

Tanzania: 2002 Article IV Consultation, Fifth Review Under the Poverty Reduction and Growth Facility and Request for an Extension of the Arrangement and Waiver of Performance Criterion—Staff Report; Public Information Notice and News Brief on the Executive Board Discussion; and Statement by the Executive Director for Tanzania

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2002 Article IV consultation with Tanzania, fifth review under the Poverty Reduction and Growth Facility and request for an extension of the arrangement and waiver of performance criterion, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation, fifth review under the Poverty Reduction and Growth Facility and request for an extension of the arrangement and waiver of performance criterion prepared by a staff team of the IMF, following discussions that ended on **September 20, 2002** with the officials of Tanzania on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on November 4, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- the Public Information Notice (PIN) and a News Brief summarizing the **views of the Executive Board as expressed during the November 18, 2002 discussion** of the staff report that concluded the Article IV consultation and fifth review under the Poverty Reduction and Growth Facility and request for an extension of the arrangement and waiver of performance criterion, respectively.
- a statement by the Executive Director for Tanzania.

The document(s) listed below have been or will be separately released;

Selected Issues and Statistical Appendix

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TANZANIA

Staff Report for the 2002 Article IV Consultation, Fifth Review Under the Poverty Reduction and Growth Facility Arrangement, and Requests for Extension of the Arrangement and Waiver of Performance Criterion

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by José Fajgenbaum and Michael T. Hadjimichael

November 4, 2002

- Tanzania continues to enjoy political and economic stability. Its performance under the program supported by the Poverty Reduction and Growth Facility (PRGF) has been positive, evidenced by economic growth of 5-6 percent a year, low single digit inflation, and a comfortable level of foreign exchange reserves. Tanzania is receiving large and steady support from the donor community, including through sizeable debt relief following the completion point under the HIPC Initiative in November 2001. Structural deficiencies, however, particularly as regards revenue mobilization and financial intermediation, limit Tanzania's ability to become less dependent on donor support and constrain its growth prospects.
- Discussions for the 2002 Article IV consultation and the fifth review under the PRGF arrangement were held in Dar es Salaam and Zanzibar during September 5-20, 2002 by a staff team comprising Mr. Reitmaier (head), Mr. Treichel, Mr. Nassar, Mr. Bhundia (all AFR), Ms. Fedelino (FAD), Mr. Hussain (PDR), Mr. Abdi (Senior Resident Representative) and Mr. Maynard (Staff Assistant-AFR). The mission was received by President Mkapa and met with the Minister for Finance (Mr. Mramba), the Governor of the Bank of Tanzania (Mr. Ballali), and senior officials from these and other government departments. The mission also met with representatives of the business and banking communities, trade unions, and NGOs. Ms. Muganda, Advisor to the Executive Director for Tanzania, participated in the policy discussions. The mission collaborated closely with World Bank staff.
- Completion of the fifth review under the PRGF arrangement will entitle Tanzania to a disbursement of SDR 20 million (Table 1). The government's letter of intent (LOI) relating to this review is presented in Appendix I; it contains requests for an extension of the arrangement to allow time for the final review to be completed and for the waiver of a performance criterion. Other appendices summarize Tanzania's relations with the Fund and the World Bank Group, discuss statistical issues and the government's updated poverty analysis, and present social and demographic indicators.
- In concluding the last Article IV consultation on September 24, 2001, Executive Directors commended the Tanzanian authorities for their sound macroeconomic and structural policies which, if sustained, would help Tanzania achieve the poverty reduction targets envisaged in its Poverty Reduction Strategy Paper. In view of Tanzania's heavy reliance on external financing, Directors encouraged the authorities to make a more determined revenue effort, by widening the tax base, reducing exemptions, and improving tax administration. They welcomed the planned publication of quarterly budget execution reports. Directors endorsed a tightening of monetary policy in light of the sharp increase in broad money, and supported the maintenance of a flexible exchange rate regime.

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EXECUTIVE SUMMARY

- **Since the mid-1990s, Tanzania has made substantial progress in macroeconomic stabilization and structural reform.** Real growth has been on a rising trend; it has averaged more than 5 percent since the inception of the current PRGF-supported program in early 2000, resulting in a small increase in per capita incomes, while inflation has declined to below 5 percent.
- **Tanzania's performance under the PRGF-supported program has been broadly on track.** All the quantitative performance criteria through end-June 2002 were observed, but quantitative benchmarks on reserve money, extrabudgetary expenditure, and the accumulation of domestic budgetary arrears were not met. One structural performance criterion, relating to the amendment of legislation to tighten approval procedures for incurring or guaranteeing new foreign borrowing, was not observed; however, comparable action is expected to be taken by end-February 2003.
- **Fiscal consolidation has been central to the success in macroeconomic stabilization.** As donors have provided sizable financial assistance in support of Tanzania's reform program, the government's domestic financing needs have all but been eliminated. Fiscal performance in 2001/02 (July-June) was broadly in line with the program.
- **Monetary developments in recent years were characterized by strong monetary expansion,** as large inflows were not fully sterilized and the demand for broad money expanded with the gradual deepening of the financial system. So far in 2002, increases in reserve money and broad money have been exceeding program projections by wide margins, but as yet have not had much discernible impact on inflation.
- **The program for 2002/03 aims at maintaining macroeconomic stability, as well as enhancing revenue collection through reforms of tax policy and of tax administration, particularly as regards tax exemptions.** Expenditure management will be strengthened through tightening expenditure controls further to prevent the emergence of arrears and by improving the planning and execution of poverty-reducing programs.
- **The 2002/03 budget foresees an increase in the allocations for poverty-reducing measures in line with the priorities spelled out in the poverty reduction strategy.** In this regard, the program allows for a widening of the deficit, which will be fully financed by grants and concessional loans.
- **In view of the perceived strong increase in the demand for money, the monetary program for 2002/03 envisages an upward revision of monetary aggregates relative to earlier projections.** Achieving the revised targets will require an intensification of the Bank of Tanzania's sterilization operations through additional sales of liquidity paper, and, possibly, sales of foreign exchange.

I. RECENT ECONOMIC DEVELOPMENTS

1. **Since the mid-1990s, Tanzania has made substantial progress in macroeconomic stabilization and structural reform.** Real GDP growth has been on a rising trend; it has averaged more than 5 percent since the inception of the current PRGF-supported program in early 2000, resulting in a small increase in per capita incomes, while inflation has declined to below 5 percent (Table 2 and Figure 1). Higher real growth in the agricultural sector (which accounts for almost half of GDP) has been accomplished through the liberalization of production and marketing structures, as well as of agricultural prices and the foreign exchange regime. In addition, the mining and construction sectors have experienced strong growth, reflecting the commencement of large-scale gold mining operations and new tourist projects (Table 3).
2. **Real GDP grew by 5.6 percent in 2001 and is expected to grow by almost 6 percent in 2002.** The 12-month rate of nonfood inflation rose from 1.5 percent in December 2001 to 7.2 percent in September 2002, largely as a result of a sharp increase in electricity tariffs in April¹; however, the overall inflation rate continued to decline to 4.4 percent by September 2002, as favorable developments in agricultural output helped contain increases in food prices (Figure 2).
3. **Fiscal consolidation has been central to the success in macroeconomic stabilization.** In support of Tanzania's reform program, donors have provided sizable financial assistance, which all but eliminated the government's domestic financing needs (Table 4 and Figure 3). Expenditure management has been strengthened by the adoption of a centralized payment system and the limitation of spending to cash availability. At the same time, the composition of expenditure has improved in favor of allocations for poverty-reducing programs, as the wage bill has declined following the reduction in the size of the civil service, and interest payments have fallen on account of lower financing requirements and debt relief provided by donors. Revenue mobilization, however, has improved only marginally, owing to weaknesses in tax administration, the proliferation of tax exemptions, and a gradual move of the tax base from a large, easy-to-tax public sector to a predominantly informal private sector in the course of the divestiture of many parastatals.
4. **Fiscal performance in 2001/02 (July-June) was in line with the program** (Tables 4 and 6). The overall deficit before grants was about 1.7 percent of GDP lower than budgeted, owing to lower recurrent expenditures, which did not, however, affect priority areas (see the authorities' letter of intent (LOI) in Appendix I, para 5). This expenditure outturn, together with a revenue performance broadly in line with projections, resulted in a significant build up of government deposits with the Bank of Tanzania (BoT).

¹ The increase in electricity tariffs explains about 80 percent of the step increase in non-food inflation.

5. **Monetary developments in recent years were characterized by strong monetary expansion**, as large foreign inflows were not fully sterilized and the demand for broad money expanded with the gradual deepening of the financial system. Primarily reflecting the lack of suitable lending opportunities, the banking system developed an increasingly large structural liquidity surplus which triggered an excess demand for treasury bills and, consequently, a decline in interest rates on bills and deposits. Interest rates on loans, however, remained high, reflecting high costs and still weak competition in the banking system, although in the first half of 2002 banks exercised growing flexibility in their lending rates in order to deploy excess funds (Figure 2). The BoT has been slow in mopping up excess liquidity—be it through higher sales of foreign exchange (out of concern over adverse effects on Tanzania’s competitiveness from an appreciation of the shilling) or through a more aggressive issuance of treasury bills (out of concern over rising interest rates and the costs of the mopping-up operations).

6. **So far in 2002, increases in reserve money and broad money have been exceeding program projections by wide margins, but as yet have not had much discernible impact on inflation.**² Although the monetary authorities stepped up the issuance of treasury bills, sold some foreign exchange, and engaged in repurchase operations to absorb some of the excess liquidity, the benchmark ceiling on reserve money for end-June was not observed (Table 7). In the third quarter of 2002, the BoT decelerated its mopping-up operations again, and the resulting excess demand for treasury bills led to a significant decline in interest rates (Figures 2 and 4).

7. **Since early 2001, the shilling has depreciated against the U.S. dollar by about 15 percent, reflecting the larger-than-anticipated monetary expansion** (Figure 5). The ensuing real effective depreciation has now fully compensated for the real appreciation during 2000, but is still leaving agricultural producers to face the impact of lower international prices for coffee and cotton. Tanzania has accepted the obligations of Article VIII and maintains an exchange system that is free of restrictions on payments and transfers for current international payments.

8. **Structural measures have focused on the reform and privatization of parastatals, as well as the creation of a market-oriented regulatory framework.** Since 1992, about two-thirds of all state-owned companies have been privatized, including large enterprises, such as the container port, part of the telecommunications company, and the National Bank of Commerce. Meanwhile, the divestiture of strategic enterprises in the utility and transportation sectors is only slowly gaining momentum. In parallel to the privatization process, the government has begun to establish new regulatory agencies, with a view to establishing and enforcing appropriate operational and safety standards for all market participants. In addition, the government has taken measures aimed at strengthening economic governance, especially in public expenditure management, and at improving the investment climate, with the recently created Investors’ Roundtable serving as an important forum in which to identify impediments to investment.

² In addition to continued strong foreign inflows, this expansion reflected also a number of special factors, as detailed in the authorities’ LOI, para. 10.

9. Following discussions among the Tanzanian government, the British supplier, and the International Civil Aviation Organization (ICAO), Tanzania has proceeded with the purchase of an **air traffic control system**. Meanwhile, the supplier has offered to provide free technical assistance to the Tanzanian airport authority regarding the operation of this system. Also, the Ministry of Finance is planning to convene a meeting of interested parties on how to implement the technical and financial recommendations made by the ICAO in its recent report on the radar system.

10. **Tanzania's balance of payments position has strengthened substantially in recent years** (Table 8). The external current account deficit (including official transfers) narrowed sharply—from the equivalent of 9.2 percent of GDP in 1999 to 5.4 percent in 2001—as a result of growth in nontraditional exports and a steady flow of foreign assistance; together with the debt relief under the Initiative for Heavily Indebted Poor Countries, this resulted in a large increase in international reserves. There has also been progress in **trade reform**. In the 2001/02 budget, the number of nonzero tariff bands was reduced from four to three,³ and, in the context of regional integration, all tariffs on imports from Tanzania's partners in the East African Community (namely, Kenya and Uganda) were reduced by 80 percent. Several import surcharges (so-called suspended duties) that had been imposed in 2001 were substantially reduced in the budget for 2002/03, and a plan for their complete elimination over a six-year period was announced.⁴

11. **Thus far in 2002, Tanzania's balance of payments position has strengthened further.** Total exports have improved, largely on account of higher-than-expected gold prices, even though traditional exports have declined, reflecting continued low commodity prices and a consequent fall in export volumes. Imports have declined slightly on account of lower imports of consumer goods, possibly reflecting the real depreciation of the shilling. Meanwhile, gross official reserves of the BoT increased to US\$1.3 billion at end-September 2002, equivalent to seven months of import cover.

II. RECENT PERFORMANCE UNDER THE PROGRAM

12. **All quantitative performance criteria and the quantitative benchmark on central government revenue for end-June 2002 were observed,** (LOI, para. 3 and LOI, Table 1). New domestic payment arrears in the form of unmet utility bills are estimated to have run up to about T Sh 9 billion, but measures have now been taken to prevent the recurrence of such arrears (LOI, para. 29). The government also incurred extrabudgetary expenditure on the purchase of a new air traffic control system totaling US\$19 million during 2001/02; the authorities indicated that these extrabudgetary expenditures would be regularized in the

³ Prior to the budget for 2001/02, the four tariff bands were 5, 10, 20, and 25 percent. In that budget, the 5 percent rate was eliminated and the 20 percent rate reduced to 15 percent.

⁴ Before the latest changes to the trade regime, Tanzania had an overall trade restrictiveness rating of 5.

course of fiscal year 2002/03, while other reallocations would be made within the budget for 2002/03.

13. With regard to **structural reform**, the end-May 2002 performance criterion on the clearance of all audited domestic arrears accumulated during July-December 2000 was observed, as was the end-July performance criterion with respect to the gradual elimination of import surcharges (LOI, para.3 and LOI, Table 2; see also Box 1). The performance criterion on the submission to parliament of legislation that would make the government's incurring or guaranteeing of foreign debt subject to cabinet approval upon recommendation by the Minister for Finance was not observed, partly because the government changed its approach with respect to this measure following the adoption of the new National Debt Strategy in May 2002. Instead of introducing the relevant legislative changes in October 2002, as originally planned, the government now intends to submit to parliament all amendments to the Loans, Guarantees, and Grants Act emanating from the National Debt Strategy in February 2003, including the requirement that only the Minister for Finance has the authority to contract debt on behalf of the government.

14. The mission expressed concern about the delay in tightening **the approval procedures for foreign borrowing** and the authorities' intention to vest final approval authority with the Minister for Finance rather than the full cabinet, as the government committed itself to do in its memorandum of economic and financial policies of March 29, 2002. The authorities explained that aggregate new debt incurred for budget financing already required cabinet and parliamentary approval in the context of established budget procedures. This, coupled with the intended mandatory approval by the Minister for Finance of specific loan proposals, provided sufficient assurance against any imprudent and uncoordinated foreign borrowing. The mission deferred to this view and agreed to support the authorities' request for a waiver for the nonobservance of the respective performance criterion.

15. **Three structural benchmarks were observed on time**, and a fourth with one-month delay (LOI, Table 2). Meanwhile, the publication of individual and consolidated quarterly revenue and expenditure accounts for local governments has been delayed by six months, owing to delays in producing the reports at the local government level.⁵ The publication of a report on the implementation of ministerial anticorruption plans has been delayed by three months, and the harmonization of the treatment of banks' loan loss provisions by two months.

III. MEDIUM-TERM OUTLOOK AND POLICY CHALLENGES

A. Macroeconomic Framework

16. The authorities' macroeconomic framework, as presented at the annual public expenditure review consultations with stakeholders in May 2002, projects real GDP growth

⁵ As of end-September 2002, the accounts of 111 out of 114 local governments had been received and their consolidation had begun.

of 6 percent a year over the medium term. The sources of this projected growth are continued strong activity in tourism, construction, and the mining sector, and a further improvement of performance in the agricultural sector. A key component of the government's growth strategy is the implementation of the agricultural development strategy, which should translate into growth of above 5 percent in agriculture.⁶ Notwithstanding a deterioration of the outlook for the terms of trade of traditional agricultural products, real GDP growth in 2002 is projected at 5.9 percent, owing to a rebound in tourism, the impact on agriculture of favorable weather in 2001, and further growth in mining activities following the entry into the field of new mining companies and the expansion of output from existing mines. In 2003, GDP is expected to grow by at least 6 percent, while inflation is targeted to remain below 5 percent.

17. In support of the authorities' poverty reduction strategy, Tanzania expects to receive additional donor inflows over 2003-2006, including assistance under the HIPC initiative. While a further increase in donor funds as well as the envisaged increase in revenue of 1 percentage point of GDP over the period may obviate the need for domestic financing, it would still support a trend increase in the overall budget deficit, which could further exacerbate the overshooting of monetary targets and rekindle inflationary pressures. To address this risk, the staff considers that coordinated action to tighten both monetary and fiscal policies is necessary. In view of the pressing expenditure needs for poverty reduction, the tightening of fiscal policy should be predominantly effected through greater revenue mobilization.

18. As the presently envisaged increase in revenue appears modest in light of the authorities' efforts at reforming tax administration and tax policy (LOI, para.26), the staff considers a more ambitious increase in fiscal revenue of about 2-3 percentage points of GDP from 2003 to 2006 to be appropriate. Higher revenue collection would reduce Tanzania's aid dependency and make it less vulnerable to a possible decline in foreign aid. It would also mitigate the need for sterilizing actions by the monetary authorities which could result in upward pressure on the exchange rate and adversely affect competitiveness. Consequently, the pursuit of monetary targets would be less affected by considerations of competing objectives.

B. The Poverty Reduction Strategy

19. **Tanzania's poverty reduction strategy is oriented toward achievement of the Millennium Development Goals**, with a broad range of output and outcome indicators specified for three-five years into the future in the poverty reduction strategy papers, and annual PRSP progress reports. Financial policies aim at maintaining macroeconomic

⁶ The Agricultural Sector Development Strategy has been designed with the objectives of increasing profitability and productivity of agriculture and livestock as a means of reducing rural poverty through improvement of farmers' incomes and promotion of food security. Main elements of the agricultural development strategy are discussed in the Tanzania—Poverty Reduction Strategy Paper Progress Report 2000/01, August 14, 2001 (<http://www.imf.org>) and assessed in the Tanzania—Poverty Reduction Strategy Paper—Progress Report—Joint Staff Assessment, November 2, 2001 (<http://www.imf.org>).

stability, with an emphasis on mobilizing additional government revenue; structural reforms seek to remove impediments to growth; and the forthcoming implementation plan for the agricultural development strategy targets an area of crucial importance in the fight against poverty and the development of a more dynamic and private sector-led growth.

20. **The authorities expect to present the second annual PRSP progress report by the end of November 2002.** It will report on the measures and targets laid out in the first progress report and fill gaps identified in the joint staff assessment of the earlier report, notably by presenting a comprehensive poverty analysis. Results of the 2000/01 household budget survey are now available and allow a comprehensive assessment of poverty in Tanzania.⁷ The second PRSP progress report will also draw on the Poverty and Human Development Report of June 2002, which presents an overview of the status of the main poverty indicators and includes a detailed analysis of various aspects of poverty, focusing particularly on vulnerability. The PRSP progress report will benefit from a number of recent stakeholder meetings held to review progress in local government reform, the reform of primary education, and the implementation of the road infrastructure improvement program; a meeting was also held to assess the process of annual public expenditure reviews.

C. Fiscal Policy

21. **The medium-term challenges in the fiscal policy area center on two key issues:** the need (i) to increase domestic revenue mobilization by broadening the tax base in an equitable way, and (ii) to improve expenditure management, so as to ensure that higher spending on poverty-reducing programs is being used effectively, including at the local government level.

22. **In 2002/03, the overall deficit (before grants) is projected to widen to almost 10 percent of GDP,** against an actual deficit of 5.6 percent of GDP in 2001/02 (Table 4). This large increase—driven by an expansion in priority expenditure programs (see below)—is expected to be financed mainly through higher external assistance, while the government's net domestic financing is projected at 0.7 percent of GDP, compared with 0.4 percent in the original program.

23. **Expenditure in 2002/03 is targeted at 22.2 percent of GDP, more than 4 percent of GDP higher than the outcome of 2001/02** (Table 4). This increase, which should be seen against the large underspending in 2001/02 relative to the program, is due to (i) a large rise in foreign-financed project expenditure, (ii) an increase in nonwage priority outlays, and (iii) an increase in the wage bill in line with the medium-term civil service reform.⁸ Foreign-financed project expenditure will increase by 2.4 percent of GDP relative to the recorded outturn for

⁷ Appendix V presents some of the findings of the household budget survey.

⁸ The civil service reform, now at an advanced stage, aims at improving the quality of public services and raising salary scales, so as to narrow the large gap to salaries paid in the private sector. The reform is being supported by the World Bank and other donors. Progress in implementing the reform has been broadly satisfactory.

2001/02, mainly owing to a large new project (the Songas fuel project, equivalent to about 1.3 percent of GDP) and better recording in the budget of the existing stream of projects (about 1.1 percent of GDP).⁹

24. **The 2002/03 budget targets an increase in the revenue-to-GDP ratio of 0.2 percentage point to 12.3 percent.** In support of this target, the authorities are implementing the series of revenue-enhancing measures detailed in paragraphs 25 and 26 of the letter of intent, including, among others, changes to the income tax regime, a tightening in the administration of selected exemptions, and the elimination of import duty and excise exemptions for government institutions.¹⁰

25. **The recently adopted act on export processing zones (EPZ Act) is not consistent with the thrust of this revenue policy.** In the view of the staff, generous tax incentives (including income tax holidays) for EPZs could lead to leakages from the existing revenue base. The authorities explained that the EPZ Act was intended to favor only new foreign direct investment—with consequent employment and wage tax gains—with specific emphasis placed on the export opportunities offered by the U.S. African Growth and Opportunity Act (AGOA) and the European Union's Everything But Arms import policy. The mission held that because of the very broad eligibility provisions of the EPZ Act, it may not be possible to exclude even existing businesses from gaining EPZ status. The EPZ Act also committed the government to providing costly infrastructure and to fast-tracking for EPZs many reforms that had long been awaited by the business community at large. In response, the authorities agreed to delay the coming into effect of the EPZ Act, and to review its provisions so as to target benefits more narrowly to the intended purposes.

26. **Following the continued—albeit small—accumulation of domestic arrears in 2001/02, the government has decided to further tighten expenditure controls.** To this end, new procedures for the payment of utility bills were put in place as of July 2002 (LOI, para. 29). **The planning and execution of poverty-reducing programs** will be facilitated by the identification of budgetary codes for priority sector expenditure for consistent use across the PRSP, budget, and budget execution reports. A critical first step in this direction will constitute a structural performance criterion for end-February 2003 (LOI, Table 4). The

⁹ In 2002, the authorities, working closely with donors, initiated a database of foreign-financed projects, according to which the actual volume of these projects substantially exceeded budgeted amounts. Although work on this database is ongoing, evidence so far suggests that the underestimation of budgeted amounts in the past was due to lower recorded levels of *project grants*; *project loans*, meanwhile, were already channeled through the budget and, therefore, captured in the debt stocks.

¹⁰ Since 1999, donors have been supporting the authorities' efforts at modernizing tax administration through a World Bank-led project with a total volume of US\$73 million. The project's objective is to raise tax revenue by broadening the tax base and improving the TRA's effectiveness. Also, in October 2002 a FAD revenue administration mission took place.

status of additional measures identified in the context of the Assessment and Action Plan (AAP) for tracking poverty-reducing expenditure is presented in Box 2.¹¹

27. **To prepare the ground for greater fiscal decentralization, the authorities are planning specific measures to harmonize taxes and levies at the local government level.** The wide disparity and multiplicity of local taxes have been identified as hindering the development of the agricultural sector, including in the context of the Investors' Roundtable. The authorities intend to issue guidelines to local governments on tax harmonization (a structural benchmark for end-February 2003; LOI, Table 4).

D. Monetary Policy and Financial Sector Reform

28. **The main challenges in the area of monetary policy and financial sector reform are posed by the pervasive overshooting of money supply targets and the need to establish an institutional and regulatory framework conducive to bank lending.** The BoT has so far been reluctant to address higher-than-targeted monetary growth, out of concern that sales of foreign exchange might lead to an undesirable appreciation of the exchange rate, and that large sales of liquidity paper at rising interest rates may become too costly. At the same time, various structural impediments to bank lending are constraining investment by the private sector and contributing to the creation of a structural liquidity surplus in the financial sector, thereby putting downward pressure on interest rates.

29. **In view of the perceived strong increase in the demand for money, the monetary program for 2002-03 provides for an upward revision of monetary aggregates relative to earlier projections** (Table 7). During the policy discussions, the authorities argued for a continued strong monetary expansion, including to minimize the exchange rate appreciation stemming from large inflows of donor support and foreign direct investment. The mission held that the risk of rekindling inflation was real, and consequently advised a more cautious approach and stricter adherence to the reserve money target. As a result of the discussions, broad money (M3, including foreign currency deposits) was programmed to increase by 21 percent during 2002, compared with an earlier indicative target of 12 percent and an actual increase of almost 25 percent over the 12 months ended August 2002. The authorities expect to be able to reduce M3 growth significantly further during the first half of 2003.

30. **Achieving the revised targets for M3 will require an intensification of the BoT's sterilization operations.** To this end, the authorities started in August 2002 to convert the government's large stock of nonmarketable debt to the BoT into securities with maturities ranging up to seven years (LOI, para. 11). The mission welcomed this conversion but advised the BoT that additional sales of liquidity paper will be needed in order to restore positive real interest rates, an essential prerequisite for further financial deepening. So as not to rule out a larger absorption of liquidity through sales of foreign exchange than is currently foreseen, the program floor under the BoT's net international reserves through mid-2003 has been

¹¹ The AAP was agreed with the authorities and the World Bank during an October 2001 mission; this mission was part of a wider initiative to assess the ability of 24 HIPC countries to track poverty-reducing expenditure.

established below its projected levels; this floor, however, is still consistent with the goal of maintaining a comfortable reserve cushion.¹²

31. The authorities will continue their **efforts to strengthen the financial sector**, in particular by addressing various impediments to bank lending. In this connection, the government is preparing measures to unblock the **use of land as collateral for bank loans**, including a possible amendment of the Land Act which would be presented to Parliament during the February 2003 session. This would be complemented by judicial reforms, including the strengthening of the **commercial court**, with a view to keeping the average case resolution period below six months. Furthermore, the authorities have requested that an assessment under the Financial Sector Assessment Program (FSAP) be conducted in the first half of 2003. In light of the recent pickup in credit to the nongovernment sector and the increase in the risk assets of the banking sector, the FSAP mission will seek to assess the health of individual banks and their ability to carry out proper risk analysis. Currently, the banks' ability to assess borrowers' creditworthiness is hampered by the absence of a credit information bureau. Box 3 discusses indicators of banking sector soundness.

