THE INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

TANZANIA

Preliminary Document on the Initiative for the Heavily Indebted Poor Countries (HIPC Initiative)

Prepared by the Staffs of the Fund and the IDA[1]

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Contents

[1] Approved by Anupam Basu and Jesús Seade (IMF) and Masood Ahmed and James Adams (IDA).

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CURRENCY EQUIVALENTS

Currency Unit = Tanzanian Shilling (T Sh)
US$1 = T Sh 790.5 (July 30, 1999)

WEIGHTS AND MEASURES

Metric system

ABBREVIATIONS AND ACRONYMS

AfDB/F	African Development Bank/Fund
BoT	Bank of Tanzania
BEMP	Basic Education Master Plan
CAS	Country Assistance Strategy
CHF	Community Health Fund
CIRR	Commercial Interest Reference Rate
COMESA	Common Market for Eastern and Southern Africa
CRDB	Cooperative and Rural Development Bank
DAWASA	Dar es Salaam Water and Sewerage Authority
DRI	Debt Relief International
DSA	Debt Sustainability Analysis
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IRP	Integrated Road Project
IMF	International Monetary Fund
KOJ	Kurasini Oil Jetty
MEFMI	Macro-Economic and Financial Management Institute of Southern Africa
MTEF	Medium-Term Expenditure Framework
NASACO	National Shipping Agencies Corporation
NBC	National Bank of Commerce
NEP	National Environmental Policy
NMB	National Microfinance Bank
NPES	National Poverty Eradication Strategy
NPV	Net Present Value
PER	Public Expenditure Review
PFP	Policy Framework Paper
PSRC	Parastatal Sector Reform Commission
SAC	Structural Adjustment Credit
SAF	Structural Adjustment Facility
SDP	Sector Development Program
SEMP	Secondary Education Master Plan
SSA	Sub-Saharan Africa
TCFB	Tanzania Central Freight Bureau
TANESCO	Tanzania Electric Supply Company Ltd.
THA	Tanzania Harbours Authority
TIC	Tanzania Investment Centre
TIPER	Tanzanian Italian Petroleum Refinery
TRC	Tanzania Railways Corporation
TTCL	Tanzania Telecommunications Company Ltd.

I. INTRODUCTION

1. This paper presents a preliminary assessment of Tanzania's eligibility for assistance under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). Section II summarizes Tanzania's status under the Enhanced Structural Adjustment Facility (ESAF) and the International Development Association (IDA), as well as its recent adjustment record. Section III describes Tanzania's medium-term policy framework, including the government's economic and social sector reform program. Section IV presents the debt sustainability analysis (DSA) prepared jointly by the staffs of the World Bank and the Fund and the Tanzanian authorities,[2] and the options for possible HIPC Initiative assistance. The DSA indicates that Tanzania's debt situation is unsustainable. Section V of the paper provides the staffs' overall recommendations and the authorities' views on possible assistance under the HIPC Initiative. Section VI presents possible issues for discussion by Executive Directors.

II. ASSESSMENT OF ELIGIBILITY

2. Eligibility under the current HIPC Initiative is limited to IDA-only and ESAF-eligible countries that have demonstrated an appropriate track record of adjustment over at least three years and that, after the full application of traditional debt-relief mechanisms, are expected to face an unsustainable debt burden at the completion point. The analysis presented below suggests that Tanzania satisfies these requirements.

A. IDA and ESAF Category

3. Tanzania is currently an IDA-only and ESAF-eligible country. With an estimated GNP per capita of US$246 in 1998, about 50 percent of its population of approximately 30 million is living below the international poverty line of US$1 a day, making Tanzania one of the poorest countries in the world. Even with strong implementation of a development strategy aimed at doubling real per capita income in 15 years, Tanzania will clearly remain an IDA-only country in the foreseeable future.

4. Though Tanzania's GNP per capita is less than half of the average in countries in Sub-Saharan Africa (SSA), its social development indicators are generally comparable to those of SSA (Table 1). Compared to the average SSA country, Tanzania has a lower gross enrollment

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[2] The debt sustainability analysis was developed with the Tanzanian authorities during a joint IDA and Fund mission in April 1999, with further consultation in Washington DC. The Fund staff team was led by Mr. Johnson, and comprised Mr. Snoek, Ms. Elborgh-Woytek, Ms. Kourelis (all AFR), Mr. Choudhury, Mr. Kanaan (both PDR), and Mr. Välilä (FAD). The IDA staff team comprised Ms. Dhar, Mr. Utz (both AFTM2) and Mr. Gunter (AFTD1). Considerable contributions have also been made by Bank and Fund staffs at the resident missions in Tanzania.

in primary schools, especially for males, but lower illiteracy. It has a lower infant mortality rate and more widespread access to safe water than the average SSA country, but a slightly lower average life expectancy.

Table 1. Tanzania: Social Development Indicators, 1990 and 1997

	1990		**1997 1/**	
	Tanzania	Average for Sub-Saharan Africa	**Tanzania**	Average for Sub-Saharan Africa
GNP per capita (in U.S. dollars)	190	520	246	500
Life expectancy (years)	52	51	50	51
Infant mortality (per 1,000 births)	99	100	88	91
Urban Population (in percent of total population)	21	28	26	32
Population with access to safe water (in percent)	n.a.	n.a	49	45
Child malnutrition (in percent of children under age 5)	n.a.	n.a	31	n.a
Illiteracy (in percent of population aged 15 and higher)	n.a.	53	28	42
Gross primary enrollment (in percent of school-age population)	70	73	66	75
Male	70	80	67	82
Female	69	65	66	67

Source: Government of Tanzania, Medium-Term Expenditure Framework for the Health Sector 1999/2000–2001/02 (1997 data on life expectancy and infant mortality); World Bank, World Development Report 1997 and World Bank, World Development Indicators, 1999.

1/ 1997 or latest available statistic.

B. Adjustment Record

5. Tanganyika gained independence in 1961, and Zanzibar became independent in 1963. Following unification in 1963 and the Arusha Declaration of 1967, Tanzania launched a socialist development agenda based on "self-reliance." Initially, the economy continued to grow and the social indicators improved. However, when the external environment deteriorated in the 1970s and early 1980s, the inefficiencies of the state-dominated economy led to a sharp economic decline, severe macroeconomic imbalances, widespread shortages, and deteriorating living conditions and services.

6. In 1986, the government embarked on its first comprehensive structural adjustment program. This “Economic Recovery Program (ERP)” and its successor ERP II (1989–93), which were supported by IMF, World Bank, and bilateral assistance,[3] aimed at dismantling the system of state controls and promoting the private sector, and included programs to rehabilitate key parts of the infrastructure, particularly roads, railways, and ports. As a result, Tanzania’s economy underwent a major transition from state controlled to free market (Table 2). The economy responded to these reforms and the general improvement in macroeconomic management: annual growth recovered to on average 4 percent over 1986–94 and the level of international reserves increased to about three months of imports of goods and nonfactor services by June 1993, although inflation remained close to 30 percent per year (Table 3).

7. In 1993, however, macroeconomic management deteriorated significantly. Large fiscal deficits from lack of expenditure control and inadequate tax administration were financed by bank credit, resulting in monetary expansion of on average 27 percent in 1993/94–1995/96. The worsening macroeconomic situation led to suspension of balance of payments assistance from the World Bank and the IMF, as well as from several bilateral donors. International reserves halved to 1.5 months of imports of goods and nonfactor services.

8. Following the election of a new government in late 1995, the reform and stabilization effort regained momentum. The past four years have witnessed major progress toward achieving Tanzania’s stabilization objectives, and there has also been substantial further progress toward a market-based economy and away from reliance on control mechanisms and government ownership of the means of production.[4] Recent achievements in structural reform have included streamlining the civil service, privatization of about half the parastatal enterprises (and initiation of the process for most of the remainder), and a far-reaching restructuring of the financial system. At mid-1999, Tanzania’s economy is largely market oriented, inflation is in the single digits, and gross official reserves are approaching the medium-term goal of four months of

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[3] IMF support consisted of a Stand-By Arrangement (1986–87), followed by arrangements under the Structural Adjustment Facility (1987–90) and the Enhanced Structural Adjustment Facility (1991–94). The latter was suspended in 1993; successive staff-monitored programs were only successful in improving macroeconomic performance in the second half of 1993/94. World Bank support included a Structural Adjustment Program (started in 1986) and sectoral adjustment credits in support of reforms in industry, agriculture and the financial sector.

[4] IMF support was resumed with a Staff-Monitored Program (January–June 1996), and a three-year ESAF arrangement (1996-99). Support by the World Bank included a Structural Adjustment Credit and sectoral adjustments credits, including for parastatal and civil service reform and the petroleum sector. Balance of payments support by bilateral donors also increased again.

Table 2. Tanzania: Major Structural Changes in the Economy, 1985–99

	Mid-1980s	Mid-1990s	July 1999
Parastatal sector	Trade in more than 50 commodities restricted to parastatals	Trade completely liberalized; more than 400 parastatal entities identified for divestiture	More than half of parastatal entities divested; preparations started for divestiture of utilities and other large monopolies
Financial sector	Government-owned banks control more than 90 percent of deposits	New privately-owned banks licensed; main government banks being restructured	Main government-owned banks privatized or put under private sector management
Price controls	Most prices government-controlled	All prices market-determined except petroleum products	All prices market-determined
Import and export regulations	Imports subject to quantitative restrictions and exports to licensing	Imports and exports liberalized (quantitative import restrictions only on petroleum products)	Remaining restrictions on petroleum products imports scheduled to be eliminated January 2000
Access to foreign exchange	Holding of foreign exchange illegal; exchange rate set by government.	Exchange rate market determined; no restrictions on holding or acquiring foreign exchange for current account transactions	Exchange rate market determined; no restrictions on holding or acquiring foreign exchange for current account transactions
Monetary policy	Monetary policy nonexistent as banks and parastatals had liberal access to BoT financing	BoT financing terminated with restructuring of state-owned banks	BoT operations strictly for monetary policy, which focuses on reducing inflation
Fiscal policy	High deficits financed by BoT credit	High deficits financed by BoT credit during 1993/94–1995/96	Strict cash control system in place; net repayment of domestic financing since 1996/97
Tax system	Tax base consists mainly of public enterprises; targets are met by ad hoc levies on these enterprises	Tax base eroded as tax net fails to include new private and informal sectors and by many discretionary exemptions; dependence on trade taxes increased	Tax administration improved and discretionary exemptions eliminated; VAT has replaced cascading sales taxes, and reform import duties and personal income taxes implemented
Civil service reform	Civil service employment increasing; real wages eroded	Government employment reaches highest level of 354,000 in 1993; comprehensive civil service reform started	Government employment reduced to 264,000; implementation of wage reform begun

imports of goods and nonfactor services. Many elements required for private sector-led growth are in place, and the main thrust of the reform effort is directed toward the structure and size of the government itself, and the privatization of the utilities and other large parastatal monopolies. Moreover, policies have been developed to alleviate poverty and reverse the deterioration of social indicators and the delivery of social services. In addition to the following more detailed description of these achievements, Appendix I summarizes Tanzania's recent policy performance.

Table 3. Tanzania: Macroeconomic Performance, 1963–99

	1963-75	1976-85	1986-93	1994	1995	1996	1997	1998	1999 1/
Macroeconomic performance									
Growth (in percent)	4.8	2.0	4.0	1.6	3.6	4.5	3.5	2.7	...
Inflation (in percent) 2/	12.1	22.2	28.9	37.4	29.5	21.0	16.1	12.8	8.9
Official reserves/imports 3/	...	0.9	1.1	1.7	1.5	2.2	2.9	3.4	3.3
Change in bank credit to the government as percent of M3 4/	15.4	19.9	23.4	5.3	12.2	14.7	-6.9	-4.4	-2.9

Source: Tanzanian authorities; and staff estimates.

1/ March 1999.

2/ Data available from 1964 onward.

3/ Data available from 1976 onward. Gross official reserves in months of imports of goods and nonfactor services

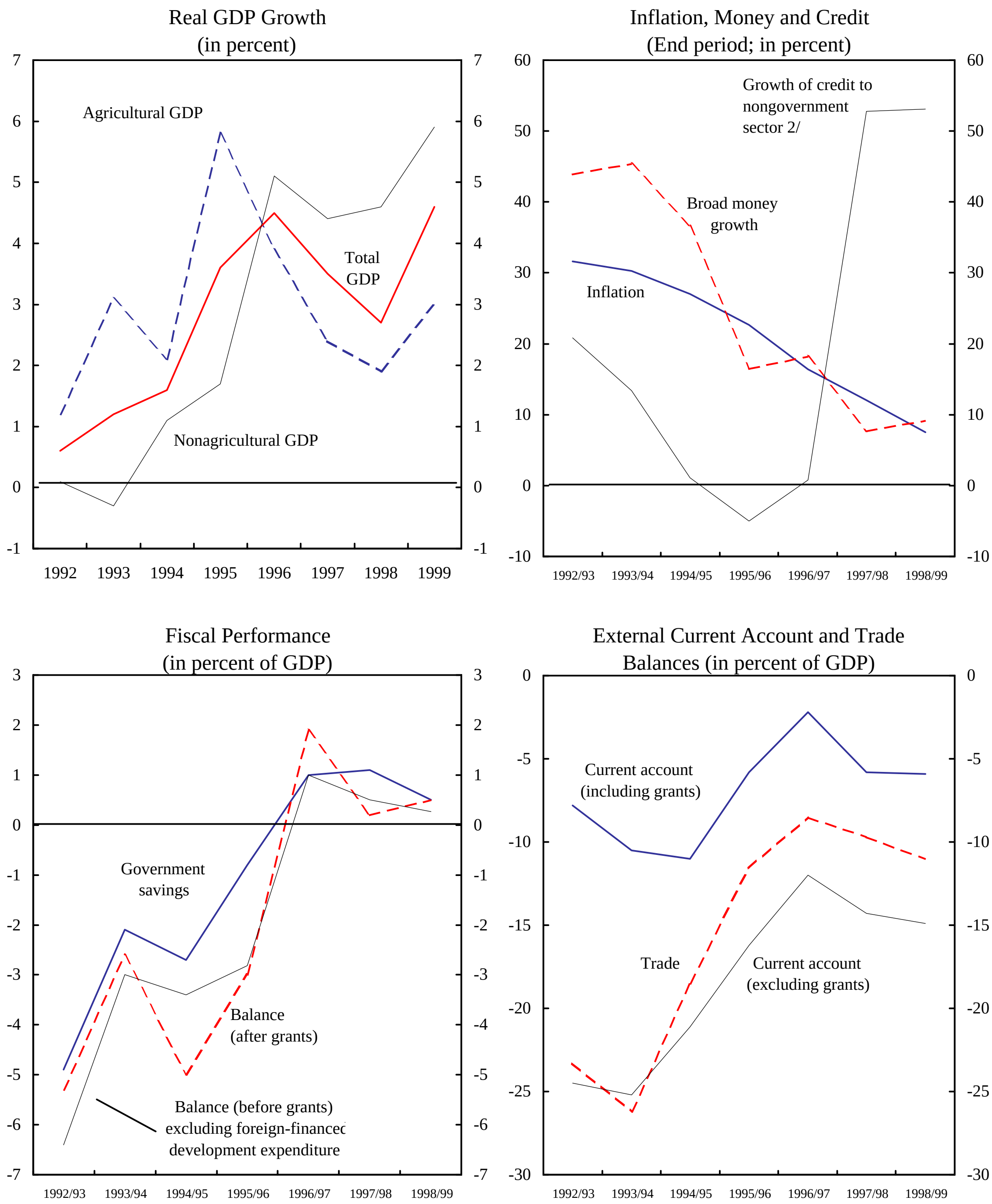
4/ Data available from 1969 onward.

Recent macroeconomic developments and policies

9. Tanzania has implemented strong macroeconomic policies in recent years, although overall performance has been adversely influenced by climatic conditions. In 1996/97 (July–June), drought affected most crops and led to electricity load-shedding and declines in industrial production. The drought was followed by heavy El Niño rains in early 1998, seriously damaging the transportation infrastructure as well as some crops, and at end-1998, less than normal rainfall led to regional food shortages and additional food imports. Despite these setbacks, real GDP per capita continued to increase. Moreover, inflation has declined sharply—the end-period annual inflation rate declined to 7.7 percent in June 1999, the lowest rate in more than 25 years—and external reserves have continued to strengthen (Figure 1 and Table 4).

10. The key to the stabilization effort has been fiscal consolidation. The government implemented a cash control system that limited expenditures to available revenues, even when the latter were adversely affected by the weather in 1997/98. In 1998/99, the introduction of VAT contributed to an increase in the revenue-to-GDP ratio to an estimated 12.6 percent of GDP, while more cautious budgeting helped limit the need for arbitrary cuts in expenditure through the cash control system. The government made considerable progress with tax reform; in addition to the introduction of the VAT, replacing a cascading sales tax with many different

Figure 1. Tanzania: Economic and Financial Indicators, 1992/93 - 1998/99 1/



Source: Tanzanian authorities; and staff estimates.

1/ Fiscal years run from July to June. The figures for 1998/99 and 1999 are projections.

2/ The 1995/95 for credit to the nongovernment sector has been adjusted to exclude the write-off of T Sh 112 billion in non-performing loans by the National Bank of Commerce and the Cooperative and Rural Development Bank.

