in electricity tariffs of 40 percent in January 2012. In addition, TANESCO is borrowing TSh 408 billion (1.0 percent of GDP) to temporarily cushion its liquidity position.

39. To complete the tariff review process, EWURA is conducting a more comprehensive review of TANESCO’s new cost structure, to be completed within 6 months of the January 2012 emergency tariff adjustment. A consultant has been contracted to conduct the cost of service study (COSS). Given the importance of safeguarding TANESCO’s financial viability, the Government supports EWURA’s intention to quickly follow through on the COSS recommendations, including regarding the appropriate level of tariffs.

40. The Government’s medium-term objective is to ensure a steady supply of electricity to the economy at lower costs. To this end, the Government is finalizing a project to construct a new gas pipeline to address capacity constraints in bringing lower cost natural gas from shallow water offshore reserves in Songo Songo and the Mnazi Bay to Dar es Salaam and surrounding areas for electricity generation and other uses. The government has commissioned independent external evaluations that show that the project is commercially viable for TPDC. The broader economic benefit will be exceed the commercial return, as industrial and other power users will benefit from lower power tariffs than would otherwise be possible, boosting Tanzania’s competitiveness and growth prospects. The government has also confirmed that debt contracted under the project will not pose risks for debt sustainability.

41. The Government is keen to explore additional renewable energy resources in Tanzania, in particular hydro and wind power. Assistance in this area is being provided by the World Bank, which is assessing Tanzania’s energy capacity under its ongoing Energy Sector Management Program (ESMAP).
E. Monetary, financial sector, and exchange rate policies

Monetary and exchange rate policies

42. The Bank of Tanzania (BoT) will continue to implement its reserve money targeting program using a combination of monetary policy instruments to slow core inflation. Demand for currency is projected to rise through June 2012 as crop procurement commences, and BoT will ensure that any associated expansion of reserve money is consistent with its anti-inflationary policies. For 2012/13, the annual growth rates of average reserve money and M3 are targeted at 16.5 percent and 17.4 percent, respectively. This is consistent with the programmed slowing of inflation, while providing room for private sector credit to grow by 20 percent in the year ending June 2013. The BoT stands ready to tighten liquidity conditions should the need arise.

43. The exchange rate will remain market determined and the BoT will continue to participate in the foreign exchange market for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate, while maintaining an adequate level of international reserves.

44. The BoT intends to move toward a more active use of interest rate in managing monetary policy and will be seeking assistance from the IMF and others. In this regard, BoT has been working closely with other EAC partner states in coordinating its monetary policy as all partners have begun taking steps toward achieving an EAC monetary union.

Financial sector stability

45. BoT in collaboration with other financial sector regulators have taken a number of initiatives aimed at enhancing stability in the financial sector. These include enhancing financial stability monitoring and tools, banking regulations, insurance and Social Security Sectors, and mobile financial services. The BoT continues to publish semi-annual financial stability reports on its web site, with the latest report for September 2011 and the next scheduled for June 2012.

46. The review of regulations relating to the Microfinance Companies and Financial Cooperatives commenced in January 2012, with a view to accommodating changes in the sector. BoT is drafting Agency Banking Regulations to allow banks to extend their outreach through non-banking retail outlets such as supermarkets, petrol stations and other agencies. Further, the Tanzania Insurance Regulatory Agency (TIRA) is drafting micro-insurance regulations to provide a framework for introduction of insurance products catering for low-income households and micro-enterprise operators.

47. The growth of mobile financial services is rapidly expanding financial inclusion, with the number of users of mobile financial services up from 14 thousand at end-June 2008 to 21 million at end-December 2011. The BoT is in the final stages of drafting mobile financial services regulations to license and regulate the sector and address consumer protection issues. The regulatory and supervisory function will be carried out by BoT in collaboration
with the Tanzania Communication Regulatory Authority; to that effect, a bilateral MoU has been signed.