32. The government confirmed its intention to encourage **microfinance** by submitting a draft law establishing the legal, regulatory, and supervisory framework for microfinance operations to Parliament in February 2003 (LOI, para. 33). The authorities' efforts to privatize the National Microfinance Bank suffered, however, further delays, and the bank is now expected to be brought to the point of sale only in the first half of 2003. Box 4 describes the present status of microfinance in Tanzania. To further strengthen the availability of financing to the agricultural sector, the authorities have established an **export credit guarantee scheme** under the management of the Bank of Tanzania. The BoT agreed to modify the regulations for this scheme to ensure that it does not lead to excessive exposure by the authorities or weaken credit assessment by financial institutions.

E. Other Structural Reforms and Governance Issues

33. **Key challenges on the structural reform front are to complete the privatization agenda and to take further steps to promote an environment conducive to investment.** While most of the smaller public enterprises have already been privatized, the privatization of large strategic enterprises in the utility and transportation areas is proving more difficult. Given the fragile financial situation of many of these companies, their successful divestiture would enhance the reliability and accessibility of services, thus raising economic efficiency and improving living standards.¹³ Furthermore, notwithstanding the improvements in past

¹² The mission suggested that, in order to reduce the risk of excessive fluctuations of the exchange rate in the wake of BoT interventions, the BoT should announce quarterly targets for net sales into the foreign exchange market.

¹³ The staff suggested that poverty and social impact analyses (PSIAs) could be useful in ascertaining the impact of privatization on vulnerable segments of the population and in designing possible safety net measures. The World Bank indicated that preparations for the PSIAs were currently only at an initial stage, and first results might not be available until early 2004.

years, the investment environment remains difficult, and further substantial measures in the areas of institution-building and administrative and legal reform will be necessary to achieve higher growth.

34. **The authorities are continuing the privatization of public enterprises.** Following delays in arriving at a draft concession agreement, the concessioning of the **water utility DAWASA** is expected to be completed by end-2002. The financial performance of the **electricity utility TANESCO** has improved following the takeover of the company's management by a new management team from the private sector. A partial privatization (49 percent) of **Air Tanzania** and the concessioning of the **Tanzania Railway Corporation** are expected to be finalized later this year or early next year.

35. The divestiture of shares of the **telecommunications company, TTCL**, is being blocked by a protracted dispute between the government and foreign investors over payment of the second tranche under the purchase agreement for 35 percent of the company's equity. The contract foresees that the amount of the second tranche depends on the results of a financial audit of the company's accounts for 2000. However, a dispute over the quality and accuracy of these accounts has so far prevented an agreement between the government and the investors. Failure to resolve the conflict may result in the departure of the foreign investors and damage Tanzania's image as an investment location.

36. **The retrenchment of employees remains a crucial problem affecting the pace of privatization.** The commencement of the management contract for the electricity utility **TANESCO** in May 2002 was delayed by a dispute between the government and workers over the benefit package for retrenched workers. Although the management team eventually began its work, an agreement on the retrenchment package has yet to be reached. Disputes of this nature may also arise during the privatization of other parastatals. The authorities have restated their policy of limiting any budgetary support for retrenchment pay to statutory benefits only, while permitting companies with sufficient own resources to pay higher benefits (LOI, para.38). The mission advocated a uniform policy on retrenchment benefits, as the financial strength of the company depended itself on previous government policy and unequal treatment of retrenched employees could lead to delays in the privatization process.

37. **In cooperation with donors, the government is continuing its efforts at fighting corruption and improve governance.** Although the publication of the report on the implementation of ministerial anticorruption plans has been delayed until December 2002, owing to capacity constraints in the Prevention of Corruption Bureau (PCB), a consultant's report on the state of corruption in Tanzania will soon be made available to the public. Recent efforts to promote good governance include the adoption of ethics and accountability programs at key institutions, in particular the police and local magistrates. The authorities indicated that requests for such programs were expanding, and that more reports on corrupt behavior were being brought to the attention of the police. They also stressed that the government's anticorruption program focused primarily on institutions of particular importance to the poverty reduction program, such as the education and health care sectors.

38. **The government is continuing its dialogue with the business community on problems affecting the investment climate.** The Investors' Roundtable inaugurated in July 2002 has identified the following key areas for attention: land ownership; labor policy and

legislation; tax administration; the judiciary; the licensing of business activities; the quality of road transport; and issues affecting the agricultural sector. The July roundtable produced a policy matrix of short-term actions that will be reviewed at the next meeting, in January 2003 in Zanzibar.

39. During **discussions in Zanzibar**, the Zanzibari officials noted that, in the aftermath of political stabilization, economic activity had begun to pick up, notably in the tourism and transportation sectors. While illegal trading had been clamped down upon, customs revenue had not yet improved. The government of Zanzibar has recently shifted its accounts from the People's Bank of Zanzibar (PBZ) to the Zanzibar branch of the BoT. The privatization of the PBZ is complicated by its large negative capital position, equivalent to about T Sh 13 billion. Zanzibari officials expressed an interest in greater technical assistance from the Fund.

F. External Sector Issues

40. **The medium-term balance of payments projections indicate that the current account deficit (excluding grants) will remain under 10 percent of GDP** (Table 8).

Exports are projected to increase at an annual average rate of 7.3 percent, based on a continued strong growth in nontraditional exports in line with the expected increase in gold production, a rebound in manufacturing, and a gradual recovery in the volume of traditional exports through the implementation of the agricultural sector development strategy.

Projections of the current account deficit and the amortization (after debt relief) of foreign debt indicate continuing substantial financing requirements in the medium term which are expected to be fully covered by anticipated external grants and concessional loans. Official foreign assistance is expected to stay roughly unchanged, at slightly above US\$1 billion per year in nominal terms, over the next five years; the amount expected for fiscal year 2002/03 includes more than US\$400 million in the form of program assistance (Table 9).

41. **The external current account deficit** (excluding official transfers) is expected to narrow slightly in 2002, to 8.9 percent of GDP. Underlying this improvement is a stronger performance of nontraditional exports (mainly gold), which are expected to grow by 18 percent in U.S. dollar terms, as well as a pickup in tourism receipts. Meanwhile, traditional exports are expected to decline reflecting adverse developments in the terms of trade, notably for coffee, cotton, and cashew nuts. Imports of consumer goods are expected to grow very little, partly because of the recent depreciation of the shilling, while imports of capital goods remain strong, as mining sector activity continues to grow.

42. **The recent real depreciation of the shilling has almost fully offset adverse effects of the real appreciation during 1997-2000 on the export sector's competitiveness** (Figure 5). Nevertheless, the volume of traditional exports rebounded only slightly as depressed world prices for coffee, cashew nuts and cotton constrained the supply response to a more competitive exchange rate. As projected large aid and investment inflows as well as strong gold exports can be expected to put further upward pressure on the real effective exchange rate, structural reforms aimed at creating an environment conducive to investment and strengthening the manufacturing sector will have to be accelerated to help improve and maintain Tanzania's competitiveness. Moreover, as most of the foreign assistance is channeled into the economy through the budget, the BoT should design a transparent foreign exchange sales strategy that minimizes the impact of aid inflows on the exchange rate.

43. **The authorities are committed to regional integration in the context of the East African Community (EAC) and the Southern African Development Community (SADC).** The EAC countries (Kenya, Tanzania, and Uganda) have agreed in principle to implement a common external tariff and establish a customs union in 2004. Discussions on the structure of the common external tariff are continuing, in particular with respect to the top tariff rate. In the meantime, Tanzania is committed to maintaining the 80 percent reduction in tariffs for EAC imports, and to not imposing any new surcharges (suspended duties) on imports from the EAC.¹⁴

44. **Tanzania's external debt appears to be sustainable, following the HIPC debt relief approved at the completion point in November 2001.** The revised net present value (NPV) of debt-to-export ratio at end-June 2002 was lower than the 150 percent target under the HIPC Initiative (Table 10). The NPV of debt was updated by including new disbursements of US\$296 million during 2001/02 (July-June), which were significantly less than the US\$415 million projected in the completion point document for the same period.¹⁵ This lower-than-expected level of new disbursements reduced the NPV of debt stock at end-June 2002 by about US\$32 million. At the same time, exports of goods and non-factor services are estimated to have been higher (by about US\$23 million) than was projected for 2001/02 in the completion point document. Consequently, the NPV of debt-to-exports ratio for 2001/02 slightly declined to 127.8 percent from the 130.8 percent predicted in the previous debt sustainability analysis (DSA).¹⁶ For the projections, the main assumptions underlying the revised debt indicators (e.g., economic growth, export growth, and disbursement of new loans) are the same as were used in the DSA of the completion point. The revised debt indicators show that Tanzania's public and publicly guaranteed external debt is sustainable, provided the debt relief assistance under the enhanced HIPC Initiative is fully delivered. As can be seen in Table 10, the ratio of the NPV of debt to exports remains well below the enhanced HIPC Initiative sustainability target of 150 percent throughout the projection period.

45. **The government is in the process of concluding bilateral agreements with Paris Club creditors.** So far, agreements have been signed with Austria, the United States, Canada, and Italy, and debt to the United Kingdom has been cancelled. Reaching agreement

¹⁴ Currently, about 17 categories of imports from the EAC member states are subject to a 20 percent import surcharge (after application of the 80 percent general tariff preference for EAC imports).

¹⁵ The shortfall reflects in part delays in meeting conditions for program loans by the World Bank and African Development Bank. The NPV of new disbursements in 2001/02 was based on the same parameters (e.g., discount rates and exchange rates) as in the completion point document (EBS/01/185; 11/9/01).

¹⁶ However, owing to a larger-than-expected depreciation of the shilling, government revenue and GDP in U.S. dollar terms were lower than projected. As a result, the NPV of debt-to-GDP and NPV of debt-to-revenue ratios are slightly higher starting in 2002/03.

with **non-Paris Club bilateral and commercial creditors** has been problematic, but progress has been made in discussions with Kuwait which confirmed its willingness to provide debt relief on HIPC terms. Also, Libya, a major creditor of Tanzania, has recently announced its participation in the HIPC Initiative. To encourage the delivery of debt relief from non-Paris Club creditors, the authorities have recently established an account at the BoT earmarked for eventual debt-service payments to non-Paris Club creditors, into which the government will transfer US\$5 million during the fiscal year 2002/03 (LOI, para. 16). The authorities have requested the assistance of the Fund and the World Bank in encouraging the participation of non-Paris Club creditors in the HIPC Initiative.

IV. PROGRAM MONITORING

46. As indicated in the authorities' letter of intent, implementation of the program will be monitored with the help of quantitative and structural performance criteria and benchmarks (LOI, Tables 3 and 4). The structural measures focus on the areas of tax policy and administration, expenditure management, public debt management, and financial sector reform. These measures and targets are complemented by structural measures monitored by the World Bank (Box 1). In addition, the African Development Bank (AfDB), the European Union, and bilateral donors provide extensive budget support in the areas of civil service reform, budget management, tax reform, legal and judicial reform, private sector development, the reform of parastatals, rural development, and general capacity building. The last semiannual review under the current PRGF arrangement is expected to be completed in April or May 2003, and, to this end, the authorities are requesting an extension of the current PRGF arrangement of three months to end-June 2003. The form of future Fund support for Tanzania will be influenced by the forthcoming review of Fund assistance to low income countries. The Tanzanian authorities have requested an early discussion of the options available to Tanzania.

V. TECHNICAL ASSISTANCE, DATA ISSUES, AND SAFEGUARDS ASSESSMENT

47. **Tanzania has been receiving substantial technical assistance from multilateral and bilateral donors.** The Fund's technical assistance has been focusing on improvements in public expenditure management, tax administration and policy, monetary policy, and data quality. The implementation of recommendations from technical assistance missions has been generally good but it has suffered from capacity constraints and the departure of qualified staff from the civil service.

48. **Notwithstanding the considerable technical assistance in the statistical area, Tanzania's database remains weak.** The national accounts provide a basis for assessing movements in output; however, the lack of transparency in the relationship between the expenditure side of the national accounts and available statistics on government finances and the balance of payments hampers the estimation of the savings-investment relationship. Also, the basket underlying the consumer price index needs to be updated in light of the results of the new household budget survey. Following a balance of payments mission by the Fund's statistics department, the authorities are preparing a survey of foreign direct investment (FDI) for 2000 and 2001 in order to ascertain the realism of the large increase in FDI recorded in the earlier survey and the need to revise the balance of payments data. A mission for a ROSC data module visited Tanzania in October.

49. Under its current arrangement with the Fund, Tanzania is subject to the transitional procedures of the Fund's **safeguards assessment policy** and is required to demonstrate that the BoT publishes annual financial statements that are independently audited in accordance with internationally accepted standards. While the BoT recognizes the need for rotation of the external auditor, its current policy allows the same firm to be reappointed for a second three-year term following the expiry of a first term. Should the same firm have served as the auditor for a period of six years, however, it is only eligible to be appointed as auditor after a further three years. The BoT points to the limited capacity in the Tanzanian accounting profession as the explanation for this policy of rotating external auditors.

VI. STAFF APPRAISAL

50. The Tanzanian authorities are to be commended for the continued pursuit of sound macroeconomic policies and structural reforms, notwithstanding serious capacity constraints and a sometimes adverse external environment. Improved expenditure management has brought larger allocations to poverty-reducing expenditure programs and regular reporting on budget implementation. The adoption of a new debt strategy has laid the foundation for a more effective management of domestic and external debt. These efforts have ensured that Tanzania's overall fiscal performance has remained in line with program projections.

51. While impressive progress has been made in the areas of expenditure reform and transparency, tax reform and revenue mobilization clearly lag behind. As a result, fiscal deficits are tending to rise, and inflows of donor assistance have become an important factor in explaining the overshooting of monetary targets. This calls for corrective action by the authorities to prevent the rekindling of inflationary pressures. In the view of the staff, a tightening of both fiscal policy (through a greater mobilization of domestic revenue) and monetary policy (by stepping up the absorption of excess liquidity) will be necessary. A stronger emphasis on fiscal policy in dealing with the expansion of liquidity emanating from donor inflows is all the more desirable, as sterilizing actions by the monetary authorities that involve sales of foreign exchange could put upward pressure on the real exchange rate from its present broadly appropriate level. As sales of foreign exchange will nevertheless be necessary to manage liquidity and release donor inflows into the market, the monetary authorities should seek to moderate their effects on the exchange rate by announcing indicative quarterly targets of foreign exchange sales. Subject to this recommendation, and in the continued presence of large donor inflows, the staff considers Tanzania's exchange rate policy as appropriate.

52. In light of the need for more determined action by the monetary authorities to mop up excess liquidity and restore positive real interest rates, the staff welcomes the securitization of nonmarketable government debt as enhancing the flexibility of the monetary authorities in conducting monetary operations. However, the amount available for securitization should not be a limiting factor in determining the size of liquidity operations, and these operations should not be constrained by concern over their interest cost.

53. There has not been enough action to reduce tax exemptions, although the measures announced in the budget for 2002/03 to better administer existing exemptions are welcome and should help in limiting revenue leakages. The recently approved EPZ Act poses risks to

the soundness of the revenue collection system, as loose eligibility criteria for companies in export processing zones could make control of these zones difficult, while generous incentive packages may weaken the payment discipline of other taxpayers. The staff welcomes the authorities' commitment to review the law, with the aim of minimizing revenue losses and focusing the law narrowly on the new opportunities for access to export markets in the United States and Europe.

54. The removal of impediments to bank lending should be accelerated. The staff welcomes the authorities' commitment to engage in a consultative process with the banking community, with a view to determining the scope of any amendments to the Land Act that may be needed. A strengthening of the judiciary would be an important complement to the actions aimed at fostering an environment conducive to lending and investment.

55. The recently adopted National Debt Strategy needs to be fully implemented to facilitate an efficient management of Tanzania's external and domestic debt and preserve the country's long-term debt sustainability. In this regard, tight controls on new borrowing and appropriate prioritization of new projects will be necessary.

56. Based on the authorities' continued record of good program implementation and their commitments made in the attached Letter of Intent, the staff recommends that the Executive Board grant a waiver for the nonobservance of the structural performance criterion on the approval procedures for foreign borrowing and complete the fifth review under the current PRGF arrangement. The staff also recommends that the current PRGF arrangement be extended by three months to end-June 2003.

57. The staff recommends that the next Article IV consultation with Tanzania be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

Box 1. Tanzania: Structural Conditionality

Coverage of structural conditionality in the current program

The structural performance criteria and benchmarks proposed as conditionality for the seventh disbursement under the current PRGF arrangement (LOI, Table 4) support the macroeconomic objectives of the program by underscoring the government's intention to improve

- **tax policy and administration** adopting a centralized motor vehicle registration system; and introducing a treasury voucher system for administering exemptions applying to nonreligious nongovernmental organizations and motor vehicle purchases by eligible public servants;
- **fiscal decentralization** by issuing guidelines to local councils for the harmonization of taxes, levies and licenses;
- **expenditure management** by requiring spending agencies to submit quarterly reports on their utility bills and amounts paid; and identifying priority expenditures by budgetary code across PRSP, budget, and budget execution reports;
- **public debt management** by submitting to parliament amendments to the Loans, Guarantees and Grants Act and establishing a National Debt Management Committee; and
- **financial sector reform** by submitting to parliament the draft law establishing the legal and regulatory framework for microfinance operations.

Status of structural conditionality under the PRGF-supported program

The structural performance criteria and benchmarks applicable to the sixth disbursement focused on broadly the same areas, with an additional emphasis on trade policy. The performance criteria relating to the clearance of all audited domestic arrears and the announcement of a timetable for the elimination of the suspended duties were observed. A third performance criterion on the submission to parliament of legislation that makes the government's incurring or guaranteeing of foreign debt subject to cabinet approval upon recommendation by the Minister for Finance was not observed because of a change of the government's approach following the adoption of the National Debt Strategy. Benchmarks on the publication of local government accounts and of the second report on the implementation of ministerial anticorruption plans were not observed, primarily owing to capacity constraints. The harmonization of treatment of loan loss provisions by banks for prudential requirements and taxation purposes has been delayed until December 2002, as the consideration of available options is taking longer than anticipated.

Structural areas covered by World Bank lending and conditionality

IDA is currently providing adjustment lending through a programmatic structural adjustment credit (PSAC I) consisting of one tranche that was disbursed on effectiveness and four floating tranches, of which three tranches remain undisbursed. One of them depends on action to relax restrictions on foreign portfolio investment in equity instruments. Disbursement of the final tranches hinges on bringing the Dar es Salaam Water and Sewerage Authority (DAWASA) to the point of concession, which is expected to be done by end-2002, and reforming the regulatory framework for infrastructure services, expected for mid-2003. The World Bank is preparing a Poverty Reduction Support Credit (PRSC), which will support the implementation of the PRSP and is expected to be submitted for approval by the World Bank's Executive Board in May 2003. Conditionality under this credit is linked to measures in the areas of institution building, and debt and financial management.

Box 2. Tanzania: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending

Actions	Timing (S/M) ¹	Status (FI/II/NS) ²	Date Achieved	Comments
Actions to strengthen budget formulation				
1 Identify poverty-reducing items in budget	S	II		Under implementation. Structural performance criterion for end-February 2003.
2 Improve accounting for external disbursements	S	II		New database on donor disbursements created at Ministry of Finance, updated regularly jointly with donors; accounting of donor-funded projects through IFMS under implementation at the Accountant General's (ACGEN) Office.
3 Include table showing poverty-reducing expenditures in 2002/03 budget	S	NS		This measure can be implemented only after adoption of measure 1.
4 Extend Government Finance Statistics (GFS)-based economic classification to subventions, regions, and development budget	M	II		Implemented for the regions in the 2002/03 budget; to be implemented for subventions and development budget in 2003/04 budget.
5 Apply GFS-based functional classification to recurrent and development budget	M	II		Technical assistance from the Fund provided in October-November 2002; implementation by March 2003.
6 Strengthen medium-term expenditure framework (MTEF) process, and include two-year projections in 2003/04 budget	M	II		MTEF under implementation.
Actions to strengthen budget execution				
7 Transfer electronically (IFMS) accounting database for five remaining votes to ACGEN's office	S	II		Due to security reasons, dedicated phone lines to be installed to allow connectivity with ACGEN office. Implementation by January 2003.

Box 2. Tanzania: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending

Actions	Timing (S/M) ¹	Status (FI/II/NS) ²	Date Achieved	Comments
8 Institute reporting system on arrears for submission to ACGEN by accounting officers	S	II		New procedure for reporting of arrears related to utility payments instituted as of July 2002.
9 Strengthen internal audit with three measures (definition of responsibilities of internal auditors, inclusion of internal audit functions in IFMS, and training of internal auditors)	M	II		Technical assistance being provided in the areas of training and IT development.
10 Finalize terms of reference for expenditure tracking surveys	S	II		Under implementation.
11 Design template for local governments' (LG) reporting	S	FI	Jan. 2002	Circular to LGs sent in January 2002.
12 Issue circular requiring LG quarterly reports	S	FI	Jan. 2002	Circular to LGs sent in January 2002. Consolidated reports being prepared (to be completed by December 2002)
13 Train for and enforce timely submission of LG reports	S	II		In-house training ongoing. Technical assistance being sought
14 Compile quarterly reports on poverty-reducing expenditure, based on IFMS	S	II		The IFMS is capable of generating such reports, once measure 1 has been implemented.
15 Compile fiscal accounts of general government	M	NS		This medium-term measure is not yet implemented.
16 Strengthen external audit with three measures (capacity building, IT development, and training in computer-assisted audit techniques)	M	II		Technical assistance is being provided to develop IFMS-based audit module, strengthen capacity, and training in computer-based audit techniques.

¹ S=Short-term action; M=medium-term action.

² FI=fully implemented, II=implementation initiated, NS=not started.

Box 3. Tanzania: Soundness of the Banking Sector

Financial indicators presented in the table below point to a steady improvement in the soundness of Tanzania's banking system. Partly as a result of strengthened on-site and off-site surveillance, prudential norms under existing legislations have been enforced more effectively. The capital adequacy ratio of the banks has increased from 10.7 percent at end-1998 to 17.4 percent at end-June 2002, although it declined from its end-2000 level, mainly due to an increase in risk assets. Earnings and profitability of the banking sector have also recovered from the trough of 1999 brought about by the removal of nonperforming loans from the balance sheet of the National Bank of Commerce and the subsequent recapitalization. The operations of the Delphis Bank, which experienced a run triggered by a crisis of confidence following the sudden death of its owner remain weak, but given the small size of its balance sheet and prompt intervention by the BoT, it poses no systemic risk to the banking system as a whole. An in-depth assessment of the health of individual banks will be undertaken by the FSAP mission, which is expected to be fielded in March 2003.

Tanzania: Banking Sector Soundness Indicators, 1998-2002
(Ratios in percent)

	1998	1999	2000	2001	2002 June
Capital adequacy					
Regulatory capital to risk-weighted assets 1/	10.7	4.3	18.2	16.7	17.4
Regulatory tier I capital to risk-weighted assets	10.1	6.0	18.1	16.5	17.2
Assets quality					
Nonperforming loans to total gross loans	22.9	25.2	17.3	12.0	9.3
Earnings and profitability					
Return on assets	2.7	0.1	1.6	1.5	0.9
Return on equity 2/	86.8	2.1	37.6	35.2	19.9
Interest margin to gross income 3/	37.2	41.4	41.9	43.4	42.6
Noninterest expenses to gross income	46.1	54.2	46.3	57.3	56.6
Liquidity					
Liquid assets to total assets (liquid assets ratio)	62.4	66.5	65.2	70.7	69.6
Liquid assets to short-term (demand) liabilities 4/	113.7	118.1	133.5	130.6	128.3
Personnel expenses to noninterest expenses	45.1	31.6	41.5	37.9	44.0

Source: Bank of Tanzania (BoT).

1/ Regulatory capital = tier I + tier II capital.

2/ Shareholders equity includes paid-up capital, share premium, capital grants, and retained earnings.

3/ Net interest income/(gross interest income + noninterest income (excluding loan loss recoveries)).

4/ Demand liabilities include savings deposits.

Box 4. Tanzania: Status of Microfinance

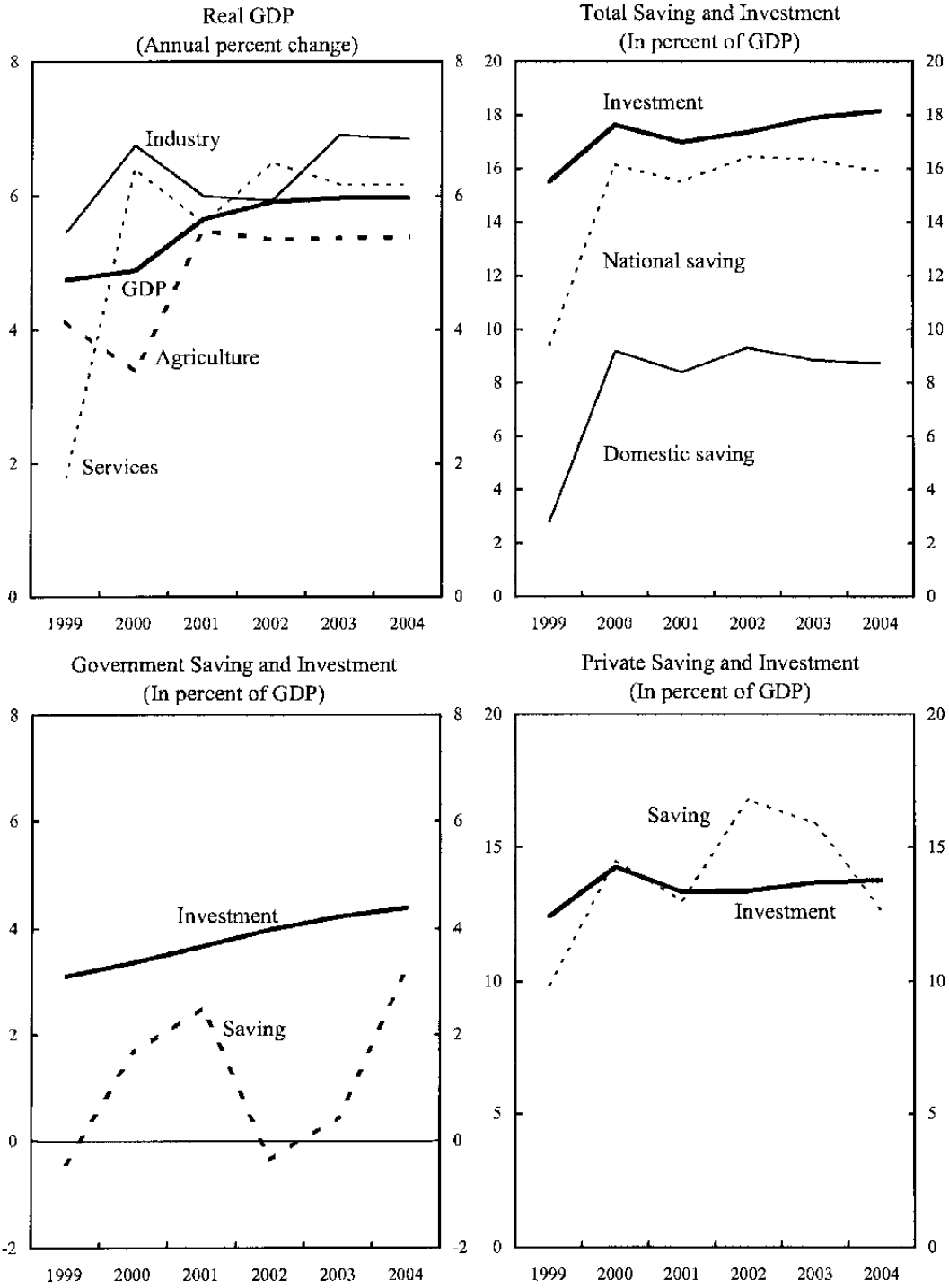
Background. Tanzania's agriculture- and livestock-based rural economy accounts for about half of GDP and almost two-thirds of foreign exchange earnings, and provides employment to more than 80 percent of the productive workforce. Its further development is held back, among other things, by poor access to credit facilities—commercial banks find it expensive to serve small and widely dispersed customers, while the latter find the transaction costs, accessibility, and conditions for borrowing from formal financial institutions prohibitive. In the absence of commercial banks, microfinance institutions (MFIs) such as savings and credit cooperative societies (SACCOS), savings and credit associations (SACAS), and nongovernmental organizations fill the void. These community-based institutions are generally very small (on average, membership ranges from 20 to 200), and often without professional staff. Leading members handle very limited operations on a voluntary basis, struggle to raise capital from members in the form of membership fees and share capital, and to a very limited extent mobilize financial savings for on-lending; mostly, however, they are not capable of maintaining accounts and drawing up a balance sheet.