Table 4. Tanzania: Selected Economic and Financial Indicators, 1995–2000

	1995	1996	1997	1998	1999 Proj.	2000 Proj.
	(Change in percent, unless otherwise indicated)					
GDP and prices						
Nominal GDP (in billions of Tanzania shillings; calendar year)	3,020.5	3,767.6	4,703.5	5,359.8	5,984.8	6,576.0
Real GDP (calendar year)	3.6	4.5	3.5	2.7	4.6	5.1
Real GDP per capita	0.7	1.6	0.7	-0.1	1.8	2.3
Consumer price index						
Annual average	28.4	21.0	16.1	12.8	7.6	5.1
End of period	26.8	15.5	15.4	11.3	6.3	4.5
External sector						
Exports, f.o.b. (in millions of U.S. dollars)	644.4	744.7	719.2	635.2	642.0	699.4
Imports, c.i.f. (in millions of U.S. dollars)	-1,440.0	-1,379.0	-1,394.7	-1,469.3	-1,600.2	-1,725.4
Export volume	11.1	21.8	-2.3	-12.3	1.5	7.1
Import volume	-11.8	-2.8	6.1	9.4	8.2	6.0
Terms of trade	8.8	-4.0	6.1	6.3	-1.1	-0.1
Nominal effective exchange rate (end of period)	-8.7	1.0	-0.2	-10.8	...	...
Real effective exchange rate (end of period)	9.2	17.8	12.1	-1.4	...	...
Public finance						
Revenue (excluding grants)	36.0	31.5	17.9	12.0	15.8	13.1
Total expenditure and net lending	...	14.7	13.5	22.3	19.7	10.9
Current expenditure	29.8	14.7	9.4	14.5	19.8	12.2
Development expenditure and net lending	...	16.0	34.9	56.5	19.7	7.7
	(In percent of beginning-period broad money, unless otherwise indicated)					
Money and credit						
Broad money	26.5	17.4	13.0	9.1	10.8	10.5
Net foreign assets	11.6	16.5	13.4	6.6	7.0	5.2
Net domestic assets	7.7	3.1	2.7	3.9	3.9	5.3
Credit to government (net) 2/	13.4	6.1	-4.0	-2.0	2.0	2.5
Credit to the nongovernment sector 1/	-10.1	-10.4	4.0	9.5	10.6	6.5
Velocity (fiscal year GDP/end-period broad money)	4.4	4.7	5.1	5.4	5.4	5.4
Treasury bill interest rate (in percent; end of period) 3/	27.8	12.0	9.7	10.5	...	...
	(In percent of GDP, unless otherwise indicated)					
Public finance						
Domestic revenue (excluding grants)	12.9	13.4	12.8	12.4	12.9	13.2
Total grants	2.1	2.9	3.3	3.9	4.3	3.5
Expenditure	18.0	16.3	15.1	16.0	17.1	17.2
Overall balance (including grants; checks cleared)	-3.9	-0.6	1.0	0.4	0.1	-0.5
Overall balance (before grants; excluding foreign-financed development expenditure and contingency)	-3.1	-0.9	0.8	0.4	-0.4	-1.0
Savings and investment						
Gross domestic savings	1.8	4.6	5.3	4.7	4.6	5.4
Government	-1.3	0.0	0.8	0.7	0.5	0.6
Nongovernment	3.0	4.5	4.5	4.0	4.1	4.8
Investment	20.1	17.1	15.9	16.3	17.1	18.0
Government	1.1	0.8	1.9	3.7	4.5	4.5
Nongovernment	19.0	16.3	14.0	12.6	12.6	13.5
Resource balance	-18.3	-12.6	-10.7	-11.7	-12.6	-12.6
External sector, public debt, and debt service						
Current acount balance (excluding grants)	-18.6	-14.1	-13.2	-14.6	-15.2	-15.2
Current acount balance (including grants)	-8.4	-4.2	-4.0	-5.8	-6.3	-7.0
External debt service due, including IMF (in percent of exports of goods and nonfactor services)	44.1	40.8	36.4	35.1	34.4	33.8
	(In millions of U.S. dollars, unless otherwise indicated)					
Current account balance (excluding grants; deficit -)	-994.4	-892.0	-980.8	-1,176.8	-1,292.4	-1,376.6
Overall balance of payments (deficit -)	-196.1	-75.0	-56.7	-112.7	-100.9	-144.1
Gross official reserves	247.6	350.3	481.5	595.0	755.5	820.8
In months of imports of goods and nonfactor services	1.5	2.2	2.9	3.4	4.1	4.0

Sources: Tanzanian authorities; and staff estimates and projections.

1/ The decline in 1995 and 1996 reflects loan write-offs of T Sh 112 billion by parastatal banks.
2/ Including bonds issued for the recapitalization of banks.
3/ Weighted average yield of 91-, 182-, and 364-day treasury bills.

rates, import duty rates were lowered in recent years, and in 1997/98 a considerable number of smaller “nuisance” taxes were abolished. A comprehensive rationalization of import duties was implemented on July 1, 1999, and the 1999/2000 budget also announced a comprehensive reform of income taxes.

11. Despite the tax reforms, the revenue to GDP ratio remained low, and the brunt of the fiscal adjustment was borne by expenditures. Following the large expansion in 1993/94–1995/96, expenditures (excluding foreign financed development expenditures) declined from 16 percent of GDP to about 12–13 percent in the last three years. The cuts occurred in virtually all categories, including health and education (Table 5). Foreign assistance continues to be important for the financing of the budget. In 1998/99, program loans and grants (balance of payments support to the budget) amounted to 23 percent of revenues, and during the last five years, such assistance has in general significantly exceeded debt service payments (Table 6). Moreover, most of the development budget has been financed by project assistance, on a scale similar to that of program assistance.

12. The cautious budgetary stance was supported by a strict monetary policy. The latter focused on attaining the targets for inflation and international reserves. Nevertheless, the repayment of domestic debt by the budget released substantial financial resources, allowing credit to the private sector to recover after the virtual stagnation in 1995–97 due to the restructuring of the state banks. The BoT’s main monetary policy instrument is the sale of three-month treasury bills in weekly auctions; however, it introduced repurchase operations in 1997/98, and a short-term seasonal lending facility in 1998/99. The reserve requirement was harmonized over all deposits, and the effective rate lowered in October 1998 by making vault cash partially eligible for meeting the requirement.

13. Exports increased on average by 17 percent a year in 1995/96 and 1996/97, but fell significantly in 1997/98 and recorded a further small decline in 1998/99. The decline in the last two years reflects to a large extent the weather-induced fall in output of export crops and damage to roads and railways, disrupting access to external markets. The current account deficit, which fell sharply from 21 percent in 1994/95 to 12 percent of GDP in 1996/97, increased again to 14-15 percent in the next two years, reflecting the resumption of donor assistance. International reserves nevertheless increased to about 3.3 months of goods and nonfactor services by June 1999. Since 1993/94, the exchange rate of the Tanzania shilling has been freely determined in the foreign exchange market; the real effective exchange rate (in terms of consumer prices)

Table 5. Tanzania: Social Sector Recurrent Expenditure, 1993/94–1999/2000

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	Actual				Budget		Projection
	(In billions of Tanzania shillings)						
Social sector recurrent expenditure	76.1	126.4	111.0	133.6	147.2	177.4	247.6
Health	30.2	49.5	32.3	37.2	42.3	52.0	74.5
Wage	9.4	21.6	25.2	32.4	30.2	33.3	41.9
Nonwage	20.9	27.8	7.1	4.8	12.1	18.7	32.6
Education	45.9	77.0	78.7	96.4	104.9	125.3	173.1
Wage	24.5	51.3	64.6	79.3	82.2	97.9	123.3
Nonwage	21.4	25.7	14.1	16.5	22.7	27.5	49.9
	(In percent of total recurrent expenditure)						
Social sector recurrent expenditure	26.8	31.5	23.4	25.3	25.9	24.9	30.4
Health	10.6	12.3	6.8	7.0	7.4	7.3	9.1
Wage	3.3	5.4	5.3	6.1	5.3	4.7	5.1
Nonwage	7.4	6.9	1.5	0.9	2.1	2.6	4.0
Education	16.2	19.2	16.6	18.2	18.5	17.6	21.2
Wage	8.6	12.8	13.6	15.0	14.5	13.7	15.1
Nonwage	7.5	6.4	3.0	3.1	4.0	3.9	6.1
	(In percent of GDP)						
Social sector recurrent expenditure	3.8	4.8	3.3	3.2	2.9	3.1	3.9
Health	1.5	1.9	1.0	0.9	0.8	0.9	1.2
Wage	0.5	0.8	0.7	0.8	0.6	0.6	0.7
Nonwage	1.0	1.0	0.2	0.1	0.2	0.3	0.5
Education	2.3	2.9	2.3	2.3	2.1	2.2	2.8
Wage	1.2	1.9	1.9	1.9	1.6	1.7	2.0
Nonwage	1.1	1.0	0.4	0.4	0.5	0.5	0.8

Source: Tanzanian authorities.

Table 6. Tanzania: Social Sector Expenditure, Debt Service, and Foreign Program Assistance, 1994/95–1999/2000

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	Actual				Est.	Proj.
	(In millions of U.S. dollars)					
Social sector expenditure	235.7	190.5	220.6	229.2	259.0	325.3
Health	92.2	55.4	61.4	65.8	76.0	97.9
Education	143.5	135.1	159.2	163.4	183.0	227.4
Debt service 1/						
Due	461.7	520.3	481.9	439.3	427.9	452.4
Interest	139.4	143.6	140.8	185.4	138.9	155.9
Amortization	338.2	376.7	341.2	253.9	289.0	296.5
Paid 2/	136.8	139.4	151.6	189.2	183.4	217.9
Interest	59.7	59.9	62.1	101.8	93.1	91.7
Amortization	77.2	79.5	89.5	87.4	139.4	126.2
Program assistance 3/	101.4	125.2	230.9	210.6	260.2	320.5
Grants	50.2	57.6	122.8	88.6	123.5	158.0
Loans	51.2	67.6	108.1	122.0	136.7	162.5
Net foreign financing (including IMF) 4/	-35.4	-14.2	79.3	21.4	76.8	102.6
Net foreign financing (excluding IMF; = foreign financing budget)	-16.6	11.3	33.8	11.9	27.7	98.2
	(In percent)					
Memorandum items:						
Debt service paid/social sector expenditure:	58.1	73.2	68.7	82.5	70.8	67.0
Debt service paid/debt service due	29.6	26.8	31.5	43.1	42.9	48.2
Program assistance/debt service paid	74.1	89.8	152.3	111.3	141.9	147.1
Exchange rate (annual average)	536.4	582.5	605.5	641.9	684.9	761.3

Source: Tanzanian authorities; and staff estimates and projections.

1/ On government and government guaranteed debt (including IMF).
2/ The difference between debt service due and paid is mainly accounted for by debt relief.
3/ Balance of payments support (including IMF).
4/ Program assistance (including IMF) minus debt service paid.

appreciated by about 40 percent during 1995–97, but has since fluctuated around the level of mid-1997.[5] In 1997, Tanzania concluded a new rescheduling agreement with Paris Club creditors on Naples terms; by end-June 1999, bilateral agreements had been completed with most creditors,[6] and assistance for a commercial debt buyback operation was approved by the IDA in June 1999.

Institutional reforms

14. Tanzania has also made considerable progress with structural reforms. More than half of the more than 400 public sector entities identified for privatization in 1993 have been divested by end-June, 1999. Work has started on the privatization of the major utilities. Imports of petroleum products were partly liberalized in 1997/98 and domestic petroleum prices were freed in June 1999; petroleum imports will be fully liberalized in January 2000, when all subsidies to the state-owned refinery will be eliminated.[7] The invitation to bid for Tanzania Telecommunications Corporation Ltd. (TTCL) was issued in June, and that for Dar es Salaam Water and Sewerage Authority (DAWASA) is scheduled for the second half of 1999, while financial and legal advisers are engaged in developing strategies for the other large monopolies, including the harbors and the railway corporation. A strategy for the restructuring and divestiture of the electricity sector is under consideration. Nevertheless, the privatization process will not be completed for some time to come, and the mandate of the Parastatal Sector Reform Commission has been extended beyond the original completion date of the year 2000. The agricultural sector has been liberalized. Following the adoption of a new mining policy in 1997, the mining sector is expected to grow rapidly; one new gold mine opened at end-1998, and two others are expected to start production in 2001 and 2002.

15. The government also made much progress with the restructuring of the state-owned financial sector, which accounted for over 70 percent of the banking system's assets in 1995. The Cooperative and Rural Development Bank (CRDB) was privatized in 1997. After some delay (due to a change in the divestiture strategy) the National Bank of Commerce (NBC) was split into the NBC (1997) and the National Microfinance Bank (NMB) in September 1997. Agreement has been reached on the sale of NBC (1997) to the South African bank ABSA, which began managing the bank in August 1999, and the NMB was put under private sector

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[5] The real effective appreciation is exaggerated by the use of consumer prices, which do not reflect the effects of the far-reaching structural reforms in recent years, such as the replacement of cascading sales taxes by the VAT, on exporters' costs.

[6] Finalization of the bilateral agreement with Russia was postponed at the latter's request.

[7] The government will decide by end-September 1999 if the refinery will be privatized, sold to the private sector as a storage depot, or closed by January 1, 2000.

management at end-July. The BoT has made considerable progress with the establishment of a modern bank supervision department, and prudential regulations have been based on internationally accepted guidelines. The Dar es Salaam Stock Exchange became operational in April 1998, although by mid-1999 only two newly privatized companies had floated shares on it. A liberalized insurance regime took effect in May 1998 with the establishment of the National Insurance Board, and about ten private companies received licenses. Taken together, the deregulation and privatization programs represent a major effort to engage the private sector in areas of economic activity previously monopolized by the Government.

16. Since the beginning of civil service reform in 1993, overall government employment has been reduced from 355,000 to about 264,000. The first phase of the program (1993–96) focused on retrenchment, and the second phase, beginning in 1996, also addressed management capacities, organizational structures, and the role of government. In 1997/98, retrenchment slowed, pending the completion of an audit of the use of donor funds for retrenchment; the process was resumed in 1998/99, although only about 4,000 of the targeted 7,000 retrenchments were achieved. Considerable attention was paid to ensuring that rationalization of Government employment was not achieved at the expense of social sector services delivery capacity. A total of 2,700 additional teachers was hired as considerable distributional distortions exist despite adequacy of aggregate employment in the education sector. The government is in the process of finalizing the establishment of a central personnel database and preparing for the installation of a new payroll system. A new pay policy was adopted in January 1999, aiming at bringing civil service salaries in line with market levels over a period of five years. To this end, the 1999/2000 budget includes an 18 percent increase in the real wage bill, permitting substantial decompression of the salaries of mid- and upper-level professionals, while maintaining market rates for lower salary levels. A performance-based compensation system is being discussed.

Poverty reduction, decentralization of social services, and social sector policies

17. The marked improvement in macroeconomic management has only recently began to alleviate poverty. To guide further efforts to reduce poverty, including specific sectoral interventions, the government adopted the National Poverty Eradication Strategy (NPES) in November 1997. In conjunction with the NPES, the government has also developed indicators for monitoring poverty and welfare.

18. The NPES is supported in the 1999/2000 budget. Expenditure plans closely follow the Medium-Term Expenditure Framework (MTEF) in terms of magnitudes, as well as in the prioritization across sectors, with the focus on social sectors supporting the government's poverty reduction initiative. The main priority sectors, for which the budgetary allocations will be protected, are education, health, water, and roads. Energy, judiciary, and agriculture are also considered priority, although their allocations are not yet protected. The government's commitment to poverty eradication is also reflected in the undertaking to achieve internationally agreed targets; at the World Social Summit in 1995, Tanzania committed to the over-arching goal of total eradication of abject poverty by 2025. Among the required measures were those under the 20/20 Initiative, under which the government agreed to the target of allocating 20 percent of its budget to finance the provision of basic social services. A similar proportion of

donor resources was also to target basic social services (defined to include primary education, adult education, primary health care, water and sanitation, food and nutrition). Evaluations conducted by UNICEF and the government in the context of the recent Public Expenditure Review process indicate that based on the above definition of basic social services, the government exceeded this target substantially in 1998/99. The allocation to the priority sectors reached 33.4 percent of the recurrent budget, and the allocation to basic social services reached 24.4 percent. Both evaluations, on the other hand, conclude that donors have not yet reached the target by a wide margin. However, if one includes support by bilateral donors under the Multilateral Debt Fund (MDF), which frees up resources from multilateral debt-service payments and earmarks them for raising and protecting allocations to social sectors, substantial donor contributions have been made indirectly to the basic social sectors.

19. A major element of the 1995 election platform of the current government was a shift in the delivery of social services from the central to local governments. In 1998/99, the government introduced a fundamental change in its approach to decentralization under the Local Government Reform (LGR) program. Under the new LGR program, the government has moved away from sector-wise decentralization to decentralized financing by level of administration for delivery of social and economic services at the local government level. Instead of the original target of 20 pilot districts, the first phase of the LGR program entails issuing block grants to 35 local authorities (equivalent to 35 districts, about 30 percent of total) to finance all activities under the jurisdiction of the authorities, including health and education. The provisions for this new approach to financing are now contained in the Amended Local Government Act of February 18, 1999; they require issuing conditional and unconditional grants by the Central Government to finance programs drawn up independently by local authorities. The World Bank and other donors are working with the authorities to manage decentralization so that it is compatible with the pace of development of implementation capacity at the local level.