48. Financial soundness indicators at end-March 2012 indicated that the banking system remained sound, profitable and liquid, in the whole. The banking sector was adequately capitalized with ratios of core capital and total capital to risk-weighted assets of 17.9 and 18½ percent, respectively, compared with legal minimum requirements of 10 and 12 percent. The ratio of non-performing loans to total loans was 7½ percent at end-March 2012, down from 9.3 percent a year earlier (albeit up slightly from 6.7 percent at end-December 2011). Personal loans and those for wholesale and retail trade continued to account for some 40 percent of total loans, outpacing lending to other sectors. Overall liquidity remains satisfactory with a ratio of liquid assets to demand liabilities of 39.2 percent, compared to a statutory requirement of 20 percent.

49. BoT continues to further enhance its regulatory and supervisory effectiveness. Credit Reference Bureau and Databank Regulations have been finalized and gazetted. Steps to launch a credit reference system (CRS) are advanced, with a credit databank to become operational by end-September 2012. Prospective private credit reference bureaux have shown interest in applying for licenses and a review is being conducted of their eligibility. An effective and efficient CRS will facilitate information sharing between lenders and thereby address impediments that have boosted borrowing costs. Regulations for supervision of development finance institutions were published in March 2012. A joint team comprised of members from BoT and the Tanzanian Bankers’ Association has been formed to carry out a review and study of Basel II and III and propose a roadmap for implementation of the capital accords.

Social security system reforms

50. The government is determined that public finances not be undermined by off-budget liabilities. In this context, a review of the public pension system conducted in collaboration with the World Bank suggests that the associated pension schemes face actuarial deficits. The Social Security Regulatory Authority (SSRA) is working closely with the Ministry of Finance to address these actuarial shortfalls. To strengthen pension fund returns, in March 2012, the Bank of Tanzania issued Social Security Scheme investment guidelines as mandated in the Social Security Regulatory Authority Act 2008. These guidelines cover actuarial valuation, investment management, mortgage lending, financial reporting, and governance issues. The government also intends to reform pension entitlement rules to help restore actuarial balance in the funds. Technical assistance is being provided by the World Bank, and the government is considering a multi-year World Bank loan package which could provide resources to support near-term benefit payments pending the beneficial impact of the policy reforms.

Anti-money laundering policies

51. In October 2011, the international Financial Action Task Force (FATF) identified Tanzania as one of five jurisdictions not making sufficient progress in improving policies on anti-money laundering and countering the financing of terrorism (AML/CFT). Specifically,
FATF sought progress on (i) adequately criminalizing money laundering and terrorist financing; (ii) establishing and implementing adequate procedures to identify and freeze terrorist assets; (iii) establishing adequate record-keeping requirements; (iv) establishing a fully operational and effectively functioning Financial Intelligence Unit; (v) establishing effective know your customer (KYC) measures; and (vi) designating competent authorities to ensure compliance with AML/CFT requirements. The FATF required that Tanzania take actions to implement significant components of its AML/CFT action plan by February 2012.

52. Responding to the FATF decision, legislation was submitted to the Parliament to address important deficiencies in the pre-existing AML Law. This legislation addressed the issues identified by the FATF. Parliament approved the amended AML/CFT legislation on February 3, 2012 and it was signed into law by the President on February 20, 2012.

53. Under earlier regulations, bank accounts of businesses and individuals who have not provided adequate documentation to comply with KYC procedures were to have been closed by mid-March 2012. With insufficient institutional capacity to meet this deadline, the government extended the moratorium for compliance with Anti-Money Laundering Regulations 2007 by banks and financial institutions for one year until March 14, 2013. During this period, the banks and financial institutions will be required to submit quarterly reports to the BoT showing steps that have been taken to comply, and challenges, if any.

III. PROGRAM RISKS AND STANDBY CREDIT FACILITY (SCF) REQUEST

54. Although Tanzania’s growth prospects are good, the government’s adjustment and reform policies face risks from factors outside of the country’s control. Continuing drought conditions would pose risks to food prices and hydroelectric generation capacity. A further spike in food prices would require an appropriate response to ensure food security while countering inflationary pressures. An extended slump in hydro capacity would require continuing high levels of petroleum imports for thermal generation. To avoid any adverse impact on the budget, these costs would need to be passed on through appropriate adjustments to power tariffs.