In 2002, the commercial bank CRDB, with support from the Danish International Development Agency (DANIDA), has started a pilot project aimed at providing training for the MFIs to manage their own lending operations and assess lending risks. The goal is to extend a credit line to selected SACCOS for on-lending to their members, while the CRDB does off-site and on-site monitoring. Other commercial banks are planning to establish microfinancing units, but, so far, this constitutes only a small part of their loan portfolios owing to a lack of appropriate outreach technology, know-how, and a legal, regulatory and supervisory framework for microfinance operations.

Ineffectiveness of existing operating framework for MFIs. Lack of a unified regulatory and supervisory framework prevents effective supervision of MFIs. SACCOS are registered under the Cooperative Societies Act of 1991 and are supervised by the Cooperative Department of the Ministry of Cooperatives and Marketing, while SACAS are registered by the Ministry of Home Affairs but supervised by the Ministry of Community Development, Women and Children's Affairs, thus leaving them outside any effective supervision. Furthermore, poor record keeping and lack of regular and adequate reporting handicap any attempt at supervision.

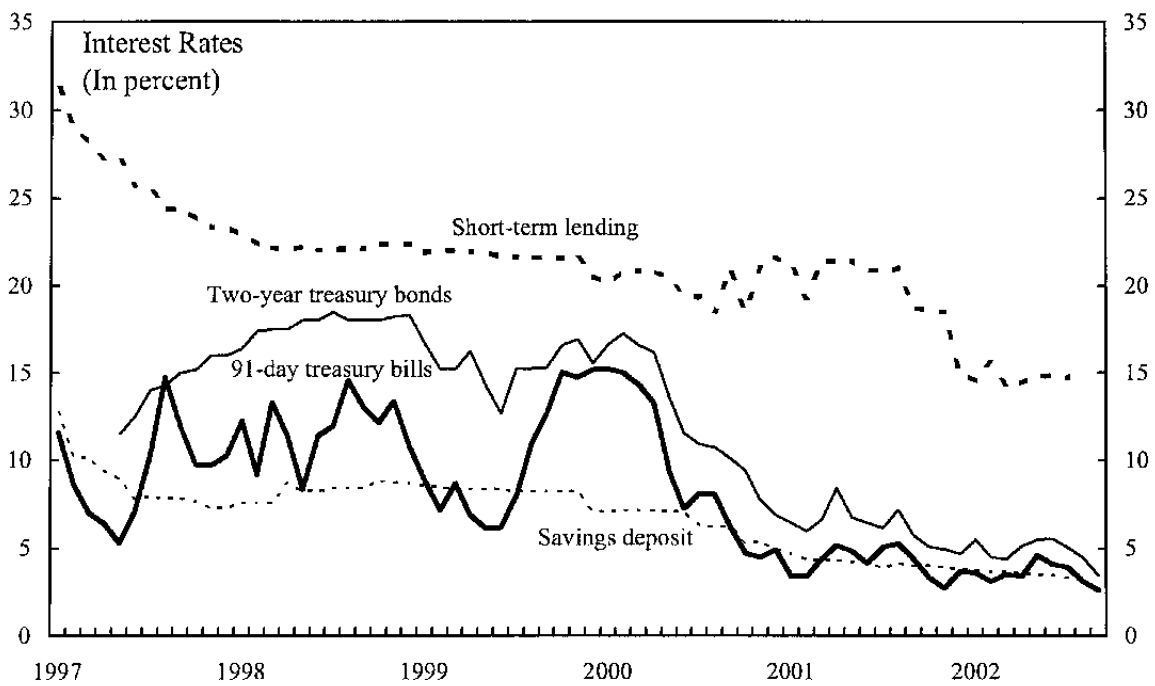
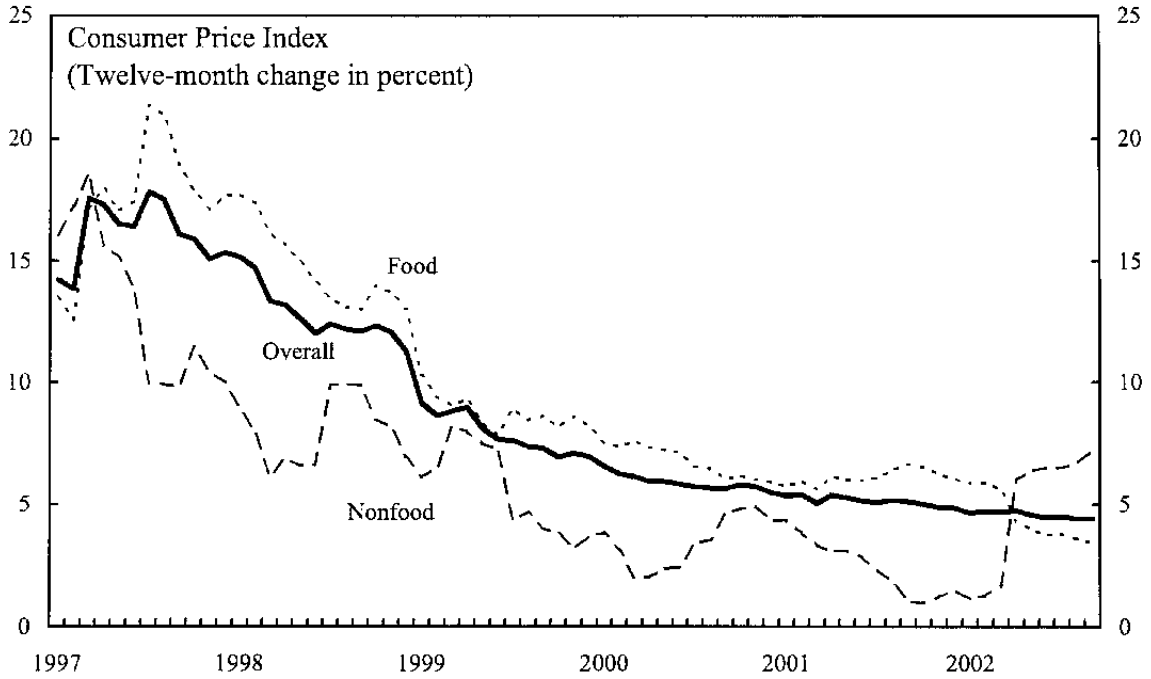
Status of the issuance of new microfinance regulations. In an effort to establish an enabling environment for the development of microfinance, the authorities approved a National Microfinance Policy in May 2000 and set up a task force for the preparation of a legal, regulatory, and supervisory framework for microfinance operations. The task, divided into three phases, was contracted to a consultant, who started work in July 2002. The first phase is aimed at developing an appropriate legal framework for microfinance operations. A draft report on the findings and recommendations for amendments to the Banking and Financial Institutions Act 1991, Bank of Tanzania Act 1995, Co-operative Act 1991, and other related legislation was submitted to the authorities in September 2002. The second phase, which is expected to be completed in early November 2002, involves the development of an effective regulatory framework for microfinance operations, including appropriate accounting principles and reporting guidelines. The third phase of the project concentrates on the development of a harmonized supervisory framework for microfinance operations. The final product is expected to be submitted for parliamentary approval in February 2003 and issued in May 2003.

Figure 1. Tanzania: GDP, Savings, and Investment, 1999-2004



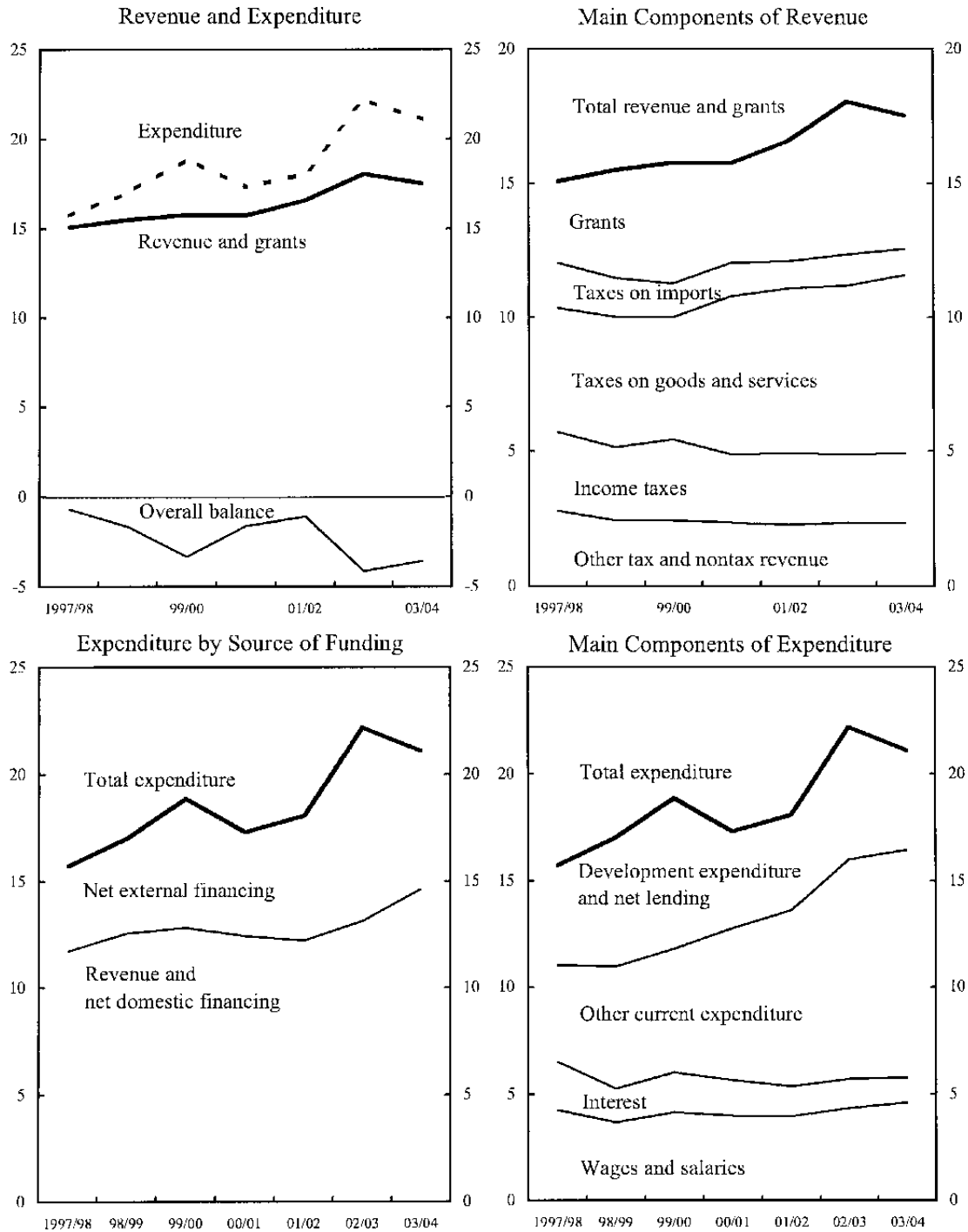
Sources: Tanzanian authorities; and staff estimates and projections.

Figure 2. Tanzania: Prices and Interest Rates,
January 1997-September 2002



Source: Tanzanian authorities.

Figure 3. Tanzania: Central Government Finances, 1997/98-2003/04 1/
(In percent of GDP)



Sources: Tanzanian authorities; and Fund staff estimates and projections.

1/ Fiscal years run from July to June; expenditure data excluding statistical discrepancy and recapitalization expenditure.

Figure 4. Tanzania: 91-Day Treasury Bill Market Indicators, January 1999-September 2002
(Monthly average of weekly auctions)

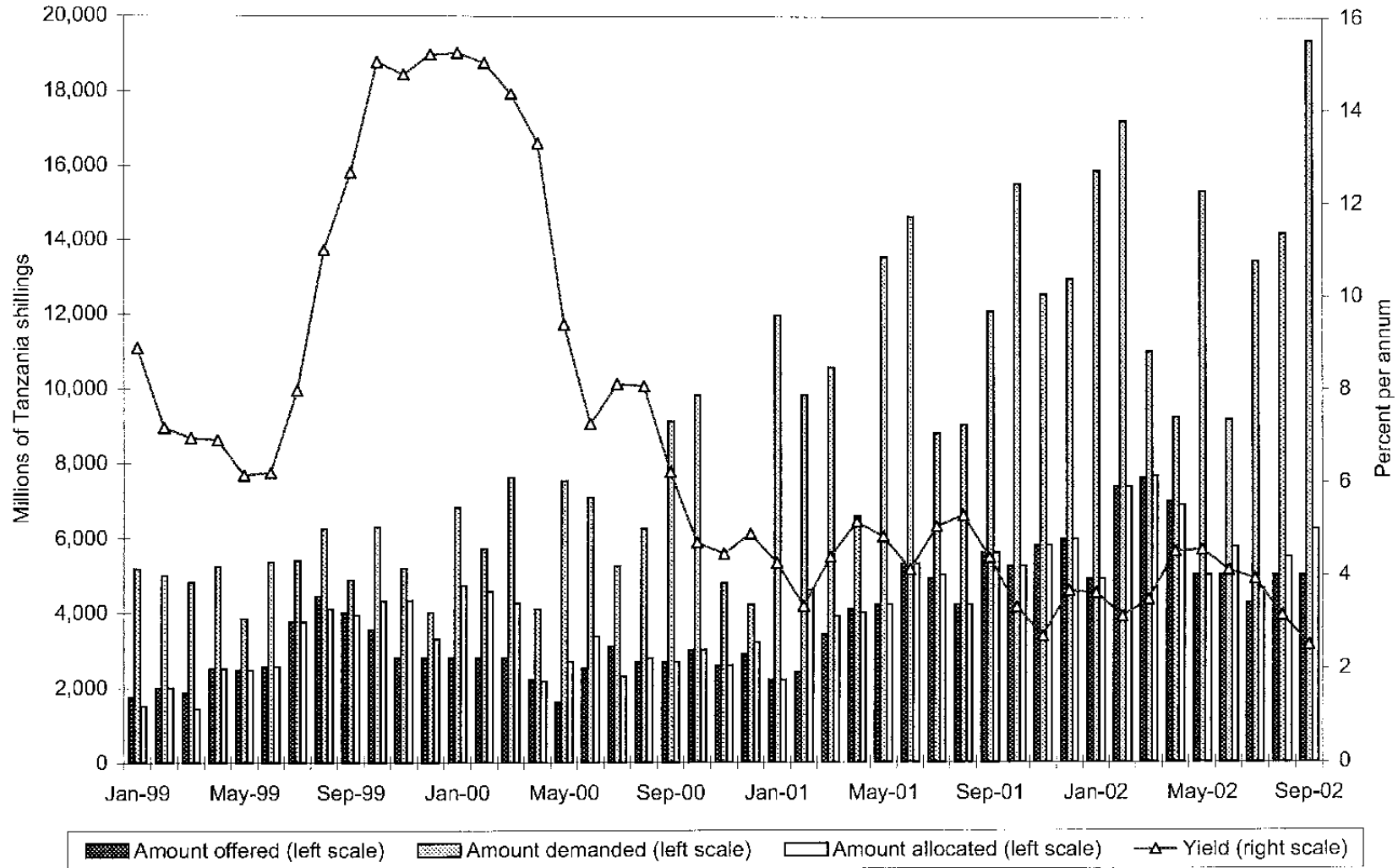
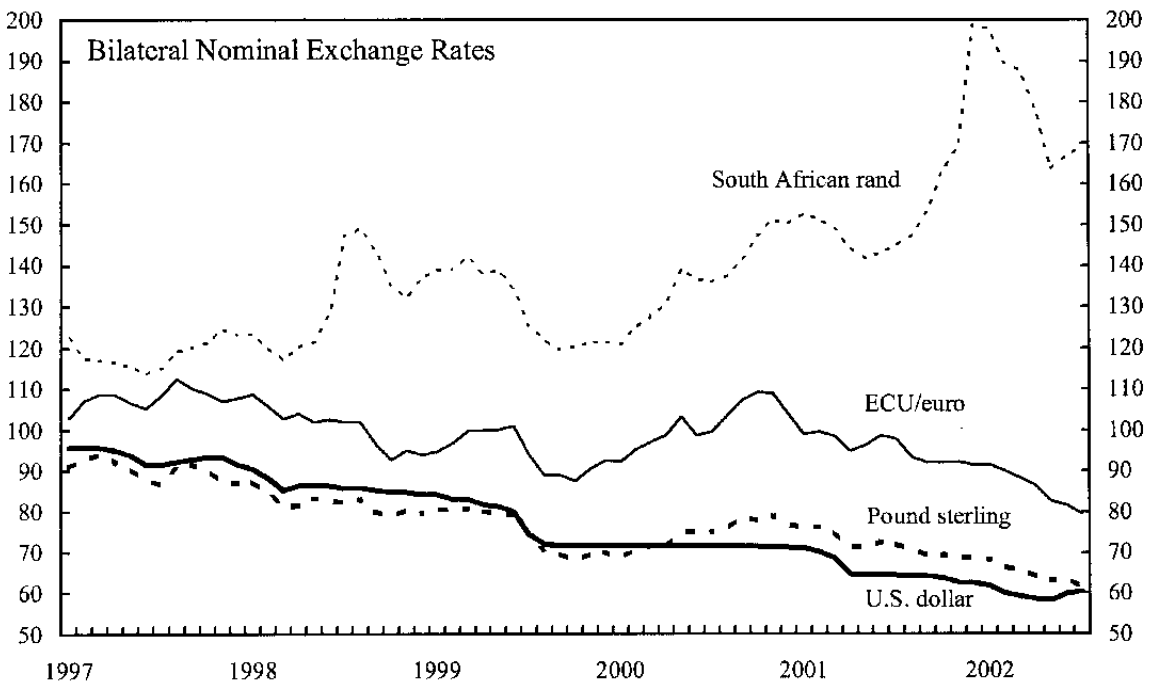
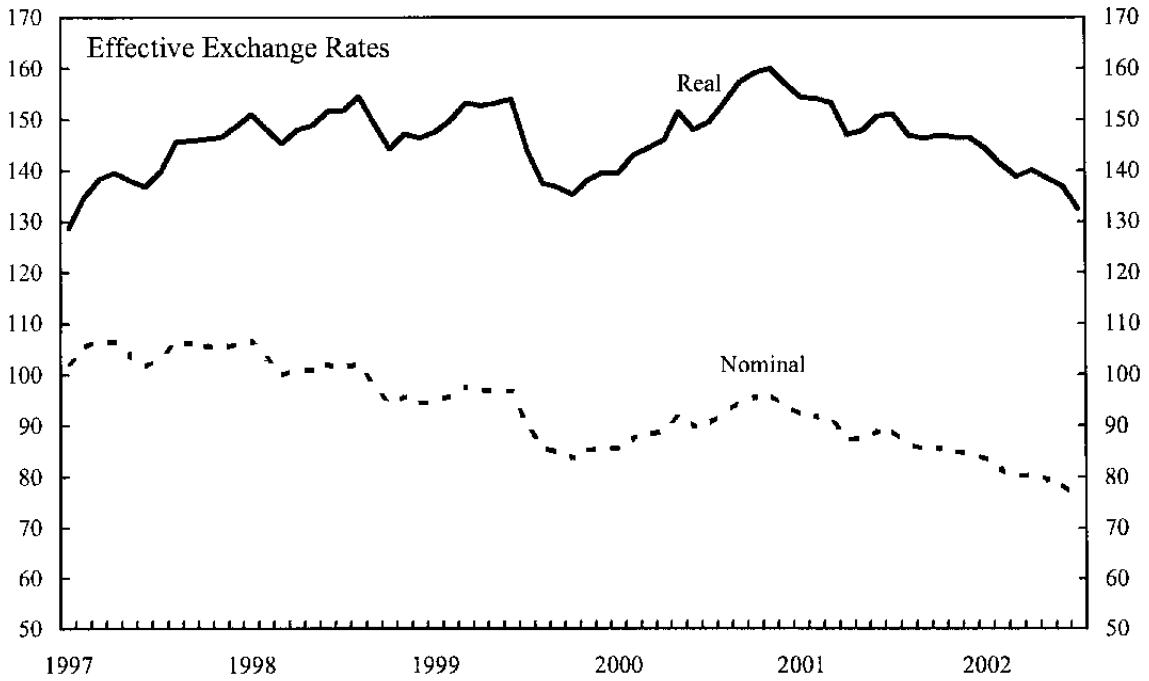


Figure 5. Tanzania: Exchange Rates, January 1997-July 2002
(1995=100; foreign currency per Tanzania shilling)



Sources: Tanzanian authorities; and IMF, Information Notice System.

Table 1. Tanzania: Phasing of Performance Criteria, Reviews, and Disbursements Under the PRGF Arrangement, 2000-03

Expected Date	Expected Disbursements		Event
	Millions of SDRs	Percent of Quota	
March 2000	20.0 (disbursed)	10.1	Board approval of PRGF arrangement
March 2000	--	--	Test date for quantitative performance criteria for first review 1/
July 2000	20.0 (disbursed)	10.1	Completion of first review
September 2000	--	--	Test date for quantitative performance criteria for second review 1/
March 2001	20.0 (disbursed)	10.1	Completion of second review
March 2001	--	--	Test date for quantitative performance criteria for third review 1/
September 2001	20.0 (disbursed)	10.1	Completion of third review
September 2001	--	--	Test date for quantitative performance criteria for fourth review 1/
May 2002	20.0 (disbursed)	10.1	Completion of fourth review
June 2002	--	--	Test date for quantitative performance criteria for fifth review 1/
November 2002	20.0	10.1	Board consideration of fifth review and request for extension of PRGF arrangement
December 2002	--	--	Test date for quantitative performance criteria for sixth review 1/
May 2003	15.0	7.5	Board consideration of sixth review
Total	135.0	67.9	

1/ Structural performance criteria had or will have test dates at or near the same date as quantitative performance criteria.

Table 2. Tanzania: Selected Economic and Financial Indicators, 1999-2003

	1999	2000	2001		2002	2003
			Prog.	Est.		
(Annual percentage change, unless otherwise indicated)						
National income and prices						
Nominal GDP (billions of Tanzania shillings)	6,433	7,267	7,992	8,186	9,039	9,956
Real GDP growth	4.7	4.9	5.1	5.6	5.9	6.0
Real GDP per capita	2.6	1.7	2.4	2.9	3.8	3.9
Consumer prices (period average)	7.9	5.9	5.2	5.2	4.6	4.2
Consumer prices (end of period)	7.0	5.5	4.9	4.9	4.5	3.9
External sector						
Export, f.o.b. (in U.S. dollars)	543.3	663.3	771.9	776.4	850.1	910.2
Imports, c.i.f. (in U.S. dollars)	-1,572.7	-1,536.7	-1,725.8	-1,714.7	-1,728.8	-1,929.0
Export volume	-17.6	25.8	26.7	26.8	4.2	3.4
Import volume	1.5	-2.2	12.4	12.4	1.6	9.6
Terms of trade	13.5	-2.7	-8.2	-8.2	4.9	3.3
Nominal effective exchange rate (end of period)	-10.5	9.3	-9.8	-9.8	...	...
Real effective exchange rate (depreciation -)	-5.6	12.4	-7.5	-7.5	...	...
Public finance 1/						
Revenue (excluding grants)	12.0	20.3	10.4	12.2	12.4	12.0
Total expenditure	26.5	3.5	22.7	16.3	35.4	4.6
Current expenditure	22.9	22.2	26.7	18.7	29.8	13.0
Development expenditure and net lending	45.2	-20.5	3.0	1.8	101.1	-17.0
Money and credit						
Broad money	18.6	14.8	17.1	17.1	21.0	10.2
Net foreign assets	35.6	49.6	36.7	36.7	29.3	7.6
Net domestic assets	6.6	-16.2	-14.1	-14.1	-0.1	18.5
Credit to nongovernment sector	25.5	9.4	18.8	18.8	32.0	29.8
Velocity of money (GDP/M3; average)	5.7	5.6	5.3	5.4	5.0	4.8
Treasury bill interest rate (in percent; end of period) 2/	15.5	5.7	3.9	3.9	...	...
(In percent of GDP, unless otherwise indicated)						
Public finance						
Revenue (excluding grants)	11.3	12.0	12.2	12.1	12.3	12.6
Total grants	4.5	3.7	5.0	4.5	5.7	4.9
Expenditure	18.9	17.3	19.5	18.1	22.2	21.1
Overall balance (including grants)	-3.3	-1.6	-2.3	-1.1	-4.1	-3.6
Domestic financing 3/	0.1	0.0	0.8	-0.3	0.7	2.0
Savings and investment						
Resource gap	-12.7	-8.4	-9.1	-8.6	-8.1	-9.0
Investment	15.5	17.6	15.9	17.0	17.4	17.9
Government	3.1	3.4	3.8	3.7	4.0	4.2
Nongovernment	12.4	14.3	12.2	13.3	13.4	13.7
Gross domestic savings	2.8	9.2	6.8	8.4	9.3	8.9
External sector, public debt, and debt service						
Current account balance (excluding current official transfers)	-13.1	-9.4	...	-9.3	-8.9	-9.3
Current account balance (including current official transfers)	-9.2	-5.1	...	-5.4	-4.1	-4.6
External debt service due (before debt relief; in percent of exports of goods and nonfactor services)	26.7	31.8	29.6	30.2	25.8	18.5
(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments current account balance (excluding grants; deficit -)	-1,134.2	-856.4	-858.0	-873.1	-834.1	-937.0
Overall balance of payments (deficit -)	-67.9	90.2	9.9	-9.6	248.9	223.1
Gross official reserves	775.6	974.4	1,156.6	1,156.6	1,503.7	1,719.3
In months of imports of goods and nonfactor services	4.4	5.1	5.5	6.1	7.1	7.5

Sources: Tanzanian authorities; and Fund staff estimates and projections.