20. In order to ensure that this change in approach enhances the effectiveness in delivering essential public services at the local government level, the government has agreed on an action plan for strengthening the capacity of local authorities and systems for managing the much broader range of activities. A work plan and budget for strengthening the capacity to address weaknesses in financial management has been prepared, covering 1999–2002. Furthermore, a training program and training materials have been developed to address weaknesses identified in the appraisal. Based on plans developed under the reform process, the main instrument for ensuring consistency between programs of local authorities and national policy is the use of conditional grants to ascertain that national standards of services and sector priorities are adhered to. Teams comprising Government officials and civil society representatives have been formed at the local level to monitor the reform process in its various dimensions.

21. Consistent with the objectives of the LGR program, the government has decided to progressively shift responsibility for recruitment of District Medical Officers and health staff to District Councils. Under the Amended Local Government Act, the Government will issue conditional and unconditional grants directly to local authorities for all activities, rather than through sectoral Ministries. The government has implemented a program to finance the full cost of pharmaceuticals delivered to hospitals within the framework of a hospital based revolving

fund, which involves cost sharing and subsidies, with patients covering at least 50 percent of the costs. Furthermore, all the selected regions received relevant training for implementation of the drug revolving fund. The government introduced cost sharing in dispensaries and health centers in nine districts during 1997/98. A study on the regulatory and institutional framework for introducing health insurance for public/civil servants was completed recently and the health insurance scheme will begin in 1999/2000; budget provisions have been made to support it. A strategic plan for malaria control has been put in place and implementation will commence in 1999/2000.

22. The Basic Education Master Plan (BEMP) was issued in February 1997. It provided the framework for the subsequent design of programs to improve school facilities, textbooks, school management, and the quality of teaching. The government has also adopted an action plan for upgrading, deployment and redeployment of primary school teachers. Training and upgrading of Head Teachers, School Committees and District Education Boards covering the whole country has also begun. Studies on issues related to the quality of, and access to, secondary education were completed in 1997/98. The results of these studies have been used to prepare a Secondary

Box 1. Tanzania: IDA's Program of Assistance

Consistent with the government's strategy of poverty eradication, improved provision of basic health and education and a greater reliance on the private sector, recent IDA lending has emphasized projects supporting social services delivery (health, nutrition, and education), infrastructure (power, ports, railways, telecommunications, urban infrastructure, water supply and roads, including rural roads), productive activities (agriculture—smallholder irrigation, research, and extension; small-scale mining), environmental, and capacity building (technical assistance to strengthen public sector management, as well as the enabling environment for private sector development). These projects aim at enhancing environmentally sustainable growth, easing the process of market liberalization and reducing poverty.

IDA has also provided substantial resources as quick-disbursing adjustment lending to help support the reform program, including government efforts to sustain macroeconomic stability, further strengthen fiscal discipline, enhance effectiveness of budget performance/management and accountability and decentralization to bring services closer to the users. The instruments for the design and implementation of the above measures and actions include the Policy Framework Paper, the Public Expenditure Review process, and the Sectoral Development Programs. Additionally, the IDA undertakes a wide body of economic and sector-specific analytic work (Country Assistance Strategy, Country Economic Memorandum, Sectoral Reviews, etc.) to underpin its lending program and policy dialogue. Recently two floating tranches of the structural adjustment credit (SAC) were disbursed, related to social and banking sector reform.

In addition to a new structural adjustment credit, the IDA is presently working on preparing 3 to 4 projects a year across most major sectors, but with a growing emphasis on social sector programs. Credits approved in FY98 and in FY99 include projects focusing on agricultural research, strengthening tax administration, and human resources development. A commercial debt buyback operation providing over $623 million equivalent in uninsured commercial debt relief, was also approved recently. Under preparation are projects related to public sector/civil service reform and capacity building, private sector development, rural and microfinance services, fertilizer supply, energy/power generation capacity development and follow-up operations to the sector adjustment, roads, agriculture sector management, and financial institutions development projects. In terms of IDA support for Tanzania's social sector/public services delivery programs, education rationalization, health sector reform, urban and rural water supply and sanitation improvement, forest conservation and management and environment sector adjustment operations are planned in the coming years.

Education Master Plan (SEMP), which was issued as a draft in 1998/99; SEMP will guide the process of secondary education expansion and quality enhancement. The Cabinet has approved an action plan for the reform of technical and higher education and technical training, including rationalization of the many institutions currently receiving Government funding. The government has decided to shift responsibility for recruitment of District Education Officers and teachers to District Councils. As was the case in the health sector, under the Amended Local Government Act, the government is issuing conditional and unconditional grants directly to 35 local authorities for all activities, rather than through sectoral Ministries.

23. The rural water policy and strategy had been reviewed and finalized in 1997/98. Semiautonomous water boards have been set up in all 20 regional headquarters. Water user associations and the regulatory framework for urban water supply and sewerage services were established in these regional headquarters during 1997/98. It is envisaged that DAWASA will be transformed into an Asset Holding Authority/ Public Granting Authority in 1999.

24. A national environmental policy was adopted by the government in November 1997. The previous year, the government had endorsed the National Conservation Strategy for Sustainable Development. The sectoral policies for minerals, wildlife, fisheries, forestry, and land, also reflect environmental concerns. Furthermore, an assessment of the institutional options for improving environmental management was completed recently.

III. MEDIUM-TERM POLICY FRAMEWORK

25. The government’s medium-term policies are described in the policy framework paper (PFP) of January 1999, covering the period 1998/99–2000/01. The macroeconomic objectives are to gradually increase the real growth rate to 6 percent a year, to further reduce inflation to 4 percent a year by the year 2000/01, and to increase gross official reserves to four months of imports of goods and nonfactor services by 2000/01 and maintain them at that level thereafter. Fiscal and monetary policies will aim to strengthen macroeconomic stability, and will be supported by structural reforms promoting the efficient mobilization and utilization of public resources and those intermediated by the financial system. External debt reduction and rescheduling will aim to reduce the burden of external debt service, while the cost of domestic debt service will fall because of the net repayment of debt in recent years and an expected fall in interest rates in line with lower inflation. Attaining these objectives and the continuing structural reforms and infrastructure development are expected to sustain higher growth rates. The human aspect of development will also be addressed through policies aimed at reducing poverty and enhancing access to social services.

26. The IDA has started discussions with the authorities about a new structural adjustment credit, and the IMF will start discussions about a new three-year ESAF arrangement later this year. In these discussions, detailed timetables will be developed for the reform measures and targets and included in the next PFP. It is expected that the main areas of reform will be the completion of the tax reform, further strengthening of fiscal management, the completion of the divestiture process for the smaller parastatals and major progress with the restructuring of the

large utilities and monopolies, and social sector reform and poverty alleviation. In addition to the following more detailed description, the future objectives/targets and strategies/measures are also set out in Appendix I.

A. Macroeconomic Objectives and Policies

Fiscal policies

27. Control over the fiscal deficit will remain the cornerstone of macroeconomic stabilization. With regard to revenues, the main objective is to increase the revenue-to-GDP ratio. To this end, the government aims to speedily complete the tax reforms, which aim at broadening the tax base, reducing reliance on foreign trade taxes, and improving the buoyancy and transparency of the tax system. Future tax reforms will focus on further simplifying the tax system—elimination of the VAT exemption on petroleum products, rationalization of the tax regime for this sector, and a sharp reduction in the number of excise taxes are planned for the 2000/01 budget. In consultation with neighboring countries, the government will keep import duty and VAT rates under review, with a view to achieving greater harmonization. Under the Tax Administration Project, financed by the IDA and bilateral donors, the Tanzania Revenue Authority is working on further improving tax administration. These reforms and measures are expected to gradually increase the revenue-to-GDP ratio, facilitating, together with reduced debt-service obligations, the attainment of a sustainable deficit target while increasing expenditures to priority sectors.

28. Expenditure policies will be increasingly guided by the annual public expenditure review, the role and scope of which was expanded substantially in 1998/99. In addition to more resources for wages and salaries in the context of the civil service pay reform, expenditures will be further reoriented toward the social sectors and infrastructure, based on medium-term expenditure plans. As in the past, expenditure control will remain a top priority. In this regard, cash management will remain a key safeguard, but the government intends to gradually reduce its role by improving budgeting and further developing commitment monitoring in the context of the new accounting and financial information management system, introduced in all ministries on July 1, 1999. In order to facilitate prioritizing development expenditures between and within sectors, as well as ensuring their consistency with the medium-term expenditure framework, the government plans to fully integrate the recurrent and development budgets by 2000/01.

Monetary policy and financial sector reform

29. Monetary and credit policies will continue to aim at achieving and sustaining a low rate of inflation. To this end, the BoT intends to continue following a prudent market-based monetary policy, which will imply, inter alia, maintenance of positive real interest rates. Banking system credit to the nongovernment sector has increased strongly in the last two years, following the stagnation in 1995–97 owing to the restructuring of the state-owned banks. Nevertheless, Tanzania's credit-to-GDP ratio remains low, and further large increases in bank credit can be expected in the next few years, especially as the NBC (1997) and NMB begin to resume normal operations. The BoT's policies will aim at ensuring that such growth is consistent with achieving

the targets for inflation and international reserves, and with the capacity of the banks to maintain the quality of their loan portfolio.

30. The BoT will therefore continue to strengthen its supervision of the financial system. It intends to issue updated prudential regulations, including separate regulations for microfinance institutions, in 1999/2000, and to review the Banking and Financial Institutions Act. The BoT is encouraging the banks to establish a credit information bureau during 1999/2000. In addition, commercial courts, which are to address commercial and banking claims, are expected to become operational in the second half of 1999. A program to improve the national payments system, with the aim of reducing delays in the clearing of payments, is under development.

31. Financial sector reform will continue, with the aim of fostering competition and efficiency in the supply of financial services, narrowing the spread between lending and deposit interest rates, and strengthening the mobilization and allocation of financial resources. Next on the restructuring and privatization agenda are the remaining state-owned financial institutions: the Tanzania Investment Bank and the Tanzania Postal Bank. Moreover, the IDA is assisting the government of Zanzibar in preparing options for restructuring the People's Bank of Zanzibar.

External sector policies

32. The balance of payments remains vulnerable to weather-related disruptions and fluctuations in commodity prices. Such an uncertain external environment puts a premium on the maintenance of a market-determined exchange rate and a high level of external reserves. High rates of economic growth will require growing imports, part of the financing for which will come from the strengthening of the environment for direct investment, as well as a prudent enlargement of the scope for portfolio investment. With regard to the latter, the government is studying options for further prudent liberalization of capital flows, taking into account the experience of other countries, with a view to increasing resources for investment and deepening and strengthening Tanzania's financial and capital markets.

33. Tanzania will remain current on its external debt-service obligations and will avoid new government borrowing on commercial terms. Pending more comprehensive debt relief, it intends to continue seeking donor contributions to help meet multilateral debt-service payments, with a view to ensuring the availability of adequate budgetary resources for social sector expenditures. Tanzania expects to implement a buyback of commercial debt, financing of which was approved by the IDA and bilateral donors in June 1999, and will be continuing its efforts to obtain relief on Paris Club comparable terms from all non-Paris Club bilateral creditors.

B. Structural Policies

Public sector reform

34. The government has developed a medium-term strategy for public service reform that aims to establish "quality public services under severe budgetary constraints." Government resources will remain highly constrained in the medium term, but it is imperative to improve the quality of public services. In addition to improvements in the structure and level of civil service wages, this will include a further rationalization of the structure and functions of the government,

including the establishment of additional quasi-autonomous executive agencies. An important aspect of the reforms will be the continuing transfer of tasks to local governments.

35. Reform of the parastatal sector is a key element of the government's economic reform program. The government is instituting a framework for each sector that will allow for a coherent and organized approach to privatizing key infrastructural sectors and utilities. By ensuring interministerial and interagency coordination, the government seeks to facilitate the kind of cooperation that will be critical to implementing the policy changes and regulatory reforms needed to attract private participation to these sectors. The government intends to set the key dimensions of sector strategies and policies and determine key policy parameters of the divestiture process to guide detailed operations of the PSRC.

36. Over the next year, the restructuring and privatization of the public utilities will be accorded the highest priority. Work is ongoing in TTCL and DAWASA, while consultants are carrying out a study for the divestiture of the port operations under the Tanzania Harbours Authority (THA). The government has also undertaken to liberalizing related shipping services currently under the National Shipping Agencies Corporation (NASACO) and the Tanzania Central Freight Bureau (TCFB). The government intends to adopt policies to enhance private participation and move toward a full concessioning agreement for the Tanzania Railways Corporation (TRC), including the divestiture of TRC’s marine services division. Finally, the government intends to give special attention to stimulating private commercial farming and divesting the remaining agricultural parastatals.

Private sector environment

37. Building on the institutional reforms in the public sector (described in paragraphs 14-16), the government intends to further improve the business environment for private investment, so as to stimulate a more rapid expansion in local and foreign private investment and, hence, growth. The role of the Tanzania Investment Centre (TIC) is being reviewed, with the aim of focussing its efforts on facilitating investment (a one-stop center), rather than on approving individual investments and providing tax benefits to them. To encourage and facilitate entry of new private operators, the current framework of business regulations is being assessed, based upon the diagnosis in the "investor road map" study. Policies and administrative systems governing access to land by private investors are being taken into account in the preparation of the new Land Act, in order to ensure transparent, timely, and secure access to property titles with mortgage and transfer rights. A key objective of government policy is to level the playing field for foreign and local private investors, and it is studying options for further liberalizing capital account transactions, including for foreign portfolio investment.

Energy sector policies

38. The government intends to improve the security, reliability, and efficiency of power supply. A draft divestiture strategy, presently before cabinet, aims at unbundling the power system into generation, transmission, and distribution segments, and privatizing distribution by end-2000, followed by divesting the generation and transmission segments under a regulatory

framework that is expected to be put in place by December 1999. The government also intends to institute a petroleum sector regulatory framework. It also plans to encourage further development of the mining industry, led by large-scale private investment; importance will also be given to enhancing incentives to small-scale miners and providing them with technical assistance to upgrade their skills. The divestiture of the State Mining Corporation is expected to be completed by June 2000.

Agricultural development

39. The government intends to take appropriate measures to sustain growth in the agricultural sector. Most importantly, alternative strategies and measures will be devised and implemented to assist efficient and widespread use of agricultural inputs among smallholders. A regulatory framework that protects both private sector participants and small farmers, as well as a framework that sets the rules governing the provision of goods and services in the sector, is to be established. Appropriate institutions, both private and public, will be set up to implement key regulatory functions. The divestiture program for the agricultural sector will be accelerated and a Private Sector Development Initiative for agriculture will be developed, spanning large and small farms.

C. Social Sector and Environmental Policies

Poverty Reduction

40. The NPES articulates specific goals to guide anti-poverty initiatives in order to reduce abject poverty by half (from the current 36 percent to an estimated 18 percent of the population) by 2010 and totally eradicate it by 2025. This comprehensive and ambitious strategy seeks to boost economic growth based on a diversified and semi-industrialized economy with a substantial industrial sector and a competitive agricultural sector; an adequate level of physical and social infrastructure; and effective environmental management. The government is presently finalizing the guidelines for the implementation of the NPES and intends to institutionalize a poverty monitoring system to assess the impact of various policies on poverty and welfare, including establishing a poverty data bank. The implementation of the NPES is to be carried out in synchronization with the implementation of the policy-based sector development approach (SDP), which was initiated in mid-1996. The key SDP characteristics include an approved strategic policy framework and targets, and agreement on a medium-term financing framework for 1999/2003 showing the priorities for public spending, especially in the education and health

sectors. The main objectives and policy measures in the overall goal of poverty reduction are summarized in Table 7 and Appendix I.[8]

Table 7. Tanzania: Social Sector Policy Objectives

Policy Objective	Targets	1998/99	1999/00	2000/01
1. Raise per capita income	Per capita GDP growth (in percent)	1.6	2.2	2.5
2. Reduce poverty	Population below poverty line (in percent)	51	50	49
3. Improve the distributive mechanism	Budgetary allocation to the priority sectors (in percent of total recurrent expenditure; fiscal year)	33.4	34.4	34.5

Policy Measure	Implementation Date
1. Institutionalize poverty monitoring system	1999/2000
2. Finalize implementation guidelines for the NPES	1999/2000
3. Establish a poverty data bank	1999/2000
4. Make quarterly budget reviews and initiate a study on expenditure tracking	1999/2000
5. Improve capacity of the Controller and Auditor General Office	2001

Health Sector Policies

41. The government intends to continue focusing on three major challenges in the health sector, namely, (i) improving the efficiency in the allocation and use of available resources; (ii) broadening the resource base for financing health services while providing adequate protection to the most vulnerable groups in society; and (iii) increasing the impact of health services, even within the existing resources, by focusing on the most cost-effective interventions and improving the management and delivery mechanisms. In pursuing the above objectives, the government expects to undertake the following actions, whereby special attention will be paid to protecting the poor and vulnerable through exemptions or other safety net mechanisms:

- develop national health accounts, which will capture multiple sources and uses for health in the entire economy;

- develop a public sector resource envelope, including all donor resources, within the medium-term expenditure framework (MTEF);

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[8] As further consultations with civil society and donors are underway, it is important to note that the targets in the area of poverty reduction and other social sectors presented in this paper are preliminary. They will be developed further and confirmed in the final HIPC document.

