October 24, 2001
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 00/118

10:00 a.m., December 1, 2000

Contents

Executive Board Attendance

E. Aninat, Acting Chairman
S. Sugisaki, Acting Chairman

Executive Directors	Alternate Executive Directors
	A.S. Alosaimi
A. Barro Chambrier	D. Ondo Mañe
T.A. Bernes	P. Charleton
	P.R. Fenton, Temporary
	W.C. Mañalac, Temporary
	K. Ongley, Temporary
R.F. Cippà	W. Szczuka
	T. Skurzewski, Temporary
	W.-D. Donecker
	F. Haupt, Temporary
R. Faini	H. Vittas
D.I. Djojosobroto	
	S.K. Keshava, Temporary
	A. Jacoby, Temporary
	J. Sipko, Temporary
O.-P. Lehmussaari	J. Sigurgeirsson, Temporary
K. Lissakers	M. Lundsager, Temporary
J.-C. Milleron	G. Bauche
	S. Le Gal, Temporary
	S. Rouai, Temporary
	A. Lushin
H. Oyarzábal	R. Villavicencio, Temporary
S. Pickford	S.P. Collins
	V. de los Santos, Temporary
	M. Yépez, Temporary
C.D.R. Rustomjee	I. Usman
	S.A. Bakhache, Temporary
Wei Benhua	Jin Qi
	E.J.P. Houtman, Temporary
	I.C. Ioannou, Temporary
	K. Harada, Temporary
	R. Maino, Temporary
	D. Vogel, Temporary

A. Mountford, Acting Secretary
J. Prust, Acting Secretary
M. Schulte, Assistant
S. Soromenho-Ramos, Assistant

Zambia—Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point; and Smoothing Debt-Service Payments; and Instrument to Establish a Trust for Special PRGF Operations for HIPC Initiative and Interim PRGF Subsidy Operations—Amendment
Staff representatives: Sharer, AFR; Kincaid, PDR

Tanzania—Poverty Reduction Strategy Paper and Joint Staff Assessment
Staff representatives: G. Johnson, AFR; Boote, PDR

Also Present
IBRD: J.W. Adams, Y. Ansu, J.A Katz, and M.A. Pigato, Africa Regional Office. African Department: E. Hernández-Catá, Associate Director; P.A. Acquah, Deputy Director; A. Basu, Deputy Director; J. Fajgenbaum, Deputy Director; J.A.P. Clément, M.T. Hadjimichael, G.G. Johnson, A. Kammer, A.C. Kouwenaar, R.L. Sharer, A. Tahari. External Relations Department: G.V. Bhatt, M. Fouda, L.A. Kamel, W.J. Murray. Legal Department: H. Elizalde, N.S. Kyriakos-Saad, R.B. Leckow, B. Steinki. Policy Development and Review Department: M. Ahmed, Deputy Director; A.R. Boote, S.S. Choudhury, L.P. Ebrill, M.J. Fetherston, G.R. Kincaid, Q. Wang. Secretary's Department: S.J. Anjaria, Secretary; L. Hubloue. Treasurer's Department: E. Brau, Treasurer; B.S. Newman, Deputy Treasurer; E. Budreckaite, B.V. Christensen, D.M. Hicks, J. Lin, D.J. Ordoobadi. Office of the Managing Director: S.B. Brown, D.A. Citrin, S. Tiwari. Advisors to Executive Directors: M. Beauregard, N. Guetat, K.-T. Hetrakul, O. Himani, A.R. Ismael, M. Kabedi-Mbuyi, Liu F., M.F. Melhem, Y. Patel, J.N. Santos, J.R. Suárez, F. Zurbrügg. Assistants to Executive Directors: V. Bashkar, T. Belay, J.G. Borpujari, G. De Blasio, T. Elkjaer, B. Kelmanson, T. Koranchelian, D.H. Kranen, T.-M. Kudiwu, J.K. Kwakye, T. May, L. Redifer, B. Siegenthaler, S. Vtyurina, D.B. Waluyo, E.S. Weisman, I. Zakharchenkov.

1. EXECUTIVE DIRECTOR

The Acting Chairman welcomes Mr. Djojosubroto as Executive Director for Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam.

2. ZAMBIA—ENHANCED INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES—DECISION POINT; AND SMOOTHING DEBT-SERVICE PAYMENTS; AND INSTRUMENT TO ESTABLISH A TRUST FOR SPECIAL PRGF OPERATIONS FOR HIPC INITIATIVE AND INTERIM PRGF SUBSIDY OPERATIONS—AMENDMENT

The Executive Directors considered a staff paper on smoothing Zambia's debt-service payments (EBS/00/234, 11/20/00; Sup. 1, 11/22/00), a staff paper providing updated information on Zambia's debt-service payments in terms of U.S. dollars and presenting revised decisions in light of the latest exchange rate for the interim assistance (EBS/00/248, 11/30/00) and the decision point document on the enhanced Initiative for Heavily Indebted Poor Countries for Zambia (EBS/00/233, 11/20/00; and Sup. 1, 11/22/00).

The staff representative from the African Department submitted the following statement:

> In its discussion of the timing of interim HIPC (Heavily Indebted Poor Countries) Initiative relief, the Board indicated that Zambia could reach the decision point in late November 2000, provided the macroeconomic performance under the PRGF (Poverty Reduction and Growth Facility)-supported program, as evidenced by the end-September performance criteria, remained satisfactory. Directors made clear the importance attached to expediting Zambia's access to HIPC Initiative resources, in order to accelerate efforts to promote economic growth and reduce poverty.
>
> With regard to performance thus far compared with the program objectives, I would refer Directors to the staff statement at the informal Board discussion of Zambia on October 30. That statement was cautious in tone, but nevertheless indicated that most of the end-September quantitative performance criteria had been met as had the structural criteria and benchmarks. End-September data reconciling government and banking system data, domestic arrears, and tax liabilities of ZESCO and ZNOC were not available. The statement also expressed staff concerns about higher-than-expected monetary growth and inflation.
>
> The staff continues to take a cautious stance in reporting on developments under the program for 2000. Zambia's public administration capacity is weak and there is a deficit of experienced staff to fill key administrative positions, part by a result of the continuing HIV/AIDS pandemic. This, coupled with the fact that the accounting systems are manual

and that the same key personnel are simultaneously meeting the requirements of commitments with the Fund, and all other cooperating partners, places limits on response time, quality controls, and follow-up capabilities. Moreover, a number of the officials involved in carrying out these tasks are also taking part in the process of preparing the Poverty Reduction Strategy Paper (PRSP), which is under way. The development of improved monitoring and controls systems and organizational reforms is a major priority, but will nevertheless take time.