1/ Fiscal years (July-June), beginning in the year indicated in the column header.

2/ Weighted-average yield of 91-, 182-, and 364-day treasury bills.

3/ Excluding new debt issued to recapitalize government-owned banks.

Table 3. Tanzania: National Accounts, 2000-05

	Shares (2000; in percent)	2000	2001 Est.	2002	2003	2004	2005
				Projections			
(In units as indicated)							
Overall GDP							
Nominal (in billions of Tanzania shillings)		7,267	8,186	9,039	9,956	10,933	11,981
Real (percentage change)		4.9	5.6	5.9	6.0	6.0	6.0
Deflator (percentage change)		7.5	6.6	4.6	4.2	3.8	3.7
(Annual percentage change in real terms, unless otherwise indicated)							
Sectoral components of GDP							
Agriculture	48.2	3.4	5.5	5.3	5.4	5.4	6.2
Industry	16.1	6.7	6.0	5.9	6.9	6.8	6.6
Mining	2.3	13.9	13.5	12.1	10.0	9.0	9.0
Manufacturing	8.3	4.8	5.0	6.2	6.8	6.9	7.0
Electricity and water	1.7	5.9	3.0	5.1	6.0	6.0	6.0
Construction	3.8	7.0	5.6	4.2	6.3	6.3	5.5
Services	35.4	6.4	5.6	6.5	6.2	6.2	5.4
Trade, hotels, and restaurants	16.4	6.5	6.7	7.9	7.0	6.3	6.3
Transport and communications	5.4	6.1	6.3	7.7	7.0	6.3	6.3
Financial and business services	5.9	4.0	2.3	5.2	4.9	4.9	4.9
Public administration and other services	7.7	7.9	5.5	1.5	2.8	9.2	-4.1
Demand components of GDP							
Consumption		0.3	3.7	9.6	7.7	6.0	6.5
Government		2.2	6.0	4.6	4.2	3.8	3.7
Other sectors		-0.2	3.2	10.9	8.5	6.5	7.1
Investment		7.5	5.8	5.9	9.0	7.4	6.3
Government		14.4	16.9	14.7	12.0	10.2	8.5
Other sectors		5.9	3.2	3.6	8.0	6.6	5.6
Foreign balance 1/		3.5	1.0	-4.1	-3.1	-1.4	-1.6
Exports		18.4	17.8	-15.1	2.4	6.4	2.5
Imports		0.1	8.1	1.5	10.4	7.2	5.7
National saving and investment							
(In percent of GDP)							
Government							
Saving		1.7	2.5	-0.4	0.5	3.2	3.4
Investment		3.4	3.7	4.0	4.2	4.4	4.5
Balance		-1.7	-1.2	-4.3	-3.8	-1.2	-1.1
Nongovernment sectors							
Saving		14.5	13.0	16.8	15.9	12.7	12.6
Investment		14.3	13.3	13.4	13.7	13.8	13.7
Balance		0.2	-0.3	3.4	2.2	-1.1	-1.2
All sectors							
Saving		16.2	15.5	16.4	16.3	15.9	16.0
<i>Of which: domestic saving</i>		9.2	8.4	9.3	8.9	8.7	8.7
Investment		17.6	17.0	17.4	17.9	18.1	18.3
Foreign savings (-) 2/		-1.5	-1.5	-0.9	-1.5	-2.2	-2.3
Consumption		90.8	91.6	90.7	91.1	91.3	91.3
Public		6.6	6.3	6.1	6.4	6.4	6.7
Private		84.1	85.3	84.5	84.7	84.9	84.6

Sources: Tanzanian authorities; and Fund staff estimates and projections.

1/ Figures represent the contribution of the change in the foreign balance to real GDP growth.

2/ External current account, including grants (interest payments on a cash basis).

Table 4. Tanzania: Central Government Operations, 1999/2000-2003/04 1/

	1999/00	2000/01	2001/02		2002/03		2003/04 Proj.
			Prog.	Actual	Prog.	Rev. Prog.	
(In billions of Tanzania shillings)							
Total revenue	772.5	929.6	1,026.1	1,042.9	1,157.2	1,172.3	1,312.6
Tax revenue	691.9	827.8	932.8	938.5	1,063.9	1,066.9	1,198.8
Import duties	87.7	95.6	87.0	88.9	110.1	109.4	103.2
Value-added tax (VAT)	223.8	302.0	335.9	352.3	381.2	394.3	465.2
Excises	88.5	154.8	184.8	177.6	214.8	203.9	230.4
Income taxes	205.1	194.0	235.3	228.4	257.9	240.9	269.8
Other taxes	86.9	81.4	89.7	91.3	100.0	118.3	130.1
Nontax revenue	80.5	101.8	93.3	104.5	93.3	105.4	113.8
Total expenditure	1,292.6	1,338.2	1,641.5	1,556.0	1,852.6	2,106.2	2,196.1
Recurrent expenditure	807.6	986.6	1,249.9	1,171.4	1,448.5	1,520.4	1,717.5
Wages and salaries	285.3	308.1	346.6	342.0	411.5	411.5	480.3
Interest payments	127.0	128.1	124.5	121.1	119.4	131.6	123.9
Domestic	81.4	77.8	66.8	64.6	55.3	57.4	54.6
Foreign	45.6	50.4	57.7	56.5	64.1	74.2	69.3
Goods and services and transfers	395.3	550.4	778.8	708.3	917.6	977.3	1,113.3
Clearance of domestic arrears	3.7	32.2	62.6	59.1	0.0	0.0	0.0
Bank and parastatal recapitalization 2/	100.7	9.8	0.0	0.0	0.0	0.0	0.0
Development expenditure	359.9	286.3	294.9	291.3	404.1	585.9	478.6
Domestically financed	19.4	35.1	50.2	50.2	67.2	95.7	105.0
Foreign financed 3/	340.5	251.2	244.6	241.1	336.9	490.2	373.5
Expenditure carryover	20.7	23.4	34.1	34.1	0.0	0.0	0.0
Unallocated revenue (-)/expenditure (-) 4/	-14.3	-2.0	0.0	33.5	0.0	0.0	0.0
Overall balance before grants	-534.4	-410.7	-615.4	-479.5	-695.3	-933.9	-883.5
Grants	307.3	286.3	423.5	385.2	502.6	541.2	517.3
Program (including basket funding)	94.3	114.0	192.0	183.0	229.1	267.4	233.1
Project	207.5	123.6	187.0	140.2	254.0	198.5	213.2
HIPC Initiative grant relief	5.5	48.7	44.5	62.0	19.5	75.3	70.9
Overall balance after grants	-227.1	-124.3	-191.9	-94.3	-192.8	-392.7	-366.2
Financing	227.1	124.3	191.9	94.3	192.8	392.7	366.2
Foreign (net)	105.4	90.4	134.7	118.5	154.5	316.0	150.6
Foreign loans	191.2	172.9	199.9	187.4	234.7	443.0	285.6
Program	58.2	45.3	142.3	86.5	151.7	151.3	125.2
Project	133.0	127.6	57.6	100.9	82.9	291.7	160.4
Amortization	-85.8	-82.5	-65.3	-68.9	-80.2	-127.0	-135.0
Domestic (net)	9.1	-2.5	67.7	-22.6	35.3	63.7	210.6
Bank financing	-27.4	-18.7	67.7	-59.2	35.3	54.7	210.6
Nonbank financing	36.5	16.2	0.0	36.6	0.0	9.0	0.0
Bank and parastatal recapitalization 2/	100.7	9.8	0.0	0.0	0.0	0.0	0.0
Amortization of parastatal debt	0.0	0.0	-10.5	-1.6	-15.0	-10.0	-15.0
Privatization proceeds	12.0	26.7	0.0	0.0	18.0	18.0	20.0
Memorandum items:							
Primary balance (excluding grants and foreign-financed development expenditure)	-67.0	-31.3	-246.3	-117.3	-239.0	-312.1	-386.1
Expenditure on defense and national service	91.7	105.8	113.3	112.3	131.2	145.0	...

Table 4. Tanzania: Central Government Operations, 1999/2000-2003/04 1/ (concluded)

	1999/00	2000/01	2001/02		2002/03		2003/04 Proj.
			Prog.	Actual	Prog.	Rev. Prog.	
(In percent of GDP, unless otherwise indicated)							
Total revenue	11.3	12.0	12.2	12.1	12.5	12.3	12.6
Tax revenue	10.1	10.7	11.1	10.9	11.5	11.2	11.5
Import duties	1.3	1.2	1.0	1.0	1.2	1.2	1.0
Value-added tax (VAT)	3.3	3.9	4.0	4.1	4.1	4.2	4.5
Excises	1.3	2.0	2.2	2.1	2.3	2.1	2.2
Income taxes	3.0	2.5	2.8	2.7	2.8	2.5	2.6
Other taxes	1.3	1.1	1.1	1.1	1.1	1.2	1.2
Nontax revenue	1.2	1.3	1.1	1.2	1.0	1.1	1.1
Total expenditure	18.9	17.3	19.5	18.1	20.0	22.2	21.1
Recurrent expenditure	11.8	12.8	14.9	13.6	15.6	16.0	16.4
Wages and salaries	4.2	4.0	4.1	4.0	4.4	4.3	4.6
Interest payments	1.9	1.7	1.5	1.4	1.3	1.4	1.2
Domestic	1.2	1.0	0.8	0.8	0.6	0.6	0.5
Foreign	0.7	0.7	0.7	0.7	0.7	0.8	0.7
Goods and services and transfers	5.8	7.1	9.3	8.2	9.9	10.3	10.7
Clearance of domestic arrears	0.1	0.4	0.7	0.7	0.0	0.0	0.0
Bank and parastatal recapitalization 2/	1.5	0.1	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development expenditure	5.3	3.7	3.5	3.4	4.4	6.2	4.7
Domestically financed	0.3	0.5	0.6	0.6	0.7	1.0	1.0
Foreign financed 3/	5.0	3.3	2.9	2.8	3.6	5.2	3.7
Expenditure carryover	0.3	0.3	0.4	0.4	0.0	0.0	0.0
Unallocated revenue (+)/expenditure (-) 4/	-0.2	0.0	0.0	0.4	0.0	0.0	0.0
Overall balance before grants	-7.8	-5.3	-7.3	-5.6	-7.5	-9.8	-8.5
Grants	4.5	3.7	5.0	4.5	5.4	5.7	4.9
Program (including basket funding)	1.4	1.5	2.3	2.1	2.5	2.8	2.2
Project	3.0	1.6	2.2	1.6	2.7	2.1	2.0
HIPC Initiative grant relief	0.1	0.6	0.5	0.7	0.2	0.8	0.7
Overall balance after grants	-3.3	-1.6	-2.3	-1.1	-2.1	-4.1	-3.6
Financing	3.3	1.6	2.3	1.1	2.1	4.1	3.6
Foreign (net)	1.5	1.2	1.6	1.4	1.7	3.3	1.5
Foreign loans	2.8	2.2	2.4	2.2	2.5	4.7	2.8
Program	0.8	0.6	1.7	1.0	1.6	1.6	1.2
Project	1.9	1.7	0.7	1.2	0.9	3.1	1.6
Amortization	-1.3	-1.1	-0.8	-0.8	-0.9	-1.3	-1.3
Domestic (net)	0.1	0.0	0.8	-0.3	0.4	0.7	2.0
Bank financing	-0.4	-0.2	0.8	-0.7	0.4	0.6	2.0
Nonbank financing	0.5	0.2	0.0	0.4	0.0	0.1	0.0
Bank and parastatal recapitalization 2/	1.5	0.1	0.0	0.0	0.0	0.0	0.0
Amortization of parastatal debt	0.0	0.0	-0.1	0.0	-0.2	-0.1	-0.1
Privatization proceeds	0.2	0.3	0.0	0.0	0.2	0.2	0.2
Memorandum items:							
Primary balance (excluding grants and foreign financed development expenditure)	-1.0	-0.4	-2.9	-1.4	-2.6	-3.3	-3.7
Expenditure on defense and national service	1.3	1.4	1.3	1.3	1.4	1.5	...
Nominal GDP (market prices, billions of Tanzania shillings)	6,850	7,727	8,402	8,613	9,262	9,496	10,441

Sources: Ministry of Finance; and Fund staff projections.

1/ Fiscal years run from July to June.

2/ Bonds issued to recapitalize government-owned banks and parastatals and the conversion into bonds of interest arrears owed to the Bank of Tanzania. For program-monitoring purposes, such bonds are excluded from domestic financing.

3/ Although foreign-financed development expenditure is included in the voted budget, actual spending is not fully captured in budget execution reports.

4/ Statistical discrepancy between fiscal and monetary data.

Table 5. Tanzania: Central Government Revenue and Expenditure, Quarterly, 2002/03 1/
(Cumulative, in billions of Tanzania shillings)

	2002/03			
	September Prog.	December Prog.	March Prog.	June Prog.
Total revenue	269.5	559.0	862.4	1,172.3
Tax revenue	246.9	510.3	788.0	1,066.9
Import duties	26.8	54.4	81.1	109.4
Value-added tax (VAT)	95.8	191.6	294.7	394.3
Excises	48.1	101.6	153.2	203.9
Income taxes	51.6	109.3	175.3	240.9
Other taxes	24.5	53.4	83.8	118.3
Nontax revenue	22.6	48.8	74.3	105.4
Total expenditure	490.2	1,057.0	1,620.3	2,106.2
Recurrent expenditure	343.7	764.1	1,180.9	1,520.4
Wages and salaries	93.0	205.2	308.3	411.5
Interest payments	27.3	67.6	94.8	131.6
Domestic	15.6	30.8	44.8	57.4
Foreign	11.7	36.7	50.0	74.2
Goods and services and transfers	223.4	491.4	777.8	977.3
Clearance of domestic arrears	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0
Development expenditure	146.5	292.9	439.4	585.9
Domestic financed	23.9	47.8	71.7	95.7
Foreign financed 2/	122.6	245.1	367.7	490.2
Expenditure carryover	0.0	0.0	0.0	0.0
Overall balance (before grants)	-220.7	-498.0	-757.9	-933.9
Memorandum items:				
Primary balance (excluding grants and foreign-financed development expenditure)	-70.9	-185.3	-295.5	-312.1

Sources: Ministry of Finance; and Fund staff projections.

1/ Fiscal year runs from July to June.

2/ Although foreign-financed development expenditure is included in the voted budget, actual spending is not fully captured in budget execution reports.

Table 6. Tanzania: Central Government Expenditure on Priority Sectors, 2000/01 - 2002/03 1/
(In billions of Tanzania shillings, unless otherwise indicated)

	2000/01	2001/02		2002/03	
		Prog.	Actual	Prog.	Rev. Prog.
Total expenditure in priority sectors	499.7	766.5	761.9	893.2	966.2
(in percent of GDP)	6.5	9.1	8.8	9.6	10.2
(in percent of total expenditure)	39.3	49.6	52.1	48.2	45.9
Education	254.9	347.6	344.9	373.8	414.8
Health	100.7	139.3	142.1	157.1	172.3
Water	18.3	31.6	32.5	50.3	58.5
Agriculture (research and extension)	19.1	30.5	31.9	57.4	62.6
Lands	5.1	8.1	8.1	9.2	21.2
Roads	92.5	181.2	179.6	219.9	208.4
Judiciary	9.2	21.0	18.8	21.5	23.8
TACAIDS 2/	0.0	7.3	4.0	4.2	4.5
Recurrent expenditure in priority sectors	351.7	501.6	497.6	550.5	681.6
(in percent of GDP)	4.6	6.0	5.8	5.9	7.2
(in percent of total recurrent expenditure)	35.6	40.1	42.5	38.0	44.8
Education	189.2	285.3	282.1	318.0	400.0
Health	70.3	88.6	90.9	97.7	128.6
Water	8.1	14.7	15.5	15.9	16.9
Agriculture (research and extension)	10.3	15.9	17.2	17.5	34.2
Lands	4.2	7.4	7.4	8.1	4.8
Roads	60.7	68.3	65.7	72.8	73.6
Judiciary	8.8	14.1	14.8	16.3	18.9
TACAIDS 2/	0.0	7.3	4.0	4.2	4.5
Development expenditure in priority sectors	148.0	265.0	264.2	358.4	284.6
(in percent of GDP)	1.9	3.2	3.1	3.9	3.0
(in percent of total development expenditure)	51.7	89.9	90.7	88.7	48.6
Education	65.7	62.2	62.8	55.8	14.8
Health	30.4	50.7	51.2	59.4	43.7
Water	10.1	16.9	17.0	34.3	41.6
Agriculture (research and extension)	8.7	14.6	14.7	39.9	28.4
Lands	0.9	0.7	0.7	1.1	16.4
Roads	31.7	112.9	113.9	147.1	134.8
Judiciary	0.4	7.0	4.0	5.2	4.9
TACAIDS 2/	0.0	0.0	0.0	15.7	0.0
Memorandum items:					
Total expenditure 3/	1,272.8	1,544.8	1,462.8	1,852.6	2,106.2
Recurrent expenditure	986.6	1,249.9	1,171.4	1,448.5	1,520.4
Development expenditure	286.3	294.9	291.3	404.1	585.9
HIPC Initiative debt relief	141.2	117.2	116.8	121.8	123.0
(in percent of GDP)	1.8	1.4	1.4	1.3	1.3
GDP (market prices)	7,727	8,402	8,613	9,262	9,498

Source: Ministry of Finance.

1/ Fiscal years run from July to June.

2/ Government agency created in 2001 to coordinate AIDS-related interventions.

3/ Excludes clearance of domestic arrears and recapitalization of banks.

Table 7. Tanzania: Monetary Survey, 2001-03
(In billions of Tanzania shillings, unless otherwise indicated)

	2001	2002						2003		
		Mar.		June		Sept.	Dec.		Mar.	June
		Act.	Act.	Prog.	Act.		Act.	Orig. Proj.			Rev. Proj.
Monetary authorities (BoT)										
Net foreign assets	650.7	721.6	596.8	700.7	830.3	762.1	1,035.0	1,049.9	1,023.7	
Net international reserves	692.6	763.5	638.7	742.6	872.1	804.0	1,076.9	1,091.8	1,065.6	
(in millions of U.S. dollars)	755.9	778.0	674.8	784.2	899.5	838.6	1,110.3	1,110.3	1,075.3	
Medium- and long-term foreign liabilities	-41.9	-41.9	-41.9	-41.9	-41.9	-41.9	-41.9	-41.9	-41.9	
Net domestic assets	-66.3	-171.4	-47.8	-127.6	-34.4	-143.7	-328.3	-383.5	-331.1	
Overall credit to government (net)	-170.7	-272.1	-127.8	-245.7	-120.1	-214.3	-364.2	-399.2	-332.7	
Credit to government (net, excl. liquidity paper)	-37.8	-78.5	0.0	-47.1	64.4	0.0	-48.2	-55.7	9.2	
Liquidity paper (sterilized treasury bills)	-133.0	-193.6	-127.8	-198.6	-184.5	-214.3	-316.0	-363.5	-342.0	
Credit to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other items (net, asset -)	104.4	100.8	80.0	118.1	85.7	70.6	35.8	15.7	1.7	
Of which: outstanding repurch. operations	34.1	19.8	0.0	44.9	0.0	0.0	0.0	0.0	0.0	
Reserve money	584.4	550.3	549.0	573.1	795.8	618.4	706.6	666.4	692.7	
Currency outside banks	411.6	402.9	386.1	429.4	475.0	441.8	495.1	465.6	491.9	
Bank reserves	172.7	147.3	162.8	143.7	320.8	176.6	211.5	200.9	200.8	
Currency in banks	44.6	34.3	30.0	37.1	54.3	35.0	46.0	40.0	40.0	
Deposits	128.2	113.0	132.8	106.6	266.5	141.6	165.5	160.9	160.8	
Required reserves (calculated) 1/	100.2	117.0	112.8	118.3	118.5	121.6	125.5	135.9	135.8	
Excess reserves (calculated)	27.9	-4.1	20.0	-11.7	148.1	20.0	40.0	25.0	25.0	
Commercial banks (DMBs)										
Net foreign assets	522.9	602.1	519.8	563.2	482.8	526.6	482.8	489.5	493.3	
(in millions of U.S. dollars)	570.7	613.5	549.2	594.7	498.0	549.2	497.8	497.8	497.8	
Net domestic assets	702.2	739.9	758.5	805.3	973.2	864.8	1,002.5	1,069.1	1,064.4	
Bank reserves	177.3	159.6	162.8	133.6	322.8	176.6	211.5	200.9	200.8	
Liabilities to BoT	0.0	-0.1	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	
Credit to government (net)	266.4	236.1	317.3	237.9	252.3	424.0	353.7	401.2	379.7	
Credit to nongovernment sector	404.5	441.9	452.3	482.0	546.7	491.5	533.9	580.6	608.6	
Of which: in foreign currency	123.8	141.4	135.4	152.2	158.8	144.8	153.9	157.3	184.8	
(in millions of U.S. dollars)	135.1	144.1	143.1	160.8	163.7	151.1	158.6	159.9	186.5	
Other items (net, assets +)	-146.0	-97.6	-174.0	-48.1	-148.3	-227.3	-96.6	-113.5	-124.6	
Deposits	1,225.1	1,342.0	1,278.2	1,368.5	1,456.1	1,391.4	1,485.3	1,558.6	1,557.7	
Deposits in shillings	822.0	864.8	855.3	904.1	978.0	939.9	988.9	1,028.9	1,019.0	
Demand deposits	354.4	373.1	368.7	386.2	437.4	405.2	428.1	445.4	441.1	
Savings and time deposits	467.6	491.7	486.6	517.9	540.6	534.7	560.8	583.5	577.9	
Deposits in foreign currency	403.1	477.2	422.9	464.4	478.1	451.5	496.5	529.7	538.7	
(in millions of U.S. dollars)	439.9	486.3	446.9	490.4	493.1	470.9	511.9	538.7	543.6	
Demand deposits	243.2	289.1	255.2	280.3	287.7	272.4	307.2	327.7	333.3	
Savings and time deposits	159.9	188.1	167.8	184.1	190.3	179.1	189.3	202.0	205.4	
Monetary survey										
Net foreign assets	1,173.6	1,323.7	1,116.6	1,263.8	1,313.1	1,288.7	1,517.8	1,539.4	1,517.0	
Net domestic assets	463.1	421.3	547.8	534.1	618.0	544.4	462.7	484.8	532.6	
Domestic credit	500.1	405.9	641.9	474.3	678.8	701.1	523.4	582.6	655.5	
Credit to government (net)	95.6	-36.0	189.6	-7.8	132.1	209.6	-10.5	2.0	46.9	
Credit to nongovernment sector	404.5	441.9	452.3	482.0	546.7	491.5	533.9	580.6	608.6	
Other items net (asset +)	-37.0	15.3	-94.1	59.8	-60.9	-156.7	-60.7	-97.8	-122.9	
Of which: discrepancy between BoT and DMBs	4.6	12.2	0.0	-10.2	1.8	0.0	0.0	0.0	0.0	
M3	1,636.7	1,745.0	1,664.4	1,797.9	1,931.0	1,833.1	1,980.4	2,024.1	2,049.6	
Foreign currency deposits	403.1	477.2	422.9	464.4	478.1	451.5	496.5	529.7	538.7	
M2	1,233.7	1,267.7	1,241.4	1,333.5	1,453.0	1,381.7	1,484.0	1,494.4	1,510.9	
Currency in circulation	411.6	402.9	386.1	429.4	475.0	441.8	495.1	465.6	491.9	
Deposits	822.0	864.8	855.3	904.1	978.0	939.9	988.9	1,028.9	1,019.0	
Memorandum items:										
M3 growth (12-month percent change)	17.1	22.4	13.0	22.1	24.6	12.0	21.0	16.0	14.0	
Foreign currency deposits (12-month percent change)	32.6	34.0	13.1	24.2	23.2	12.0	23.2	11.0	16.0	
M2 growth (12-month percent change)	12.8	18.5	13.0	21.3	25.1	12.0	20.3	17.9	13.3	
Credit to nongovernment sector (12-month percent change)	18.8	20.6	19.5	27.4	35.6	21.5	32.0	31.4	26.2	
Reserve money (12-month percent change)	5.0	5.1	8.3	13.1	41.5	5.8	20.9	21.1	20.9	
Currency/M3 (in percent)	25.2	23.1	23.2	23.9	24.6	24.1	25.0	23.0	24.0	
Reserve money multiplier (M3/reserves)	2.8	3.2	3.0	3.1	2.4	3.0	2.8	3.0	3.0	
Velocity of money (M2; average)	7.0	...	...	...	...	6.7	6.7	...	...
Velocity of money (M3; average)	5.4	...	...	...	...	5.1	5.0	...	...
Net foreign currency position (DMBs, in foreign currency)	265.8	271.3	245.4	265.1	168.6	229.4	144.5	119.0	140.7	

Sources: Bank of Tanzania (BoT), and Fund staff estimates and projections.

1/ Calculated as reserve requirement times banks' deposits minus half of the bank cash in vault.