- set targets on intrasectoral allocation based on the MTEF and sectoral priorities under the reform program, so as to emphasize basic health services and nonsalary recurrent expenditures;

- review and improve the efficiency in fee collections for hospital services;

- extend cost sharing at the level of dispensaries and health centers to more districts in a phased manner; and

- develop legislation and a regulatory and institutional framework for health insurance for public/civil servants.

42. In addressing major causes of morbidity and mortality in Tanzania, the government plans to (i) implement the action plan for malaria control and (ii) undertake measures to raise public awareness of the HIV/AIDS epidemic as a national development issue and strengthen the political commitment to fighting it. The objectives in the health sector are further described in Table 8 and Appendix I.

Table 8. Tanzania: Health Performance Indicators

Objective	**Indicator**	**1998/99**	**1999/00**	**2000/01**
1. Increase coverage of preventive services	Children immunized under 12 months—measles and DPT (in percent)	75	80	85
2. Reduce under five mortality rate	Under 5 mortality rate (per 1,000)	134	133	132
3. Reduce infant mortality	Infant mortality (per 1,000)	87	86	84
4. Reduce maternal mortality	Maternal mortality rate (per 100,000)	450	440	420

Policy Measure	**Implementation Date**
1. Increase allocation of resources for basic health care	1999/2000
2. Allocate more budget resources for the mandatory child inoculations	2000
3. Implement the sectoral health plan	1999/2000

Education sector policies

43. The implementation of the BEMP would be consistent with the changes being introduced by the decentralization policy (as summarized above in Section II). The introduction of the education levy is planned for October 1999, with a view to expanding contributions by parents. Some informal contribution by parents toward costs of teaching aides, scholastic materials, classroom construction, etc. are already required by most primary schools. Key features specific to the education sector include the following:

- a change in the roles of the two ministries of education and the support agencies from that of direct provision of services to formulating policy and advising local authorities and monitoring their performance.

- an acceleration of the delegation of authority to the local authorities and school committees;

- the introduction of well-planned programs of capacity building at the central, district, and school levels;

- the introduction of carefully planned and costed programs to secure quality improvement, equitable access, and strengthened planning, management, and monitoring capabilities; and

- encouragement of private investment and participation in education.

The Government's objectives in the education sector are summarized in Table 9 and Appendix I.

Table 9. Tanzania: Education Performance Indicators

Objective	Indicator	1998/99	1999/00	2000/01
1. Improve access to basic education	Growth rate in gross primary school enrollment rate (in percent)	2.5	2.7	2.5
2. Improve quality of basic education	• Budgetary allocation to basic education (in percent of total education budget)	62	64	66
	• Increase nonsalary spending per student by 0.5 percent annually			

Policy Measure	Implementation Date
1. Begin implementing the Basic Education Master Plan (BEMP)	1999 – implementation started
2. Adopt action plan for management and monitoring system	2000
3. Undertake annual joint GOT/donor review to monitor progress on basic education	2000/01
4. Embark on rationalizing post-secondary and tertiary education, adopt action plan for the reform of technical and higher education, including management and financing reforms	1999/2000

Water sector policies

44. The government's primary objective is to ensure accessible and adequate water for a significant majority of Tanzanians. The urban water and sewerage authorities are to be consolidated and the urban water supply pricing policy is being restructured to address economic, financial and equity objectives. With respect to the rural water supply, the government is working on transferring the management of the existing water system infrastructure to local communities and introducing a water fund to be managed by local authorities.

Environmental sector policies

45. The primary objective is to conserve depletable natural resources on which the poor depend for their livelihood. The government is formulating a biodiversity conservation strategy and action plan. It will also adopt a national action plan to combat desertification. Environmental framework legislation is to be presented to parliament by June 2000.

IV. Debt Sustainability, Sensitivity, and Vulnerability

A. Debt Sustainability Analysis

46. This **debt sustainability analysis** (DSA) is based on projections through 2018, and was prepared by the IMF and World Bank staff and the Tanzanian authorities using loan-by-loan data provided by the authorities and creditors for debt outstanding at end-1998. The debt estimates and net present value (NPV) calculations are preliminary, pending the completion of the debt reconciliation exercise with multilateral and bilateral creditors.[9] The NPV of debt-to-exports ratios reported are calculated using the backward-looking three-year average of exports of goods and services, while the debt-service ratio is measured in relation to current-year exports.[10]

47. **At end-1998 external public debt amounted to US$7.5 billion** in nominal terms, including US$2.3 billion in arrears. As an important part of the debt is on concessional terms, the total debt stock in present value terms, at end-1998, amounts to about US$5.7 billion, or 485 percent of three-year average exports (Table 11). Of the public debt outstanding in present value terms, about 32 percent was owed to multilateral creditors, 36 percent to Paris Club creditors (excluding Russia), and 11 percent to Russia. Official non-Paris Club creditors accounted for 14 percent of the debt, and commercial creditors for the remaining 6 percent (Table 11).

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[9] The authorities stressed that the quality of data in the external debt database has improved substantially in the past year in preparation for the DSA, which has led to a substantial upward revision in the estimate of the NPV of external debt. While over 95 percent of the multilateral debt has been reconciled with creditors, the bilateral debt data—after undergoing several consistency checks—have been taken as provided by the authorities. A detailed reconciliation process for bilateral debt will be undertaken for the Final Decision Point Document.

[10] The DSA for this preliminary document is based on actual end-1998 data, and 1998 calendar year exports. However, the Decision Point Document will be based on end-June 1999 debt data and fiscal year 1998/99 exports. This change in the base for actual data could lead to differences in the results of the DSA between the preliminary and final documents. Discount rates and exchange rates used are displayed in Table 10.

Table 10. Tanzania: Discount Rate and Exchange Rate Assumptions 1/

	Discount Rates 2/ (in percent)	Exchange Rates 3/ (US$ per 100 foreign currency units)
Currency		
United Arab Emirates Dirham	5.25	27.23
Austrian Dollar	5.28	8.52
Belgian Franc	5.59	2.90
Bulgarian Lev	5.25	0.06
Canadian Dollar	6.25	64.70
Swiss Franc	4.05	71.88
Chinese Yuan	5.25	31.25
Deutsche Mark	5.16	59.22
Danish Krone	5.64	15.58
Tanzanian Shilling	5.25	0.15
European Currency Unit	5.00	116.39
Spanish Peseta	5.31	0.70
Finnish Markka	5.35	19.48
French Franc	5.36	17.66
Great Britain Sterling Pound	6.81	165.92
Irish Pound	6.69	148.33
Indian Rupee	5.25	2.35
Iraqi Dinar	5.25	31.09
Italian Lira	5.58	0.06
Japanese Yen	2.22	0.83
Kenya Shilling	5.25	1.61
Kuwaiti Dinar	5.25	328.70
Luxembourg Franc	5.25	2.89
Netherlands Guilder	5.78	52.50
Norwegian Krone	6.54	13.38
PTA Unit of Account	5.25	0.10
Portuguese Escudo	5.31	0.58
Saudi Arabian Riyal	5.25	26.70
Special Drawing Rights	5.25	139.66
Swedish Krona	5.66	12.38
Russian Ruble	6.23	166.67
United States Dollar	6.23	100.00
Zambian Kwacha	5.25	0.04
Zimbabwe Dollar	5.25	2.69

1/ The base date for this preliminary assessment is end-1998.
2/ The discount rates used are the average Commercial Interest Reference Rates (CIRRs) for the respective currencies over the six-month period ending December 1998.
3/ The exchange rates are those at the base date (end-1998).

Table 11. Tanzania--Net Present Value of External Debt After Reschedulings, 1998-2018 /1

(In millions of U.S dollars, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2008	2009-2018
	Est.			Projected									
1. NPV of total debt (2+5) /2	5682.0	4237.6	4360.6	4495.7	4637.0	4824.3	5093.6	5386.0	5707.1	6055.0	6433.8	5,123.1	9,082.2
2. NPV of old debt (3+4)	5682.0	4039.1	3947.5	3854.6	3754.6	3671.8	3628.6	3582.0	3532.3	3473.9	3410.2	3,689.5	2,858.0
3. Official bilateral and commercial	3866.5	2240.9	2176.5	2117.9	2054.7	1998.6	1977.9	1952.9	1925.8	1895.2	1863.9	2,020.4	1,567.7
a. Paris Club	2701.7	1757.7	1717.1	1682.1	1645.6	1615.3	1598.5	1580.9	1560.0	1538.6	1512.9	1,620.9	1,262.6
post-cutoff date	204.8	137.3	115.5	91.9	68.9	48.1	40.8	33.1	25.1	20.7	16.2	59.8	4.3
pre-cutoff date	2496.9	1620.4	1601.7	1590.2	1576.6	1567.2	1557.7	1547.8	1534.8	1517.9	1496.6	1,561.1	1,258.2
o/w ODA	332.1	348.2	346.5	346.2	345.8	345.5	345.1	344.8	344.4	344.1	343.7	345.4	338.7
o/w non-ODA	2164.8	1272.2	1255.1	1244.0	1230.8	1221.7	1212.6	1203.0	1190.4	1173.9	1152.9	1,215.7	919.5
b. Other official bilateral	817.6	323.0	316.7	310.2	300.6	291.9	288.1	281.0	275.5	267.3	263.1	291.7	238.0
"nonreschedulable" (if applicable) /3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
"reschedulable"	817.6	323.0	316.7	310.2	300.6	291.9	288.1	281.0	275.5	267.3	263.1	291.7	238.0
post-cutoff date	95.3	88.4	77.8	68.8	56.5	45.0	38.3	28.6	21.1	11.3	6.4	44.2	0.8
pre-cutoff date	722.3	234.7	238.9	241.4	244.1	246.9	249.8	252.3	254.4	255.9	256.8	247.5	237.3
c. Commercial	347.3	160.1	142.7	125.6	108.6	91.4	91.4	91.0	90.3	89.3	87.9	107.8	67.2
"nonreschedulable" (if applicable) /3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
"reschedulable"	347.3	160.1	142.7	125.6	108.6	91.4	91.4	91.0	90.3	89.3	87.9	107.8	67.2
post-cutoff date	76.6	69.1	51.8	34.7	17.7	0.6	0.6	0.6	0.6	0.6	0.6	17.7	0.5
pre-cutoff date	270.7	91.0	91.0	90.9	90.9	90.8	90.7	90.4	89.7	88.7	87.3	90.1	66.6
4. Multilateral	1815.5	1798.2	1771.0	1736.7	1699.9	1673.2	1650.7	1629.1	1606.5	1578.7	1546.3	1,669.0	1,290.3
AfDB/AfDF	216.4	217.3	217.8	219.3	221.3	221.9	221.9	222.0	222.2	222.5	221.3	220.8	201.5
IBRD/IDA	1224.1	1241.0	1251.2	1257.6	1259.4	1257.4	1252.1	1248.0	1242.5	1232.2	1219.8	1,246.1	1,041.3
IMF	207.9	187.6	169.4	144.8	117.9	106.3	94.1	81.3	68.0	54.0	39.4	106.3	3.2
Others	167.1	152.3	132.5	115.1	101.3	87.7	82.6	77.8	73.8	70.0	65.8	95.9	44.3
5. NPV of new debt	0.0	198.4	413.1	641.1	882.4	1152.5	1465.0	1804.0	2174.7	2581.1	3023.6	1,433.6	6,224.1
Memorandum items:													
Exports of goods and services /4	1134.7	1179.6	1278.3	1422.5	1593.1	1765.4	1925.4	2092.3	2276.6	2475.1	2696.7	1870.5	4491.9
Three-year export average /5	1172.5	1168.2	1197.6	1293.5	1431.3	1593.7	1761.3	1927.7	2098.1	2281.3	2482.8	1723.5	4127.1
Government revenues 6/	1001.9	1093.8	1193.7	1288.9	1388.9	1507.6	1650.8	1810.7	1980.9	2167.4	2372.2	1645.5	4030.3
GDP	8059.3	8499.3	9033.5	9709.6	10464.9	11293.3	12210.8	13214.6	14290.6	15446.3	16695.8	12085.9	26331.3
NPV of debt-to-exports ratio /7	484.6	362.7	364.1	347.6	324.0	302.7	289.2	279.4	272.0	265.4	259.1	306.6	224.5

Footnotes:

1/ Refers to public and publicly guaranteed external debt only and assumes full use of traditional debt relief mechanisms, i.e. a Paris Club flow rescheduling on Naples terms (67 percent NPV reduction) and a stock-of-debt operation, and at least comparable action by other official bilateral and commercial creditors.

2/ Discounted on the basis of the average Commercial Interest Reference Rate for the respective currency, derived over the six-month period prior to end-1998. The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the end-1998 exchange rate.

3/ Refers to debt that has already been subject to a substantial reduction and that is not expected to be reduced further.

4/ As defined in IMF Balance of Payments Manual, 5th edition, 1993.

5/ Backword-looking average (e.g. average over 1997-99 for exports in 1999).

6/ Revenues are defined as central government revenues, excluding grants.

7/ NPV of debt in percent of three-year average of exports of goods and services.

48. Of the debt owed to **multilateral creditors**, on an NPV basis, 67 percent was owed to the IDA/IBRD, 12 percent to the African Development Fund/African Development Bank, and 11 percent to the IMF. Other multilateral creditors accounted for 9 percent; these included the European Investment Bank (EIB, 4.5 percent), the Arab Bank for Economic Development in Africa (BADEA, 1.6 percent), the International Fund for Agricultural Development (IFAD, 1.5 percent), and the OPEC Fund (1.2 percent). The debt owed to BADEA included about US$29 million in arrears; negotiations for their settlement are currently ongoing. There are no arrears to other multilateral creditors. With respect to bilateral debt, 70% represents Paris Club debts, 21% non-Paris Club, and 9% commercial. **Paris Club** debt, 92 percent of which is pre-cutoff-date debt, is owed in large part to Japan (32 percent), Russia (24 percent), and Italy (13 percent). Large holders of official **non-Paris Club** debt include China (26 percent), Iran (19 percent), and Libya (13 percent).

49. Tanzania has benefited from **five Paris Club rescheduling agreements.** The first in 1986, was on nonconcessional terms; the second and third reschedulings in 1988 and 1990 were on Toronto terms with a 33 percent NPV reduction; and the fourth rescheduling in 1992, was on London terms with a 50 percent reduction in NPV terms. The fifth Paris Club agreement (PC V)—a flow rescheduling on Naples terms—was signed in January 1997 and covered a consolidation period from December 1996 to November 1999 with an NPV reduction on eligible maturities of 67 percent. Tanzania has signed all PC V bilateral agreements, with the exception of those with Italy, Japan, and Russia. The agreements with Italy and Japan, all details of which have been agreed, are expected to be signed shortly, while negotiations with Russia are still ongoing in the framework of Russia's agreement with the Paris Club.[11] The authorities are making their best efforts to reach agreements to reschedule non-Paris Club debt on terms at least as favorable as those granted by the Paris Club.

Baseline scenario

50. The baseline scenario is predicated on completing progress toward macroeconomic stability, deepening structural reforms, and continuing increasing spending in the priority areas: health, education, water, and infrastructure. The scenario assumes real GDP growth of 5-6 percent a year over the medium term. It critically depends on climatic conditions, which are assumed to be normal, especially insofar as they affect the output of export crops, notably coffee, cotton, and cashew nuts, which currently represent about half the value of all commodity exports. The scenario is also sensitive to the output and price of gold; although gold currently represents a relatively small part of Tanzania's exports, gold exports are expected to increase

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[11] This implies an 80 percent up-front reduction on all debt outstanding, plus a 67 percent NPV reduction on the remaining pre-cutoff-date debt.

substantially in the medium term reflecting new production from three nascent large mines. The key assumptions underlying this scenario are quantified in Table 12 and summarized in Box 2.

Box 2. Tanzania: Baseline Assumptions in the Debt Sustainability Analysis (DSA)

Economic growth:

- The Tanzanian economy is assumed to grow by about 5 percent in 1999 and 2000 and 6 percent thereafter. This projection is based on the assumption that further improvement in infrastructure and transportation, and normal weather conditions, will allow for agricultural growth of 5–6 percent a year. Investments in privatized parastatal enterprises and new mines are expected to lead to growth in manufacturing of 6–7 percent and in mining of up to 20 percent a year. Economic growth will also be supported by a continuation of liberalization and public sector reform.

Exports and imports:

- Traditional exports are assumed to grow at 4–6 percent in real terms in the medium term; this implies a growth of 5-7 percent in nominal terms, in line with price projections from the Fund's World Economic Outlook (WEO) and the World Bank's commodity division. Gold exports from the three new mines are assumed to increase from US$28 million (4 tons of gold) in 1999/2000 to US$115 million (15 tons) in 2001/02 and US$194 million (26 tons) in 2002/03, with an assumed world gold price of US$270 per ounce, which implies an export price for Tanzanian gold of US$243 per ounce (using a 90-percent purity factor).
- A steady increase in nontraditional exports (excluding gold) and tourism receipts is also projected. The ratio of exports of goods and services to GDP increases from 14 percent in 1999 to 18 percent in 2018.
- Imports of goods and services are projected to grow at an annual average rate of 6.3 percent in real terms between 1999 and 2018, driven by high investment needs.