Regarding the performance criterion on net bank claims on government, the staff is currently reviewing provisional end-September data, with a view to reconciling commercial bank data and the banking system's net claims on government with fiscal data. Final information on this performance criterion is therefore not yet available although the provisional data indicate that the ceiling was exceeded by some K 20 billion, largely because of higher-than-budgeted domestic interest payments. Available information indicates that there were no new tax arrears of ZESCO and ZNOC at end-September, although ZNOC in particular, continues to experience financial difficulties. Since the issuance of the Decision Point Document, the authorities have reported that, on a provisional basis, the stock of domestic arrears at was reduced from K 114 billion at end-June, to K 93 billion end-September 2000, or K 7 billion below the performance criterion. The staff is currently reviewing the details of the most recent audit.

As noted above, all structural performance criteria and benchmarks for end-September were observed. These include the audit of cobalt sales in 1999. That audit has been completed and the Minister of Finance refers to it in his letter to the Managing Director. The staff will follow up on this issue.

Since the issuance of the Decision Point Document, inflation reached 28.6 percent in October compared with the program estimate of 21 percent, reflecting the impact of fuel price adjustments (there have been three fuel price adjustments during the year and pump prices have approximately doubled) and a continuing depreciation of the kwacha. The kwacha has depreciated vis-à-vis the U.S. dollar by 31.7 percent between end-1999 and end-November 2000. This includes a significant depreciation during November, reflecting a combination of seasonal factors, and increased costs for imported fuel products. On October 31st, Zambia was one of nine countries that entered into a reciprocal free trade arrangement under the auspices of COMESA.

While broad money at end-September 2000 was some 58 percent higher than a year earlier, the apparent surge was partly a reflection of the impact of depreciation on the valuation of foreign exchange denominated deposits, which were equivalent to just under 45 percent of total deposits at end-September. For the same period, broad money excluding foreign exchange deposits rose by 37.6 percent over the end-September 1999 level. Deceleration in the remainder of the year would depend importantly on the timing of receipt of donor budget support as well as the ongoing efforts to arrest the financial deterioration of major parastatals.

Real interest rates, as measured by the yield on 91-day government treasury securities—the predominant maturity—remain positive. The yield in the most recent auction was 34 percent compared with 36 percent at end-1999. Thus real interest rates have, fallen from 12.9 percent at end 1999, to 5.4 percent currently.

We understand that the draft framework for the budget for 2001 is now at an advanced stage. The staff will be in a position to set out the elements of that framework following the mission to Zambia. The budget will have a substantial focus on poverty alleviation.

As noted in the Decision Point Document, the authorities are targeting the completion of their PRSP for the latter part of 2001. Consultative groups have been at work on the design of the PRSP for several months and, we have been informed that a consensus has developed on several core activities. In the period prior to the completion of the PRSP, the authorities will use the additional funds that become available for actions directed at poverty reduction. Activities that the government is currently reviewing with its partners include:

- funding for improved maintenance and the provision of consumables at hospitals and clinics will be increased significantly, under the national plan for combating HIV/AIDS;

- funding to increase capacity for hospice care and for the support of orphans and vulnerable children will be increased significantly, and

- new programs designed to support enrollment in primary education will be reflected in the 2001 budget.

The Zambian authorities are making a concerted effort to improve their systems for financial administration, monitoring and control. The authorities will be working with the Fund and Bank staff to strengthen monitoring and reporting capacity, in order to assure that earmarked funds are appropriately and efficiently used. A long-term IMF public expenditure management advisor will be joining the Ministry of Finance and Economic Development in early January 2001, to help with the introduction of improvements in financial administration and control systems. In cooperation with the donor community we intend to increase technical assistance for fiscal management.

Mr. Rustomjee submitted the following statement:

At the outset, I would like to express on behalf of my Zambian authorities our deepest appreciation to the Fund and World Bank staffs for their endeavors in preparing, in a short period of time, the set of papers before us, presenting a decision point assessment of Zambia's eligibility for assistance under the enhanced HIPC Initiative and proposing some alternatives on smoothing the country's debt-service payments.

Background and Economic Performance

Today's discussion follows upon the preliminary assessment by the Boards of the Fund and the Bank a few months ago, confirming that Zambia has met the eligibility criteria for assistance under the Initiative. Zambia's per capita GNP of US$326 is among the lowest in the world, with nearly 75 percent of the population living under the poverty line and a high incidence of extreme poverty at 58 percent. The decline in economic conditions and most particularly, the scourge of HIV/AIDS which affects 20 percent of the adult population have all had a major impact, precipitating a worsening of the country's social indicators over the past decade, many of which are currently below the average for Sub-Saharan Africa. This deterioration is reflected in the decline in life expectancy to 44 years in 1998 compared to 51 in 1991, in the increase in infant mortality rate from 107 to 109 per thousand births, and in the significant rise in the number of the population under 5 years that are chronically undernourished from 39 percent to 53 percent during the same period. A matter of major concern to my authorities is the large percentage—13 percent, and the highest in the world—of orphaned children under the age of 14 and the growing number of child-headed households—a distressing consequence of the proliferation of the HIV/AIDS pandemic. The complexity of these problems and their social and economic dimensions present a major challenge to the authorities' limited human and financial capacity. Zambia's external debt is estimated at about US$6.5 billion, translating into each Zambian owing US$657, equivalent to more than twice of its per capita income. Its unsustainability has already been confirmed through the debt sustainability analysis carried out by the Fund and World Bank staffs.

The Zambian authorities are aware that in the past, their reform efforts, aimed at macroeconomic stabilization for much of the past decade, fell short of the expectations. However, they have succeeded in making considerable progress on the structural front, especially in liberalizing the trade and exchange regime and reducing the role of the government in the economy. A very significant step in this direction has been the successful privatization of the Zambian Consolidated Copper Mines (ZCCM) early this year, thus reducing the very substantial costs that the company was imposing on the budget and making room for increased resource allocation for social sectors. The authorities also view the strengthened reform measures being carried out under the ongoing Poverty Reduction and Growth Facility-supported program, as contributing to improving macroeconomic management and enhancing the impetus of adjustment. The direction of the policy stance embedded in this program is also consistent with Zambia's broad strategy for sustainable economic growth and poverty reduction as formulated in the Interim PRSP, which we had the opportunity to analyze in detail last July.