Table 8. Tanzania: Balance of Payments, 2000-07
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007
	Act.	Act.	Prog.			Projections		
Current account								
Including official transfers	-463.7	-503.0	-386.7	-464.7	-559.9	-598.3	-631.7	-632.6
Excluding official transfers	-856.4	-873.1	-834.1	-937.0	-1,035.9	-1,124.3	-1,175.0	-1,195.6
Goods and services	-766.8	-817.3	-756.5	-907.5	-1,010.1	-1,102.9	-1,149.6	-1,181.7
Trade account	-673.9	-715.7	-654.3	-768.3	-836.7	-883.8	-905.0	-910.5
Exports, f.o.b.	663.3	776.4	850.1	910.2	976.0	1,055.5	1,131.1	1,207.0
Traditional	292.8	231.1	207.0	228.4	254.6	290.9	328.5	364.0
Nontraditional	370.5	545.3	643.0	681.8	721.4	764.6	802.6	843.0
Imports, f.o.b.	-1,337.2	-1,492.1	-1,504.3	-1,678.5	-1,812.6	-1,939.3	-2,036.2	-2,117.5
Services (net)	-92.9	-101.6	-102.2	-139.2	-139.5	-219.1	-244.6	-271.2
Credit	666.7	679.5	683.2	715.4	750.3	780.3	834.3	892.2
Debit	-759.7	-781.2	-785.4	-854.5	-923.7	-999.4	-1,078.9	-1,163.4
Income (net)	-89.6	-55.7	-77.6	-29.5	-25.8	-21.4	-25.4	-13.9
Credit	50.4	69.2	66.2	67.5	68.9	70.3	61.6	62.8
Debit	-140.0	-124.9	-143.8	-97.1	-94.7	-91.6	-87.0	-76.8
Of which: interest payments due	-120.8	-117.3	-135.7	-89.2	-86.6	-83.4	-79.6	-69.2
Of which: govt. payments due	-105.1	-97.5	-94.6	-73.7	-74.5	-74.3	-73.3	-65.4
Current transfers	392.7	370.1	447.4	472.4	476.0	526.0	543.3	563.0
Of which: official transfers	430.7	402.4	491.7	462.3	475.8	510.4	527.0	547.1
Of which: program grants	175.6	140.4	280.0	293.1	307.6	323.1	339.4	356.6
HIPC Initiative debt relief grants	43.5	70.9	76.7	68.1	73.7	75.8	83.1	93.7
Capital account	330.4	365.2	300.1	310.1	319.8	335.3	351.6	368.7
Of which: project grants	314.7	342.9	281.8	295.1	309.8	325.3	341.6	358.7
Financial account	423.8	-27.4	335.5	377.7	313.8	322.8	344.9	297.8
Direct investment ^{1/}	463.4	327.2	240.4	247.8	260.1	273.1	286.8	301.1
Portfolio investment	1.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-40.6	-356.6	95.1	129.9	53.7	49.7	58.1	-3.3
Assets	-134.0	-76.7	72.9	0.0	0.0	0.0	0.0	0.0
Of which: Banks	-134.0	-76.7	72.9	0.0	0.0	0.0	0.0	0.0
Liabilities	93.4	-280.0	22.2	129.9	53.7	49.7	58.1	-3.3
Loans	76.8	-303.5	9.2	115.7	41.3	35.5	47.7	-9.3
Government drawings	386.7	141.8	263.0	317.4	249.8	237.9	227.9	216.0
Government repayments	-261.3	-395.9	-165.5	-129.2	-140.4	-149.3	-157.5	-192.6
Of which: scheduled amortization	-251.3	-264.5	-165.5	-129.2	-140.4	-149.3	-157.5	-192.6
Banks	-0.9	2.0	-3.9	0.0	0.0	0.0	0.0	0.0
Other sectors' drawings	2.5	6.4	9.6	9.8	7.3	5.1	31.0	8.3
Other sectors' repayments	-50.2	-57.7	-94.0	-82.3	-75.4	-58.2	-53.7	-41.1
Trade credit	12.8	13.0	13.0	14.2	12.4	14.2	10.4	6.0
Currency and deposits	3.9	10.5	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-200.4	155.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	90.2	-9.6	248.9	223.1	73.7	59.8	64.8	33.9
Financing	-90.2	9.6	-248.9	-223.1	-73.7	-59.8	-64.8	-33.9
Bank of Tanzania (BoT) reserve assets (increase, -)	-197.4	-186.4	-347.0	-215.6	-36.5	-9.3	-12.0	18.9
Use of fund credit	49.4	15.6	26.0	-7.4	-37.2	-50.5	-52.8	-52.8
Exceptional financing	57.8	180.3	72.1	0.0	0.0	0.0	0.0	0.0
Change in arrears (increase -) ^{2/}	47.8	48.9	72.1	0.0	0.0	0.0	0.0	0.0
Debt rescheduled	10.0	131.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross official reserves (BoT)	974.4	1,156.6	1,503.7	1,719.3	1,755.9	1,765.2	1,777.2	1,756.6
In months of imports of goods and services	5.1	6.1	7.1	7.5	7.2	6.8	6.5	6.1
Current account deficit (as percent of GDP)								
Excluding current official transfers	-9.4	-9.3	-8.9	-9.3	-9.7	-9.7	-9.4	-8.9
Including current official transfers	-5.1	-5.4	-4.1	-4.6	-5.2	-5.2	-5.1	-4.7
Net aid flows (as percent of GDP) ^{3/}	10.3	8.4	9.9	8.7	7.6	7.4	7.0	6.4
Foreign direct investment (as percent of GDP) ^{4/}	5.1	3.5	2.6	2.5	2.4	2.4	2.3	2.2
GDP	9,079	9,342	9,392	10,056	10,728	11,564	12,448	13,411

Sources: Tanzanian authorities, and Fund staff estimates and projections.

^{1/} Figures are likely to be revised upward in line with the results of the recent survey on foreign direct investment (FDI) carried out by the Bank of Tanzania.

^{2/} The arrears are on non-Paris Club official and commercial debt, which is subject to rescheduling.

^{3/} Net aid flows are defined as grants plus concessional foreign borrowing minus actual debt-service payments. For 2003-07, actual payments are equal to scheduled payments.

^{4/} Significant decline in foreign direct investment ratio in 2001-02 is partly due to data coverage issues.

Table 9. Tanzania: Disbursements of Program Assistance, 2001/02- 2002/03 1/
(In millions of U.S. dollars)

	2001		2002						2003		2001/02	2002/03
	Act. Q3	Act. Q4	Proj. Q1	Act. Q1	Proj. Q2	Act. Q2	Proj. Q3	Proj. Q4	Proj. Q1	Proj. Q2	Act. FY	Proj. FY
Grants	26.4	70.2	75.2	67.1	33.8	25.1	20.2	167.6	62.9	23.4	188.8	274.1
Multilateral 2/	7.8	4.0	33.4	35.0	6.0	0.0	0.0	36.4	0.0	0.0	46.7	36.4
EU PRBS support	0.0	4.0	33.4	29.0	0.0	0.0	0.0	36.4	0.0	0.0	33.0	36.4
EU grants for arrears' clearance	7.8	0.0	0.0	6.0	6.0	0.0	0.0	0.0	0.0	0.0	13.8	0.0
Bilateral	18.6	66.2	41.8	32.1	27.8	25.1	20.2	131.2	62.9	23.4	142.0	237.8
PRBS 2/	7.7	56.1	36.6	29.4	22.5	12.8	14.5	94.0	21.5	6.0	106.0	136.0
Sweden	7.7	0.0	0.0	0.0	0.0	0.0	12.8	0.0	0.0	0.0	7.7	12.8
Netherlands	0.0	0.0	14.7	14.4	0.0	0.0	0.0	14.9	0.0	0.0	14.4	14.9
Ireland	0.0	0.0	0.0	0.0	6.0	0.0	0.0	6.0	0.0	0.0	0.0	6.0
United Kingdom	0.0	49.8	0.0	0.0	14.3	0.0	0.0	54.3	15.5	0.0	49.8	69.8
Norway	0.0	4.7	4.2	4.2	2.2	2.4	0.0	6.0	5.0	0.0	11.3	11.0
Finland	0.0	1.6	0.0	0.0	0.0	0.0	1.7	0.0	0.0	0.0	1.6	1.7
Denmark	0.0	0.0	10.0	10.8	0.0	1.1	0.0	10.0	0.0	0.0	11.9	10.0
Switzerland	0.0	0.0	4.7	0.0	0.0	5.0	0.0	0.0	0.0	5.0	5.0	5.0
Japan	0.0	0.0	3.0	0.0	0.0	4.2	0.0	1.0	1.0	1.0	4.2	3.0
Canada	0.0	0.0	0.0	0.0	0.0	0.1	0.0	1.8	0.0	0.0	0.1	1.8
Sectoral baskets (SWAPs)	10.9	10.0	5.2	2.8	5.2	12.3	5.7	37.2	41.4	17.4	36.0	101.8
Belgium	0.0	0.0	...	0.0	...	0.0	0.0	0.0	0.0	1.0	0.0	1.0
Canada	0.0	0.0	...	0.0	...	0.1	0.0	0.0	0.0	0.6	0.1	0.6
Denmark	2.3	2.3	...	1.3	...	1.8	0.0	0.8	0.8	1.0	7.7	2.6
EU	0.0	0.0	...	0.0	...	0.0	0.0	12.4	12.4	0.0	0.0	24.8
Finland	0.0	0.0	...	0.0	...	0.0	0.0	0.8	0.0	0.0	0.0	0.8
Ireland	0.9	0.3	...	1.4	...	0.0	0.0	2.5	2.2	1.0	2.7	5.7
Netherlands	0.0	0.4	...	0.0	...	0.8	4.1	10.0	20.0	3.0	1.2	37.1
Norway	0.7	0.7	...	0.0	...	3.1	0.0	3.0	0.0	1.0	4.5	4.0
Sweden	0.0	0.0	...	0.0	...	4.5	0.0	2.6	0.0	4.7	4.5	7.3
Switzerland	1.1	1.1	...	0.1	...	0.0	1.6	0.0	0.9	0.0	2.3	2.5
United Kingdom	5.9	5.2	...	0.0	...	2.0	0.0	5.2	5.2	5.2	13.0	15.5
Loans	37.7	0.0	50.5	50.0	65.0	4.5	0.0	80.0	75.0	0.0	92.2	155.0
Multilateral	37.7	0.0	50.5	50.0	65.0	4.5	0.0	80.0	75.0	0.0	92.2	155.0
World Bank	37.7	0.0	50.5	50.0	40.0	4.5	0.0	80.0	50.0	0.0	92.2	130.0
African Development Bank	0.0	0.0	0.0	0.0	25.0	0.0	0.0	0.0	25.0	0.0	0.0	25.0
Bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total program assistance	64.1	70.2	125.7	117.1	98.8	29.5	20.2	247.6	137.9	23.4	280.9	429.1
Cumulative from beginning of fiscal year	64.1	134.3	259.4	251.4	358.2	280.9	20.2	267.8	405.7	429.1	...	...

Sources: Bank of Tanzania; Ministry of Finance; and donors.

1/ Fiscal years run from July to June.

2/ Total of health sector basket and Primary Education Development Program.

Table 10. Tanzania: External Debt Indicators, 2001/02–2011/12 1/
(After enhanced HIPC Initiative assistance)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Estimate										
	(In percent)										
Debt indicators at the HIPC completion point 2/											
Net present value of debt-to-GDP ratio	17.6	17.6	17.5	17.1	16.9	16.8	16.6	16.4	16.2	15.9	15.8
Net present value of debt-to-exports ratio 3/ 4/	130.8	135.2	137.1	135.2	132.8	130.6	128.2	126.3	124.1	122.3	121.7
Net present value of debt-to-revenue ratio 5/	156.5	150.3	146.9	142.6	136.7	132.0	128.1	123.4	119.0	114.0	110.5
Debt service-to-exports ratio 6/	6.7	6.7	8.1	8.6	7.8	7.0	6.4	5.9	6.2	6.0	5.2
Debt service-to-revenue ratio 5/	8.3	7.8	9.2	9.7	8.8	7.7	7.0	6.2	6.4	6.0	5.0
Updated debt indicators 7/											
Net present value of debt-to-GDP ratio	18.3	19.2	19.1	18.9	18.7	18.6	18.4	18.3	18.0	17.8	17.7
Net present value of debt-to-exports ratio 3/ 4/	127.8	132.4	132.7	130.9	128.6	126.6	124.0	121.9	119.7	117.9	117.3
Net present value of debt-to-revenue ratio 5/	155.3	159.3	157.2	152.3	147.8	143.9	140.9	132.9	128.6	124.4	122.0
Debt service-to-exports ratio 6/	6.6	6.6	7.9	8.4	7.7	6.9	6.5	6.1	6.2	5.9	5.1
Debt service-to-revenue ratio 5/	8.3	8.3	10.0	10.5	9.6	8.5	8.0	7.2	7.1	6.8	5.7
Debt indicators from the authorities' DSA 8/											
Net present value of debt-to-GDP ratio	18.8	20.0	20.4	20.8	21.0	21.1	21.2	21.3	21.3	21.3	21.4
Net present value of debt-to-exports ratio	131.5	137.8	142.2	144.5	144.4	143.5	142.5	141.8	141.3	141.1	141.8
Net present value of debt-to-revenue ratio	159.9	165.8	168.5	168.1	165.9	163.2	161.9	154.6	151.7	148.8	147.5
Memorandum items:											
	(In millions of U.S. dollars)										
Net present value of debt after enhanced HIPC Initiative assistance	1,768	1,926	2,043	2,167	2,310	2,479	2,649	2,828	3,008	3,203	3,434
Debt service after enhanced HIPC Initiative assistance	95	101	130	150	150	146	151	154	167	174	161
GDP	9,655	10,023	10,711	11,488	12,375	13,327	14,358	15,467	16,666	17,966	19,374
Exports of goods and services	1,439	1,533	1,645	1,788	1,954	2,134	2,318	2,507	2,711	2,928	3,145
Exports of goods and services (3-year mvg. avg.)	1,384	1,455	1,539	1,655	1,796	1,959	2,136	2,320	2,512	2,716	2,928
Government revenue	1,138	1,209	1,299	1,422	1,563	1,723	1,880	2,127	2,340	2,574	2,815
Projected disbursements of new loans	...	439	399	410	432	456	481	507	534	563	594
Net present value of debt after enhanced HIPC Initiative assistance (from Bank of Tanzania)	1,820	2,004	2,189	2,392	2,594	2,812	3,043	3,289	3,549	3,831	4,153
Projected disbursements of new loans (from BoT)	...	514	509	558	572	594	616	642	669	698	729

Sources: Tanzanian authorities; and Fund staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated. All years on July-June basis.

2/ Estimated in November 2001 based on end-June 2001 debt data.

3/ Based on a three-year average of exports (e.g., export average over 1999/00–2001/02 for Net present value of debt-to-exports ratio in 2001/02).

4/ Assuming full delivery of HIPC Initiative assistance at end-June 2001.

5/ Revenue is defined as central government revenue, excluding grants.

6/ Based on current-year exports.

7/ Estimated in October 2002 based on end-June 2001 debt data, new disbursements in financial year 2001/02, and other macroeconomic developments in 2001/02.

8/ Bank of Tanzania has carried out a debt sustainability analysis (DSA) based on end-June 2002 debt data. These indicators are from the baseline scenario which assumes full delivery of enhanced HIPC Initiative assistance. It also assumes a much higher level of projected new borrowing.

THE UNITED REPUBLIC OF TANZANIA
THE MINISTER FOR FINANCE

Telephone: 2112854

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In reply please quote:

Ref. No:



THE TREASURY,
P.O. Box 9111,
DAR ES SALAAM,
TANZANIA.

Dar es Salaam, November 02, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. Tanzania is implementing its programme for poverty reduction with the support of the IMF through a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) extending to March 2003. The fourth review under the arrangement was concluded by the Executive Board of the IMF in April 2002; this letter requests completion of the fifth review under the PRGF arrangement. To this end, it discusses progress in implementing the programme since mid-2001 and sets out the government's policy intentions and targets through June 2003. The final disbursement under the current PRGF arrangement is subject to a review expected to be completed in May 2003. To give time for this review, the government requests that the arrangement be extended by three months until end-June 2003.

I RECENT ECONOMIC PERFORMANCE AND POLICY IMPLEMENTATION

A. Macroeconomic Developments

2. Tanzania's macroeconomic performance continued to improve in 2001/02. The GDP growth rate increased to 5.6 percent in 2001 and is projected to rise to 5.9 percent in 2002 despite a substantial deterioration in the terms of trade. Growth in 2001 stemmed from relatively strong performances in agriculture, mining, wholesale and retail trade, as well as manufacturing. The agriculture sector grew by 5.5 percent in 2001 up from 3.4 percent in 2000, with most of the growth emanating from food crop production and fishing. The growth of the mining sector remained strong at 13.2 percent and its contribution to GDP increased to 2.5 percent. Wholesale and retail trade (including tourism) rose by 7 percent in 2001. Industrial output rose by 6 percent. The 12-month rate of inflation declined further, from 5.5 percent in December 2000 to 4.5 percent in June 2002. Gross official reserves of the Bank of Tanzania (BoT) rose to above six months of imports of goods and services.

B. Performance Under the Program

3. All quantitative performance criteria for end-June 2002 were observed (Table 1). Among the quantitative benchmarks, that on government revenue was observed; benchmarks with respect to extra budgetary expenditure, the accumulation of budgetary arrears and reserve money were not observed. With regard to the payment for the air traffic control system, there was an extra-budgetary expenditure of Tsh. 18 billion during the year 2001/02. This will be regularized through a supplementary budget allocation for 2002/03. Some budgetary arrears were accumulated during 2001/02 on payments for utilities, but the measures described in paragraph 29 should help prevent recurrence of such arrears in the future. The reasons for the nonobservance of the benchmark with respect to reserve money are explained in paragraph 10. The structural performance criteria with respect to the clearance of audited domestic arrears and the timetable for the elimination of the suspended duties were observed. The structural performance criterion on submission to Parliament of legislation that makes governments incurring or guaranteeing of foreign debt subject to Cabinet approval upon recommendation by the Minister for Finance was not observed. Following discussion in Cabinet of the new national debt strategy, the Government has determined that several amendments to the existing Loans, Guarantees and Grants Act of 1974 will be needed but can be submitted to Parliament only in February 2003. The scope of these amendments is described in paragraph 34. On this basis, we request a waiver for non-observance of this structural performance criterion. The June 2002 benchmark on publication of individual and consolidated quarterly revenue and expenditure accounts for local governments will be delayed until December 2002 owing to capacity constraints at the local government level. Publication of the

second report on the implementation of the ministerial anticorruption plans was also delayed and is now expected for December 2002.

C. Fiscal Developments

4. Government revenue during fiscal year 2001/02 was Tsh. 1,043 billion, slightly above the estimate of Tsh. 1,025 billion. The better than projected performance can be largely attributed to higher than budgeted collections on income taxes, which benefited from the establishment of the Large Taxpayers Department within the TRA, and on customs revenue as a result of the special marking of petroleum products. Higher than projected collections from parastatal dividends also contributed to the strong revenue performance in 2001/02.

5. Government expenditure for the fiscal year 2001/02 was Tsh. 1,556 billion, 5 percent below the budget estimate of Tsh. 1,642 billion. The lower than planned expenditure was mainly due to shortfalls in foreign budget support (loans and grants) and delays in government procurement of goods and services on account of slow adaptation to the new Public Procurement Act 2001. The shortfall in budget support was approximately USD 178 million compared to budget estimates, or USD 76 million relative to the revised programme agreed in January 2002. Notwithstanding the shortfall, priority sectors received full quarterly allocations throughout the year, in line with the respective cash-flow requirements. In addition, the population and housing census and HIV/AIDS priority interventions through the Tanzania Commission on AIDS (TACAIDS) were fully funded. Adequate provision was also made to clear audited budgetary arrears. In 2001/02 net domestic financing of the government resulted in net repayment of Tsh. 23 billion, partly due to lower debt service on account of the enhanced HIPC Initiative debt relief.

D. Progress in Public Financial Management Reform

6. Progress in public financial management reform was reviewed last year as part of the Country Financial Accountability Assessment (CFAA). The findings of the review will be incorporated in a revised Public Financial Management Reform Programme, currently underway. A priority expenditure tracking study was conducted last year as part of the PRSP/HIPC process, and it revealed that Tanzania met 8 of the 15 benchmarks and had made encouraging progress on the remaining 7 benchmarks. The remaining benchmarks will be met in the next three years. A fiscal transparency report (ROSC) was also prepared and published. The government has continued to publish quarterly budget execution reports drawn from the Integrated Financial Management System (IFMS); it has started publishing quarterly public debt reports as well as information on budget resource transfers to Ministries, Departments and Agencies (MDAs), as well as local governments. This year has seen even further increased transparency and political debate in the media on budget proposals for 2002/03 submitted to the Parliament on June 13th, 2002. A Public Service Act was passed by Parliament in April 2002, which will enable implementation of

performance management systems and better enforcement of sanctions and disciplinary measures against non-compliance with financial and procurement regulations, the aim being to improve public service delivery.

E. Implementation of the Poverty Reduction Strategy

7. Tanzania is in its second year of implementing its Poverty Reduction Strategy (PRS). The Government is preparing the second annual progress report on the implementation of the PRS. The progress report is a synthesis of inputs generated under the Poverty Monitoring Master Plan developed by the government in 2001. The second progress report, which is now expected to be completed by November 2002, includes a description of the poverty status, development of new poverty baselines, and a review of poverty indicators and targets, on the basis of the full results of the 2000/01 Household Budget Survey (HBS) and Integrated Labour Force Survey (ILFS).

8. The second PRS progress report also draws on the draft Poverty and Human Development Report (PHDR) prepared under the poverty monitoring system. The PHDR, the first of its kind in Tanzania, informs and advises the government on the implementation of various aspects of the poverty reduction strategy. It presents an overview of the status of the main poverty indicators and includes a detailed discussion of key aspects of non-income poverty. The Government has also launched a participatory poverty assessment (PPA) programme as part of the poverty monitoring framework. The second PRS progress report will also include inputs generated from a number of related participatory processes, including the Public Expenditure Review process.

9. In addition to an analysis of the poverty status, the PRS progress report 2002 will focus on implementation of the primary education development programme and progress in implementing the agricultural sector strategy, as well as on the status of implementation of the other priority sector strategies.

F. Monetary and Financial Sector Developments

10. During 2001/02, the performance criteria on net domestic assets, net financing of the government, and net international reserves were observed by wide margins. However, owing to unanticipated market conditions and external developments, reserve money and the broad money aggregates M2 and M3 grew more rapidly than programmed. Thus, M2 grew by 21.3 percent against the programme target of 12.2 percent. The stronger than programmed expansion in reserve money and broad money is attributable to ordinary as well as extraordinary developments. There was a rapid growth in liquidity in the economy because of deposit mobilization by banks, as the new banks continued to open branches outside the capital city of Dar es Salaam, and a continued decline in dollar cash holdings in the economy. However, most of the increase in reserve money and broad money occurring during the

period January – June 2002 was a result of extra-ordinary developments: (1) the transfer of funds from government deposits at the Bank of Tanzania to accounts of local governments in commercial banks; as a consequence, the government's net position at the Bank of Tanzania was reduced and the stock of money increased by the same amount; (2) two non-bank institutions merged and converted to a fully fledged commercial bank, and as a consequence the deposits in this bank became part of the money stock; (3) a newly established international bank brought in sizable capital investment to begin its operations in Tanzania; (4) there was a large inflow of private capital for mining and other investment projects as well as a large amount of foreign exchange inflow connected with two large embassy buildings currently under construction.

11. Given the unanticipated nature and unusual sources of liquidity creation, the ordinary instruments available to the Bank of Tanzania were not adequate to mop up the excess liquidity. As the liquidity buildup continued, the Bank of Tanzania had to look for alternative means of bringing down the rate of monetary expansion. As a first step, the Government agreed with the Bank of Tanzania to securitize TZS 40 billion of a hitherto dormant government obligation held by the Bank of Tanzania. The securitization took the form of a new 35-day treasury bill which is being gradually converted into a long term Treasury bond being traded on the Stock Exchange. We are aware that the TZS 40 billion is inadequate to reduce the growth in the money stock to the level targeted in the programme. Therefore, it is the intention of the Government to allow an additional securitization of up to TZS 80 billion to help meet the monetary targets of the program.

12. The commercial banks' weighted average lending and deposit rates fell during 2001/02, the former partly on account of lower rates for prime borrowers. Lending rates declined from 19.6 percent in June 2001 to 16.4 percent in June 2002, while savings deposit rates fell from 4.2 percent to 3.5 percent. The lending rates for prime borrowers averaged about 11 percent in mid-2002. The interest rate spread was thus significantly reduced, but the remaining wide spread points to continued presence of legal and structural rigidities, high perceived risks of business, and inadequate borrower information. Measures to address these impediments are outlined in paragraph 32.

G. Public Debt Management

13. Public debt developments were broadly on track. A revised National Debt Strategy was approved by Cabinet in August 2002. The strategy enunciates the importance of fiscal sustainability of public debt through improved management of risks, development of local financial markets, and a strengthening of the legal and institutional arrangements for borrowing and debt management. The strategy also presents options for dealing with the likely fiscal implications of the debt arising from the parastatal privatisation process.

14. Domestic debt market developments were particularly favourable. Encouraged by the successful floatation at the stock exchange of the 5-year Treasury bond in February 2002, the government launched a 7-year fixed rate Treasury bond in August 2002. The new 5 and 7 year bonds are expected to be an important test for the ongoing efforts to convert unsecuritized debt into marketable securities.

15. As regards external debt, there has been some progress in concluding bilateral agreements under Paris Club VII. To date agreements have been signed with Austria, the United States, Canada, and Italy. The United Kingdom has notified the government of Tanzania that it is providing total debt cancellation and that there is therefore no need for a bilateral agreement. Recognising the genuine difficulties faced by the government in expediting the process, the creditors, through the Paris Club Secretariat, have agreed to extend the deadline for bilateral agreements to November 1, 2002.

16. The government has been consistently appealing to the Non-Paris Club official and commercial creditors to extend debt relief on terms comparable to those under the enhanced HIPC framework, but there has been little progress. So far, only Kuwait has indicated willingness to provide debt relief in the HIPC framework. China has stated her readiness to provide debt relief as and when payments fall due. In addition, some dialogue has been initiated with Iraq, Iran and Libya but no commitment has been made yet. To underscore its strong commitment to reaching agreement with these creditors, the government has recently established a foreign currency escrow account managed by the Bank of Tanzania into which it is depositing this fiscal year US\$5 million, equivalent to 12.5 percent of the estimated debt service due to these creditors after application of the enhanced HIPC debt relief terms. In this regard the government would appreciate the assistance of the Fund and the Bank in encouraging participation of the non-Paris Club creditors in the debt relief initiative.

H. External Sector

17. During 2001/02, the external current account deficit improved to 8.9 percent of GDP (excluding current official transfers) from 9.4 percent of GDP a year earlier. Non-traditional exports, gold in particular, performed well during most of 2001/02. However, traditional exports recorded their worst performance in recent years mainly due to lower export prices in the world market for coffee, cotton and cashewnuts. Imports increased only slightly, largely on account of capital and intermediate goods. However, there was a significant decrease in imports of consumer goods, in particular food stuffs, owing to favourable weather conditions. There has also been a decline in official grants during the year under review compared to 2000/01. Gross external official reserves rose to USD 1,212.0 million at the end of June 2002, equivalent to more than six months of imports of goods and non-factor services.