Capital account:

- Direct investment—mainly in mining, agriculture, agro-processing, and tourism—is projected to increase steadily from an average of US$352 million a year in 1999–2008 to US$913 million a year in 2009–18.
- New project loans, which would be on concessional IDA terms in line with Tanzania's debt strategy, are projected to average US$448 million a year in 1999–2008 and US$802 million a year in 2009–18. Program loans are projected at an average of US$100 million a year until 2018. It is assumed that the economy will become gradually less dependent on official transfers: project grants are assumed to remain unchanged in real terms at the 1999/2000 level, while no program grants are assumed starting in 2002/03.
- The residual financing gap (after assumed debt relief) is projected at an average of US$153 million a year in 1999-2008 and US$394 million a year in 2009–18. The gap is assumed to be financed on IDA concessional terms: 10-year grace period, 40-year maturity, zero percent interest but a 0.75 percent service fee per annum.
- Gross official reserves would remain at the equivalent of about 4 months of goods and services until 2008, and average 3.7 months of imports in 2009–18.

Table 12. Tanzania: Main Macroeconomic Assumptions, 1998–2018

(In percent of GDP, unless otherwise indicated)

	1998 Est.	1999	2000	2001	2002	2003	2004 Projected	2005	2006	2007	2008	1999–08	2009–18
Economic growth													
Real GDP (percentage change	2.7	4.6	5.1	5.5	5.7	5.8	6.0	6.0	6.0	6.0	6.0	5.7	6.0
Real GDP per capita (percentage change	-0.1	1.8	2.3	2.8	3.0	3.1	3.4	3.4	3.4	3.4	3.4	3.0	3.4
Balance of payments													
Exports of goods and services 1	14.1	13.9	14.2	14.7	15.2	15.6	15.8	15.8	15.9	16.0	16.2	15.3	17.0
Imports of goods and services 1	26.1	26.7	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	26.8
Current account, including grants	-5.8	-6.3	-7.0	-7.0	-6.7	-7.0	-7.5	-7.6	-7.7	-7.8	-7.8	-7.3	-7.5
Current account, excluding grants	-11.8	-15.2	-15.2	-14.6	-13.9	-13.4	-13.2	-13.0	-12.8	-12.7	-12.5	-13.7	-11.1
Gross official reserves (in months of imports) 2	3.4	4.1	4.0	4.2	4.3	4.4	4.4	4.4	4.4	4.3	4.3	4.3	3.7
Export volume growth (percentage change) 3	-12.3	1.5	7.1	11.5	13.2	11.4	8.1	7.0	7.0	6.8	6.8	8.1	6.7
Import volume growth (percentage change) 3	9.4	8.2	6.0	6.5	6.7	6.9	7.1	7.1	7.1	7.1	7.1	7.0	6.8
Terms of trade (percentage change	6.3	-1.1	-0.1	1.0	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4

Sources: Tanzanian authorities; and staff estimates and projection

1/ Exports (imports) of goods and services as defined in IMF Balance of Payments Manual, 5th edition, 199
2/ Imports of goods and services
3/ Merchandise exports (imports)

51. Following an exceptional surge in exports of cashew nuts and tobacco in 1998, these exports are assumed to revert back to more normal levels starting in 1999; cotton exports, after experiencing a sharp slump as a result of El Niño, are assumed to recover gradually. Coffee exports, which were not substantially affected by the extreme weather conditions in recent years due to the more balanced geographic distribution of coffee cultivation, are assumed to grow at about 5 percent a year in volume terms, starting in 1999. Overall, traditional crop exports are assumed to grow at 4–6 percent in real terms (5–7 percent in U.S. dollar terms) in the medium term.

52. Conservative projections are made regarding the production levels of the three new gold mines. The Golden Pride mine, which started operating in February 1999, is assumed to produce 2.4 tons of gold in 1999 and to reach the normal production level of 5 tons of gold in 2000. The Bulyanhulu/Kahama mine is assumed to start in January 2001 to produce 4.5 tons in 2001 and reach full capacity of 9 tons in 2002. Although the Geita mine was initially expected to start operating in mid-2001, recent technical difficulties have caused a delay until early 2002. The Geita mine is assumed to produce half the normal output, or 7 tons, in 2002, and to produce 14 tons in 2003. The world price of gold is projected at an average of US$270 per ounce for 1999, and is expected to remain at that level in the medium term. Gold exported from Tanzania is assumed to be 90 percent pure, which implies an export price of Tanzanian gold of US$243 per ounce.[12]

53. Based on the above assumptions, the current account deficit, excluding official transfer, is projected to decrease gradually from 15 percent in 1999 to 12 percent in 2009 and to 10 percent by 2018 (Table 13). It is assumed that Tanzania will continue to benefit from a substantial inflow of external assistance in the form of grants and highly concessional loans (on IDA terms). With growing exports, it is assumed that the economy will become gradually less dependent on official transfers. Gross official reserves would remain at the equivalent of about 4 months of goods and services until 2008, and would average 3.7 months of imports in 2009–18. After the full application of traditional relief mechanisms, as described below, financing gaps are projected to persist over the projection period.

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[12] Under these assumptions, the share of gold in total exports rises from virtually zero in 1998/99 to 14 percent in 2001/02 and 20 percent in 2002/03. Therefore, gold exports will have a sizable effect on the growth of total exports, thus lowering the NPV-to-exports ratio. However, generous tax benefits and a high import content (including financing charges) imply that only a small fraction of the additional receipts from gold exports will actually become available to the economy at large to finance imports or debt service.

Table 13. Tanzania Balance of Payments Projections, 1999-2018

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	(In millions of US dollars)									
Trade account	-958.2	-1,026.0	-1,059.1	-1,081.8	-1,122.6	-1,198.1	-1,291.5	-1,392.3	-1,503.3	-1,622.2
Exports, f.o.b.	642.0	699.4	796.1	916.0	1,033.1	1,131.7	1,227.5	1,330.8	1,440.6	1,560.4
Traditional	303.1	308.1	332.4	352.2	371.5	392.6	415.4	439.5	465.5	493.8
Nontraditional	338.9	391.3	463.6	563.8	661.7	739.1	812.2	891.3	975.1	1,066.6
Imports, c.i.f.	-1,600.2	-1,725.4	-1,855.2	-1,997.8	-2,155.7	-2,329.9	-2,519.0	-2,723.1	-2,943.8	-3,182.7
Services (net)	-367.1	-385.5	-399.2	-416.6	-436.8	-458.4	-477.1	-492.4	-507.7	-518.0
Receipts	588.9	634.2	686.3	741.8	802.2	869.5	947.3	1,036.1	1,133.3	1,244.8
Payments	-956.0	-1,019.8	-1,085.5	-1,158.3	-1,239.0	-1,327.9	-1,424.4	-1,528.5	-1,641.0	-1,762.8
Interest	-143.1	-154.9	-160.2	-156.5	-154.4	-154.5	-156.8	-160.5	-164.7	-169.1
Other services	-812.9	-864.9	-925.2	-1,001.8	-1,084.6	-1,173.4	-1,267.6	-1,368.0	-1,476.4	-1,593.7
Private transfers (net)	33.0	34.9	37.0	39.3	41.6	44.1	46.8	49.6	52.5	55.7
Current account (excluding official transfers	-1,292.4	-1,376.6	-1,421.3	-1,459.1	-1,517.7	-1,612.4	-1,721.8	-1,835.1	-1,958.5	-2,084.6
Official transfers (net)	754.8	746.9	738.7	756.7	724.9	693.8	713.3	733.2	753.8	774.9
Project financing	600.8	617.9	638.7	656.7	674.9	693.8	713.3	733.2	753.8	774.9
Program financing	154.0	129.0	100.0	100.0	50.0	0.0	0.0	0.0	0.0	0.0
Current account (including official transfers	-537.5	-629.7	-682.6	-702.4	-792.8	-918.6	-1,008.6	-1,101.9	-1,204.7	-1,309.7
Capital account	436.6	485.5	527.2	598.6	686.5	784.9	867.1	935.0	1,005.7	1,083.4
Loan inflow	478.9	510.8	524.3	549.9	576.9	605.5	635.9	668.0	702.1	738.2
Official project financing	338.9	359.5	381.6	404.7	428.9	454.7	482.0	510.9	541.5	574.0
Official program financing	102.1	111.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Other loans	37.9	40.3	42.7	45.3	48.0	50.9	53.9	57.1	60.6	64.2
Amortization 1/	-258.5	-268.2	-264.3	-245.3	-213.8	-176.3	-160.0	-163.4	-169.9	-175.6
Direct investment	216.3	242.9	267.2	294.0	323.4	355.7	391.3	430.4	473.4	520.8
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-100.9	-144.1	-155.4	-103.9	-106.2	-133.7	-141.4	-166.8	-199.0	-226.3
Financing	100.9	144.1	155.4	103.9	106.2	133.7	141.4	166.8	199.0	226.3
Change in net foreign assets (increase -	-104.9	-129.2	-131.4	-129.2	-121.3	-117.2	-117.2	-117.2	-117.2	-117.2
Bank of Tanzania (increase -	-89.9	-129.2	-131.4	-129.2	-121.3	-117.2	-117.2	-117.2	-117.2	-117.2
Gross reserves	-152.5	-98.1	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0
Use of Fund credit	49.9	-31.1	-31.4	-29.2	-21.3	-17.2	-17.2	-17.2	-17.2	-17.2
Purchases	80.5	0.0	...	...	...	...	...	... ...	...	
Repurchases	-30.5	-31.1	-31.4	-29.2	-21.3	-17.2	-17.2	-17.2	-17.2	-17.2
Other (net)	12.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (increase -	-15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears (increase +) 2/	-1,616.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief 3/	799.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operational financing gap 4/	1,022.7	249.8	286.7	233.1	227.5	250.8	258.6	284.0	316.2	343.5
Memorandum items										
Reserve stock (Bank of Tanzania) (in months o	755.5	820.8	908.0	1,008.0	1,108.0	1,208.0	1,308.0	1,408.0	1,508.0	1,608.0
imports of goods and nonfactor services	4.1	4.0	4.2	4.3	4.4	4.4	4.4	4.4	4.3	4.3
Current account deficit 5/										
Excluding official transfers	-15.2	-15.2	-14.7	-14.0	-13.4	-13.2	-13.0	-12.8	-12.7	-12.5
Including official transfers	-6.3	-7.0	-7.0	-6.7	-7.0	-7.5	-7.6	-7.7	-7.8	-7.8
Debt relief--stock of debt operations	44.7	119.7	137.2	111.1	85.8	65.5	54.1	50.5	48.4	45.5
Financing gap after debt relief	978.0	130.2	149.6	122.0	141.7	185.3	204.4	233.5	267.8	298.0
GDP	8,499.3	9,033.5	9,709.6	10,464.9	11,293.3	12,210.8	13,214.6	14,290.6	15,446.3	16,695.8
Exports of goods and services	1,179.6	1,278.3	1,422.5	1,593.1	1,765.4	1,925.4	2,092.3	2,276.6	2,475.1	2,696.7
Imports of goods and services per month	189.0	203.2	218.5	235.4	254.2	274.8	297.3	321.5	347.7	376.1

Sources: Tanzanian authorities; and staff estimates and projection

1/ Includes amounts due to all creditors (excluding IMF), before debt rescheduling and debt relie
2/ In 1996/97, reduction of arrears granted by the Paris Club.
3/ January 21, 1997 Paris Club rescheduling agreement, including assumed implementation of a bilateral agreement with Russ in 1998/99, involving an upfront discount of 80 percent on all Russian claims and a flow rescheduling on Naples terr
4/ The financing gap in 1998/99 could largely be filled by debt relief from non-Paris Club bilateral and commercial creditors on terms at least comparable to those granted by t Paris Club, including a debt buyback operation with commercial creditors
5/ In percent of GDP.

Table 13. Tanzania Balance of Payments Projections, 1999-2018 (cont.)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(In millions of US dollars)									
Trade account	-1,749.0	-1,888.0	-2,042.1	-2,201.7	-2,364.3	-2,537.3	-2,721.2	-2,917.7	-3,127.8	-3,351.3
Exports, f.o.b.	1,691.7	1,832.2	1,981.7	2,140.8	2,312.2	2,498.5	2,701.2	2,922.1	3,162.5	3,424.4
Traditional	524.3	557.3	593.4	632.5	674.4	719.3	767.5	819.2	874.4	933.4
Nontraditional	1,167.4	1,274.9	1,388.3	1,508.3	1,637.8	1,779.1	1,933.7	2,102.9	2,288.1	2,490.9
Imports, c.i.f.	-3,440.6	-3,720.2	-4,023.8	-4,342.5	-4,676.5	-5,035.8	-5,422.4	-5,839.8	-6,290.3	-6,775.7
Services (net)	-521.9	-523.5	-522.7	-513.4	-493.9	-467.6	-433.5	-391.1	-339.2	-275.8
Receipts	1,372.5	1,513.5	1,669.0	1,840.8	2,030.3	2,239.5	2,470.5	2,725.4	3,006.8	3,317.4
Payments	-1,894.4	-2,037.0	-2,191.8	-2,354.2	-2,524.2	-2,707.1	-2,904.0	-3,116.5	-3,346.0	-3,593.2
Interest	-173.7	-178.3	-183.0	-189.1	-195.1	-198.2	-201.3	-206.4	-212.1	-218.2
Other services	-1,720.7	-1,858.6	-2,008.8	-2,165.1	-2,329.1	-2,509.0	-2,702.7	-2,910.2	-3,133.9	-3,375.1
Private transfers (net)	59.0	62.6	66.3	70.3	74.5	79.0	83.7	88.8	92.3	94.4
Current account (excluding official transfers)	-2,211.8	-2,348.9	-2,498.6	-2,644.8	-2,783.6	-2,925.9	-3,071.0	-3,220.1	-3,374.6	-3,532.8
Official transfers (net)	796.6	818.9	841.8	865.4	889.6	914.5	940.1	966.4	993.5	1,021.3
Project financing	796.6	818.9	841.8	865.4	889.6	914.5	940.1	966.4	993.5	1,021.3
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account (including official transfers)	-1,415.2	-1,530.0	-1,656.8	-1,779.5	-1,894.0	-2,011.4	-2,130.8	-2,253.7	-2,381.1	-2,511.5
Capital account	1,164.0	1,245.9	1,334.9	1,430.6	1,531.6	1,641.4	1,771.8	1,927.3	2,089.8	2,252.1
Loan inflow	776.5	817.1	860.1	905.7	954.1	1,005.3	1,059.7	1,117.2	1,178.3	1,243.0
Official project financing	608.5	645.0	683.7	724.7	768.2	814.2	863.1	914.9	969.8	1,028.0
Official program financing	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Other loans	68.1	72.1	76.5	81.1	85.9	91.1	96.6	102.3	108.5	115.0
Amortization 1/	-185.3	-201.4	-218.4	-237.7	-261.2	-286.5	-302.7	-306.3	-316.4	-341.6
Direct investment	572.9	630.1	693.2	762.5	838.7	922.6	1,014.9	1,116.3	1,228.0	1,350.8
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-251.2	-284.1	-321.9	-348.9	-362.4	-370.0	-359.1	-326.4	-291.3	-259.3
Financing	251.2	284.1	321.9	348.9	362.4	370.0	359.1	326.4	291.3	259.3
Change in net foreign assets (increase -)	-117.2	-115.0	-108.6	-102.1	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0
Bank of Tanzania (increase -)	-117.2	-115.0	-108.6	-102.1	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0
Gross reserves	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0
Use of Fund credit	-17.2	-15.0	-8.6	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Purchases	...	...	...	...	...	...	...	...	...	...
Repurchases	-17.2	-15.0	-8.6	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Other (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (increase -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears (increase +) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operational financing gap 4/	368.4	399.1	430.4	451.1	462.4	470.0	459.1	426.4	391.3	359.3
Memorandum items:										
Reserve stock (Bank of Tanzania) (in months of	1,708.0	1,808.0	1,908.0	2,008.0	2,108.0	2,208.0	2,308.0	2,408.0	2,508.0	2,608.0
imports of goods and nonfactor services)	4.2	4.1	4.0	3.9	3.8	3.7	3.6	3.5	3.4	3.2
Current account deficit 5/										
Excluding official transfers	-12.3	-12.0	-11.8	-11.6	-11.3	-11.0	-10.6	-10.3	-10.0	-9.7
Including official transfers	-7.8	-7.8	-7.8	-7.8	-7.7	-7.5	-7.4	-7.2	-7.1	-6.9
Debt relief--stock of debt operations	42.2	38.5	34.2	30.6	28.5	27.3	26.6	21.7	12.4	7.5
Financing gap after debt relief	326.2	360.7	396.2	420.4	433.9	442.6	432.5	404.7	378.9	351.8
GDP	18,056.4	19,540.8	21,139.4	22,855.2	24,707.6	26,708.1	28,868.9	31,209.3	33,743.7	36,483.9
Exports of goods and services	2,944.5	3,213.7	3,505.2	3,821.1	4,165.5	4,542.7	4,956.3	5,409.8	5,907.2	6,452.5
Imports of goods and services per month	406.7	439.9	476.0	513.9	553.6	596.3	642.3	691.9	745.5	803.3

Sources: Tanzanian authorities; and staff estimates and projections.