As staff has ascertained in the report, macroeconomic performance under the program through September 2000 remained broadly on track. Economic activity has been picking up as envisaged in the program as a result of increased agricultural production and recovery in the mining sector, thus improving the chances for reaching the target of 4 percent growth set for the entire year. The overshooting of the inflation rate, which reached 28 percent in October compared to the program target of 21 percent, reflected essentially the repercussion of the sharp escalation in world oil prices rather than a relaxation in policy implementation. After adjusting for the shortfall in the disbursement of foreign assistance, all quantitative targets set for end-September 2000, including those established for net domestic assets of the central bank, domestic fiscal balance, and international reserves, were observed. All structural performance criteria and benchmarks were also met.

Medium-Term Policies

The authorities are fully cognizant of the fact that recent achievements towards macroeconomic stabilization and the notable progress made on structural reforms need to be further consolidated in order to ensure high quality growth that will be critical in the fight against poverty. With these objectives in mind, the government has set ambitious targets in the context of its medium-term policy framework including an annual increase in real GDP growth of 5 percent during 2001-2002. Restrictive financial policies will remain supportive of the goal to reduce current inflation rate by half by the end of 2001, and a further decline in 2002. The domestic budget balance is planned to shift to a surplus position by 2002. A strong recovery in export growth together with improved prospects for private capital inflows are expected to lead to a reasonable narrowing of the external current account deficit.

To support these macroeconomic measures, the authorities will be stepping up their efforts on structural reforms to further enhance economic efficiency by promoting the role of the private sector. In this context, the privatization program will be focusing on the remaining state-owned enterprises particularly of the energy, telecommunication and oil companies. The authorities are also placing special emphasis on deepening financial sector reforms in order to ensure the soundness and effectiveness of the financial system. In this respect, steps are being taken to improve prudential regulation and supervision of the banking system. Other reforms in this area include the planned privatization of the largest state-owned bank (ZNCB). In this regard, a decision on the modalities of its privatization is expected to be taken by the cabinet, before the end of this year. The ongoing public expenditure review will play an important role in the process of identifying priorities in social sectors that are consistent with the objectives of the authorities' poverty reduction strategy. This exercise would be repeated annually and linked to the budgetary exercise within an improved Medium Term Expenditure Framework (MTEF).

My authorities recognize the importance of developing a medium-term expenditure framework as an effective instrument for setting out spending priorities and ensuring that resources freed by debt relief under the HIPC Initiative are appropriately channeled towards poverty reduction programs. To this end, preparation of an MTEF for 2002–2004 will be initiated in December 2000, with the assistance of a consultant provided by the World Bank, and will become an integral part of the full PRSP that is due in 2001. The work in prioritizing government's expenditure programs financed both by domestic and donor resources, will be carried out by the existing PRSP working groups and the Ministry of Finance. As the MTEF is developed, it is the intention of this institutional mechanism to unite policy, planning and budgeting at the sector level across all levels of government. Meanwhile, measures are being taken to improve expenditure controls and budgetary discipline to enhance the efficiency and transparency of budget operations and ensure that the implementation of the annual budget will be consistent with the spending priorities to be set out in the MTEF. These steps will also make an important contribution to the authorities' broader approach to improve economic governance.

Strategy for Poverty Reduction

The strategy for poverty reduction articulated in the Interim PRSP aims at fostering growth and ensuring that its benefits effectively reach the poor. It also focuses on improving the access to, and the quality of, basic services in the education, health, water and sanitation areas and in creating appropriate safety nets. Despite the continuous efforts made by the authorities over the past decade, to increase the share of social expenditure within the constraints of the domestically financed budget, the magnitude of the social sector requirements far outweighs the resources available to satisfactorily address these problems. The heavy burden of the external debt service on the budget is a major constraint on the authorities' ability to channel additional resources to priority social areas with impact on poverty reduction. My authorities are hopeful that with Zambia's eligibility under the enhanced HIPC Initiative and today's approval of the Decision Point, the country will be able to benefit from substantial debt relief that will enable them to better address the problems of widespread poverty, which has been aggravated by the HIV/AIDS pandemic.

Debt Relief—Choice of Options

Due to the specific characteristics of the country's debt profile, debt service obligations are projected to balloon in the period following the Decision Point, which runs contrary to the objectives set under the Initiative. At the time of our meeting on November 13, 2000, my authorities' preference was for Option 4b from all the alternatives put forward for smoothing Zambia's debt service payments. While not ideal for their circumstances, this option was viewed as the best available alternative offering the possibility of placing the debt service to exports and the debt service to revenue ratios on more sustainable grounds. My authorities realize that the apparent lack of resources to finance Option 4b, would render this choice unoperational. Under these circumstances, the authorities consider Option 1 as the choice that could offer some respite in the initial years following the Decision Point, with the front-loading of interim assistance facilitating the implementation of the substantial poverty-related programs. Moreover, the fiscal impact of this option and the additional resources it will allow to be channeled to these programs is also made evident in Table 2 of the staff paper, EBS/00/234.

Use of Debt Relief Resources

The authorities are proposing to use the resources released from the HIPC Initiative debt relief to alleviate some of the pressing needs in a number of priority areas. Hence, on the health sector these resources will be directed at closing the financial gap for the basic health package at the district level and for combating the HIV/AIDS epidemic. The health package in the districts are valued at US$11.50 per capita, but currently only 45 percent of its costs are being met by the Government and some donors. Needless to point out that the health system is being increasingly overwhelmed by the enormous challenge posed by the HIV/AIDS disease. The resources necessary for preventing and combating the disease is estimated at US$195 million per year, but only 20 percent of this amount is currently available.

On the education sector, significant efforts are being made for the rehabilitation of basic infrastructure through programs such as BESSIP and ZAMSIF, but more remains to be done to reverse the deterioration in the quality of education delivered and in improving enrolment rates, particularly of girls. Funds released from debt relief, including additional resources provided by an alternative beyond the baseline scenario, would enable the authorities to improve the conditions of service of primary and basic school teachers, provide additional incentives for teachers serving in the rural areas to improve their motivation, invest in teacher training programs and enhance the supply of basic school requisites, including text books, to allow the classrooms to operate.