18. Exchange rate developments reflected the unusual pattern of foreign exchange flows in 2001/02 as well as higher-than-programmed monetary growth. Instead of the usual decline in foreign exchange holdings during January to June, there was a build up in such holdings at both the BOT and commercial banks. On a monthly weighted average basis, the exchange rate moved from Tsh. 888.9 in June 2001 to a low of 980.2 per US dollar in May 2002, before appreciating in June 2002; the annual (transaction) weighted average was Tsh 931.1 per US dollar for 2001/02, representing a nominal depreciation of 12.5 percent from the previous year. The exchange rate is market determined, subject to BOT interventions to smoothen short-term fluctuations and to lean against upward pressure on the exchange rate stemming largely from capital inflows.

II POLICIES FOR FISCAL YEAR 2002/03

A. Poverty Reduction Strategy

19. Tanzania is committed to the goal of eradicating abject poverty set out in the development vision 2025. The framework for achieving this goal is articulated in the National Poverty Eradication Strategy (NPES - 1997), the Poverty Reduction Strategy Paper (PRSP 2000), and the Zanzibar Poverty Reduction Plan (2002). In 2002/03, the government will seek to achieve the targets and outcomes specified in the first annual PRS progress report, and will maintain policy interventions, including budgetary allocations that reflect these priorities. Central to the PRS are the maintenance of macroeconomic stability, acceleration of pro-poor growth, and creation of employment.

B. Macroeconomic framework

20. Policies for 2002/03 will be geared towards preserving domestic and external stability and implementation of the key sector strategies as presented in the PRS. In light of good weather, the resumption of growth in tourism, and the sustenance of investment, real GDP is projected to grow by 5.9 percent in 2002, and 6.3 percent in 2003. At the same time, building on the government's commitment to maintain and improve the fiscal and monetary policy stance, the inflation target for end-June 2003 is put at 4.5 percent. The balance of payments outlook is projected to remain favourable despite the continuing deterioration in the terms of trade mainly because prices for agricultural commodities continue to fall. In the 2002/03 budget, the overall deficit (after grants) of Tsh. 393 billion is expected to be covered mainly by concessional financing including debt relief under the enhanced HIPC Initiative framework. Recourse to domestic financing will be limited to Tsh. 64 billion.

21. The government's medium-term pro-poor growth strategy lies in the implementation of the agricultural sector and rural development programmes, and further strengthening of the investment climate to attract private capital and technology, to lift productivity in agriculture and industry, particularly through small and medium-size enterprises. In this connection, the government will seek to achieve sustainable improvement in infrastructure, notably in transport, communications and energy. At the same time we are committed to removing remaining weaknesses in the regulatory framework, law and order, tax administration, corruption and public administration.

C. Fiscal Policy and Budgetary Reform

22. The focus of 2002/03 fiscal policy is to enhance government revenue and improve public expenditure management in line with the poverty reduction strategy. Given that the poverty reduction programme requirements are higher than available resources, the government seeks to strengthen revenue collection efforts, and to use resources more efficiently through implementation of the Public Financial Management Reforms.

23. Total expenditure is budgeted at 22.3 percent of GDP in 2002/03, representing an increase of 4.2 percentage points from the previous year. In the context of the civil service pay reform, we have raised the average wage by 15 percent, which will allow, for professional and senior staff, a further reduction in the gap relative to the private sector. We are also expanding the Selected Accelerated Salary Enhancement (SASE) scheme to ten ministries. In addition, the non-wage budget allocation for the priority sectors has been increased by 30 percent in 2002/03. The budget also includes a provision of Tsh 13 billion for the possible cost of retrenchments in Air Tanzania Corporation, Tanzania Railway Corporation and the Dar es Salaam Water and Sewerage Authority (DAWASA). We will continue to enhance expenditure control through the commitment control system within IFMS to ensure that no new budgetary arrears accumulate.

24. In the 2002/03 budget, the projected foreign financing of development projects is significantly higher than in 2001/02. This increase is partly explained by the improvement in the reporting and recording system for donor assistance. This has been achieved through the establishment of a centralized database updated regularly jointly with donors. Henceforth, consolidation of reports will be centralized at the Accountant General's system at the Treasury. The increase in the development budget for 2002/03 is also due to the start of a number of large new projects, such as the Songas Project and the Primary Education Development Programme, which attracted substantial foreign finance commitments for 2002/03.

25. The large size of the informal economy including the dominance of peasant agriculture, coupled with the high level of poverty, in large part, explain the narrow

revenue base. Higher economic growth combined with measures to streamline tax policy and tax administration, have generated improvements in revenue in the past five years. However, the revenue yield relative to GDP remains low. Enhancing mobilization of revenue is a top priority for the government. The government, in the 2002/03 budget, announced measures intended to reduce revenue leakage, curb tax evasion, improve voluntary compliance and expand the tax base.

26. Specifically, the 2002/03 budget includes the following revenue measures:

- 26.1 The PAYE band structure was realigned to allow tax relief to employees earning less than Tsh 50,000 per month. In order to neutralize the resulting revenue loss, the marginal tax rates on higher tax bands were slightly adjusted upwards.
- 26.2 We have changed the income tax treatment of capital expenditure to be in line with prudent tax accounting practices. Suspended duties imposed in 2001/02 to curb dumping and under invoicing of imports have been reduced by 20 percent on average, and a timetable has been announced for eliminating all suspended duties. In addition, we have introduced a tax on mobile phone air service.
- 26.3 We have abolished customs and excise duty exemptions on purchases by government and its agencies, following abolition of the respective VAT exemption a year ago. A treasury voucher system will be introduced in January 2003 for administering the indirect tax exemption applying to non-religious NGOs and imports of motor vehicles and motor cycles by eligible public servants. This system will be extended to other statutory exemptions if it proves viable. We have revoked the excise duty exemption for mining companies and introduced, instead, a system of refund whereby eligible companies will be refunded excise duty paid on fuel after scrutiny. With effect from January 2003, the government will publish in the print media, on a quarterly basis, the names of individuals, companies, and institutions that have been exempted from paying taxes.
- 26.4 The government has undertaken a comprehensive study on the operations of the Tanzania Revenue Authority (TRA), and is now considering the recommendations of the study to determine appropriate actions for improving tax administration. The government intends to conduct further studies during 2002/03. A review of the local government tax system is underway, aimed at putting in place a tax regime that provides a conducive climate for the rural poor to engage fully in productive activity, and an environment that promotes investment in the rural areas. A strategy to this end has been developed. The strategy envisages reduction of the number of taxes, rationalization of tax

rates, simplification of tax collection, encouraging voluntary compliance and reducing the burden to farmers.

27. The government is committed to enhance the revenue base in the medium-term through a number of additional measures, including the following:

- The amendment made in the 2002 Finance Bill relating to capital expensing will be redrafted to clarify the grandfathering provisions for TIC certificate holders as applying only to benefits expressly granted in the certificate. The redrafted amendment would be submitted to Parliament in November 2002.
- An Act on export processing zones (EPZ) was enacted by Parliament early this year. However to avoid the possibility of revenue leakages in future, the government is reviewing this legislation with a view to focusing it to taking advantage of export markets under the United States' AGOA and the European Union's Everything-But-Arms. In this regard, the implementation of the EPZs will start on the basis of regulations that focus on access to AGOA and EU only, while the required amendments to the Act are being processed.
- The government intends to review tax laws, starting with the income tax legislation with a view to rationalizing them to enhance the tax yield.
- We will continue to review the remaining exemptions with a view to cutting them back in order to enhance the tax base.
- The government will review the tax contribution of the high-growth sectors such as mining, and explore the possibility of raising the applicable royalty rates to enhance revenue.
- A centralized motor vehicle registration system will be adopted by December 2002.

28. The Government intends to pursue further reforms to enhance public expenditure management. In order to allow better tracking of outlays to priority sectors, the government will harmonize the presentation of priority expenditures based on uniform budgetary codes across PRSP, budget, and budget execution reports, starting with the budget guidelines for 2003/04. The identification of budgetary codes for priority expenditures and their application in the budget guidelines for 2003/04 will constitute a performance criterion under the program for end-February 2003. The recording and reporting of donor-funded project expenditure continues to be strengthened in collaboration with the development

partners. As in the last year, public financial management policies for 2002/03 are focusing on supervision, and enforcement of expenditure discipline. The provisions of the Public Finance Act and the Public Procurement Act (both of 2001) will continue to be enforced. The procurement regulations will be reviewed to facilitate efficiency improvement in government procurement. The IFMS, which is now operational in all ministries and departments, will be strengthened in the regions to ensure that expenditure and revenue reports are captured directly by the system. Due to unpredictable flows of foreign grants and concessional financing, the government maintains the cash budget system, by allocating funds on quarterly basis to the priority interventions earmarked for poverty reduction and growth. Other sectors will continue to receive funds on a monthly basis. Expenditures for all votes in the 2002/03 budget include provision for payment of all taxes. The government is taking measures to harmonise and classify local government budgets into the GFS classification.

29. Starting this financial year, the government has put in place a system designed to ensure that all utility payments are provided for in Ministries, Departments, and Agencies (MDAs) expenditure projections and settled when due. Towards this end, a circular was issued recently to all Accounting Officers describing the future treatment of utility payments. Under the new procedure, the Treasury commits into IFMS the amounts budgeted for utilities from total releases to MDAs. Thus, resources available for distribution by the MDA are less by the amounts of utility funds already committed by the Treasury. When MDAs receive bills/invoices for utilities, they are at that point able to access the committed utility funds to settle the bills. On a quarterly basis, MDAs are required to report to the Treasury on utility bills received, and payment of utilities made, in that period. Such reports contain information relating to amounts committed, utilities paid as well as balances available. Where, due to underbudgeting, the amount committed falls short of actual bills, the MDAs are required to seek authority for reallocation from the Treasury, which will be sourced from items of expenditures of the MDAs for which there is a saving.

30. In order to increase transparency and accountability, we have required local governments to start publishing their fiscal accounts on a quarterly basis, starting with the first quarter of 2002. Unfortunately, the publication of these accounts was delayed due to a multitude of administrative and logistical problems. The first publication of these quarterly fiscal accounts will be effected by end-2002. Finally, the fiscal year of local governments will be brought in line with that of the central government by 2004/05.

D. Monetary Policy and Financial Sector Reform

31. Price stability remains the main objective of monetary policy with reserve money serving as the operating target. In view of the recent rapid increase in the demand for money, the monetary program envisages a 21 percent increase in broad money (including foreign currency deposits) during 2002, backed by a similar increase in reserve money. Treasury bill auctions will remain the main monetary policy instrument, supplemented by repurchase operations with commercial banks and the issue of newly-securitized government debt. Aided by seasonal factors, monetary conditions will be tightened during the first half of 2003.

32. In order to promote financial intermediation and further development of the financial sector, the government is taking measures to remove impediments to bank lending and help reduce the large spread between deposit and lending rates. The measures would include a possible amendment of the 1999 Land Act to ensure that land can effectively be used as collateral for bank lending. If deemed necessary, the amendment to the Land Act would be submitted to Parliament before June 2003. Other measures in this area will aim at improving the land registry, and enhancing the capacity of the commercial court, including by employing and training more judges, with a view to keeping the average case resolution period below six months.

33. In the light of lack of bank credit to agriculture and given the importance of promoting agricultural exports, the government has established an export credit guarantee scheme, which will be initially managed by the Bank of Tanzania. The scheme will during its initial stages, provide guarantees to commercial bank lending for crop marketing. The scheme will gradually build capacity of its operational staff, especially in risk management to reduce dependence on banks' credit assessment of borrowers. The draft law establishing the legal, regulatory, and supervisory framework for microfinance operations will be submitted to Parliament in February 2003, and regulations governing such operations will be issued by end-May 2003.

E. Debt Sustainability

34. The government has started implementing the key recommendations of the recently approved National Debt Strategy. The improved procedures will be formalized by an amendment of the Government Loans, Guarantees and Grants Act, 1974, and will consist of the following revisions: (i) vesting authority to raise money by loan, to issue guarantees, and to accept grants on behalf of the government solely with the Minister for Finance; (ii) establishment of the National Debt Management Committee (NDMC), which replaces the current Debt Coordination Committee (DCC), to advise the Minister for Finance; (iii)

publication of a public debt statement as part of the annual budget process; and (iv) amendment of laws of parastatal bodies and corporations to withdraw such institutions' power to borrow without approval of the Minister for Finance. Submission to parliament of the amendments to the Loans, Guarantees and Grants Act will constitute a performance criterion under the program for end-February 2003. As part of the budget process, the Minister for Finance will continue to submit to the Cabinet the funding plan for each fiscal year, so as to obtain an overall approval for borrowing during the year. The Minister will henceforth report to the Cabinet on a quarterly basis the status of borrowing during the period, the debt service payments made, and generally the implementation status of the National Debt Strategy. In terms of borrowing strategy, external financing is restricted to concessional financing of high priority programmes, such as education, energy and infrastructure and for direct budget support.

35. On domestic debt, the government continues to implement its policy of non-accumulation of arrears. The conversion of un-securitized domestic liabilities into marketable securities is ongoing. The menu of instruments available for the purpose of this conversion has already been expanded considerably with the launch of the 5 and 7 year Treasury bonds – also listed on the Dar es Salaam Stock Exchange. The government has followed this up with the launch of a 10-year Treasury bond in October 2002. This will among other benefits help institute a meaningful benchmark for the pricing of private sector long-term debts in the economy as well as expand activity in the Dar es Salaam Stock Exchange.

36. In light of a large stock of parastatal debt, the government plans to conduct a study with the aim of getting a clearer understanding of the maturity profile of these contingent liabilities, as well as suggesting ways to fund repayment of the same when need arises. The study is expected to commence before the end of 2002 and be completed by June 2003.

F. Other Structural Reforms

37. The government continues to demonstrate strong commitment to withdraw from economic activities and create an enabling environment for private sector investment. The parastatal reform programme continues to make progress with a focus now on privatization of large utilities and banks - including the Tanzania Electric Supply Company (TANESCO), Air Tanzania Corporation (ATC), the Dar es Salaam Water and Sewerage Authority (DAWASA), Tanzania Railways Corporation (TRC), the Tanzania Harbours Authority (THA) and the National Microfinance Bank (NMB). The government sold 35 percent of its shares in the Tanzania Telecommunications Company (TTCL) last year to foreign investors, but a dispute has arisen over the closure of accounts and payment by the investors of the second tranche of the investors' equity. The government and the

investors are negotiating a resolution of the conflict. The transfer of DAWASA to a private operator which was delayed from the initial schedule, is now at an advanced stage, and is expected to be completed by end-2002. The process of unbundling TANESCO into autonomous commercial entities before privatization is ongoing. A private management company, which took over in April 2002, has begun to improve the finances of TANESCO. Privatization of TRC and ATC are at an advanced stage. The government budget for 2002/03 has made adequate provisions for payment of retrenchment benefits to employees who may be retrenched in the process of restructuring or privatization of these public entities.

38. Current government policy on parastatal retrenchment packages is as follows. Public corporations which have own funds sufficient to pay retrenchees over and above statutory obligations, are allowed to do so provided they execute voluntary contracts through legally recognized procedure. For the public corporations, which have not accumulated sufficient profits to afford retrenchment payments, the government budget would provide for the statutory obligations through its budget.

39. Consistent with the poverty reduction strategy, the government has continued to make progress in the promotion of good governance, including the fight against corruption. The various reform programmes in the area of good governance are ongoing, progress of which will be presented in the 2002 PRS progress report. To provide a solid basis for these reforms, the Commission for Human Rights and Good Governance has been appointed and members have taken their oath. The Government is in the process of publishing the second report on the implementation of the ministerial anti-corruption plans.

G. External Sector Issues

40. The government will allow foreign participation in the Dar es Salaam Stock Exchange before end-December 2002. The Bank of Tanzania, in collaboration with the Capital Market and Securities Authority, established modalities to guide foreign investors' dealings and has developed institutional arrangements for monitoring private capital flows, as well as instituting appropriate regulations that will provide the necessary safeguards.

41. The Government is committed to further trade liberalization, and is participating in regional integration processes within the East African Community (EAC) and the Southern African Development Community (SADC). Negotiations leading to an EAC customs union are ongoing. Following the reduction in the number of non-zero customs tariff bands from four to three and a lowering of the lower bands in the 2001/02 budget, the government will make any further adjustments needed in the tariff structure only in the context of EAC Customs Union negotiations. The government is committed to adhere to its timetable for eliminating suspended duties and will endeavour not to impose new ones.

42. The government is committed to avoiding multiple currency practices. To that end, it will ensure that no occasion will arise at which the exchange rate guarantees contained in the liquidity facility agreement for the Songas project, and the power purchase agreement between TANESCO and an independent power producer could be invoked.

43. The BOT, in conjunction with the Tanzania Investment Center (TIC) and the National Bureau of Statistics (NBS) conducted a census of foreign investment in Tanzania during 2000/01. The report concluded that private foreign investment in recent years has been larger than the figures recorded in official statistics. In light of this finding, the government is currently planning to conduct another survey to get new information for 2000 and 2001 that also covers Zanzibar in order to get a better understanding of foreign investment in Tanzania. The survey will start in October 2002 and be completed by end-2003.

H. Concluding Remarks

44. The government of Tanzania will continue to provide the IMF with such information as the IMF requires to assess Tanzania's progress in implementing the policies described in this letter. Moreover, we will continue to consult with the Fund on Tanzania's economic and financial policies in accordance with the IMF's policies on such consultations. In this sphere we welcome the establishment in Tanzania of the African Regional Technical Assistance Center that will start operations in October 2002 and will provide to East Africa valuable technical assistance in key areas of economic and financial management.

Sincerely,

/s/

Basil Pesambili Mramba (MP)
Minister for Finance

Attachments: Tables 1-4

Table 1. Tanzania: Quantitative Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, March-June 2002

	2002					
	March Benchmarks		Act.	June Performance Criteria		
	Prog.	Adjusted		Prog.	Adjusted	Act.
(In billions of Tanzania shillings; end of period)						
Net domestic financing of the government of Tanzania (ceiling) 1/ 2/	31	39	-42	68	144	-27
Central government recurrent revenue (floor, benchmark only) 1/	754		764	1,026		1,043
Extrabudgetary expenditure (ceiling, benchmark only) 1/	0		15	0		18
Accumulation of budgetary arrears (ceiling, benchmark only) 1/	0		...	0		9
Net domestic assets of the Bank of Tanzania (ceiling) 2/ 3/	-62	-67	-139	-48	16	-127
Reserve money (ceiling, benchmark only) 3/	556	543	550	549	537	573
(In millions of U.S. dollars; end of period)						
Net international reserves of the Bank of Tanzania (floor) 4/	701	692	778	675	597	784
Accumulation of external payments arrears (ceiling) 5/	0		0	0		0
Contracting or guaranteeing of external debt on nonconcessional terms (ceiling) 1/	0		0	0		0
Memorandum item						
Foreign program assistance (grants and loans) 1/	259		251	358		281

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the technical memorandum of understanding (TMU) attached to the government's letter of August 31, 2001.

1/ Cumulative from the beginning of the fiscal year (July 1).

2/ To be adjusted upward for the Tanzania shilling equivalent of any shortfall in foreign program assistance from the amounts shown in the memorandum item.

3/ To be adjusted downward to the extent that eligible bank reserves fall short of 10 percent of commercial bank deposits.

4/ To be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item.

5/ Continuous performance criterion; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 2. Tanzania: Structural Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, May–October 2002

Measures	Date of Implementation (end of period)	Implementation Status
Public debt management		
Adopt domestic debt strategy covering direct and contingent liabilities	May 2002	Observed.
Clear all audited domestic arrears accumulated during the period July–December 2000 (performance criterion)	May 2002	Observed.
Submit to Parliament legislation that makes the government's incurring or guaranteeing of foreign debt subject to cabinet approval upon recommendation by the Minister for Finance (performance criterion)	Oct. 2002	Not observed; modified approach under new National Debt Strategy.
Tax policy and administration		
Conduct a review of the administration of the VAT	July 2002	Completed in August 2002.
Examine alternative options for administering exemptions from indirect taxes	Sep. 2002	Observed.
Financial transparency and good governance		
Publish individual and consolidated quarterly revenue and expenditure accounts of local governments starting with those for the first quarter of 2002	June 2002	Not observed; expected for December 2002.
Publish second report on the implementation of the ministerial anticorruption plans	Sep. 2002	Not observed; expected for December 2002.
Trade policy		
Announce timetable for the elimination of the suspended duties (import surcharges) imposed in the budget for 2001/02 on 13 product groups (performance criterion)	July 2002	Observed.
Financial sector		
Harmonize the treatment of loan loss provisions by banks for prudential requirements and taxation purposes	Oct. 2002	Not observed; expected for December 2002.

Table 3. Tanzania: Quantitative Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, September 2002-June 2003

	September	2002		2003	
		Est.	December	March	June
			Orig. Indicative Benchmarks		Performance Criteria	Indicative Benchmarks
(In billions of Tanzania shillings; end of period)					
Net domestic financing of the government of Tanzania (ceiling) 1/ 2/ 3/	...	20	0	16	64
Central government recurrent revenue (floor, benchmark only) 1/	...	559	559	862	1,172
Extrabudgetary expenditure (ceiling, benchmark only) 1/	...	0	0	0	0
Accumulation of budgetary arrears (ceiling, benchmark only) 1/	...	0	0	0	0
Net domestic assets of the Bank of Tanzania (ceiling) 2/ 4/	-34	-144	-328	-384	-331
Reserve money (ceiling, benchmark only) 4/	796	618	707	666	693
(In millions of U.S. dollars, unless otherwise indicated; end of period)					
Net international reserves of the Bank of Tanzania (floor) 5/	900	839	1,020	1,020	1,020
Accumulation of external payments arrears (ceiling) 6/	...	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (ceiling) 1/	...	0	0	0	0
Memorandum items:					
Foreign program assistance (grants and loans) 1/	20	195	268	406	429
Programmed debt service payments (in billions of Tanzania shillings) 1/	...	...	126	179	259

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the technical memorandum of understanding (TMU) attached to the government's letter of August 31, 2001, subject to the addition of the adjustment clause laid out in footnote 3 below.

1/ Cumulative from the beginning of the fiscal year (July 1).

2/ To be adjusted upward for the Tanzania shilling equivalent of any shortfall in foreign program assistance from the amounts shown in the memorandum item.

3/ To be adjusted downward/upward to the extent that total debt-service payments (interest on foreign and domestic debt and amortization of foreign debt) fall short of/exceed the amounts shown in the memorandum item.

4/ To be adjusted downward to the extent that eligible bank reserves fall short of 10 percent of commercial bank deposits.

5/ To be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item.

6/ Continuous performance criterion; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 4. Tanzania: Structural Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, November 2002–March 2003

Measure	Date of Implementation (End of period)
Tax policy and administration	
Adopt centralized motor vehicle registration system.	December 2002
Introduce a treasury voucher system for administering the indirect tax exemption applying to nonreligious nongovernmental organizations and to imports of motor vehicles by eligible public servants.	January 2003
Issue guidelines to local councils for the harmonization of taxes, levies, and licenses.	January 2003
Expenditure management	
Require spending agencies (MDAs) to submit to the Accountant General quarterly reports on their utility bills and amounts paid, starting with a report for the first quarter of 2002/03 (July-June).	November 2002
Identify the budgetary codes for priority expenditures and apply them in the budget guidelines for 2003/04 (performance criterion ; see para. 28 of letter of intent).	February 2003
Public debt management	
Submit to parliament amendments to the Loans, Guarantees, and Grants Act (performance criterion ; see para. 34 of letter of intent).	February 2003
Establish National Debt Management Committee under the National Debt Strategy.	February 2003
Financial sector reform	
Submit to parliament the draft law establishing the legal, regulatory, and supervisory framework for microfinance operations.	February 2003

Tanzania: Relations with the Fund
(As of September 30, 2002)

I.	Membership Status: Joined 09/10/62; Article VIII						
II.	General Resources Account:		<u>SDR million</u>		<u>% Quota</u>		
	Quota		198.90		100.00		
	Fund holdings of currency		188.92		94.98		
	Reserve position in Fund		9.98		5.02		
III.	SDR Department:		<u>SDR million</u>		<u>% Allocation</u>		
	Net cumulative allocation		31.37		100.00		
	Holdings		0.25		0.80		
IV.	Outstanding Purchases and Loans:		<u>SDR million</u>		<u>% Quota</u>		
	Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF)		282.23		141.90		
V.	Financial Arrangements:						
	<u>Type</u>	<u>Approval date</u>	<u>Expiration date</u>	<u>Amount approved (SDR million)</u>	<u>Amount drawn (SDR million)</u>		
	PRGF	04/04/2000	04/03/2003	135.00	100.00		
	ESAF/PRGF	11/08/1996	02/07/2000	181.59	181.59		
	ESAF	07/29/1991	07/28/1994	181.90	85.60		
VI.	Projected Obligations to Fund Under the repurchase expectations Assumptions (SDR million; based on existing use of resources and present holdings of SDRs):						
		<u>Overdue</u>	<u>Forthcoming</u>				
		<u>09/30/2002</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	Principal	0.00	8.35	17.42	27.50	38.32	46.32
	Charges/interest	0.00	0.88	2.02	1.91	1.74	1.53
	Total	0.00	9.23	19.44	29.41	40.06	47.85

VII. Implementation of HIPC Initiative:

	<u>Enhanced framework</u>
Commitment of HIPC assistance	
Decision point date	3/31/2000
Assistance committed (NPV terms) ¹	end-June 1999
Total assistance (US\$ million)	2,026.00
<i>Of which:</i> Fund assistance (SDR million)	88.95
Completion point date	11/21/01
Delivery of Fund assistance (SDR million)	
Amount disbursed	96.40
Interim assistance	26.68
Completion point ²	69.72
Amount applied against member's obligations (cumulative)	35.93

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Bank of Tanzania (BoT) was subject to the transitional procedures with respect to the current PRGF arrangement, approved on April 04, 2000, which required a review of the BoT's external audit mechanism. This assessment, which was completed on April 03, 2001, determined that the BoT publishes annual financial statements that are independently audited in accordance with internationally accepted standards. The assessment concluded that the BoT's current external audit mechanism may not be adequate in specific respects and recommendations were reported to the authorities in EBS/2/56. The recommendations have either been implemented or the authorities have agreed to implement them within an agreed timeframe.

IX. Exchange Arrangements:

The currency of Tanzania is the Tanzania shilling. The official exchange rate is determined on the basis of the rate established in the interbank market for foreign exchange. The middle rate in terms of the U.S. dollar, the intervention currency, was T Sh shilling 969.6 per

¹ NPV terms at the decision point under the enhanced framework.

² Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

U.S. dollar as of September 30, 2002. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultation:

The most recent Article IV consultation was concluded on September 24, 2001 (EBS/01/153).