1/ Includes amounts due to all creditors (excluding IMF), before debt rescheduling and debt relief.
2/ In 1996/97, reduction of arrears granted by the Paris Club.
3/ January 21, 1997 Paris Club rescheduling agreement, including assumed implementation of a bilateral agreement with Russia, in 1998/99, involving an upfront discount of 80 percent on all Russian claims and a flow rescheduling on Naples terms.
4/ The financing gap in 1998/99 could largely be filled by debt relief from non-Paris Club bilateral and commercial creditors on terms at least comparable to those granted by the Paris Club, including a debt buyback operation with commercial creditors.
5/ In percent of GDP.

Debt relief mechanisms

54. The baseline scenario assumes that a hypothetical Naples terms stock-of-debt operation by Paris Club creditors would take place at end-1999. Non-Paris Club bilateral creditors are assumed to grant concessional relief on terms at least comparable to this. Tanzania's commercial nonpublic and nonpublicly guaranteed debt is also assumed to benefit from a commercial debt buyback operation supported by the IDA Debt Reduction Facility (Box 3), which is expected to be undertaken in the second half of 1999. Table 14 shows the details of the debt stock by creditor (in both nominal and NPV terms) projected as of end-1999, taking into account the latter operations.

Box 3. Tanzania: Commercial Debt Buyback

On June 29, 1999 the Executive Directors of IDA approved a grant of up to US$40.2 million from the Debt Reduction Facility for IDA-only countries for a commercial debt-reduction operation for Tanzania. The grant will consist of amounts contributed to the facility by Germany and Switzerland, and from IBRD's net income. Commercial debt issued by pledges, collateral, security agreements or by foreign export credit agencies is not eligible for the debt buyback operation.

Total debt eligible under the proposed operation is US$623.2 million, of which US$324.6 million represents principal and US$298.6 million are interest costs, as of April 1999. The principal consists of US$292.9 million of suppliers' debt, US$26.2 million of debt to commercial banks, and US$5.4 million of debt to telecommunications and other creditors' companies. Most of this debt accumulated in the late 1970s and the 1980s when payments serviced by borrowers were accumulated in a pipeline held by the Bank of Tanzania in an External Payments Account. Under the operation, Tanzania would offer to purchase eligible debt for cash at the price of 12 cents for each dollar of principal.

The total financing required for the offer, if all eligible debt were to be tendered, would be US$38.9 million. The identified financing amounts to US$40.2 million, allowing for financing of any incidental transaction costs incurred in implementing the operation and exchange rate fluctuations.

55. Based on these assumptions and on the policies outlined above, debt burden indicators show that even after the full application of all traditional existing relief mechanisms, Tanzania's external debt would remain at unsustainable levels. On a present value basis, the external debt-to-exports ratio would decline from 485 percent at end-1998 to 364 percent at end-2000 and 324 percent at end-2002, and would remain above 250 percent until 2012. The external debt-to-revenue ratio would decline from 567 percent at end-1998 to 334 percent at end-2002, and would remain above 275 percent until 2008. External debt service, before rescheduling and after new borrowing, would represent about 33 percent of exports in 1999, falling to 29 percent in 2002 and 14 percent in 2008 (Table 16).

Table 14. Tanzania: Nominal and Net Present Value of External Debt Outstanding Projected as of end-1999 1/

	Nominal Debt at end-1999			NPV of Debt at end-1999		
	US$ million	Percent of total	Percent of multilateral	US$ million	Percent of total	Percent of multilateral
Total	6,657.3	100.0		4,237.6	100.0	
Multilateral Institutions	3,940.1	59.2	100.0	1,996.7	47.1	100.0
Of which:						
IMF	238.8	3.6	8.1	187.6	4.4	9.4
IDA/IBRD	2,442.4	36.7	71.7	1,241.0	29.3	62.2
AfDB/AfDF	460.7	6.9	14.9	217.3	5.1	10.9
Other multilateral debt (including new debt)	798.2	12.0	5.4	350.8	8.3	17.6
Bilateral official	2,552.3	38.3		2,080.7	49.1	
Paris Club	2,015.4	30.3		1,757.7	41.5	
of which: Russia	54.0	0.8		35.3	0.8	
Non-Paris Club Official Bilateral	536.9	8.1		323.0	7.6	
Commercial 2/	164.9	2.5		160.1	3.8	

Sources: Tanzanian authorities; and staff estimates.

1/ After Paris Club agreement on a flow rescheduling on Naples terms, including Russia, through 1997-1999, followed by a hypothetical stock of debt operation on Naples terms at end-1999 and comparable action from non-Paris Club creditors, including a fully donor-financed buyback operation of all uninsured commercial debt which took effect in June 1999.

2/ Consists of insured commercial debt secured by pledges, collaterals, security agreements, or by foreign export credit agencies. Loans classified in this category are not subject to the debt-buyback (which affects only uninsured commercial debt).

Table 15. Tanzania—External Debt Service, 1999-2018

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Projected									
	(In millions of US dollars)									
Total debt service before rescheduling (excl. new borrowing) 1/	345.6	351.2	342.4	319.1	279.8	259.4	257.3	261.6	273.0	277.5
Principal	253.0	252.5	246.5	225.0	186.3	164.5	160.2	160.8	168.0	168.1
Multilateral	82.7	87.2	94.3	96.4	85.4	89.4	88.0	88.6	93.3	97.1
of which IMF	29.9	26.9	32.5	33.6	17.2	17.2	17.2	17.2	17.2	17.2
of which World Bank	30.0	38.1	42.9	48.3	52.6	56.3	55.3	56.8	61.8	63.7
Official bilateral	165.2	164.5	151.9	128.5	100.8	75.0	70.5	69.0	69.9	64.6
Paris Club	143.8	141.4	131.0	105.7	80.4	56.6	49.5	52.1	51.2	53.7
of which ODA	16.0	16.3	16.4	16.2	16.4	16.4	16.4	15.9	15.0	13.4
Non-Paris Club	21.4	23.1	20.9	22.8	20.4	18.4	21.0	16.9	18.8	10.9
Commercial	5.2	0.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.0	0.0	0.0	0.0	0.0	0.0	1.6	3.2	4.8	6.4
Interest	88.4	90.0	82.8	76.3	70.9	66.7	63.0	60.4	57.7	54.9
Multilateral	28.2	26.8	25.5	24.4	23.4	22.5	21.7	21.0	20.3	19.5
of which IMF	1.3	1.2	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.3
of which World Bank	19.7	19.2	18.6	18.1	17.6	17.0	16.4	16.0	15.6	15.1
Official bilateral	59.8	63.1	57.3	51.9	47.4	44.1	41.3	39.4	37.4	35.3
Paris Club	58.3	61.9	56.2	51.1	46.8	43.6	40.9	39.1	37.2	35.2
of which ODA	4.5	4.1	3.7	3.3	2.9	2.5	2.1	1.8	1.4	1.0
Non-Paris Club	1.5	1.2	1.0	0.8	0.6	0.5	0.4	0.3	0.2	0.2
Commercial	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	4.2	8.6	13.1	17.8	22.7	28.2	34.1	40.4	47.2	54.5
Total debt service after rescheduling (excl. new borrowing) 2/	276.8	291.2	299.1	305.6	287.5	248.8	257.3	265.9	280.3	291.4

Sources: Tanzanian authorities; and staff estimates and projections.

1/ On a scheduled basis; debt service is shown before debt relief, exclusive of debt service on rescheduled debt (excluding new borrowing).
2/ Assumes a stock of debt operation on Naples terms in 1999 and at least comparable treatment from other official bilateral creditors.

B. Sensitivity and Vulnerability Analysis

Sensitivity Analysis

56. The medium-term balance of payments projections for Tanzania are subject to substantial uncertainties regarding traditional export volumes and the outlook for gold, as reflected in gold production levels and the export price of gold. The sensitivity analysis presented here assesses the likely impact on the debt ratios of these two factors. Specifically, the baseline is compared with scenarios in which there are (i) lower traditional export volumes and (ii) an earlier start of production at the three new gold mines and a higher export price for gold. These scenarios are based on the assumption that there are no policy adjustments to the shocks, including the maintenance of an unchanged reserves objective from the baseline. The results of the sensitivity analysis are summarized in Table 16.

57. **Lower traditional export volumes.** In recent years, Tanzania has experienced a recurrence of extreme weather conditions resulting in droughts and floods, which induced repeated sharp contractions in export volumes of traditional crops. Thus, the volume growth of traditional exports was negative in 1993/94, 1994/95, and 1997/98, significantly lowering the five-year average real growth rate of traditional exports to 3 percent a year. If traditional exports are assumed to grow at an average of 2 percent a year in real terms starting in 2000/01 (compared with 4–6 percent in the baseline), the residual financing gap would average US$232 million a year in the period 1999-2008, and an average of US$698 million a year in 2009–18. Under this scenario, the NPV debt-to-exports ratio would be 330 percent in 2002, or 6 percentage points above the baseline. The debt-service ratio would be higher by about 1 percentage point a year over the projection period.

58. **More favorable outlook for gold.** In this scenario the three new gold mines are assumed to reach normal production levels faster than in the baseline, and a more favorable assumption is made regarding the export price of gold. The Bulyanhulu/Kahama mine is assumed to start operations in June 2000, as it currently advertises, to produce 4.5 tons in 2000 and the normal level of 9 tons in 2001. The Geita mine is assumed to start operating in June 2001, as is likely to occur if the technical difficulties it is currently experiencing are promptly overcome. Geita would then produce half the normal output, or 7 tons in 2001 and 14 tons in 2002. The world price of gold is assumed to remain constant in real terms (on the basis of the inflation rate of advanced economies) starting from a base price of US$270 per ounce in 1999. Under this scenario, the residual financing gap would average US$98 million a year in the period 1999-2008, and average US$126 million a year in 2009–18. The NPV debt-to-exports ratio would be 306 percent in 2002, or 18 percentage points below the baseline. The debt-service ratio would be lower than in the baseline by about 1 percentage point over the medium-term.

Table 16. Tanzania: External Debt Indicators: Baseline Scenario and Sensitivity Analysis, 1998–2018 1/

	1998 Est.	1999	2000	2001	2002	2003 Projected	2004	2005	2006	2007	2008	**1999-08** **Average**	**2009-18**
						(In millions of U.S. dollars)							
Baseline Scenario 2/													
Nominal debt stock	7,506.8	6,657.3	7,094.3	7,550.8	8,016.3	8,504.3	9,122.7	9,767.7	10,481.5	11,250.7	12,076.7	9,052.2	17,662.1
Multilateral	3,435.5	3,940.1	4,458.5	4,986.9	5,528.7	6,085.4	6,736.0	7,432.8	8,185.3	8,996.5	9,865.0	6,621.5	15,807.5
Official bilatera	3,723.0	2,552.3	2,489.1	2,435.0	2,376.4	2,325.3	2,293.1	2,241.7	2,203.6	2,162.6	2,121.5	2,320.1	1,785.6
Of which: Paris Club	2,803.8	2,015.4	1,967.7	1,926.1	1,882.9	1,845.8	1,822.4	1,782.9	1,754.8	1,726.4	1,693.6	1,841.8	1,408.8
Commercial	348.3	164.9	146.8	128.9	111.3	93.6	93.6	93.2	92.6	91.5	90.1	110.6	69.0
Nominal debt stock before rescheduling 2	7,506.8	7,253.8	7,001.3	6,754.8	6,529.8	6,343.5	6,179.0	6,005.7	5,848.1	5,684.9	5,523.2	6,312.4	4,592.8
Net present value (NPV) of debt	5,682.0	4,237.6	4,360.6	4,495.7	4,637.0	4,824.3	5,093.6	5,386.0	5,707.1	6,055.0	6,433.8	5,123.1	9,082.2
Multilateral	1,815.5	1,996.7	2,184.1	2,377.8	2,582.3	2,825.7	3,115.7	3,433.1	3,781.2	4,159.8	4,569.9	3,102.6	7,514.4
Official bilateral	3,519.3	2,080.7	2,033.8	1,992.3	1,946.2	1,907.2	1,886.6	1,861.9	1,835.5	1,805.9	1,776.0	1,912.6	1,500.6
Of which: Paris Club	2,701.7	1,757.7	1,717.1	1,682.1	1,645.6	1,615.3	1,598.5	1,580.9	1,560.0	1,538.6	1,512.9	1,620.9	1,262.6
Commercial	347.3	160.1	142.7	125.6	108.6	91.4	91.4	91.0	90.3	89.3	87.9	107.8	67.2
NPV of debt before rescheduling 2	5,682.0	5,518.0	5,345.6	5,178.6	5,031.5	4,920.9	4,830.8	4,745.7	4,660.2	4,567.5	4,474.7	4,927.3	3,890.2
						(In percent of exports of goods and services)							
NPV of debt to export ratio 3	484.6	362.7	364.1	347.6	324.0	302.7	289.2	279.4	272.0	265.4	259.1	306.6	224.5
Of which: Multilateral	154.8	170.9	182.4	183.8	180.4	177.3	176.9	178.1	180.2	182.3	184.1	179.6	183.0
Debt-service ratio 4	33.9	33.4	37.6	34.0	28.9	23.5	17.6	16.1	15.1	14.4	13.5	23.4	10.9
Of which: Multilateral	14.7	14.6	14.8	13.7	12.1	9.8	8.9	7.8	7.1	6.6	6.1	10.2	3.7
						(Percent)							
NPV of debt-to-revenue ratio 5	567.1	387.4	365.3	348.8	333.9	320.0	308.6	297.4	288.1	279.4	271.2	320.0	230.5
NPV of debt-to-GDP ratio	70.5	49.9	48.3	46.3	44.3	42.7	41.7	40.8	39.9	39.2	38.5	43.2	34.9
Grant element in total deb	24.3	36.3	38.5	40.5	42.2	43.3	44.2	44.9	45.6	46.2	46.7	42.8	48.5
Grant element in new borrowing	...	66.2	65.6	65.0	64.4	63.2	62.1	61.2	60.4	59.7	58.9	62.7	55.6
Sensitivity analysis													
NPV of debt-to-export ratio													
Lower agricultural export volumes 6	484.6	363.6	366.2	351.5	330.0	311.1	300.1	292.9	288.2	284.3	280.6	316.8	258.3
More favorable outlook for gold exploration	484.6	361.3	357.4	333.3	306.3	286.7	276.1	267.3	258.6	250.0	241.7	293.9	197.1
Debt-service ratio 4													
Lower agricultural export volumes 6	33.9	33.6	38.2	34.9	30.1	24.5	18.5	17.0	16.0	15.4	14.5	24.3	12.1
More favorable outlook for gold 7	33.9	33.3	37.1	32.9	27.7	22.6	17.1	15.6	14.6	13.9	13.0	22.8	10.0

Sources: Tanzanian authorities; and staff estimates and projection

1/ All debt indicators refer to public and publicly guaranteed debt (PPG
2/ Assumes a Naples terms stock-of-operation from Paris Club creditors in 1999 with comparable treatment from other bilateral credi
3/ Three-year backward looking average of exports of goods and servic
4/ Ratio of debt service due (before rescheduling and after new borrowing) to the three-year backward looking average of exports of goods and ser
5/ Revenues are defined as central government revenues, excluding gran
6/ Assumes traditional exports grow by only 2 percent per year in real terms starting in the year 2000 (compared with an average of 5–6 percent in the base
7/ Assumes that the three new gold mines (Golden Pride, Bulyanhulu/Kahama, and Geita mines) produce at normal capacity starting the first year of full operation, compared with a more gradual rise in production for the baseline s

Vulnerability

59. The vulnerability of Tanzania's economy relative to other HIPC countries is shown in Table 17. The variability of exports, defined as the standard deviation of export values over the ten-year period 1986–95, is substantially above the average for other HIPC countries including those countries that have received a stock-of-debt operation. This reflects the high sensitivity of Tanzania's export base to weather conditions, as agricultural crops constitute about half of all commodity exports. The estimate for the variability of exports would increase to an even higher level (from 33 to 35 percent) if the ten-year period 1989–98 is taken as the basis of calculation, reflecting the effects of El Niño in 1997/98. A factor of strength in Tanzania's export base is that it is less concentrated than that of other countries; exports of coffee, its main export product, accounted for 12 percent of exports of goods and services, while the three main export products (coffee, cotton, and cashew nuts) accounted for about 31 percent of exports, below the average of other HIPC countries.

60. In terms of fiscal indicators, Tanzania is clearly more vulnerable than most other HIPC countries: public sector external debt service, as a share of both government revenue and expenditure, is significantly higher than the average and median for both groups. In addition, the tax revenue ratio (relative to GDP) is among the lowest of all the HIPC countries and well below the average. Reserve coverage, at 1.5 months of imports, was well below the average in 1996; but reached 3.7 months in June 1999, close to the 1996 average of both groups. Finally, the noninterest current account deficit, at about 14 percent of GDP, is well above the average in both groups.

V. Decision and Completion Points, Assistance, Burden sharing and The Authorities' Views

A. Decision and Completion Points

61. The analysis in the previous two sections suggest that Tanzania has an unsustainable debt burden and could thus qualify for assistance under the HIPC Initiative. Tanzania is an ESAF-eligible and IDA-only country, with a heavy burden of external debt, which has established a generally strong track record in adopting and implementing sound macroeconomic policies and structural reforms during the last 13 years. During this period, the economy has undergone a major transition to a market-based economy, and large imbalances in the economy have been corrected to a considerable extent. Fiscal control slipped in 1993–95, but this was corrected after the election of a new government in late 1995. Structural reforms have continued apace.