55. A more fundamental risk is to global growth prospects and capital markets. In the event that the projected global slowdown for 2012 were to intensify, Tanzania would be affected through more difficult market conditions for its goods and services exports (including importantly tourism) as well as more constrained access to non-concessional financing. Moreover, while donor funding commitments have been largely agreed for 2012/13, a more difficult budget situation in advanced economies could weaken donor flows. Accordingly, while Tanzania’s current financing needs are projected to be comfortably met through a combination of concessional and non-concessional funding; a financing gap could emerge in the event of a sharp global downturn.

56. With the fiscal deficit and public debt now higher than at the start of the last global recession, Tanzania would not have the flexibility to pursue aggressive countercyclical fiscal policies. Accordingly, the government would aim to preserve the broad thrust of its fiscal consolidation efforts, while seeking new financing, as needed, to close any financing gap.
The precise nature of Tanzania’s policy response in the event of a shock would be developed in consultation with the IMF.

57. To position Tanzania to weather any such shock, the Government is requesting approval of support from the IMF under an 18-month precautionary SCF. The intention would be to accumulate undrawn balances under the SCF that could be available quickly in the event that Tanzania’s balance of payments comes under pressure as a result of less favorable global market conditions. The government emphasizes that the arrangement will be precautionary in nature, and would only be utilized in the event of shocks. In conjunction with the request for a SCF, an update of the 2009 safeguard assessment of the BoT was initiated in April 2012 and is expected to be completed no later than the first review. The central bank is committed to implementing the recommendations resulting from the assessment.

IV. OTHER PROGRAM ISSUES

Statistical issues

58. The BoT currently uses the CPI excluding food and energy prices as a proxy for core inflation. A new core inflation index, which is consistent with recommendations made by the EAC countries, is expected to be released by September 2012. The BoT also intends to strengthen the balance of payments data through (i) developing alternative, more reliable data sources on remittances; and (ii) improving the tracking of FDI data, including those related to gas and oil exploration.

59. Progress has been made in moving fiscal accounts to the GFSM 2001 format, in line with international best practice. The ministry of finance will address the few remaining issues for the economic classification on the GFSM2001 format supported by the IMF, if needed. Reporting of fiscal data in the GFSM 2001 format for 2008/09 onwards to the IMF Statistical Yearbook will be initiated by end-2012 in close collaboration with the National Bureau of Statistics. More broadly, efforts will be made to compile improved data on public sector financial and nonfinancial assets, as well as to prepare expenditure data according to a functional classification.

60. With the technical assistance from the IMF, the BoT is continuing to strengthen Tanzania’s balance of payments (BoP) statistics. At present, external trade statistics are compiled quarterly, while the full BoP is produced on an annual basis only. To improve monitoring of the external sector and strengthen related policy analysis, the BoT will begin compilation of comprehensive BoP estimates on a quarterly basis starting in December 2012 (structural benchmark). To improve the quality and timeliness of travel data, the Visitors’ Survey will be conducted at least twice a year, in the high and low tourist season, together with a survey on resident travelers on the debit side. Working toward quarterly compilation for the Survey of Companies with Foreign Liabilities (SCLF) will enhance the quality and timeliness of financial accounts, including FDI data.

61. To further improve external debt data, the authorities will compile the Gross External Debt Position (GEDP) data on a quarterly basis by September 2012 for publication in the
Quarterly External Debt Statistics (QEDS) database. In addition, the Ministry of Finance and Bank of Tanzania will enhance coordination between their institutions to reduce discrepancies and address inconsistencies in external debt data.

**Program monitoring**

62. Progress in the implementation of the policies under this program will be monitored through assessment criteria (ACs), performance criteria (PCs), indicative targets (IT), and structural benchmarks (SBs) as documented in the attached tables. The government requests that two new indicative targets be included under the arrangement: a quarterly indicative target on tax revenue collections, and a quarterly indicative floor for priority spending on agricultural inputs and health and education transfers to local government authorities (paragraph 26).