Part of these freed resources would also be used to operate and provide extension of water and sanitation systems as about 44 percent of the population still lack access to potable water and water borne diseases remain the main causes of fatality, particularly in the rainy season. Increased investment in irrigation infrastructure and feeder roads are also required to support productive activity and income generation to reduce poverty in farming communities.

Finally, it is important to recognize that the first tranche of interim assistance will be kept on an account and not disbursed until June 2001, when the first principal repayment obligations related to the Rights Accumulation Program (RAP) will fall due. This will provide a period of time for the improved budgeting mechanisms to develop further and for even additional planning for disbursement of debt relief resources to priority social sector spending.

Zambia's Capacity to Develop Better Budgeting Mechanisms

Special emphasis is being accorded in building institutional arrangements that will allow the prioritization of poverty-related expenditure, ensure long-term transparency and accommodate a larger flow of resources. With the assistance of the Fund and World Bank, steps are being taken to strengthen administrative capacity to improve the monitoring and tracking system for public expenditures. This will ensure that the utilization of savings from debt relief could be tracked effectively. Measures being taken to address this problem, include the development of a new budget classifications as well as of an Integrated Financial Management Information System (IFMIS) which is one of the conditions for reaching the Completion Point.

It is also important to judge the Zambian authorities' ability to develop improved budgeting mechanisms on the basis of both the country's recent economic history, as well as the very significant efforts being made by the authorities in the past 18 months. In the past, Zambia has suffered from two significant uncertainties. Firstly, the extent of expenditure on ZCCM. With the disposal of ZCCM now well past, a greater degree of certainty has emerged regarding the resources available for spending on social sectors and poverty reduction. Secondly, in the past, Zambia has suffered from significant variability and uncertainty of flows of donor assistance. In 1999, for example, of programmed balance of payments assistance of US$307 million, only US$175 million, representing 57 percent, was received. The authorities have recently estimated that this level might drop to 52 percent in 2000. Thirdly, the arrival of the Decision Point will itself provide substantially greater certainty for economic policymakers. All of these factors will enable the authorities to develop substantially improved longer-term budgeting mechanisms, each of which builds upon the work already in progress, including the above mentioned public expenditure review (PER), the IFMIS and new budget classifications. It is hoped that this greater certainty will enable the MTEF process, which is in any event a long-term process, to evolve more quickly than has been the case in other strongly performing economies at a similar stage of development. In this regard it is important to note that the implementation of the MTEF is also a condition for achieving the Completion Point (Box 2, p.21).

Conclusion

My authorities remain committed to vigorously implement the comprehensive reform program. Their strong commitment to further improving economic performance and in addressing Zambia's poverty challenges is demonstrated by their acceptance of the ambitious measures specified in Box 2 that will serve to trigger the completion point under the HIPC Initiative.

My Zambian authorities strongly believe that with collaboration and assistance from the Bretton Woods institutions and the donor community they will be able to successfully address the many challenges they face.

Extending his remarks, Mr. Rustomjee made the following statement:

I have already circulated my preliminary statement and would like to comment at this stage on only one point. In my statement, I have requested consideration of Option 4b among the options provided by staff, with one modification. At present, option 4b provides for a 10-year loan with a 5½ year grace period. My Zambian authorities have requested that consideration be given to extending the loan period to 20 years with the same 5½ year grace period. In making this request, they have been concerned that the data presented in Table 1 of the staff paper (including of course the modified table, based on the new information provided by staff on Friday) may not reflect the significant escalation in debt service payments after 2007—Table 1 only takes us up to 2007.

I have asked staff to prepare the debt service profiles for Zambia reflecting the full period, not simply until 2007, based on a 10-year loan and based on a 20 year loan. The 10-year loan scenario, which is what is presented as Option 4b, confirms the concern of my Zambian authorities. Under the 10-year loan option, Zambia's debt service profile would very significantly increase after 2007. The new data provided by staff on Friday evening shows that in 2007, debt service would aggregate $137 million. What the data provided on Friday does not show is that thereafter, Zambia's debt service profile would start to rise significantly: $158 million in 2008, $175 million 2009; $173 million in 2010 and $169 million in 2011, before declining thereafter. The 10-year loan in option 4b would therefore result in Zambia having the same debt service level in 2011 as it did 11 years earlier;

and it would also result in the country paying more in debt servicing for three consecutive years from 2009–2011 than it would have done in any year from 2001.

It is for this reason that the authorities have asked for a 20-year loan option. The revised profile based on a 20-year loan portrays a slightly different debt servicing profile. It shows that Zambia's debt service obligations will rise between 2008 and 2011. In those years, debt service would be $150 million, $149 million and $150 million respectively—higher than the $145 million level which is portrayed in option 4b—but certainly not higher than the starting point. It is for this reason that my authorities have requested consideration of option 4b with a 20-year loan.

Mr. Callaghan submitted the following statement:

Zambia has taken a number of important steps towards implementing structural reforms as well as achieving macroeconomic stabilization. We are pleased to note the efforts of the authorities at implementing their privatization program and the reforms adopted in the trade and exchange rate regime. However, social indicators continue to be below the average for sub-Saharan Africa and the level of indebtedness remains high. Given these considerations, we agree that Zambia is eligible for assistance under the enhanced HIPC Initiative, and to Zambia reaching its decision point. The track record is short, but given the commitments by the authorities, we are prepared to give Zambia the benefit of the doubt that it will continue to implement the required reforms.

We support the provision of interim assistance before the completion point in line with the HIPC Initiative guidelines, particularly since Zambia's debt service will continue to rise even after the assistance. In addition, we agree to Zambia's floating completion point under the HIPC Initiative being triggered by the successful implementation of the measures specified in Box 2.

On Smoothing Zambia's Debt Service Payments

We believe it is in the interests of both Zambia and the Fund to do something to smooth Zambia's debt burden. During the previous Board meeting on this topic, we expressed concern that we did not have a full assessment of the implications of providing accelerated interim debt assistance. Setting precedents is something we always have to be mindful of and in this case, we wanted to be sure that the Fund would not experience a liquidity problem and that other HIPCs would not be deprived of much-needed resources.

Staff have provided information that based on past practice, the maximum of 60 percent on Fund interim assistance was found to be indeed a ceiling and not a norm. In this connection, we would appreciate staff's confirmation that the level of Fund interim assistance to any one country is ultimately limited by the amount of Fund exposure to the country at the decision point.