62. Tanzania's reform effort since 1986 has been supported by several IMF arrangements and IDA adjustment credits. The three-year ESAF arrangement covering the period 1991–94 was interrupted in 1993 by slippages in the fiscal area, but Tanzania's overall performance in the staff-monitored program in early 1996 and in the current three-year ESAF arrangement has been good; all reviews have been completed and all disbursements made. There have been occasional

Table 17. Summary Vulnerability Indicators 1/

Country 3/	Percent share in exports** of : Main product		Three main products	Variability of exports** 4/	Public sector external debt service* as a percent of: 2/ Government revenue 5/	Government expenditure	NPV of public and publicly guaranteed debt as percent of GDP 1/ 2/	Noninterest current account in percent of GDP 6/ 1/	Reserve coverage (months of imports) 7/	Fiscal indicators* as a percent of GDP 1/ Tax revenue	Official grants	Primary balance
Tanzania	11.8	Coffee	30.5	33.0	63.6	47.9	99.8	-13.7	1.5	11.3	1.0	-1.1
Group A												
Bolivia	12.3	Soybeans	33.0	20.9	20.3	16.6	44.6	-5.8	7.3	17.1	2.4	-1.6
Burkina Faso	33.5	Cotton	64.4	18.9	16.6	9.6	27.0	-13.9	CFA Zone	11.5	8.4	1.7
Guyana	21.1	Sugar	48.9	34.0	42.4	37.1	160.5	-4.4	5.2	31.8	2.3	2.6
Mali	47.1	Cotton	75.1	20.6	17.4	11.6	47.6	-13.7	CFA Zone	12.7	7.1	-6.9
Uganda	55.7	Coffee	62.6	35.2	18.2	11.3	31.0	-6.3	3.6	10.5	4.5	-1.0
Mean	33.9		56.8	25.9	23.0	17.3	62.1	-8.8	5.4	16.7	4.9	-1.1
Median	33.5		62.6	20.9	18.2	11.6	44.6	-6.3	5.2	12.7	4.5	-1.0
Group B												
Cameroon	27.1	Oil	46.9	11.0	93.6	78.3	93.1	2.8	CFA Zone	9.9	0.5	5.2
Chad	43.7	Cotton	67.7	13.6	22.9	9.5	32.7	-16.0	CFA Zone	9.0	6.9	0.2
Congo	83.6	Crude oil	93.1	...	27.2	25.2	144.4	-39.6	CFA Zone	29.0	0.9	10.7
Cote dIvoire	32.3	Cocoa	47.0	10.5	50.2	44.7	143.2	11.6	CFA Zone	19.0	0.7	3.1
Ethiopia	34.9	Coffee	42.7	16.2	17.1	11.7	...	-8.5	7.7	12.5	2.9	-6.1
Guinea	37.2	Bauxite	58.2	11.9	32.6	20.9	33.5	-6.5	2.8	7.1	3.1	-4.5
Guinea Bissau	69.3	Cashew	78.7	30.8	73.5	27.2	199.9	-11.2	CFA Zone	7.0	9.1	-14.8
Honduras	22.5	Coffee	46.3	13.3	70.7	59.9	71.7	-2.7	2.7	16.5	0.2	2.9
Madagascar	12.4	Coffee	25.8	20.2	97.8	...	...	...	...	...	...	...
Mauritania	53.6	Fish	93.9	6.9	12.6	15.4	134.1	-8.3	2.8	17.5	2.2	8.6
Mozambique	14.7	Prawns	23.8	31.1	31.4	16.1	242.3	-21.7	4.4	12.3	8.8	-10.8
Nicaragua	13.5	Coffee	27.1	28.4	35.7	25.2	207.8	-16.5	1.8	20.7	6.1	-4.8
Niger	50.6	Uranium	69.3	19.3	25.5	13.4	42.5	-9.7	CFA Zone	7.4	4.0	0.6
Sierra Leone	52.8	Rutile	97.3	18.6	22.2	13.3	58.7	-14.7	1.4	10.4	3.7	-1.2
Togo	19.5	Phosphate	46.0	22.4	31.0	28.7	54.9	-5.0	CFA Zone	14.0	2.8	-3.4
Zambia	48.0	Copper	67.4	20.0	33.5	25.1	96.2	-7.9	1.5	14.9	2.1	4.5
Mean	38.5		58.2	18.3	42.3	27.6	111.1	-10.3	3.2	13.8	3.6	0.0
Median	36.0		52.6	18.6	32.0	25.1	94.6	-8.5	2.7	12.5	2.9	0.6
Both Groups' Mean	37.4		57.9	20.2	37.7	25.0	98.2	-9.9	3.8	14.5	3.9	-0.3
Both Groups' Median	34.9		58.2	19.7	31.0	18.8	71.7	-8.4	2.8	12.6	3.0	0.4

1/ All data refer to 1996 (1995/96) and are consistent with the latest debt sustainability analysis (DSA) that was presented to the Boards of the IMF and IL For countries where the latest DSA was prepared prior to 1997 (Chad, Congo, Honduras, Madagascar, Niger, and Sierra Leone), the data reflect projectic rather than actuals.
2/ After assumed debt rescheduling/relief, including Paris Club stock-of-debt operation on Naples terms, where applical
3/ Excluded from the original group of 41 HIPCs are those for which no debt sustainability analysis has been prepared; that are not IDA-only; that have not embar yet on the first stage of the Initiative; that have never received concessional Paris Club reschedulings; that have debt burden with an estimated NPV debt-to-exp ratio of below 100 percent at their earliest hypothetical completion points; or that have been found ineligible for assistance under the Initiative. Group A refe countries that have already received a Paris Club stock-of-debt operation on Naples terms; Group B to all othe
4/ Defined as the standard deviation in export values over the 10-year period 1986-1995 (1985/86-1994/95), in percent of the averag
5/ Excluding grants.
6/ Current account balance excludes interest and net official transfers
7/ Imports of goods and services
* Note: Central Government. For Bolivia and Madagascar government refers to general governme
** Exports of goods and services, as defined in IMF Balance of Payments Manual, 5th editio

delays in implementing structural reforms (particularly in the area of privatization), but such delays have been due more to inadequate institutional capacity than to lack of resolve.

63. The Paris Club rescheduling arrangement on Naples terms, in place since January 1997, indicates bilateral creditor support for Tanzania's adjustment efforts; during the last two Consultative Group meetings, in December 1997 and May 1999, donors confirmed their strong continuing support for Tanzania.

64. The staffs and management of the Fund and IDA recommend the presentation of the decision point document as soon as a new three-year ESAF arrangement has been submitted to the Fund's Executive Board for approval. The agenda for the next ESAF arrangement will focus on maintaining growth-oriented macroeconomic stability, completing the structural reform agenda and on achieving substantial progress in the social sectors and in reducing poverty.

65. Provided Tanzania is deemed eligible for assistance, in making a recommendation on the completion point the staff would expect to take account of Tanzania's strong track record and any changes in the framework of the HIPC Initiative. Reaching the completion point would be subject to the requirements of satisfactory performance under the new ESAF arrangement and Bank-supported programs, and -- under the proposed enhanced framework—meeting social goals. In particular, the authorities will need to show tangible results in the fiscal, structural, and social areas.

B. Assistance and Burden Sharing

66. Tanzania's external position is especially vulnerable in view of the high variability of exports, which is due to the large share of agricultural products, including processed products, in its export base. Tanzania's dependence on rain-fed agriculture means that climatic factors, such as the recurrence of successive floods and droughts witnessed in recent years, have the potential to set back not only commodity exports but also overall economic growth. The analysis also suggests high sensitivity of the NPV-to-exports ratio to shocks that affect agricultural exports. Moreover, even under a highly optimistic scenario for gold, the NPV-to-exports ratio would still remain well above 300 percent in 2003; moreover, gold has a high foreign input content, and the net contribution to foreign exchange earnings is expected to be relatively low.

67. In light of these vulnerabilities, the IMF and World Bank staffs are of the view that under the current guidelines for implementation of the HIPC Initiative an appropriate target for the present value of the debt-to-exports ratio would be at the lower end of the 200–220 percentage range. A target of 200 percent would imply assistance of US$1.8 billion or more, depending on the timing of the completion point. Under the proposed enhanced framework, HIPC Initiative

assistance would target a debt-to-exports ratio of 150 percent as of the decision point in early 2000, which would imply assistance of about US$ 2.5 billion.[13]

C. The Authorities' Views

68. In the discussions of the debt sustainability analysis and policy intentions under the HIPC Initiative, the Tanzanian authorities stressed that despite the progress in achieving macroeconomic stability and important progress in structural reform, Tanzania's external debt and debt service remained unsustainably high. They also noted that debt management has been strengthened substantially in recent years (see Appendix II), including through technical assistance from Debt Relief International (DRI) and the Macro-Economic and Financial Management Institute of Southern Africa (MEFMI), and the establishment of a Multilateral Debt Fund.

69. The authorities emphasized that debt relief under the HIPC Initiative would free substantial resources that are currently devoted to external debt service for use in priority areas. In particular, it would enable the government to devote a larger share of the budget to the expansion of primary education, preventive health care, and improvement of infrastructure, especially in the rural areas. Such a shift in the composition of expenditures is critical to improving Tanzania's social indicators and raising the living standards of the poorer segments of the population. The authorities were therefore eager to benefit from the HIPC Initiative.

70. The government noted its success in pursuing prudent financial and macroeconomic policies despite the recurrence of external shocks, most recently reflected in a sharp contraction in agricultural exports due to adverse climatic conditions. They underlined that important progress has also been achieved on the structural front, including the transition to a free-market economy and the divestiture of more than half of all parastatals, the large reduction in government employment, and the tax reform and the improvements in tax administration. They also noted that the 1999/2000 budget was formulated in the context of further reducing inflation and increasing international reserves, while continuing the reform process. With regard to the latter, major further reform measures were the rationalization of the import duty structure, including the lowering of the maximum tariff rate from 30 to 25 percent, and a comprehensive reform of personal income taxes. In addition, allocations to the priority sectors were greatly increased.

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[13] Of this amount, multilateral creditors would be expected to provide 47 percent and bilateral creditors 53 percent. The common reduction factor would be about 57 percent and the NPV debt reduction required of bilateral creditors would be about 93 percent of eligible debt.

71. The authorities stressed the importance of an early decision to provide Tanzania with the maximum possible assistance under the HIPC Initiative and its preference for an NPV of debt-to-exports ratio target as low as possible, given Tanzania's high vulnerability to external shocks. The authorities feel that Tanzania's track record started with the implementation of the ERP in 1986, and that, despite the setback in 1994–95, the impressive progress over the entire period 1986–99 should be taken into account when assessing the country's commitment to reform. In this regard, the government expressed its preference for a completion point that coincided with the decision point.

VI. Issues for Discussion

72. This paper presents a preliminary assessment of Tanzania's eligibility for assistance under the HIPC Initiative, and seeks the Executive Boards' endorsement of the assessment. Executive Directors' views and guidance are sought on the following issues:

- **Eligibility.** Do Directors consider Tanzania eligible for assistance under the HIPC Initiative?

- **The decision point.** Do Directors view that it would be appropriate for the two Boards to consider a decision point document following approval of a new three-year PFP and of a program supported by a new three-year arrangement under the ESAF for 2000–2002?

- **Debt sustainability target and completion point.** In view of the forthcoming consideration of the proposed enhancements of the HIPC Initiative, do Directors view that it would be appropriate to postpone the discussion on the debt sustainability targets and the conditions to reach the completion point until their consideration of the final decision point document?

Tanzania: Key Structural Measures—Past Reforms (1984–98) and Future Milestones (1999–2001)

I. Administrative Reforms And Governance

A. Reforms

1. In the context of the Civil Service Reform Program, from 1993 to 1999 the civil service was rationalized, establishing the integrity of the payroll by removing "ghost workers" and consolidating salary and nonsalary benefits to achieve transparency of pay. As a consequence, a total of about 90,000 civil servants were retrenched, reducing the size of the civil service to 264,000 employees, and the civil service wage bill as a proportion of GDP declined from 4.8 percent in 1994/95 to 4.4 percent in 1998/99.[1] The reform process has entailed initial efforts to rationalize civil service functions with noncore functions being shed to independent executive agencies or contracted out; to date, three executive agencies have been formed.

2. In order to enhance effectiveness of service delivery, the government has decentralized the responsibility for a number of key public services to the districts and local authorities. Central government budgetary allocations are currently being transferred directly to the local government rather than implemented by the line ministries or regional governments as was the case in the past. The 1982 Local Government Act was amended to enable a phased application of block grants and transfers under an enhanced system of devolution of responsibilities, starting with 35 out of 105 local authorities. A joint initiative between the donors and the government has been established to implement an action plan aimed at removing capacity weaknesses at the local government level. A basket fund has been established to help finance this initiative.

3. In 1995, the Third Phase government under President Mkapa embarked on a campaign against corrupt practices. The Warioba Report delineated particular areas of concern and recommended actions to deal with this problem. The government is now working with donors to finalize a more systematic strategy against corruption and to implement a fully costed action plan.

B. Future Milestones

4. Preparations for the second phase of the Public Sector Reform Program (PSRP) are at an advanced stage, with a focus on strengthening service delivery, further rationalization of public service functions, and efficiency of public service operations. A common framework for this phase has been agreed and will be implemented with donor support during the fiscal years 2000/01–2004/05.

[1] This figure may rise as civil service pay scales are restored to more competitive levels.

5. The Local Government Reform Program (LGRP) will include capacity building programs for the local authorities and enable them to manage liberalized functions properly. The program will also refine the process of transferring staff from the central government to the local authorities.

6. In order to rationalize the pay structure and improve incentives, the government will implement a Civil Service Pay Reform Program, to commence in July 1999. This initiative will be completed within five years and will be closely linked to the system of performance budgeting introduced in 1999/2000.

7. The strategy against corruption as well as the action plan will be finalized for approval in the near future. Implementation will begin thereafter and cover three years.

II. Energy

A. Reforms

8. Inadequate supply and inefficient distribution of electricity have led to power shortages that have continued to be a major bottleneck to business efficiency and a deterrent to new investment. To address these problems, three major projects will enhance the current 350 megawatt supply capacity—the180-megawatt (MW) Kihansi Hydropower Project scheduled for completion by early 2000, the IPTL power plant which will add 50 MW, and the Songo–Songo gas-to-electricity project. Privatization of the electricity distribution system is now in process and should address its main weaknesses and lower the cost of electricity to users.

9. A study on the TIPER refinery, completed in July 1998, proposed the closure of the loss-making highly subsidized refinery and its use as a storage and distribution depot. It has been agreed that continued private refining of petroleum would be considered only under conditions of no cost subsidies or price protection, as the sector will be fully liberalized by end-1999.

10. The government has finalized a study on a petroleum sector regulatory framework to guide the role of the private sector in a liberalized framework. The draft report by the consultant was tabled for preliminary discussion in June, 1999.

11. The government has liberalized the importation of petroleum products up to the point allowable by the port capacity. A decision to consolidate the windfall tax and other charges into a single excise tax has been reached, and retail prices of petroleum products were liberalized in June 1999.

B. Future Milestones

12. The government will develop the most cost effective new sources of power under the power sector master plan. This endeavor will connect the TANESCO distribution system to

neighboring countries. It will also rationalize TANESCO's operations and introduce private operation and ownership beginning with power distribution by 2000.

13. The government is developing a sector regulatory policy which will allow orderly private sector entry into the power sector. Over the next three years the monopoly of TANESCO will be unbundled into generation, transmission and distribution segments. Privatization of the distribution system will take place in 2000. A simple but effective regulatory framework will be put in place by December, 1999.

14. Pending the completion of the Kurasini Oil Jetty (KOJ) project scheduled for November, 1999, the petroleum sector will be fully liberalized by the end of 1999.

III. Financial sector reforms

A. Reforms

15. Prior to the reforms in the early 1990s, all banks and most financial institutions were state owned. Between 1993 and 1999, Tanzania licensed 20 commercial banks, 11 nonbank financial institutions, 12 insurance companies, and 180 bureaux de change. Furthermore the financial market now operates freely.

16. In 1995, the government initiated the privatization of the then state-owned banks, and as a result, the CRDB is now fully private. In 1997, the NBC was split into two banks—the NBC (1997) and the National Micro-finance Bank (NMB). The NBC (1997) is currently in the process of being sold to ABSA (South Africa), which manages the bank; a sales agreement is expected to be reached before the end of 1999. A management contract to for NMB was signed in July 1999.

17. The government has established a unit to develop a National Payment System (NPS) in order to ensure an efficient payment and clearing system. This unit is presently attached to the Bank of Tanzania but is expected to be autonomous in the long-run. The NPS will address payments within the country and transfers abroad, the mode of payment, payment instruments used, etc.

B. Future Milestones

18. Given the efforts which have already gone into the privatization of the state owned banks, the government intends to complete divestiture of the NBC (1997) and the NMB at an early date. Next on the restructuring and privatization agenda are the remaining state-owned financial institutions, the Tanzania Investment Bank, and the Tanzania Postal Bank. Moreover, the government of Zanzibar has requested the assistance of the union government and the World Bank in restructuring and privatizing the People's Bank of Zanzibar.

19. In order to improve the efficiency and quality of lending, BOT has encouraged private institutions to establish a credit information bureau. In addition, commercial courts are expected to become operational in 1999/2000. Efforts are under way to increase

competition and efficiency in the financial system with the aim of lowering the interest rate spread and to promote lending to the private sector.