63. The fifth and sixth reviews under the PSI arrangement are expected to be completed by end-December 2012 and end-May 2013, respectively; the parallel first and second reviews under the SCF arrangement are expected to be completed on the same schedule.
## MEFP Table 1. Tanzania: Quantitative Assessment Criteria Under the Policy Support Instrument, 2011-2012

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>December 2011</th>
<th>March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adjusted Preliminary Met?</td>
<td>Indicative Target</td>
</tr>
<tr>
<td>Net domestic financing of the government of Tanzania</td>
<td>300 449 -127 ✓</td>
<td>296 596 449 ✓</td>
</tr>
<tr>
<td>(cumulative, ceiling)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average reserve money (upper bound)</td>
<td>4,235 4,235 4,222 ✓</td>
<td>4,321 4,321 4,015 ✓</td>
</tr>
<tr>
<td>Average reserve money target</td>
<td>4,193 ...</td>
<td>4,278</td>
</tr>
<tr>
<td>Average reserve money (lower bound)</td>
<td>4,151 ...</td>
<td>4,235</td>
</tr>
<tr>
<td>Tax revenues (floor; indicative target)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priority social spending (floor; indicative target)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net international reserves of the Bank of Tanzania (floor)</td>
<td>80 -10 167 ✓</td>
<td>180 1 -62 x</td>
</tr>
<tr>
<td>Accumulation of external payment arrears (ceiling)</td>
<td>0 0 0 ✓</td>
<td>0 0 0 ✓</td>
</tr>
<tr>
<td>Contracting or guaranteeing of external debt on nonconcessional terms (continuous ceiling)</td>
<td>1,050 1,050 433 ✓</td>
<td>1,050 1,050 433 ✓</td>
</tr>
<tr>
<td>Memorandum item:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign program assistance (cumulative grants and loans)</td>
<td>628 628 608 831 831 652</td>
<td></td>
</tr>
<tr>
<td>External nonconcessional borrowing (ENCB) disbursements to the budget</td>
<td>291 291 222 441 441 234</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU).

1 Cumulative from the beginning of the fiscal year (July 1).
2 To be adjusted upward by up to TSh 300 billion for the U.S. dollar equivalent of a shortfall in the combined total of foreign program assistance and ENCB from the amounts shown in the memorandum item. To be adjusted downward by any ENCB disbursed for budget financing above programmed amount for the year as a whole (US$575 million for 2011/12).
3 Assessment criteria and benchmarks apply to upper bound only.
4 Floor will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance and ENCB financing of the government up to the equivalent of TSh 300 billion.
5 To be used exclusively for infrastructure investment projects. Continuous assessment criteria; cumulative from July 1, 2010.
MEFP Table 2. Tanzania: Quantitative Assessment Criteria (AC), Performance Criteria (PC) and Indicative Targets Under the Policy Support Instrument and Stand-by Credit Facility
June 2012-June 2013