While the case of Zambia may be replicated for other countries which are in arrears to the Fund, staff can perhaps take into account the experience of Zambia and thus design the RAP in such a way that a hump in debt service payments does not arise. In many respects, it is in the Fund's hands to ensure that we do not have another situation like Zambia.

But having said that, we would note again that we are giving Zambia the benefit of the doubt. The Fund is doing everything possible to assist Zambia smooth its debt burden. This should be recognized by the authorities. In particular, we feel it is incumbent upon the authorities to exert stronger effort to achieve macroeconomic stability—including by addressing issues on transparency and governance—to ensure the path towards sustained growth. We also wish to reiterate the need to have in place a social spending plan for 2001 to ascertain where the freed resources would go.

On balance, we support accelerated interim debt assistance as proposed by the staff.

Mr. Djojosubroto submitted the following statement:

I would like to express my sincere thanks and appreciation to the staffs of the Fund and the International Development Association (IDA) for a comprehensive set of documents. I would also like to convey my appreciation to the Zambian authorities for their economic achievement under the PRGF-supported program for their continuous efforts towards smoothing the country's debt service payments.

We should be encouraged with the recent assessment of the Fund and IDA staffs showing the authorities' performance in the implementation of structural reform, maintaining macroeconomic stability and improving social policies. We welcome the positive developments in Zambian economic activity that has been in line with program estimates, reflecting continued growth in agricultural production and signs of a recovery in mining output. However, the country has to take various measures towards maintaining price and exchange rate stability.

With regard to the authorities' medium term policy framework, we support the government strategy for poverty reduction and governance improvement that should be included under the full PRSP with the support of

IMF, IDA, EU, AfDB and bilateral donors. The strategy to foster growth at 5 percent per annum through 2000–2002, to reduce the inflation, to increase the efficiency and equity of social expenditure, and to enhance macroeconomic adjustment with a tight fiscal and monetary policy are remarkable. We welcome the government's program of privatization, financial sector reform and further deregulation of the economy as supported by IDA and the Fund's PRGF arrangement. The government plan for monetary and fiscal management, in particular, monitoring the public expenditure is also noteworthy.

We understand that the authorities program will not be successful without outside supports. In this connection, it is reasonable for us to provide further assurance of our support and encouragement to the government and the people of Zambia with an Enhanced HIPC Initiative. However, we should urge the Zambian authorities for channeling such funds towards more productive and poverty reduction program.

Furthermore, we agree with the staff and management's recommendation that the IMF and IDA provide interim assistance before the completion point in line with the HIPC Initiative guideline in order to further accelerate the pace of the debt relief.

We support the proposal made by the staff in Box 2 regarding Key Reforms and Objectives for Reaching a Floating Completion Point. We again thank the staffs for a clear indication of the key objectives of reforms covering the poverty reduction strategy, the social sectors improvement, and the macroeconomic and structural reforms. We encourage the authorities to successfully implement the above recommendations under the HIPC Initiative. We noted the important contribution that technical assistance could make to achieve the completion point triggers.

We support the authorities' proposal for Option 1 to smooth the debt service payment. Accordingly, we agree with the staff proposal for amendment to the instrument to establish a trust for special PRGF operations for HIPC Initiative and interim PRGF subsidy operations by increasing the interim debt relief from 20 percent per annum and 60 percent overall cap to 25 percent and 75 percent, respectively.

With these remarks, we wish the authorities every success in their endeavors.

Mr. Barro Chambrier submitted the following statement:

At the outset, I would like to thank staff for a well written and concise paper, and Mr. Rustomjee for his helpful preliminary statement. Zambia is one of the poorest countries in sub-Saharan Africa with deep-rooted economic and social problems stemming from weak macroeconomic management over the past several years; the burden of non performing public enterprises on public finance and on the banking system; the deterioration of the terms of trade; the impact of the HIV/AIDS epidemic and malaria on the social fabric; and more recently, pressures from refugees fleeing the war in a neighboring country. Combined with an external debt overhang, these factors have contributed to the worsening of living conditions for the most vulnerable portion of the population. In this context, the Zambian authorities should be commended for their commitment to implement structural reforms, particularly in the key areas of privatization, deregulation, and the exchange rate system, which are necessary for stimulating private sector activities, and creating job opportunities. Nevertheless, a number of challenges lie ahead, as the authorities are faced with the daunting task of stabilizing the macroeconomic environment, diversifying the production base, away from copper-related activities, while implementing programs aimed at improving delivery of social services, and reducing poverty. Assistance under the HIPC Initiative will supplement the authorities' efforts to combat poverty through the implementation of growth-oriented policies, and bolder structural reform measures as scheduled in the PRGF-supported program.

Macroeconomic performance and structural reforms: Over the past several years, policy implementation in Zambia did not yield the expected results, as evidenced by low real growth, high inflation and a weak external position. Terms of trade shocks and inefficiencies in the management of the Zambian Consolidated Copper Mines (ZCCM) played an important role in these negative developments. Thus, the privatization of the ZCCM in March 2000 is an important policy action that will ease the burden of this company on government operations, and have positive implications for the overall economy. Although performance in 2000 has been broadly in line with program projections, the macroeconomic and financial situation remains fragile. Therefore, achieving the targeted growth rate of 5 percent in 2001, while reducing inflation to 10 percent from 20.6 percent in 1999, will require the continuous implementation of tight fiscal and monetary policies, as well as measures aimed at diversifying the production base.

On the structural front, important strides were made in the past that created an environment's conducive to the development of private sector activities, while reducing the government's role in the economy. Indications that all structural performance criteria and benchmarks at end-September 2000 were observed are encouraging and show once again the authorities' commitment to adjustment. Surely, important challenges remain, but the Zambian authorities have identified priority areas of intervention, and I commend them for putting in place an ambitious reform agenda in the context of the PRGF-supported program. However, in order to consolidate the thrust of past results and move forward on an accelerated growth path, it will be necessary to implement the programmed structural reforms in a decisive manner, which will reinforce the impact of macroeconomic policies. Of particular importance is the financial sector reform, and the privatization program for the electricity, telephone and oil companies. The high cost of delivery of these services has been an impediment to competitiveness for the Zambian production sector, and inefficiencies in their managements have generated additional costs for the economy.