20. The BOT's supervisory capabilities are being further enhanced in order to meet the challenges created by the ongoing reforms and the rapidly expanding number of financial institutions. Off-site surveillance has already been computerized and the BOT is continuing to recruit and train additional staff with a view to intensifying it. The BOT will review the Banking and Financial Institutions Act in the course of this fiscal year with the aim of instituting the legal framework for the regulation and supervision of micro-finance institutions.

IV. Fiscal and Expenditure Management Reforms

A. Reforms

21. In July 1996 the government established the Tanzania Revenue Authority (TRA) as a semi-autonomous body responsible for revenue collection. To that end, TRA is mandated to enforce the tax legislation, improve the tax structure and promote tax education in the country. TRA is also the main advisor to the government on fiscal policy.

22. VAT was introduced smoothly on the mainland in July 1998 and was extended to Zanzibar in January 1999. Since the introduction of VAT, monthly revenue collection has increased from about T Sh 25 billion to an average of T Sh 45 billion. However, the applicable VAT rate of 20 percent is higher than the 15 percent rate in Kenya and the 17 percent rate in Uganda. A review is therefore being contemplated to harmonize Tanzania's VAT rate with those applicable in other East African countries.

23. In 1996, the government adopted a monthly cash management system that matches expenditure to revenue collection so as to curb expenditure overruns. This system has significantly reinstilled a sense of discipline and accountability in government expenditure. The fiscal deficit (before grants) declined from 4.3 percent of GDP in 1995/96 to 1.4 percent of GDP in 1998/99. However, the cash management system has reduced the ability of vote holders to plan the allocation of funds. To alleviate this problem, the government has now decided to start providing indications of likely releases of funds for subsequent months on a quarterly basis. The government has introduced performance budgeting in order to ensure that the allocation of funds to ministries and departments is related to targets and expected outputs.

24. The government has adopted the PER process as an instrument for strengthening fiscal management and accountability. Through this mechanism, the preparation of the budget has become a participatory process, led by the government and involving representatives of sector ministries, donors, the private sector, academic and research institutions, and other stakeholders. The government also maintains a continuous dialogue with the private sector on budget issues. The private sector is invited annually to submit specific recommendations to the Ministry of Finance on fiscal reform measures to be incorporated into the final budget document.

25. The government has adopted a three year Medium-Term Expenditure Framework (MTEF) beginning 1998/99 as a tool for (i) ensuring that government expenditures are driven by policy priorities and underpinned by budget realities; (ii) enhancing efficiency and effectiveness of the budget; and (iii) assessing the recurrent costs and external resource implications of investment programs.

26. On July 1, 1999, the government introduced a new financial management and information system in all ministries. This system will provide up to date information on the implementation of the budget, and allow monitoring of ministries' commitments.

B. Future Milestones

27. The government aims to increase the resource envelope from the current revenue to GDP ratio of 13.0 percent to 14.8 percent by 2001/02. To this end, the government intends to complete the tax reform to broaden the tax base, and reduce excessive reliance on trade taxes. It also plans to improve taxpayers education to enhance voluntary compliance and reduce revenue leakage. The government is taking measures to strengthen the capacity of TRA through the World Bank-financed Tax Administration Project (TAP), which is expected to yield more revenue through efficiency gains.

28. One key challenge faced by the government is to increase the quality of public expenditure. In this regard, the government commissioned a study during 1998/99 to track budgetary allocations down to social service delivery units. More attention will be paid to this follow-up mechanism to guarantee that public resources filter down to the intended facilities.

V. Mining and Infrastructure

A. Reforms

29. The mining sector in Tanzania is now fully liberalized and the defunct State Mining Corporation (STAMICO) is a purely regulatory body for the mining sector.

30. A regulatory framework has been prepared to guide the role of the private sector in both the production and marketing of minerals.

31. The Mining Act was passed in 1998 to guide and safeguard the interests of the stakeholders in the mining sector.

B. Future Milestones

32. The government will aim to curb mineral smuggling from the country by enhancing incentives to market minerals in the country or export them through official channels. A more liberalized framework and a mineral tax structure are some of the proposed measures that will also include licensing of private mineral traders, simplifying mineral export procedures, and promoting transparent mineral trading.

33. The government recognizes the importance of promoting small-scale mining in the country and has prepared a long-term strategy including improvements in technology.

VI. MONETARY POLICY AND INSTRUMENTS

A. Reforms

34. The government has abolished direct controls of interest rates and the practice of directing credit, backed by central bank lending, to the banks. Commercial banks access to the rediscount and repurchase facilities of the BoT has been strictly limited.

35. The BoT now pursues market-based intervention policies, with the control of reserve money being the main target of monetary management. Reserve requirements have been used as a policy instrument since 1993; statutory reserve requirements have been extended, and minimum reserve requirements reduced from 12 to 10 percent. Foreign exchange auctions were introduced in 1993 and the BoT only intervenes to smooth seasonal fluctuations or to reach its reserve target.

36. Competitive treasury bill auctions were introduced as an instrument for liquidity management in 1993 and, since May 1996, the BoT's discount rate has been linked to the 91-day treasury bill auction rate in order to establish a more integrated interest rate structure and improve allocative efficiency. Treasury bill yields have also played an increasingly important role as a benchmark for commercial bank interest rates as the number of financial institutions increased, leading to intensified competition.

37. The changes in monetary policy were facilitated by a new BoT Act approved in April 1995 that brought the legal status of BoT in line with the needs of a market economy. The BoT policy of monetary restraint by ensuring a tight liquidity position for the commercial banks has been reflected in a reduction of inflationary pressures and the first single-digit inflation rates in more than 20 years.

B. Future Milestones

38. Maintain appropriately tight monetary policies, aiming at further reducing inflation to 4 percent by 2000/01.

39. Promote further development of financial markets, including a secondary market for treasury bills, with the aim to increase the effectiveness of open market operations.

40. Promote the development of a sound and competitive banking system in order to increase domestic resource mobilization and improve the allocation of financial resources. Promote positive real interest rates and a decline in the gap between lending and deposit rates.

VII. PRICE LIBERALIZATION

A. Reforms

41. The government has deconfined all commodities at both wholesale and retail levels that were considered essential and had state-controlled prices.

42. A regulatory framework has been developed for a fair play of the private sector in crop and input marketing in the agricultural sector. Only the quality of agricultural inputs—especially agro-chemicals—is still being controlled and closely monitored by the government.

43. The government has also liberalized the marketing farm inputs and agricultural output. Although crop prices are negotiable between farmers and licensed traders, there are guiding parameters within which the system operates. Both cooperative unions and crop marketing boards are still active dealers in the agricultural marketing system. As far as cereals are concerned, the government remains the buyer of last resort to beef-up the National Strategic Grain Reserve (SGR).

B. Future Milestones

44. Measures are under way to liberalize agricultural marketing even further to improve efficiency.

45. A monitoring system will be put in place to ensure higher mobility of food crops within the country.

VIII. PUBLIC ENTERPRISE REFORMS/PRIVATIZATION

A. Reforms

46. The government of Tanzania has made a commendable effort in the privatization of the parastatals since the reform process started in 1986. In 1992, the Parastatal Sector Reform Commission (PSRC) was established to oversee the privatization process. About 50 percent of the previously more than 400 state enterprises have so far been divested.

47. Moving from a centrally controlled economy to a market economy necessitates the promotion of the private sector to fill the vacuum created by the withdrawal of the public sector from productive and commercial activities. In that connection, the government has prepared regulatory frameworks to guide the private sector in the liberalized system. The establishment of the Tanzania Private Sector Foundation is another measure to promote private sector development in the country.

48. The Tanzania Investment Centre (TIC) was established in 1991 with the objective of regulating private investment in the country. In 1997 the TIC Act was amended to create a

promotion center rather than a regulatory body. The center is charged with promoting both domestic and foreign investment in Tanzania.

49. In 1999, Tanzania passed a new Land Act with a view to promote ownership and property rights on land, recognizing the importance of land in investment and *ipso facto*, private sector development.

50. The abolition of parastatal holding companies was announced by the government during the 1999/2000 budget session.

B. Future Milestones

51. One big challenge ahead is the divestiture of the utility companies. Preparations have already started for the privatization of the Tanzania Telecommunications Company Ltd. (TTCL), and the Dar es Salaam Water and Sewerage Authority (DAWASA). Work is also going on for concessioning the container terminal of the Tanzania Harbors Authority (THA) and marine services of the Tanzania Railways Corporation (TRC), as well as for the privatization of the National Shipping Agencies Corporation (NASACO) and the Tanzania Central Freight Bureau (TCFB).

52. The government is preparing sector-based regulatory frameworks to guide the private sector in its conduct of business. In addition, the legal framework for property rights and commercial courts is being revised.

53. Efforts are under way to put a mechanism in place to reduce the transaction costs of doing business in Tanzania; the Tanzania Investor Road Maps will be used to reduce or eliminate unnecessary hurdles and bureaucracy.

IX. Social Policies

A. Reforms

54. The government has ring-fenced budgetary allocations to priority sectors, including education, health, water, roads, agriculture, energy, and the judiciary. Budgetary allocations to these sectors should not fall below the levels of the previous year and are expected to increase in real terms. The allocation to the social sector now accounts for almost 34 percent of total expenditure and is planned to increase even further.

55. In 1996 the government, in cooperation with donors, initiated a policy-based sector development approach (SDP) that aims to improve the strategic policy framework, to agree on financing for 1998–2003, and put in place an implementation strategy and a monitoring system. In March 1999 appraisal missions on health and education were conducted.

56. The government has completed the Basic Education Master Plan (BEMP) that takes education and training policy forward to the implementation stage. BEMP entails a change in

institutional and financial arrangements in the public sector together with the transfer of resources and responsibility to the districts and school levels.

B. Future Milestones

57. The government has decided that budgetary allocation to basic education must consistently exceed 65 percent of the education budget. In addition, the government will increase nonsalary spending per child by 0.5 percent annually.

58. It is planned to achieve an annual growth rate of at least 2.5% in the gross primary school enrollment rate in fiscal year 1999 to fiscal year 2001. In line with this, particular attention will be paid to the enrollment and retention of girls in primary and tertiary education.

59. Regarding health, the government aims to lower the under 5 mortality rate from the current level of 134 per 1000 to 132 per 1000 in 2001. An additional objective is the reduction of infant mortality from the current level of 87 per 1000 to 84 per 1000 in 2001. The government aims to reduce maternal mortality from the current level of 450 per 100,000 to 420 per 100,000 by 2001.

60. In addressing major cases of morbidity and mortality in Tanzania, the government will implement an action plan for malaria control. It will also undertake measures to raise public awareness of the HIV/AIDS epidemic as a national development issue and strengthen the political commitment to fight it.

X. URBAN DEVELOPMENT AND ENVIRONMENT

A. Reforms

61. In cooperation with UNDP and a number of NGOs, the government has made plans for employment generation in the urban areas, especially targeting youth and women.

62. Environmental issues are now getting more attention and all environmental issues are coordinated by the Vice President’s Office.

63. The National Environmental Policy (NEP) has been finalized and adopted by the government; plans to begin its implementation are under way.

64. The National Environmental Management Council (NEMC) was established in 1996 with the objective of being a watch-dog for environmental standards.

B. Future Milestones

65. Plans are under way to empower the National Environmental Management Council (NEMC) so as to become more effective in enforcing environmental standards.

66. According to government regulations, all future investments will have to pass an environmental impact assessment.

XI. Tax Reforms

A. Reforms

67. Establishment of the TRA as an independent executive agency.

68. Introduction of the VAT.

69. Reform of customs duties.

70. Reform of direct taxes, particularly the investment incentive regime.

B. Future Milestones

71. Streamlining of petroleum taxation.

72. Completing tax reforms, including the reduction of exemptions and other statutory tax incentives to a minimum.

73. Establishment of a unified tax appeals system.

XII. Trade and Exchange Reforms

A. Reforms

74. In 1993/94 abolition of export licensing; elimination of surrender requirements; import liberalization, in particular abolition of import licensing through both the open general license (OGL) system and the own fund facility (OFF).

75. Steady progress in tariff rationalization, reflected in the reduction in the maximum rate from 50 percent in 1993/94 to 25 percent in 1999/00, and in the trade weighted-average import tariff from 25 percent to 15 percent.

76. In July 1996, Tanzania accepted the obligations of Article VI of the IMF Articles of Agreement of liberalized exchange regimes, and has since then maintained an exchange system free from restrictions on payments and transfers for current international transactions.

B. Future Milestones

77. Improving the transparency of the import system in 1999/2000, in particular by minimizing the scope of exemptions, and eliminating restrictions on petroleum imports.

78. Liberalize nonresidents' participation in domestic capital and money markets.

Tanzania: Debt Management Issues

1. In Tanzania, external debt data are maintained in the Debt Management Department (DMD), which is part of the Directorate of Economic Policy in the Bank of Tanzania. The Department was originally established as a unit of about 6 economists, dealing exclusively with external debt. Today, the department is headed by a Deputy Director and consists of about 20 economists, of which about 16 work on external debt issues and the remaining four on domestic debt issues. The department deals with all external debt, including external private debt. However, information on private debt is less comprehensive than that on public debt, as the practice of officially recording or approving private debt has been discontinued after the financial liberalization in the mid-1990s.

2. Debt management capacity has improved substantially since 1998, as the Department received substantial technical assistance, including in data processing. Efforts were focused on ensuring the comprehensiveness and accuracy of the external debt database in preparation for the loan-by-loan debt sustainability analysis. Extensive technical assistance was provided by several agencies, including through Debt Relief International (DRI) and the Macro-Economic and Financial Institute of Eastern and Southern Africa (MEFMI).

3. The Department's staff is becoming increasingly familiar with up-to-date computer hardware and software (which includes access to the World Wide Web and a personalized e-mail system), and has been receiving intensive training in the use of sophisticated methodologies and techniques in conducting debt analysis. Until the recent purchase of the Debt-Pro Package in February 1999, the Department used exclusively the Commonwealth Secretariat's Debt Recording and Management System (DRMS), which has some limitations when used in conjunction with the latest debt-analysis software. The Department intends to adopt the improved version of the Commonwealth Secretariat's DRMS (to be released in mid-1999) for use with new versions of Debt-Pro and the World Bank's DSM+ for debt-analysis (as soon as available).

4. Efforts to improve debt management capacity are currently focused on improving coordination between the debt management department and the general accountant's office at the Ministry of Finance (MOF), in particular by facilitating MOF staff's access to information in the external debt database (including through training). Steps are also being taken to ensure that external disbursements and payments are recorded and processed on a timely basis in the database, with a maximum lag of about two weeks. There is also scope for improving the efficiency of payments operations. The department runs the DRMS on a quarterly basis to make projections of debt service payable to creditors. However, payments are not made until a creditor statement has been received and approved by the Ministry of Finance, a procedure which has resulted in some delays in payments. According to department's staff, this has occasionally led to the reporting of external arrears for short time periods. Efforts are currently under way to rectify this problem, in particular by adopting a more proactive approach in making timely payments to creditors.

HIPC Initiative: Status of Country Cases

Country (in order of expected decision point within groups)	Decision Point	Completion Point	NPV of Debt-to-Export Target (In percent)	Assistance at Completion Point (in millions of U.S. dollars, present value, at completion point)					Percentage Reduction in NPV of Debt 1/	Estimated Total Nominal Debt Service Relief (in millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
				Total	Bilateral	Multilateral	IMF	World Bank			
Completion point reached											
Uganda	Apr. 97	Apr. 98	202	347	73	274	69	160	20	650	Received
Bolivia	Sep. 97	Sep. 98	225	448	157	291	29	54	13	760	Received
Guyana	Dec. 97	May 99	107 2/	256	91	165	35	27	24	410	Received
Mozambique	Apr. 98	Jun. 98	200	1,716	1,076	641	125	381	63	3,700	Received
Decision point reached and assistance committed by IMF and World Bank											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141 2/	345	163	182	23	91	6 3/	800	Being sought
Mali	Sep. 98	Dec. 99	200	128	37	90	14	44	10	250	Being sought
Total assistance provided/committed (of seven countries)				3,355	1,618	1,737	305 4/	801	20	6,770	
Preliminary HIPC document issued; targets based on majority view in preliminary discussions at IMF and World Bank Boards; assistance based on preliminary HIPC documents and subject to change											
Guinea-Bissau	2000 5/	2003	200	300	148	153	8	73	73	600	...
Ethiopia	1999 6/	2002	200	636	225	411	22	214	23	1,300	...
Mauritania	Jul. 99 7/	2002	200	271	114	157	21	43	25	550	…
Debt judged sustainable											
Benin	Jul. 97	...	...	...	...	...	...	...	...	...	...
Senegal	Apr. 98	...	...	...	...	...	...	...	...	...	...

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ In percent of net present value of debt at completion point, after full use of traditional debt-relief mechanisms.
2/ Eligible under fiscal/openness criteria; NPV of debt-to-exports target chosen to meet NPV of debt-to-revenue target of 280 percent, as projected at the decision point.
3/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation ratio.
4/ Equivalent to SDR 212 million.
5/ Debt situation needs to be revisited once the current conflict has ended and a new recovery program agreed.
6/ Country case is delayed due to conflict.
7/ Staffs suggested that Mauritania could be considered to have reached the decision point in July 1999 once the new ESAF arrangement is approved by the Board. The formal decision point would be expected in the fall of 1999, when assistance will be committed by the Boards on the basis of the enhanced HIPC Initiative framework expected to have been agreed by that time.