<table>
<thead>
<tr>
<th></th>
<th>June 2012</th>
<th>September 2012</th>
<th>December 2012</th>
<th>March 2013</th>
<th>June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AC/PC</td>
<td>Indicative Target</td>
<td>AC/PC</td>
<td>Indicative Target</td>
<td>Performance Criteria</td>
</tr>
<tr>
<td>Net domestic financing of the government of Tanzania (cumulative, ceiling)</td>
<td>397</td>
<td>200</td>
<td>300</td>
<td>400</td>
<td>484</td>
</tr>
<tr>
<td>Average reserve money (upper bound)</td>
<td>4,464</td>
<td>4,735</td>
<td>4,835</td>
<td>4,866</td>
<td>5,108</td>
</tr>
<tr>
<td>Average reserve money target 3</td>
<td>4,420</td>
<td>4,688</td>
<td>4,788</td>
<td>4,817</td>
<td>5,058</td>
</tr>
<tr>
<td>Average reserve money (lower bound) 3</td>
<td>4,376</td>
<td>4,641</td>
<td>4,740</td>
<td>4,769</td>
<td>5,007</td>
</tr>
<tr>
<td>Tax revenues (floor; indicative target) 1</td>
<td>...</td>
<td>1,880</td>
<td>3,961</td>
<td>5,986</td>
<td>8,011</td>
</tr>
<tr>
<td>Priority social spending (floor; indicative target) 1</td>
<td>...</td>
<td>517</td>
<td>1,033</td>
<td>1,550</td>
<td>2,066</td>
</tr>
<tr>
<td>Change in net international reserves of the Bank of Tanzania (floor) 1, 4</td>
<td>258</td>
<td>155</td>
<td>310</td>
<td>432</td>
<td>273</td>
</tr>
<tr>
<td>Accumulation of external payment arrears (continuous ceiling)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Contracting or guaranteeing of external debt on nonconcessional terms (continuous ceiling) 3</td>
<td>1,050</td>
<td>1,668</td>
<td>1,668</td>
<td>1,668</td>
<td>1,668</td>
</tr>
<tr>
<td>Memorandum item:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign program assistance (cumulative grants and loans) 1</td>
<td>1,062</td>
<td>397</td>
<td>567</td>
<td>746</td>
<td>785</td>
</tr>
<tr>
<td>External nonconcessional borrowing (ENCB) disbursements to the budget 1</td>
<td>575</td>
<td>240</td>
<td>429</td>
<td>619</td>
<td>737</td>
</tr>
</tbody>
</table>

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU).

1 Cumulative from the beginning of the fiscal year (July 1).
2 To be adjusted upward by up to TSh 300 billion for the U.S. dollar equivalent of a shortfall in the combined total of foreign program assistance and ENCB from the amounts shown in the memorandum item. To be adjusted downward by any ENCB disbursed for budget financing above programmed amount for the year as a whole (US$575 million for 2011/12).
3 Assessment criteria and benchmarks apply to upper bound only.
4 Floor will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance and ENCB financing of the government up to the equivalent of TSh 300 billion.
5 To be used exclusively for infrastructure investment projects. Continuous assessment criteria; cumulative from July 1, 2010.
### MEFP Table 3. Structural Benchmarks under the 4th PSI review

<table>
<thead>
<tr>
<th>Measure</th>
<th>Target date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Issuance of investment guidelines for pension funds.</td>
<td>End-Sep 2011 (postponed to end-Mar 2012)</td>
<td><strong>Met with delay.</strong> Social Security Investment guidelines were in March 2012.</td>
</tr>
<tr>
<td>2) Regulatory authority approval of an increase in TANESCO’s weighted average power tariff of not less than 40 percent to reduce its subsidies and better position it to repay the new loan that it is contracting to cover operating costs.</td>
<td>End-Dec 2011</td>
<td><strong>Met with short delay.</strong> The tariff increase of 40.3 percent was implemented on January 15, 2012.</td>
</tr>
<tr>
<td>3) The Government will submit to parliament draft legislation to tighten the existing AML framework in line with FATF recommendations and address national jurisdictional issues in support of Tanzania’s AML/CFT action plan agreed with the FATF.</td>
<td>End-Feb 2012</td>
<td><strong>Met in advance.</strong> The legislation was submitted to parliament in January, approved on February 3, 2012, and signed into law by the President on February 20, 2012.</td>
</tr>
<tr>
<td>4) The Ministry of Finance will make available on a permanent basis on its internet website copies of the full four volumes of revenue and public expenditure estimates as submitted to and approved by the National Assembly, starting with the 2011/12 budget.</td>
<td>End-Mar 2012</td>
<td><strong>Met in advance.</strong> The four volumes were made available on the internet before end-2011.</td>
</tr>
<tr>
<td>5) The Ministry of Finance will provide to the IMF the technical and economic evaluation of the proposed gas pipeline project.</td>
<td>End-Jun 2012</td>
<td><strong>Met in advance.</strong> A feasibility study of the gas pipeline conducted by independent consultants and engineers in 2010-11 was provided to Fund staff in late-May 2012. A further feasibility study conducted by a second consultant in 2011-12 was also provided to Fund staff in May.</td>
</tr>
<tr>
<td>Benchmark</td>
<td>Macroeconomic rationale</td>
<td>Date</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------------------</td>
<td>------</td>
</tr>
<tr>
<td>1) Regulatory authority completion of cost of service study for the power utility, TANESCO, and implementation of any findings in regard to the power tariff regime.</td>
<td>Addresses contingent fiscal liabilities by ensuring financial viability of TANESCO.</td>
<td>End-August 2012</td>
</tr>
<tr>
<td>2) The Ministry of Finance, Planning Commission, and TRA will prepare a report identifying steps to be taken to prepare Tanzania’s macroeconomic management for the new gas economy, and identifying the nature of any corresponding technical assistance needs.</td>
<td>Supports early preparation for major macroeconomic challenges in the years ahead.</td>
<td>End-Dec 2012</td>
</tr>
<tr>
<td>4) Compile and share with IMF a quarterly report of all government debt guarantees within 6 weeks of the end of each quarter. This will start with the first quarter of 2012/13.</td>
<td>The more frequent monitoring of debt guarantees will strengthen public debt management.</td>
<td>End-Nov. 2012</td>
</tr>
<tr>
<td>5) Compile and publish full preliminary balance of payments data on a quarterly basis within 3 months of the end of the relevant quarter.</td>
<td>Seeks to strengthen macroeconomic and policy analysis</td>
<td>End-Dec. 2012 (for data through end-September 2012)</td>
</tr>
</tbody>
</table>
Attachment II. Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the Program Supported by the PSI and SCF