Social issues and the HIPC Initiative: One of the challenges facing the Zambian economy in the period ahead is the sustained reduction of poverty, which remains widespread in rural as well as urban areas. The authorities' efforts to fight poverty have increased in recent years, as evidenced by the preparation of the Interim Poverty Reduction Strategy Paper (I-PRSP), and the commitment to complete a full participatory PRSP before end-2001. Having identified the elements that bedevil the Zambian social fabric, the authorities have defined a strategy of which the main components include policies aimed at fostering growth, and increasing pro-poor spending.

Based on the poverty reduction strategy, ambitious objectives have been defined in priority sectors of health, education, access to safe water and social safety net. Given the magnitude of identified needs in these areas, the ambitious targets set by the authorities are welcomed. However, their attainment will require that macroeconomic policies, structural reforms and social policies be implemented in such a way that they complement each other. In the same vein, I support the authorities' efforts to conduct a public expenditure review, in order to analyze pro-poor expenditure, and to develop a Medium-Term Expenditure Framework, with assistance from the World Bank. Used efficiently, these tools will undoubtedly improve expenditure management and control, and contribute to a better determination of spending priorities over the medium-term.

Data and analysis presented in the decision point document underline two main features of Zambia: a very poor country, with an extremely high burden of external debt. Given these elements, and Zambia's track record, there is little debate as to whether or not it should benefit from assistance under the HIPC Initiative. Any additional relief provided will help the authorities in their quest for poverty eradication, and for the reduction of the prevalence rate of HIV/AIDS epidemic. Therefore, regarding inconclusive previous Board discussions on the smoothing of debt service payments for Zambia, additional elements of analysis provided to us by Mr. Rustomjee were very helpful. As indicted in his preliminary statement, front-loading of the interim assistance will contribute to a better implementation of poverty-related programs. Therefore, I fully support the request to grant Zambia an accelerated delivery of interim HIPC Initiative assistance, as presented by staff under Option 1.

In conclusion, Zambia qualifies to reach the decision point under the enhanced HIPC Initiative, and I find the possible triggers for reaching the completion point, outlined in Box 2 adequate. I therefore support the proposed decision and wish the authorities well in their endeavors.

Mr. Cippà made the following statement:

I continue to feel uneasy with the timing of the decision point. There are obviously still a number of both economic problems as well as problems of lacking information. As to the economic problems, let me just mention for example the larger than targeted credit to public enterprises, the signs of increasing inflation and the risk of missing the end-2000 target for broad money growth as well as for the claims of domestic banks on the government. It also seems uncertain whether the fiscal targets can be met. As to the informational problems, I miss information on the budget 2001 other than a detailed HIPC Initiative spending program. In our view, at this point of the year the staff report should have informed us whether the proposed budget by the Zambian authorities is in line with the PRGF arrangement or whether there are outstanding issues. While I appreciate the detailed staff statement dated yesterday, I could not accept this being the standard procedure for program countries. Rather, I would normally expect this information to be included in the program documentation and not being distributed less than 24 hours before the Board meeting. Rushing to the decision point in such a speed makes it obviously much more difficult to objectively assess a countries progress under a program.

As to the question of interim assistance, we continue to be puzzled by the number of data revisions. Obviously, these kinds of revisions are another consequence of speeding up the process. However, with regard to yesterday's revision which is based on exchange rate movements, I wonder why the Board was not told before about this—after all we are revising end-1999 exchange rates. The issue regarding possible changes in the HIPC Initiative instrument is of great concern to our authorities. I have asked them to decide based on incorrect information. The proper way to proceed would be to postpone the discussion and give the authorities a chance to lock at the new data. My personal opinion on the front-loading of interim assistance is that I still fail to see the need to do so, particularly after the most recent revision. Debt service in 2001 under the baseline scenario is now down to $184 million. This is substantially lower than the $199 million after the revision some ten days ago. It is also much less, of course, than the originally projected $225 million. What is even more, according to yesterday's new number, the debt service in 2001 will be less than what it was originally foreseen to be with Option 1 ($194 million). In view of this very substantial decrease of importance of the "hump"-problem we are extremely reluctant to support Option 1. Is it really justified to amend the HIPC Intiative instrument in order to address a "hump" of some $15 million?

Another problem is the fact that Zambia will have to rely on bilateral financing in order to face a marked temporary hump in its debt service in 2004 and 2005. We understand that staff is in contact with bilateral donors in order to achieve a smoothing of debt service over these years. If, for whatever reason, this bilateral financing were not sufficient, this Chair would not be willing to consider any further bending of the rules to accommodate that. We would appreciate it if a respective element would be included in the Chairman's summing up of the discussion.

Furthermore, we wonder whether Zambia will have the absorption capacity to deal with the substantially increased social expenditure given the frontloading of interim assistance. Particularly, if—at the same time—one trigger for the floating completion point asks for actual cash releases to District Health Management of at least 80 percent of the amount budgeted. We would appreciate some response from staff as to whether absorption capacity might be a problem and whether it intends to deal with this particular completion point trigger. Equally important, although there had been relatively high budgetary allocations to social sectors, the outcomes have been disappointing due to low public sector efficiency. Therefore, I attach importance to expenditure management and expect clear progress in the near future. I am disappointed that no specific trigger to improve governance has been proposed. For example, we could ask for the setting up of an anti-corruption unit. There would be time to do so as the completion point is expected to be reached in 2003.

As to the other completion point triggers, I regret that compared to the preliminary document one of the most important output indicators—a higher annual growth rate of enrolment in primary schools—has been eliminated. As I already said, money should be efficiently used, or otherwise the entire HIPC Initiative project has a credibility problem. In the case of the rehabilitation of the urban water supply system, I can live with its skipping as completion point trigger, as it would be difficult to measure and it is envisaged that the detailed HIPC Initiative spending program will increase spending in this area.

Mr. Harada made the following statement:

I thank the staff for having prepared a well-balanced and informative paper. I welcome this opportunity to discuss Zambia's reaching the decision point under the enhanced HIPC Initiative. At the Board meeting on the preliminary document last July, while expressing appreciation for the authorities' strong commitment to tackling poverty, the Board also expressed concern about Zambia's poor track record, the low implementation capacity, and the country's serious governance problems Also, the Board regarded it as important to ensure the efficient and effective use of resources freed up by debt relief under the HIPC Initiative to maintain the Initiative's credibility.