XI. Technical Assistance, 1999–2002:

Departments	Timing	Form	Purpose
Fiscal Affairs	1998–99	Long-term consultant	Expenditure management
	October 1999	Mission	New duty drawback system
	October 2000	Mission	Public expenditure management
	March 2001	Mission	Fiscal decentralization
	May 2001	Short-term consultant	Translation of government accounts and operationalization to the standard classifications
	October 2001	Mission	Conduct the ROSC fiscal transparency module and prepare an assessment and action plan for the ability to track poverty-reducing expenditure
	2001–02	Long-term consultant	Strengthening of macroeconomic fiscal analysis at the Ministry of Finance
IMF Institute	October 2002	Mission	Tax administration
	March 1999	Mission	Financial programming and policy courses
Monetary and Exchange Affairs	Since October 1998	Long-term consultant	Financial system reform
	Since November 1998	Regional advisor	Payments systems
	June–July 1999	Mission	Capital account liberalization
Statistics	March 2001	Mission	Monetary policy operations
	October 2000	Multitopic mission	Macroeconomic statistics
	May 2002	Mission	Balance of payments statistics

XII. Resident Representative:

Mr. Ali Abdi has been Senior Resident Representative since October 2001.

Tanzania : Relations with the World Bank Group

Partnership in Tanzania's development strategy

The government of Tanzania's development strategy is set forth in its poverty reduction strategy paper (PRSP) and further refined in the first progress report, which was endorsed by the Bank's Board on November 27, 2001. The PRSP focuses on three main areas of outcomes and actions for realizing them. The first is a reduction in the breadth and depth of income poverty. The outcome targets include a reduction in basic needs poverty and food poverty, with a particular focus on rural areas, where poverty is most prevalent. The second area is that of improving the quality of life and social well-being. More specifically this entails improving human capabilities, enhancing longevity and survival, social well-being (social inclusion and personal security), improving nutrition and containing extreme vulnerability (mainly through safety nets). The third broad area is a sustained environment that is conducive to development. The environment encompasses macroeconomic stability and good governance.

The IMF is supporting Tanzania's poverty reduction efforts in the context of the three year arrangement under the Poverty Reduction and Growth Facility (PRGF). Among external partners, the Fund takes the lead in the policy dialogue with the government on macroeconomic policies, including overall fiscal and monetary policy. Under the PRGF, in addition to macroeconomic targets, the Fund has agreed with the authorities structural performance criteria relating to reforms in the areas of tax policy and administration, public debt management, financial transparency and good governance, trade policy, and financial sector development. As outlined more fully below, the Bank's support is complementing the Fund's through a focus on sectoral reforms in the context of projects and analytic work and the current programmatic adjustment credit (PSAC I) covering the areas of economic governance, business environment, regulatory improvements, and privatization.

Bank Group strategy

The current Country Assistance Strategy (CAS) for Tanzania was approved by the Bank's Board on June 15, 2000. The next CAS will be presented to the Board by the end of 2003. The focus of the current CAS is on higher economic growth, poverty reduction and institutional reforms to improve governance. It conforms with the government's main strategy of adherence to macroeconomic stability, increased private sector participation in the economy, a renewed emphasis on rural development and an improved delivery of social services. It also supports the government's desire to enter into new relationships with its development partners, based on the phased switching from projects to programs for more effective and efficient use of aid resources.

IDA is currently providing adjustment lending through PSAC 1. This credit supports the government's efforts to sustain macroeconomic stability and improve public service delivery, deepen the implementation of the privatization program, improve competitiveness and the

transparency of key markets, strengthen the state legal and commercial apparatus for a more efficient and transparent business environment, and further reduce the barriers to international and domestic trade. Progress in implementing the reform program is satisfactory. Two tranches of the credit have been already released. While most of the conditions have been met for the release of the remaining three tranches, remaining measures to be completed are (i) bringing the Dar es Salaam Water and Sewerage Authority to the point of concession, (ii) relaxing restrictions on foreign portfolio investment in equity instruments, and (iii) reforming the regulatory framework for infrastructure services. The first two measures are expected to be completed by the end of 2002, and the third measure is expected to be completed by the middle of 2003. The implementation of policy reforms agreed upon under PSAC 1 is supported by a series of technical assistance and investment projects. These include project support to improve tax administration, to reform the public sector, and to develop the financial sector, including rural finance, and microfinance.

The Bank is preparing a proposed Poverty Reduction Support Credit (PRSC), which will support the implementation of the PRSP. This operation will deepen the Bank's policy dialogue in the areas of improving the business environment and strengthening public expenditure management and public service delivery. In addition, this operation will also entail policy dialogue related to scaling up pro-poor growth, especially through a focus on rural development, and to the operationalization of an appropriate monitoring and evaluation system to enhance the accountability for results and outcomes of sectoral programs. The expected Board date for PRSC 1 is May 2003.

In the social sectors, the Bank has approved an adjustment lending operation in support of primary education (US\$150 million). The objectives of the program include improving education quality, expanding school access, and increasing school retention at the primary level. After about 18 months of implementation, Bank support in this area has already facilitated a significant increase in primary school enrollment. The Bank contributes to the health sector multidonor "basket fund", which supports reforms of the sector and provides funding for nonwage expenditures. A multisectoral HIV/AIDS project supports Tanzania's efforts to reduce HIV transmission and mitigate the adverse consequences of AIDS. In the water sector, a project that will support technical, commercial, and financial rehabilitation of the water supply and sanitation services in Dar Es Salam is under preparation.

In the agriculture sector, the Bank supports policy reforms through analytical work and the policy dialogue in the framework of PSAC 1 and the proposed PRSC. The Bank also provides support to strengthen research and extension services. A Participatory Agricultural Development and Empowerment project is under preparation to support investments in appropriate technologies to reduce soil fertility decline.

Efforts to improve Tanzania's infrastructure are supported through projects in the road and railway sectors, as well as an urban rehabilitation project. In the power sector, the Bank has helped the government implement the Power Sector Restructuring Program. The Bank has encouraged the government to develop the domestic gas market and to generate lower cost power through the Songo Songo Gas Development and Power Generation project.

During fiscal year 2002 (FY02), IDA's project for Forest Conservation and Management (worth US\$31.1 million), Songo Songo Gas Development and Power Generation (US \$183 million), Lower Kihansi Environment (US\$ 6.3 million), and Rural Water & Sanitation (worth US\$19 million), as well as a supplemental credit for Lake Victoria Environment (US\$5 million), were approved by the Board.

The IFC's portfolio includes investments in agriculture, agro-processing, banking and financial services, and tourism in the amount of US\$37 million. Over the next three years, potential investments in the magnitude of US\$20–30 million in private infrastructure, and financial institutions, and to provide financing and capacity building support to small and medium sized Tanzanian enterprises are expected. MIGA's current exposure in Tanzania includes four guarantees in the infrastructure and telecommunications sectors totaling US\$175 million gross and US\$70 million net exposure.

Tanzania joined the World Bank Group in 1962. Beginning with an IDA credit for education in 1963, a total of 124 credits and 27 loans, totaling US\$4.35 billion (US\$4 billion from IDA) have been provided to Tanzania. Currently, the portfolio comprises 22 active projects with commitments of US\$ 1.3 billion in all major sectors. As of August 31, 2002 the undisbursed balance for the portfolio stood at US\$744 million. Total disbursements amounted to nearly US\$3.4 billion as of August 31, 2002 (some US\$ 3,089 million from IDA and US\$355 million from IBRD).

Bank-Fund collaboration in specific areas

The IMF and World Bank staffs maintain a close collaborative relationship in supporting the government's structural reforms. As part of its overall assistance to Tanzania—through lending, country analytic work and technical assistance—the Bank supports policy reforms in the following areas in collaboration with the Fund:

- **Public expenditure management.** Improvements in public expenditure management have been one of the top priorities of the Tanzanian government since 1995. The Bank, the Fund, and other donors have worked closely to provide government the needed support for institutional and policy reforms. While the Fund is leading the dialogue on fiscal policy, the Bank is focusing on strategic resource allocation and operational efficiency of public expenditures. In the area of overall fiscal policy, the reduction of domestically financed deficits has resulted in sustained macroeconomic stability over the past five years. To enhance strategic resource allocation and operational efficiency, the Bank has joined a government-led, participatory Public Expenditure Review/MTEF process that has supported the strengthening and opening up of the budget process as well as the allocation of resources to pro-poor priority areas. In addition to process support and analytical work in this area, the Bank is also supporting policy reforms through PSAC. Another area of Bank involvement is the fiscal decentralization process where, in addition to ongoing analytical work, project support is planned to start in 2004. The Bank and Fund collaborate closely to support institutional budget and expenditure management reforms. A recent Country Financial

Assessment Analysis (CFAA), carried out in a collaboration of the Bank, other donors, and government, an IMF Report on the Observance of Standards and Codes (ROSC), and a joint Bank/IMF assessment of capacity to track poverty-reducing expenditure have all noted the improvements in public financial management and fiduciary systems in recent years.

- **Tax policy and administration reform.** A relatively small and stagnant domestic revenue effort is a severe constraint on Tanzania's efforts to improve public service provision. The Bank and the Fund have over the past few years expended significant effort to enhance the domestic revenue effort. While the Fund has taken the lead in reforms and adjustments of tax policy, the Bank has taken the lead in reforms to strengthen tax administration. Recently a study has been commissioned by the PER working group to analyze the causes of the persistent low revenue levels and to develop proposals for improvements.
- **Financial sector reforms.** Tanzania has been engaged in far-reaching reforms of the financial sector. The Bank and the Fund have been working closely to support these policy reforms. In addition to its contribution to the policy dialogue, the Bank has provided significant technical assistance for financial sector reforms. This includes two financial institution development projects that support respectively, the withdrawal of the government from banking and nonbanking financial institutions and the strengthening of financial sector supervision. Successful outcomes of these reforms include the privatization of Tanzania's largest bank and the entry of a fairly large number of international banks into the Tanzanian market. Other areas of Bank involvement include the reform of the capital and securities authority, reform of pension systems, and liberalization of capital accounts. Through a separate project, the Bank supports the development of rural and microfinance services. A joint Bank/Fund Financial Sector Assessment is planned to start in FY 03.
- **Public service reform and improved service delivery.** In recent years, the government of Tanzania, with support from the Bank and other donors, has launched a number of major initiatives to improve performance and to foster greater accountability, transparency, and integrity in the public sector. These include (i) the Public Service Reform Program, (PSRP) (ii) the Local Government Reform Program, (iii) the Public Finance Management Reform Program, (iv) the National Anti-Corruption Strategy and Action Plans for Tanzania, (v) the National Framework on Good Governance, delineating a comprehensive approach to improve governance, (vi) the establishment of a Good Governance Coordination Unit (GGCU) in the President's Office, and (vii) the launch of the Legal Sector Reform Program. Among these reforms, the PSRP plays a central role since its objective is to improve the accountability, transparency, and resource management of service delivery. The program is closely linked with other major reforms in public finance and decentralization. The PSRP aims at transforming the public service into a service that has the capacity, systems, and culture for client orientation and continuous improvement. Cooperation between the Bank and the Fund covers those areas where public sector reform has a direct impact on fiscal stability and public sector financial management.

- **Trade reforms.** The Bank and the Fund are working closely to assist Tanzania in establishing a pro-growth trade framework. While the Fund is focusing on reforms of the tariff regime, the Bank is focusing on trade expansion through its regional trade facilitation project. The Bank is also involved at the regional level in the dialogue on trade reforms in the context of the East African Community.

A. Tanzania : Financial Relations with the World Bank Group

Statement of Loans and Credits
 (as of August 31, 2002;
 in millions of U.S. dollars)

	IBRD	IDA	TOTAL
Original principal	361.03	3,991.90	4,352.93
Cancellations	5.47	226.33	231.80
Disbursement to date	355.55	3,089.50	3,445.00
Repayments	349.15	244.36	593.51
Undisbursed	0.00	744.29	744.29
Exchange adjustment	441.52	0.00	441.52
Borrower's obligation	6.75	2,798.70	2,805.50

Tanzania: Statistical Issues

Tanzania's statistical infrastructure and economic database remain weak. Tanzania has received considerable technical assistance to alleviate these difficulties, and progress has been made in some areas. The authorities are fully cooperative in providing available data to the Fund in a timely manner. Tanzania has very few statistical publications and no fully articulated publication policy. The authorities are committed to improving the production and dissemination of macroeconomic and sociodemographic statistics in the framework of the General Data Dissemination System (GDDS). Tanzania is a participant in the GDDS, and its metadata were posted on the Data Standards Bulletin Board (DSBB) in July 2001. In October 2000, a GDDS multisector statistics mission conducted a detailed assessment of Tanzania's statistical systems and used the framework of the GDDS to provide guidance on statistical practices and development in the areas of national accounts, price, foreign trade, balance of payments, fiscal, monetary, and sociodemographic data. A mission to prepare the data module for a Report on the Observance of Standards and Codes (ROSC) was recently completed (October 8-23, 2002).

National accounts

National accounts data are prepared by the National Bureau of Statistics (NBS) on the basis of data collected by its regional offices and by other government entities. The national accounts data provide a basis for assessing movements in output, although many weaknesses remain, particularly with respect to data sources for the breakdown by expenditure category, deficiencies in external sector data, and the paucity of indicators to extrapolate benchmark production levels. These deficiencies impede the accurate estimation of the savings-investment relationship. The recent revision of the data for crops and the new household budget survey are expected to improve the quality of the national accounts.

Prices

Monthly consumer price data are collected by the NBS from 20 cities and regional centers. Since mid-May 1996, data have been reported within three weeks after the end of the month. The authorities intend to update the consumer price index weights (food currently has a 71.2 percent weight) on the basis of the recent household budget survey data, and to expand the producer price index series.

Government finance statistics

Although monthly data on central government revenue, expenditure, and financing are provided to the Fund on a timely basis, concepts in use differ from the international standards in the treatment of lending minus repayments, and transfer payments. Despite improvements in the recording of government transactions, discrepancies remain between revenue and expenditure data, on the one hand, and financing data on the other. This seems to be related to the different sources used for these data. There appears to be a different coverage of the central government sector in the fiscal and monetary data. Following the creation by the Ministry of Finance with donor assistance of a database of donor-funded projects in 2001/02

(July-June), the amount of foreign-financed projects reported by and channeled through the budget has increased significantly. No information is yet provided on the financial position of local governments, although the authorities stated plans to produce these reports.

The government has recently completed the computerization of its accounting system for budgetary units, which the authorities indicate would allow resumption of reporting in the Government Finance Statistics *GFS Yearbook*. However, the computerized accounting system does not provide details of the nature of development expenditure, and has not yet been extended to cover the extrabudgetary units.

Monetary statistics

The GDDS multisector mission (October 11–24, 2000) determined that the quality of monetary statistics is compromised by various methodological problems, in particular the arbitrary application of the residency criterion by commercial banks, the exclusion of rural banks and nonbank deposit-taking institutions from the coverage, the inadequate subdivision of the resident sector data due to the misclassification of certain accounting data in monetary aggregates, the lack of a separate identification of restricted deposits of closed banks and nonperforming loans of the banking system, the nontransparent treatment of repurchase agreements, the inadequate sectorization of various accounts in the bank reporting system, the erroneous coverage of international reserves, the lack of market-based valuations of foreign securities, and, finally, the treatment of accrued interest in a highly aggregated manner.

To address these problems, the mission recommended that the Bank of Tanzania (BoT) (i) instruct commercial banks to classify accounts according to the client's properly determined residency status and use; (ii) extend the coverage of monetary statistics to all depository corporations; (iii) revise the bank report forms to allow for a more detailed scheme for sectorizing resident sector data; (iv) reclassify misclassified accounting data to facilitate an accurate construction of monetary aggregates; (v) establish a separate identification of restricted deposits of closed banks and nonperforming assets of the banking system to ensure that the resulting deposit and credit aggregates are meaningful for macroeconomic analysis; (vi) treat repurchase agreements with commercial banks as a new financial instrument for providing or taking loans; (vii) modify the bank reporting system to emphasize appropriate sectoral distinctions between various accounts; and (viii) redefine the coverage of international reserves to include only liquid foreign assets and a market-based value of gold assets. Based on these recommendations, the mission prepared an action plan. The authorities intend to seek technical assistance to implement some of these recommendations. A follow-up mission in monetary and financial statistics is envisaged that will review the implementation of these recommendations and assist the authorities with the development of a wider financial survey covering activities of all deposit-taking financial institutions.

Balance of payments statistics

Foreign trade data are prepared by staff missions on the basis of customs data from the BoT. The foreign trade data are compiled by the Tanzanian Revenue Authority based on Customs records. A recent balance of payments statistics mission (May 8-21, 2002) found that there

continued to be a significant unrecording of trade. Information on invisible transactions is sparse. Tourism revenue is at present estimated on the basis of data records from the international exchange transactions reporting system (ITRS). However, the authorities have made strong progress in improving the data for travel credits by gathering data from travel surveys and plan to use the survey-based data as the data source beginning in 2003.

Information on official grant and loan receipts is prepared by the staff on the basis of contact with official agencies. The data on current and capital transfers (grants) are estimates, based in part on data provided by the Ministry of Finance and in part on UNDP projections. However, the coverage, periodicity, and disaggregation of the data are inadequate and efforts are under way to achieve a complete coverage of data on grants disbursed.

Data on private capital flows are very poor at present. Some information on private banking sector flows can be derived from the monetary survey; other private capital flows are not adequately captured by the ITRS records and thus are reflected only in the category “errors and omissions”. However, the authorities have made commendable progress in collecting information, for the first time conducting a survey in 2000 of private capital flows and stocks, particularly foreign direct investment transactions covering direct investment income, equity capital transactions—including the noncash acquisition of equity—and intercompany loans. The authorities have also updated the registry of enterprises with foreign equity capital. The 1999 data obtained from the 2000 survey of private capital flows, which show significantly higher levels of inward direct investment than indicated in the ITRS records, will be incorporated into the balance of payments statistics beginning in late 2002. The survey of private capital flows will be conducted again in late 2002, covering data for 2000 and 2001, and it is expected that the survey will be conducted on a regular basis in the future.

Data on the gross and net official reserves of the BoT are provided monthly with a short lag and more frequently on request. Similarly, data on foreign assets and liabilities of the banking system are provided with relatively short lags.

Significant progress was made in improving the quality of external debt data as a result of the reconciliation exercise undertaken in connection with the HIPC Initiative. At present, multilateral and bilateral Paris Club debts have been fully reconciled. These two categories of debts account for 80 percent of Tanzania’s total external debt. However, little progress has been made in reconciling the rest of the debts owed to non-Paris Club bilateral and commercial creditors. Information on external debt not guaranteed by the public, mostly private sector debt, is also limited and not captured in a timely manner.

Tanzania: Core Statistical Indicators
(As of October 23, 2002)

	Exchange Rates	Inter-national Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Con-sumer Price Index	Exports/ Imports ¹	Current Account Balance	Overall Govern-ment Balance ²	GDP/ GNP	External Debt/ Debt Service
Date of latest observation	6/28/02	6/28/02	8/31/02	8/31/02	8/31/02	8/31/02	June 2002	May 2002	2000	April 2001	2001	March 2001
Date received	7/17/02	7/17/02	10/7/02	10/7/02	10/7/02	10/7/02	6/12/02	6/12/02	April 2001	5/12/01	6/12/02	5/10/01
Frequency of data ³	D	M	M	M	M	M	M	M	A	M	A	A
Frequency of reporting ³	D	M	M	M	M	M	M	M	A	M	A	A
Source of data ⁴	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting ⁵	E	E	E	E	E	C	C	C	C	C	M	C
Confidentiality ⁶	C	D	D	D	C	C	C	C	C	D	C	C
Frequency of publication ³	D	M	M	M	M	M	M	M	A	M	A	A

1/ Based on Bank of Tanzania data.

2/ Contains only partial information on the development budget.

3/ Codes for frequency of data, frequency of reporting, and frequency of publication are the following: **D**-daily; **W**-weekly; **M**-monthly; **Q**-quarterly; **A**-annually; and **O**-other.

4/ Code for source of data is **A**-direct reporting by central bank, Ministry of Finance, or other official agency.

5/ Codes for mode of reporting are the following: **C**-cable or facsimile; **E**-electronic data transfer; and **M**-mail.

6/ Codes for confidentiality are the following: **C**-for unrestricted use; and **D**-embargoed for a specified period and thereafter for unrestricted use.

Tanzania: Updated Poverty Analysis

Background

A key deficiency of the 2000 poverty reduction strategy paper (PRSP) and the 2001 PRSP progress report, as noted in the respective joint staff assessments (JSAs), was the absence of a comprehensive poverty analysis to serve as a baseline for monitoring the effectiveness of poverty-reducing measures. The recently published 2000/01 household budget survey (HBS) provides a detailed assessment of poverty in Tanzania, improving on the earlier analysis in the 1991/92 HBS by:

- basing its analysis on a sample that is more than four times as large as that of the earlier survey and ensures a regionally balanced analysis through the availability of results for about 1000 households in each of mainland Tanzania's 20 regions;
- expanding the analysis through the use of several important new indicators, such as current school attendance and literacy; and
- exercising better control of data quality through a number of data consistency checks.

The HBS establishes a poverty baseline along the lines of key indicators of the PRSP. It also provides an analysis of trends in these indicators during the 1990s based on a comparison of the results of the 2000/01 HBS with those of the 1991/92 HBS. This appendix summarizes key findings of the HBS, but does not intend to anticipate the analysis and conclusions of the forthcoming 2002 PRSP progress report.

Features of poverty in Tanzania

The HBS assesses poverty both in terms of food poverty and a broader concept of a "basic needs" poverty line. Food poverty is measured based on the price of a minimum food basket necessary to provide 2,200 calories and on the consumption pattern of the poorest 50 percent of the population. The basic needs poverty line additionally includes nonfood consumption.

Some 36 percent of Tanzanians fall below the basic needs poverty line, while 19 percent fall below the food poverty line. Although these results are slightly better than those of the earlier HBS, the decline is not statistically significant. Furthermore, the absolute number of poor increased over the 1990s because of population growth. Using population projections, there are now 11.4 million Tanzanians below the basic needs poverty line, compared with 9.5 million in 1991/92.

Poverty in Tanzania is predominantly a rural phenomenon. Almost 40 percent of the population below the basic needs poverty line lives in rural areas, while less than 20 percent of the population in Dar es Salaam falls below the poverty line. Furthermore, over the 1990s poverty declined most in Dar es Salaam.

Poverty is strongly correlated with education levels and type of economic activity. Some 51 percent of individuals are poor if the head of the household has no education, compared with only 12 percent when the head is educated above the primary level. Also, households that depend on agriculture have somewhat higher levels of poverty than average.

One-fourth of Tanzanian adults have no education; this level rises to almost one-third in rural areas but falls to below 10 percent in Dar es Salaam. Women are about twice as likely as men to have no education. Rural women in particular have missed out, with 41 percent unable to read or write. Nonetheless, gender is not an important factor in explaining differences in poverty: households headed by women are no poorer than those headed by men. Some 60 percent of 7-13-year olds are enrolled in primary education. Access to primary education differs significantly between urban and rural areas: while 71 percent of children in this age group are enrolled in urban areas, only 56 percent are in rural areas. Enrollment in secondary education is much lower than in primary education: only 5 percent of 14-17-year olds are enrolled; in rural areas the level is 2 percent.

Health indicators show less pronounced differences between rural and urban areas. In rural areas, some 28 percent were ill in the four weeks preceding the survey, compared with 19 percent in Dar es Salaam. Some 69 percent of the individuals who had been ill reported that they had consulted a health care provider. In rural areas, 67 percent reported consultations of some kind. Most households are reasonably close to primary health care facilities: even in rural areas, over 90 percent reported being within 10 kilometers of a dispensary or health facility.

There is, however, a significant difference in access to drinking water between urban and rural areas. The urban population has much better drinking water supplies than the rural population. Some 53 percent of rural households depend on an unprotected water supply, while 86 percent of households in Dar es Salaam have piped water of some kind.

Evolution of poverty indicators over the 1990s

The assessment of the evolution of poverty in Tanzania over the past decade is hampered by the lack of reliable estimates for most poverty indicators for periods during the decade. Notwithstanding the small decline in the percentage of the population below the poverty line between 1991 and 2000, it is therefore not possible to ascertain whether poverty remained broadly unchanged over this decade or if it followed some other pattern.

Nonetheless, the HBS provides some indication that living standards may have generally improved. Household consumption rose by about 17 percent in real terms between 1991/92 and 2000/01. The share of household spending on education and medical expenses increased over that period, from about 1 to 2 percent of total spending. Furthermore, ownership of a range of consumer goods, such as radios and bicycles, rose during the 1990s. A few poverty indicators are shown in the following table.

Tanzania: Selected Income Poverty and Social Indicators in 1991/92 and 2000/01

	Dar es Salaam		Rural		Total	
	1991/92	2000/01	1991/92	2001/01	1991/92	2000/01
Percent of population below basic needs poverty line	28	18	41	39	39	36
Percent of adults with no education	9	8	28	29	25	25
Percent of children aged 7-13 in school	66	76	56	58	57	61
Percent of households with piped water	93	86	25	28	36	39

Tanzania: Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1994-01	Sub-Saharan Africa	Low Income
Population					
Total population, midyear (millions)	15.9	21.8	33.7	658.9	2,459.8
Growth rate (annual average percent for period)	3.0	3.2	2.6	2.6	2.0
Urban population (percent of population)	10.1	17.6	27.8	34.4	31.9
Total fertility rate (births per woman)	6.8	6.5	5.3	5.2	3.6
Poverty					
(Percent of population)					
National head count index	...	...	35.0	...	...
Urban head count index	...	...	23.5	...	...
Rural head count index	...	...	38.6	...	...
Income/consumption distribution					
GNI per capita (U.S. dollars)	...	...	270	470	410
Consumer price index (1995=100)	1	8	181	133	140
Food price index (1995=100)	...	10	2,125	...	...
Income/consumption distribution					
Gini index	...	...	...	...	...
Lowest quintile (percent of income or consumption)	...	...	...	...	...
Highest quintile (percent of income or consumption)	...	...	...	...	...
Social indicators					
Public expenditure					
Health (percent of GDP)	...	...	1.3	2.4	1.2
Education (percent of GDP)	...	...	2.1	3.6	3.4
Social security and welfare (percent of GDP)	...	...	...	...	...
Net primary school enrollment rate					
(percent of age group)					
Total	...	56	48	...	...
Male	...	55	47	...	...
Female	...	56	49	...	...
Access to an improved water source					
(percent of population)					
Total	...	...	54	55	76
Urban	...	...	80	82	88
Rural	...	...	42	41	70
Immunization rate					
(percent under 12 months)					
Measles	...	...	...	53	57
DPT	...	...	...	46	57
Child malnutrition (percent under 5 years)	...	...	29	...	...
Life expectancy at birth					
(years)					
Total	48	51	44	47	59
Male	46	49	44	46	58
Female	50	53	45	47	60
Mortality					
Infant (per 1,000 live births)	118	108	93	91	76
Under 5 (per 1,000 live births)	218	176	149	162	115
Adult (15-59)					
Male (per 1,000 population)	513	451	562	504	294
Female (per 1,000 population)	419	370	521	459	261
Maternal (per 100,000 live births)	...	...	1,100	...	...
Births attended by skilled health staff (percent)	...	58	35	...	...