June 21, 2012

I. INTRODUCTION

1. The purpose of this Technical Memorandum of Understanding (TMU) is to describe concepts and definitions that are being used in the monitoring of Tanzania’s program supported by the SCF and PSI, comprising the quantitative assessment criteria under the PSI arrangement; the performance criteria under the SCF arrangement; and the indicative targets and structural benchmarks jointly monitored under the SCF and PSI.

2. The principal data sources are the standardized reporting forms, 1SR and 2SR, as provided by the Bank of Tanzania to the IMF, and the government debt tables provided by the Accountant General’s office.

II. DEFINITIONS

Net international reserves

3. Net international reserves (NIR) of the Bank of Tanzania (BoT) are defined as reserve assets minus reserve liabilities. The change in NIR is calculated as the cumulative change since the beginning of the fiscal year. The BoT’s reserve assets, as defined in the IMF BOP manual (5th edition) and elaborated in the reserve template of the IMF’s special data dissemination standards (SDDS), include: (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guaranteed for a third party external liability (assets not readily available). The BoT’s reserve liabilities include: (i) all short-term foreign exchange liabilities to nonresidents, of original maturities less than one year; and (ii) outstanding purchases and loans from the IMF.

4. NIR are monitored in U.S. dollars, and for program monitoring purposes assets and liabilities in currencies other than U.S. dollars shall be converted into dollar equivalent values using the exchange rates as of May 31, 2012 (as specified below, taken from International Financial Statistics.)

<table>
<thead>
<tr>
<th>Currency</th>
<th>US$ per currency unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>British pound</td>
<td>1.5405</td>
</tr>
<tr>
<td>Euro</td>
<td>1.2365</td>
</tr>
<tr>
<td>Japanese yen</td>
<td>0.01284</td>
</tr>
</tbody>
</table>
Reserve money and reserve money band

5. Reserve money is defined as the sum of currency issued by the BoT and the deposits of commercial banks with the BoT. The reserve money targets are the projected daily averages of March, June, September, and December within a symmetrical one percent band. The upper bound of the band serves as the assessment criterion (PSI), performance criterion (SCF), or indicative target.

Net domestic financing of the Government of Tanzania

6. Net domestic financing of the Government of Tanzania (NDF) includes financing of the budget of the central (union) government of Tanzania (“government”) by the banking system (BoT and commercial banks) and the nonbank public.

7. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of:

   (i) loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued by the BoT for monetary policy purposes), minus all government deposits with the BoT;

   (ii) all BoT accounts receivable due from the Government of Tanzania that are not included under (i) above;

   (iii) loans and advances to the government by other depository corporations and holdings of government securities and promissory notes, minus all government deposits held with other depository corporations; and

   (iv) the outstanding stock of domestic debt held outside depository corporations, excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COBELMO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.

8. For 2012/13 and 2013/14, NDF will be measured net of any accumulation of central government claims on the Tanzania Petroleum Development Corporation (TPDC) as a result of the on-lending of an external credit to finance a gas pipeline.

Government deposits at the BoT

9. Government deposits at the BoT include government deposits as reported in the BoT balance sheet, 1SR -including counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes, and foreign currency-denominated government deposits at the BoT, including the PRBS accounts and the foreign currency deposit account.
External payment arrears

10. External payment arrears consist of the total amount of external debt service obligations (interest and principal) of the government and the BoT that have not been paid at the time they are due, excluding arrears on external debt service obligations pending the conclusion of debt-rescheduling arrangements. The ceiling on external payment arrears is continuous and applies throughout the year.

Priority social spending

11. Priority social spending comprises spending on agricultural inputs, and central government transfers to local governments for health and education.

Tax revenues

12. Tax revenues include import duties, value-added tax, excises, income tax, and other taxes.

Contracting or guaranteeing of external debt on nonconcessional terms

13. The term “external debt” will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board’s Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009). External debt will be determined on the basis of currency of denomination of the debt. Government external debt is outstanding debt owed or guaranteed by the Government of Tanzania, the Bank of Tanzania, subnational governments, and companies in which the government has at least 50 percent ownership, unless otherwise stipulated.1 The ceiling on external debt is continuous and applies throughout the year.

14. Government debt is considered nonconcessional if the grant element is lower than 35 percent, calculated using discount rates based on Organization for Economic Cooperation and Development (OECD) commercial interest reference rates (CIRR), adjusted as appropriate for different maturities. For maturities of less than 15 years, the grant element will be calculated based on 6-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This PSI assessment criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board’s Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed for which value has not been received.

1 Excluded for these purposes, except if the government offers an explicit guarantee on the debt, are: Tanzania Investment Bank; Tanzania Port Authority; Tanzania Petroleum Development Corporation; Dar es Salaam Rapid Transport Authority; Economic Processing Zones Authority; National Development Corporation; Small Industries Development Organization; National Housing Corporation; National Identity Authority; Dar es Salaam Water and Sewage Authority; and Tanzania Airport Authority.
Foreign program assistance and program exchange rates

15. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance (MoF) through BoT accounts and accounts at other depository corporations and is calculated as the cumulative sum, since the beginning of the fiscal year, of the receipts from (i) program loans and (ii) program grants. Program assistance does not include nonconcessional external debt as defined in paragraphs 7 and 8. Foreign program assistance is measured excluding bilateral loans in 2012/13 and 2013/14 for purposes of construction of the gas pipeline.

16. The program exchange rate for the period July 1, 2012 through June 30, 2013 is TSh/USD 1590.

III. ADJUSTERS

Net international reserves

17. The end-September 2012, end-December 2012, end-March 2013, and end-June 2013 quantitative targets for the change in the BoT’s net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfalls in (a) foreign program assistance and (b) external nonconcessional borrowing (ENCB) financing of the government budget in U.S. dollars (up to a limit equivalent to TSh 300 billion at the program exchange rate).

18. The shortfalls will be calculated relative to projections for foreign program assistance shown in table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania titled “Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets under the PSI and SCF”. For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted in 2012/13 and 2013/14 for purposes of the gas pipeline.

19. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 16). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

Net domestic financing

20. The end-September 2012, end-December 2012, end-March 2013, and end-June 2013 quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfalls in foreign program assistance and ENCB financing of the government budget in U.S. dollars (up to a limit of TSh 300 billion).