On the other hand, the Board also fully understood the country's urgent need for additional resources to tackle poverty. Balancing these factors, the Board decided that Zambia could reach the decision point in late November 2000, provided that the macroeconomic performance under the PRGF-supported program as evidenced by the end-September performance criteria remained satisfactory. The staff paper reports that, although some end-September data concerning domestic arrears and tax liabilities were not available, most of the end-September quantitative performance criteria, as well as the structural performance criteria and benchmarks have been met. This is a good sign. The staff also said in their preliminary statement that there were no new tax arrears of ZESCO and ZNOC at end-September and that the stock of domestic arrears was reduced from end-June to end-September on the basis of the provisional data.

Despite some uncertainties in assessing the country's current economic position, we applaud what the authorities have achieved so far and support the country's reaching a decision point today. I would like to make a few comments on the next steps toward reducing poverty in reaching the completion point.

As Zambia has a rather short track record for reaching the decision point, future policy measures have to be all the more soundly designed to ensure the efficient and effective use of resources and to maintain the HIPC Initiative's credibility. Staff estimates for growth in 2000 and 2001 seem rather high although such growth rates would indeed be necessary to reduce poverty. It seems that the growth forecast is conditional upon the assumed inflows of large amounts of external investment as a result of privatization. Could the staff clarify the downside risks for the growth outlook associated with the importance of gaining market credibility through sound macroeconomic policy implementation and an improvement in governance as well as through the promotion of the privatization program.

Since the prioritization in using resources is indispensable for poverty reduction, the MTEF has to play a key role in this context. The contents of the framework are not clear at this stage, and I would like to know when the information will be available and incorporated in the budget process.

The authorities' low capacity for efficient exchange rate management is another cause for concern, although their efforts in this area are encouraging, especially with regard to the IFMIS. The triggers listed in Box 2 of the decision point document generally reflect what this chair regards as an appropriate focus for the authorities' policies going forward. However, we regret that there is no mention of governance issues in Box 2. I would like to know whether there is any possibility of incorporating this point.

With regard to the frontloading of interim HIPC Initiative assistance, which has been discussed since last month, I would like to make a brief comment. The profile of Zambia's debt-service-to-exports ratio under the original interim assistance scheme does not seem to pose a serious problem. On the other hand, we also understand the country's urgent need to reduce poverty and the authorities' view that the burden of debt service payments in 2001 will be too heavy to implement effective poverty reduction policies and should be mitigated by postponing the hump in debt service payments. If Option 1 is chosen to address that matter, there will be a hump in debt service payment in 2004. Given that the country's capacity for poverty reduction is only developing, the postponement of the hump in debt service payments might be problematic. However, the choice should be left to the authorities in order to increase their options. This chair can go along with the front-loading of interim HIPC Initiative assistance.

Mr. Pickford made the following statement:

I am grateful to staff for their efforts over recent months, which have made it possible for us to consider the decision point document for Zambia at this time. Our position today has not been reached lightly, but given that we have discussed these issues on a number of occasions, I will keep my statement as short as possible and focus on the issues for discussion and the proposal to accelerate provision of interim HIPC Initiative assistance.

On the eligibility for the decision point, the Board set clear requirements during the discussion of the preliminary document in July, namely that performance under the PRGF-supported program remained satisfactory, as evidenced by end-September performance criteria. Against that standard and based on the information given in section 2 of the document as well as the supplementary staff statement, we agree that Zambia can reach the HIPC Initiative decision point now. In the six months since the privatization of ZCCM, progress has already been made. Fiscal transparency has improved through monthly publication of departmental cash allocations, steps have been taken to manage arrears through the introduction of new control systems, a public expenditure review has been undertaken—the first in five years—social sector spending has remained above target, work has begun on the development of the PRSP, and a new, more realistic timetable for completion has been set.

This is not to say that further improvements are not needed, they clearly are. Areas for sustained further efforts include public expenditure management, management of arrears, development of fiscal discipline, dealing with the problem of ZNCB, tackling inflation, and governance. Bank and Fund technical assistance on budget reform and fiscal transparency will obviously play a key role in that context. I am glad that there are plans for stepping up technical assistance. That further improvements are still necessary is merely a fact of life, and the decision point can not be regarded as the end but only as one step in the process. However, without reaching the decision point now, further progress toward economic reform would be hampered.

We agree with the floating completion point and can support the triggers set out in Box 2. We continue to stress the need to ensure that these triggers focus on a set of key policy reforms, which are measurable, in the government's control, realistic, and at the same time challenging. We welcome the emphasis on health and education, in particular on HIV-AIDS, and on steps to improve financial planning and management, especially the implementation of the MTEF, and the Integrated Financial Management Information System.

We would also like to see special emphasis, over the period ahead, on governance issues. I agree with Mr. Cippà and Mr. Harada that it might have been appropriate to have a completion point trigger in this area, such as a requirement for the government to take actions to follow up the Auditor General's reports. However, in the absence of a such a trigger, we regard it as important that this matter is taken up in the context of the ongoing PRGF discussions, and I would be grateful for staff comments on whether that is regarded as feasible.

With regard to smoothing the profile of Zambia's debt service payments, like Mr. Rustomjee at the time, we favored the use of a combination of grant and loan to resolve this issue. But in the absence of the necessary financing, we are presented with a choice between the baseline and accelerating the provision of interim HIPC Initiative assistance. Both options provide exactly the same net present value (NPV) level of debt relief from the Fund, and we remain strongly of the view that the Fund must take action to smooth Zambia's profile of debt service payments.

There are substantive and presentational issues involved, which have already been discussed at considerable length on a number of occasions. Table 2 of the staff paper on the smoothing of debt service payments clearly indicates the significance of accelerating interim relief, and the latest letter from the Zambian minister of finance and economic development sets out ways in which the relief can be used effectively to help alleviate poverty.

Mr. Rustomjee also talked about the problem of setting a precedent. While I can understand the concerns of those who are determined to ensure that a precedent is not set, it seems that increasing interim relief for Zambia will not do that. It is clear from Mr. Rustomjee's statement that raising the annual ceiling for interim HIPC Initiative assistance from 20 to 25 percent would be regarded as a cap, not as a target. Careful drafting of the summing up of this discussion can ensure that the intent of the Board in that regard is fully captured, if a decision is taken to accelerate interim HIPC Initiative assistance for Zambia in the light of the exceptional circumstances. It is appropriate to accelerate interim relief, as it does not increase the costs for the Fund in NPV terms. It will provide Zambia with a better chance to implement its emerging PRSP and should encourage those in the country supporting reforms. I also believe that it is in the interest of the credibility of the HIPC Initiative and of this institution more generally.