Source: World Bank, *World Development Indicators*, 2002. Available on CD-ROM.

Note: Net enrollment ratios exceeding 100 percent indicate discrepancies between the estimates of school-age population and reported enrollment data.

INTERNATIONAL MONETARY FUND

TANZANIA

Staff Report for the 2002 Article IV Consultation, Fifth Review Under the Poverty Reduction and Growth Facility Arrangement, and Requests for Extension of the Arrangement and Waiver of Performance Criterion

Supplementary Information

Prepared by the African Department

(In consultation with the Legal and Policy Development and Review Departments)

Approved by José Fajgenbaum and Michael T. Hadjimichael

November 18, 2002

1. Following the issuance of the staff report, the staff learnt of one Paris Club creditor's claim that Tanzania was in arrears on debt payments totaling US\$735,784. Upon inquiry by the staff, the Tanzanian authorities provided to the staff on November 13, 2002 copies of an exchange of messages between the creditor and Tanzania in early October 2002. In this exchange, the creditor invoked a bilateral agreement of November 2001 in support of its claim. In their response, the Tanzanian authorities held that the various due dates claimed by the creditor fell into the consolidation period of the Paris Club Agreed Minute of January 18, 2002, under which the creditor and Tanzania had not yet concluded a bilateral agreement. However, in the course of their further analysis of the various amounts claimed, the Tanzanian authorities found that an amount of US\$3,596.89—described by the creditor as “principal and interest accrued under credits pre-cutoff date”—appeared in Tanzania's records as post-cutoff date debt.

2. On the basis of agreement between Tanzania and the creditor concerned on the amount of this debt—although not on whether it is pre- or post-cutoff date debt—the staff advised the Tanzanian authorities to pay any amount that was due and not in dispute. On November 15, 2002, Tanzania paid US\$3,596.89 to the creditor concerned. Nonetheless, this situation gives rise to nonobservance of the continuous performance criterion on nonaccumulation of external payments arrears. In the attached letter to the Fund dated November 18, 2002, the Tanzanian authorities provided an explanation of the case and requested a waiver for the nonobservance of this performance criterion.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 03/03
FOR IMMEDIATE RELEASE
January 6, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2002 Article IV Consultation with Tanzania

On November 18, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Tanzania.¹

Background

Since the mid-1990s, Tanzania has made substantial progress in macroeconomic stabilization and structural reform. Real GDP growth has been on a rising trend; it has averaged more than 5 percent since the inception of the current Poverty Reduction and Growth Facility (PRGF)-supported program in early 2000, resulting in a small increase in per capita incomes, while inflation has declined to below 5 percent. A key factor contributing to a higher growth momentum in agriculture has been the liberalization of production and marketing structures, as well as of agricultural prices and the foreign exchange regime. Notwithstanding these achievements, poverty remains pervasive in Tanzania, and its growth momentum has been constrained by structural impediments, notably governance-related problems and rigidities in the financial sector and serious capacity constraints. Moreover, weaknesses in tax policy and tax administration limit the government's ability to mobilize revenue, leaving Tanzania highly dependent on foreign assistance.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Real GDP grew by 5.6 percent in 2001. The 12-month rate of nonfood inflation rose from 1.5 percent in December 2001 to 7.2 percent in September 2002, largely as a result of a sharp increase in electricity tariffs in April; however, the overall inflation rate continued to decline to 4.4 percent by September 2002, as favorable developments in agricultural output helped contain increases in food prices.

Fiscal consolidation was central to the success in macroeconomic stabilization. In support of Tanzania's reform program, donors provided sizable financial assistance, which all but eliminated the government's domestic financing needs, a major source of inflationary pressures in the past. Fiscal performance in 2001/02 (July-June) was broadly in line with the budget.

Monetary developments in recent years were characterized by strong monetary expansion, as large foreign inflows were not fully sterilized and the demand for broad money expanded with the gradual deepening of the financial system. Primarily reflecting the lack of suitable lending opportunities, the banking system developed an increasingly large structural liquidity surplus, which triggered an excess demand for treasury bills and, consequently, a decline in interest rates on treasury bills and deposits. So far in 2002, increases in reserve money and broad money have been exceeding projections by wide margins, but as yet have not had much discernible impact on inflation.

Since early 2001, the Tanzania shilling has depreciated against the U.S. dollar by about 15 percent, reflecting the larger-than-anticipated monetary expansion. The ensuing real effective depreciation has now fully compensated for the real appreciation during 2000, leaving agricultural producers to face, as before, the impact of lower international prices for coffee and cotton.

Tanzania's balance of payments position has strengthened substantially in recent years as a result of growth in nontraditional exports and a steady flow of foreign assistance; together with the debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, these developments have resulted in a large increase in international reserves.

Structural reforms have focused on the reform and privatization of parastatals, as well as the creation of a market-oriented regulatory framework. Since 1992, about two-thirds of all state-owned companies have been privatized, including large enterprises, such as the port container terminal, part of the telecommunications company, and the National Bank of Commerce; meanwhile, the divestiture of strategic enterprises in the utility and transportation sectors is now gaining momentum. The government has taken measures aimed at strengthening economic governance, especially in public expenditure management, and improving the investment climate, with the recently created Investor Round Table serving as an important forum to identify impediments to investment.

Executive Board Assessment

Executive Directors commended the Tanzanian authorities for their steady pursuit of sound macroeconomic and structural policies, which, despite serious capacity constraints and an often adverse external environment, have resulted in high real GDP growth, low inflation, and a comfortable level of international reserves, and which have been supported by a steady flow of highly concessional assistance and debt relief from the international donor community. Directors considered that the main challenge for Tanzania is now to sustain high growth and reduce poverty while gradually lessening the dependence on external aid. In this regard, they noted that good progress has been made in the implementation of the poverty reduction strategy, and believed that with the continuation of sound policies Tanzania will be well on the way to achieving the targets set out in its Poverty Reduction Strategy Paper (PRSP).

Directors attached high priority to medium-term fiscal consolidation, but noted that Tanzania's low revenue yield and concomitant heavy dependence on external assistance hinder the attainment of this objective. They therefore welcomed the recent measures to increase revenue collection, but stressed that further and more concerted efforts to widen the tax base and improve tax and customs administration will be needed. Directors endorsed the decision not to introduce the Export Processing Zone Act until it has been reviewed, given the potential for revenue losses.

Directors commended the impressive progress made in the areas of expenditure reform and transparency. However, they noted that domestic arrears have continued to accumulate, and urged the authorities to move quickly to strengthen expenditure control and to set up the institutional and legal framework needed to give effect to the recently adopted national debt strategy. Directors welcomed the budget's increasing focus on education and health. They believed that the effectiveness of expenditure in these sectors, especially at the local government level, would be enhanced by the planned measures to improve the tracking of poverty-related spending. Directors looked forward to the completion of the civil service reform, which should help attract qualified personnel, halt the departure of well-trained staff, and improve the quality of public service.

Directors emphasized the need to keep monetary developments under control in order to contain inflation and to restore positive real interest rates. They therefore supported the decision to convert the government's non-marketable debt to the central bank into securities. Directors considered that the flexible exchange rate regime has served Tanzania well, by facilitating timely adjustments to changes in Tanzania's external environment. Nevertheless, they believed that Tanzania's competitiveness needed to be strengthened by structural reforms to improve the investment climate and strengthen the productive sectors.

Directors considered privatization to be vitally important to the development of the private sector and to the achievement of the authorities' economic growth objectives. They applauded the government's accomplishments to date in this area, and encouraged the authorities to push ahead with the privatization of the large enterprises, especially those in the utility and

transportation sectors. Directors also stressed the importance of improving the business environment and removing impediments to private investment, particularly through institution-building, and labor market, administrative, and judicial reform. They looked forward to follow-up action on the policy matrix of short-term actions that had emerged from the recent Investors' Roundtable Conference.

Directors regarded financial deepening as another crucial input into the expansion of the private sector in Tanzania, with microfinance development considered to be especially important. They noted the existence of structural impediments to bank lending and persistent large interest rate spreads, and called for an accelerated effort to remove these impediments, including an amendment of the Land Act to unblock the use of land as collateral for bank loans. Directors welcomed the authorities' request for an Financial Sector Assessment Program (FSAP) review.

Directors noted the strong country ownership that has allowed the PRSP to become the main instrument for coordinating domestic poverty reduction programs between the authorities and the international community. Directors also recommended that the linkage between the PRSP and the budget be strengthened to ensure that the poor benefit more fully from the resources freed from the HIPC Initiative. They looked forward to receiving the second annual progress report on PRSP implementation, and the joint staff's assessment of it.

Directors noted with satisfaction that Tanzania's public and publicly-guaranteed external debt burden remains sustainable after the HIPC Initiative completion point. They urged a cautious external debt management strategy, with tightened approval procedures for foreign borrowing. However, Directors expressed concern that some non-Paris Club and commercial creditors have failed to provide debt relief on terms comparable to those provided by the Paris Club. They commended the authorities for establishing a special account earmarked for honoring debt-service payments to these creditors, and supported the authorities' request for Fund assistance in encouraging the participation of these creditors in the HIPC Initiative.

Directors looked forward to the publication of the second progress report on implementation of a national anticorruption strategy. They urged the authorities to vigorously enforce laws and regulations aimed at promoting good governance.

Directors observed that, notwithstanding considerable technical advice in the statistical area and generally good implementation of such advice, Tanzania's database remains weak because of capacity constraints. They recommended that priority be given to removing key data weaknesses in the areas of the national accounts, the balance of payments, and the consumer price index.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2002 Article IV Consultation with Tanzania is also available.

Tanzania: Selected Economic Indicators, 2000-2001

	2000	2001
	(Annual percentage change)	
Domestic economy		
Real GDP	4.9	5.6
Consumer prices (end of period)	5.5	4.9
	(In millions of U.S. dollars) 1/	
External economy		
Exports, f.o.b.	663.3	776.4
Imports, f.o.b.	1,337.2	1,492.1
Current account (excluding official transfers)	-856.4	-873.1
(in percent of GDP)	-9.4	-9.3
External assistance 2/	1,185.3	938.3
Public debt service paid	194.1	103.4
(in percent of exports of goods and nonfactor services)	14.6	7.1
Gross official reserves	974.4	1,156.6
(in months of imports of goods and nonfactor services)	5.1	6.1
Change in real effective exchange rate (in percent) 3/	12.4	-7.5
	(In percent of GDP) 1/	
Financial variables		
Central government balance (including grants) 4/	-1.6	-1.1
Change in broad money (in percent)	14.8	17.1
Change in credit to the nongovernment sector (in percent)	9.4	18.8
Interest rate (in percent) 5/	5.7	3.9

Sources: Tanzanian authorities; and IMF staff estimates.

1/ Unless otherwise noted.

2/ Multilateral and bilateral grants and loans (including IMF disbursements).

3/ (+) = appreciation.

4/ Fiscal years beginning in July of year shown.

5/ Weighted average of 3-, 6-, and 12-month treasury bill rate; end of period.

NEWS  BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 02/115
FOR IMMEDIATE RELEASE
November 19, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

**IMF Completes Fifth Review Under Tanzania's PRGF Arrangement
and Approves US\$27 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) completed the fifth review of Tanzania's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. As a result, Tanzania will be able to draw up to SDR 20 million (about US\$27 million) under the arrangement immediately.

The Executive Board also extended the arrangement until end-June 2003 to allow time for the final review to be completed, and waived Tanzania's non-observance of the structural performance criterion on the approval procedures for foreign borrowing and the continuous performance criterion on non-accumulation of external payment arrears.

Tanzania's three-year PRGF arrangement was approved on April 4, 2000 (see [Press Release No. 00/25](#)), for SDR 135 million (about US\$169 million). So far, Tanzania has drawn SDR 100 million (about US\$134 million) under the arrangement.

The PRGF is the IMF's concessional facility for low income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are

repayable over 10 years with a 5 ½-year grace period on principal payments.

After the Executive Board's discussion on Tanzania, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, stated:

"The Tanzanian authorities are to be commended for their steady pursuit of sound macroeconomic policies which, notwithstanding serious capacity constraints and an often adverse external environment, has resulted in strong economic performance. Economic activity remains buoyant, inflation is low, and international reserves are at a comfortable level owing to steady flows of foreign assistance and direct investment. The fiscal deficit in 2001/02 was less than budgeted on account of an expenditure shortfall in non-priority areas. However, the money supply exceeded targeted growth on account of the large foreign inflows, which calls for a tightening of monetary policies to prevent a resurgence of inflationary pressures.

"The main challenge for Tanzania is now to sustain high growth and reduce poverty while gradually lessening the dependence on external aid. Good progress has been made in the implementation of the poverty reduction strategy, and with continued implementation of sound policies, Tanzania will be well on the way to achieving the targets set out in its Poverty Reduction Strategy.

"The government's economic program for fiscal year 2002/03 seeks to consolidate macroeconomic stability and continue to lay the foundations for sustained high economic growth and poverty reduction. Structural reforms focus on improving tax policy and administration, strengthening public expenditure and debt management, promoting private investment, and developing the financial sector.

"Crucial fiscal reforms will be the adoption of improved systems for administering tax exemptions, enhancement of expenditure controls to prevent the accumulation of arrears, simplification and harmonization of local government taxation, and strengthening of procedures for contracting public debt. In the area of financial sector reform, the program foresees the removal of impediments to bank lending and the establishment of a regulatory and legal framework for microfinance operations. The program of privatization of parastatals will continue.

"Tanzania's public and publicly-guaranteed external debt burden remains sustainable after the HIPC completion point. However, some non-Paris

Club and commercial creditors have yet to provide debt relief on terms comparable to those provided by the Paris Club. The Fund urges these creditors to participate in the HIPC Initiative for Tanzania, and to provide their share of debt relief.

“The Government of Tanzania intends to complete a second annual progress report on implementation of the Poverty Reduction Strategy Paper before the end of 2002. The report will include an updated poverty analysis based on the recently completed household budget survey,” Mr. Sugisaki said.

**Statement by Ismaila Usman, Executive Director for Tanzania
November 18, 2002**

Key points:

- *Tanzania continues to pursue sound macroeconomic policies and to implement structural reforms under the PRGF-supported program. The excellent performance is a reflection of the commitment and determination of my authorities, including at the highest political level, to move the country beyond the PRGF mode.*
- *Macroeconomic performance under the program remained very strong. Real GDP grew by 5.6 percent in 2001 and is expected to grow by 6 percent in 2002. Overall inflation rate continued to decline to 4.4 percent by September 2002 while international reserves are recorded at a comfortable level of seven months of import cover.*
- *The Bank of Tanzania is intensifying sterilization of operations through additional sales of liquidity paper in the amount of Tsh 80 billion, and securitization of government debt approximately Tsh 180 billion, in order to stem the excess liquidity and monetary expansion.*
- *Structural reforms are pursued with vigor as demonstrated by government's continuous withdrawal from economic activities best led by the private sector, the establishment of market-oriented regulatory framework, as well as other efforts geared to improving the investment climate. Prudent financial policies have preserved macroeconomic stability, while emphasis on fiscal transparency has improved public sector accountability.*
- *Implementation of the Poverty Reduction Strategy Paper (PRSP) is on target as reflected in budgetary allocations and other policy interventions. The authorities expect to present the second annual PRSP progress report during November 2002 which provides a comprehensive poverty assessment.*
- *Performance targets were broadly met. My authorities have taken measures to address nonobservance of quantitative benchmarks on the reserve money, extra budgetary expenditure and accumulation of domestic arrears and structural performance criterion relating to the amendment of legislation to tighten approval procedures for incurring or guaranteeing new foreign borrowing*

Introduction

My authorities wish to express their appreciation to the Fund as well as other multilateral institutions and bilateral donors for their continued support. The strong support from the international community has played a catalytic role in ensuring a successful reform process and has truly underlined the concept of partnership in development. My authorities will continue to pursue sound macroeconomic policies and to push forward with implementation of the remaining structural reforms in order to enhance the investment climate, and to promote private sector development with a view to move the economy to a higher growth path.

Recent Economic Developments and Prospects

Macroeconomic program objectives were broadly met during the period under review. Despite delays in some areas, my authorities have persistently pursued structural reforms. Real GDP grew by 5.6 percent in 2001 and is expected to accelerate to almost 6 percent in 2002, notwithstanding a deterioration of the outlook for the terms of trade of traditional agricultural exports. The overall 2001/2002 fiscal deficit before grants was about 1.7 percent of GDP lower than programmed due to lower recurrent expenditures without adverse impact on allocation of priority expenditures. The overall inflation rate declined, reaching 4.4 percent in September 2002.

The external sector has strengthened considerably. The current account deficit (including official transfers) narrowed sharply from the equivalent of 9.2 percent of GDP in 1999 to 5.4 percent in 2001, on account of growth in nontraditional exports and a steady flow of foreign assistance coupled with HIPC debt relief. Although traditional exports are expected to decline reflecting unfavorable terms of trade, particularly for coffee, cotton and cashew nuts, overall exports are projected to increase on account of continued strong growth in nontraditional exports, mainly gold, as well as improvement in tourism receipts. Imports of consumer goods declined significantly partly because of the recent depreciation of the shilling, while imports of capital goods remained strong as mining sector activity continues to grow. Meanwhile, gross official reserves of the Bank of Tanzania increased to US\$ 1.3 billion at end-September 2002, equivalent to seven months of import cover.

Performance Under The Program

Tanzania's performance under the program remains on track. All quantitative performance criteria and quantitative benchmarks on central government revenue for end-June 2002 were observed. A structural performance criterion on submission to Parliament of amendments of legislation relating to tightening approval procedures for incurring or guaranteeing new foreign borrowing was not observed because Cabinet decision determined that the requisite measures should be implemented in the context of the revised National Debt Strategy (NDS). To this end, several amendments to the existing Loans, Guarantees and Grants Act of 1974 will be submitted to Parliament in February 2003, when Parliament will be in session. In the

interim, measures have been implemented to strengthen the process. Nonobservance of the reserve money which led to higher-than-programmed expansion in monetary targets resulted from factors beyond the authorities' control as well as limited instruments available at the Bank of Tanzania and the economy to adequately mop up excess liquidity. The rapid increase in liquidity was attributable to a number of factors including the following: (i) transfer of government deposits from Bank of Tanzania to accounts of local governments in commercial banks; (ii) merging and subsequently conversion of two non-bank institutions to a fully fledged commercial bank, as a consequence, deposits in this bank became part of money stock; (iii) establishment of a new international bank in Tanzania with a sizable capital investment; (iv) a large inflow of private capital for mining, other investment projects as well as a large amount of foreign exchange inflow related to construction of embassy buildings. In response to this unforeseen liquidity creation, the Bank of Tanzania has intensified securitization of government debt to ensure observance of the monetary targets. To address the extra budgetary expenditures related to the air control system, the authorities will regularize the transaction through a supplementary budget during 2002/2003. Regarding the accumulation of domestic budgetary arrears, the authorities have put in place a mechanism through the existing IFMS to prevent recurrence of such arrears.

Fiscal Policy and Budgetary Reform

My authorities remain committed to maintaining fiscal discipline and transparency, enhancing government revenue mobilization, and improving public expenditure management in line with poverty reduction strategy. They concur with staff on the need to broaden the tax base, to strengthen revenue collection efforts and to improve expenditure management. In this regard, my authorities have accorded top priority to enhancement of revenue mobilization and have set in motion a process of addressing revenue enhancement issues. This process includes a recent request for a Fund mission to examine the cause for VAT's weaknesses and the poor performance. Following the mission's recommendations, my authorities will implement measures to enhance its collection. In the same vein, as part of the restructuring effort of tax administration supported by the World Bank, my authorities have retained the services of a consulting firm to assist in strengthening of tax administration.

The 2002/03 budget targets an increase in revenue-to-GDP ratio of 12.3 percent. To reach this target, my authorities have identified a number of revenue enhancing measures (indicated on pages 53 and 54 of the Letter of Intent (LOI) to be implemented in the course of the 2002/03 budget and beyond. The measures will include, among others, abolition of customs and excise duty exemptions, rationalization of tax rates, improvement in tax administration, simplification of tax collection, review of tax laws and amendment of some of the existing tax incentives.

With regard to the export processing zones (EPZ) and the EPZ Act, my authorities have noted staff's concern pertaining to potential revenue leakage. To this end, my authorities are reviewing the legislation with a view to targeting benefits that focus on access to AGOA and EU's import policy only.

On expenditure management, my authorities will continue to strengthen public expenditure reform and transparency including through the mechanism of Integrated Financial Management Systems (IFMS). Furthermore, my authorities will harmonize presentation of priority expenditures across PRSP, the budget and budget execution reports, to facilitate better tracking of outlays to priority sectors. These procedures will be embedded in the 2003/04 budget guidelines. The provisioning of such a mechanism with a view to ensuring funding for priority sectors demonstrate my authorities' commitment to poverty reduction strategy. My authorities will continue to enhance fiscal management and transparency at the local authority level as well in order to consolidate fiscal decentralization. In this regard, quarterly reports on fiscal accounts for local governments, on a consolidated and stand alone basis will be published beginning end-2002.

Monetary policy and Financial Sector Reform

My authorities seek to maintain price stability as the main objective of monetary policy with reserve money as an indicative target. Given the recent rapid increase in demand for money, the monetary program envisages a 21 percent increase in broad money during 2002 compared to an earlier indicative target of 12 percent. Despite the recent increase in monetary expansion, my authorities are of the view that it is unlikely to put pressure on price levels because the increase largely emanates from the improvement of banking services delivery to rural areas and reclassification of financial assets. Moreover, treasury bills and other government securities remain the key instruments of monetary policy, supplemented by repurchase operations with commercial banks and the issue of newly-securitized government debt to address monetary expansion.

In paragraph 28, staff raise an issue concerning Bank of Tanzania's perceived reluctance to address higher-than-targeted monetary growth on account of potentially undesirable appreciation of the exchange rate and high cost of liquidity paper. The framework within which my authorities are addressing the problem is indicated in the above paragraph. In addition, other measures are being taken including the process of securitizing about Tsh 80 billion during the fourth quarter of 2002. At the same time, Bank of Tanzania has increased the quantum of its own liquidity paper. In the same paragraph, staff highlight a concern regarding various structural impediments to bank lending which constrain private sector investment and contribute to the creation of a structural liquidity surplus in the financial sector. My authorities are cognizant of the structural impediments and concur on the need to implement measures that would enhance bank lending. In this connection, my authorities are already pursuing a number of measures including reviewing of the Land Act of 1999 with a view to amending it to facilitate use of land as collateral for bank lending. Other measures to facilitate financial intermediation include Bank of Tanzania's financial support to enhance capacity of the commercial court. Other related measures include computerization of land registry, establishment of a credit information bureau, and judicial reforms to ensure enforceability of legal contracts.

Debt Relief and Delivery

Regarding external debt, more progress is being made in concluding bilateral agreements with commercial creditors. My authorities wish to express their gratitude to the United Kingdom for the grand gesture of debt cancellation and wish that the other creditors who have indicated willingness to cancel will also do so. However, as indicated by staff, non-Paris Club and commercial creditors are continuing to pose some problems. In this connection, my authorities wish to reiterate their request for assistance of the Fund and the World Bank in finding a more permanent solution to the HIPC-HIPC and the non-Paris Club bilateral and commercial creditors problem.

Debt Sustainability

To ensure debt sustainability, my authorities approved a revised National Debt Strategy (NDS) in August 2002. The strategy underlines the importance of fiscal sustainability through improvement in procedures, selectivity of projects, risk management, and strengthening of the legal and institutional framework with respect to borrowing and managing debt. The authorities have begun implementation of the recommendations of the NDS.

Other Structural Reforms

The authorities continue to pursue privatization of public enterprises with a view to promoting private sector development. The privatization process is now focusing on public utilities and large financial enterprises including the Dar-es-Salaam Water & Sewerage Authority (DAWASA), the Tanzania Railways Corporation (TRC), the Tanzania Harbors Authority (THA), Air Tanzania Corporation (ATC) and the Tanzania Electric Supply Company (TANESCO) and the National Micro Finance Bank (NMB). The privatization status of the various entities is as follows: the process of unbundling TANESCO into autonomous commercial entities before privatization is underway, the transfer of DAWASA is expected to be completed by end-2002 after a delay of a draft concession agreement. Privatization of ATC and TRC is well advanced. Privatization of NMB is at an advanced stage and the investment memorandum is being sent to potential investors.

The divestiture of the 35 percent shares of the telecommunication company, TTCL, which the authorities sold to a foreign investor is being held by a dispute between the authorities and the foreign investor over the payment of a second tranche, which depends on the financial audit of the company's accounts for 2000. A dispute on the quality and accuracy of these accounts has thus far prevented an agreement between the authorities and the foreign investor. The authorities and the foreign investor are currently exploring possibilities of a conflict resolution mechanism.

Poverty Reduction Strategy

My authorities will present the second annual PRSP progress report by the end of November 2002. The report will draw on the poverty analysis resulting from the recently published 2000/01 Household Budget Survey. The second annual report will also draw on the Poverty and Human Development Report of June 2002, which provides an overview of the status of the main poverty indicators and includes a detailed analysis of various aspects of poverty, focusing particularly on vulnerability. To complement the PRSP process, my authorities are putting emphasis on maintenance of macroeconomic stability, identifying sources of growth that would be poverty-reducing, and creation of employment.

Technical Assistance

My authorities are grateful for the continued technical assistance (TA) support from multilateral and bilateral donors covering a wide range of areas including balance of payments, revenue mobilization, public expenditure management and financial sector strengthening. While technical assistance is being effectively utilized, capacity constraints still remain a problem because of the loss of qualified staff from the civil service and limited capacity in specific professions. In this regard, my authorities wish to underline the importance of continued TA support and urge the Fund to give due consideration for TA in the privatization of the People's Bank of Zanzibar.

Conclusion

While significant achievements have been made thus far, the road to prosperity remains a very long and arduous one. My authorities have successfully implemented the "first generation" reform process. The challenge now is to move the economy beyond the reform process onto to a higher growth trajectory. Technical assistance as well as concessional financing remain critical in complementing the limited and over-stretched human and financial resource capacity. Moreover, the main issue that the authorities are grappling with is the need to identify sources of growth that would lead Tanzania to a higher growth path. Furthermore, having successfully implemented the first generation reforms, my authorities would wish to "graduate" from the PRGF approach and therefore wish to explore possibilities of other instruments available in the context of Fund support. To conclude, my authorities request the Board to grant waiver for nonobservance of the structural performance criterion on the approval of procedures for foreign borrowing.