21. The shortfalls will be calculated relative to projections for foreign program assistance and ENCB financing shown in the Table on “Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets under the PSI and SCF” attached to the MEFP. For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted in 2012/13 and 2013/14 for purposes of the gas pipeline. Each quarterly shortfall will be
converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 16). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

22. The limits referred to in the previous paragraph will be adjusted downward for any ENCB financing of the government budget in excess of the amount programmed for the year as a whole, indicated in the table referred to in the previous paragraph.
IV. DATA REPORTING REQUIREMENTS

23. For purposes of monitoring the program, the Government of Tanzania will provide the data listed in Table 1 below.

Table 1. Summary of Reporting Requirements

<table>
<thead>
<tr>
<th>Information</th>
<th>Reporting Institution</th>
<th>Frequency</th>
<th>Submission Lag</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance of government securities.</td>
<td>BoT</td>
<td>Bi-weekly</td>
<td>1 week</td>
</tr>
<tr>
<td>Yields on government securities.</td>
<td>BoT</td>
<td>Bi-weekly</td>
<td>1 week</td>
</tr>
<tr>
<td>Consumer price index.</td>
<td>BoT</td>
<td>Bi-weekly</td>
<td>1 week</td>
</tr>
<tr>
<td>The annual national account statistics in current and constant prices.</td>
<td>NBS</td>
<td>Monthly</td>
<td>2 weeks</td>
</tr>
<tr>
<td>The quarterly national account statistics in constant prices.</td>
<td>NBS</td>
<td>Quarterly</td>
<td>3 months</td>
</tr>
<tr>
<td>Balance sheet of the BoT (1SR) and the currency composition of foreign assets and liabilities.</td>
<td>BoT</td>
<td>Monthly</td>
<td>1 week</td>
</tr>
<tr>
<td>Consolidated accounts of other depository corporations and the depository corporations survey (2SR and the DCS).</td>
<td>BoT</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.</td>
<td>BoT</td>
<td>Monthly</td>
<td>2 weeks</td>
</tr>
<tr>
<td>External trade developments.</td>
<td>BoT</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Balance of payments</td>
<td>BoT</td>
<td>Quarterly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Standard off-site bank supervision indicators for other depository corporations.</td>
<td>BoT</td>
<td>Quarterly</td>
<td>6 weeks</td>
</tr>
<tr>
<td>Financial Soundness Indicators for other depository corporations.</td>
<td>BoT</td>
<td>Quarterly</td>
<td>6 weeks</td>
</tr>
<tr>
<td>Other depository corporation lending by activity.</td>
<td>BoT</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Commercial banks interest rate structure.</td>
<td>BoT</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms;</td>
<td>BoT and MoF</td>
<td>Quarterly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Information</td>
<td>Reporting Institution</td>
<td>Frequency</td>
<td>Submission Lag</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>and (v) net international reserves.¹</td>
<td>MoF</td>
<td>Quarterly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Amount of payment claims outstanding of more than 30 days, 60 days, and 90 days for all government ministries. For each ministry, total claims outstanding to be divided into: (i) unverified claims; and (ii) claims verified but not yet paid.</td>
<td>MoF</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>The flash report on revenues and expenditures.</td>
<td>MoF</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>The TRA revenue report</td>
<td>TRA</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>The monthly domestic debt report.¹</td>
<td>MoF</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Monthly report on central government operations.</td>
<td>MoF</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Detailed central government account of disbursed budget support grants and loans, and external debt service due and paid.</td>
<td>MoF</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Detailed central government account of disbursed donor project support grants and loans.</td>
<td>MoF</td>
<td>Monthly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 7 of the TMU during the period including terms and conditions according to loan agreements.</td>
<td>MoF</td>
<td>Quarterly</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Report on priority social spending</td>
<td>MoF</td>
<td>Quarterly</td>
<td>6 weeks</td>
</tr>
</tbody>
</table>

¹ The MoF and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the same as those reported by the Accountant General of the MoF.