Mr. Wei made the following statement:

First of all, I would like to thank staff for their well-prepared paper and Mr. Rustomjee for his helpful preliminary statement.

We are pleased that the reform program in Zambia remains broadly on track despite the significant terms of trade shock due to higher oil prices and delays in disbursement of balance of payments assistance. Notwithstanding these adverse effects on the economy, the authorities are firmly committed to reaching the targets set under the PRGF-supported program. It is also commendable that they have been pressing ahead as strongly as possible with the full range of macroeconomic and structural reforms.

While it is noticeable that the authorities have made significant progress in economic management and structural reform under Fund/Bank-supported programs, poverty remains pervasive, with over 70 percent of the population living below the poverty line and an average life expectancy of 44 years because of the impact of HIV/AIDS. Widespread poverty, the HIV/AIDS pandemic, together with an unsustainable debt burden constitute serious constraints to sustainable growth and development. Based on its recent track record of policy implementation, the authorities' strong commitment to reforms and the progress made in the formulation of the Interim PRSP and PRSP, and given its heavy debt burden, like other speakers, I fully agree that Zambia qualifies for assistance under the enhanced HIPC Initiative and support Zambia's reaching the decision point before year end. We also agree with management's recommendation that Zambia's floating completion point under the HIPC Initiative be triggered by successful implementation of the measures specified in Box 2 and elaborated in paragraphs 41–46.

On the issue of assistance, we take note that in targeting the ratio of the NPV of end-1999 debt to exports ratio being reduced to150 percent, total assistance under the enhanced HIPC Initiative would amount to US$2.5 billion in 1999 NPV terms. We have to keep in mind that the fundamental objective of the Enhanced HIPC Initiative is poverty reduction, "Smoothing Debt Service Payment" should be consistent with the spirit of the entire Initiative and indeed that of the PRGF. In this regard, I join other speakers and staff in recommending that the Fund and the IDA provide interim assistance before the completion point in line with the HIPC Initiative guidelines. Therefore, we support Option 1 in EBS/00/219. This option could somehow reduce Zambia's annual debt service payments, and surely provide a firm basis for implementation of its poverty reduction strategy while instilling confidence in civil society and its external partners. Accordingly, this chair supports the proposed amendment of the PRGF-HIPC Trust Instrument to 25 percent annually and 75 percent in total.

Since we are in broad agreement with staff and other speakers on various issues, I will make just a few brief remarks for emphasis on the issue of precedent setting regarding Option 1.

First, on the issue of whether the increase in interim relief to 25 percent per annum would represent an effective precedent, one that future HIPC Initiative cases would be expected to emulate. With regard to past practice, the table previously provided by staff shows that in only two cases has the 20 percent per annum interim relief level been achieved. In nine other cases, interim relief actually provided by the Fund has not reached the theoretical maximum, indicating that the maximum is indeed a ceiling, not a norm. In one case no interim relief has been provided at all.

Second, regarding future practice, I share the staff 's view of that "A hump in debt service repayments arising from higher repayments to the IMF similar to that projected for Zambia is expected to occur only in cases where RAPs were utilized to clear substantial overdue obligations to the Fund." So I think it is a reasonable conclusion from the above that addressing the Zambia case by providing 25 percent of interim assistance and an overall cap of 75 percent from the Fund, respectively, would not set a precedent which might be subsequently duplicated by the majority of upcoming HIPC Initiative cases.

With these remarks, we wish the authorities every success in their future endeavors for fighting poverty.

Mr. Faini made the following statement:

In our July meeting, we noted how Zambia is an atypical case in the landscape of sub-Saharan Africa (SSA). While its macroeconomic performance in terms of inflation has been quite weak, the authorities determination to press ahead in the area of structural reforms, particularly in liberalizing the trade and exchange rate regime, has been remarkable. We also thought that the privatization of the ZNCC was a milestone in Zambia's economic history, as this firm has represented a constant drain for the budget and a source of continuing weakness for the financial sector. On this basis, and on the grounds also that the authorities that the I-PRSP represents a sound basis for the development of an effective poverty reduction strategy, we supported and still support an early Decision Point for Zambia despite its mixed track record.

Having said that, we are concerned about the fact that in Zambia, as in several HIPC Initiative countries, the NPV debt to exports ratio is projected to be above the 150 percent threshold after the decision point. We understand that in the case of Zambia the increase in the ratio is mainly due to new borrowing and, for the year 2000, to a fall in the three-year export average. We cannot however overlook the fact that between 2000 and 2010 the value of new borrowing will be equal to almost 60 percent of the massive debt relief that has been granted to Zambia. We will need to return to these issues. Perhaps, staff (PDR) may want to comment on the policies regarding new borrowing as well as on the overall policy stance for those countries that remain in the vicinity of the 150 percent threshold.

On the decision point document, I have a few selected remarks.

First, we consider the privatization program to be key. In the past, inefficient public enterprises have complicated fiscal and monetary controls and have weakened the financial conditions of the banking system. On this front, while the privatization of the ZCCM has been a remarkable achievement, much remains to be done. We support the intent of the authorities to move ahead with the divestiture program in the area of utilities and banking and we agree on having completion point triggers related to progress on this front.

Second, the issue of expenditure management and control should be at the forefront of the reform agenda. This would be necessary to effectively channel HIPC Initiative assistance toward poverty reduction measures. The triggers chosen in this regard—implementation of a Medium-Term Expenditure Framework approved by the Cabinet and pilot implementation for the IFMIS—should be considered as minimum achievements. We would like to know from staff whether the full-PRSP and the MTEF will provide an adequate basis for coordinating donors' efforts. This is an area where I am afraid the HIPC Initiative as a whole has failed to deliver significant progress.

Third, let me note that I found the triggers for the completion point quite adequate. I appreciate in particular staff efforts to carefully explain the rationale behind each condition. The trigger condition in the education sector are quite illustrative. They first define the budget resources for the sector, but then go on to determine some specific much needed actions to ensure that budgetary allocations are effectively targeted to poverty reduction.

Fourth and last, we acknowledge that the I-PRSP contains a good diagnosis of poverty in Zambia. However, we urge the authorities in the period preceding the completion point to double their efforts in data collection. For example, for a country where 73 percent of the population lives in poverty, what matters is not only the poverty incidence, but also how far the poor are from the poverty line. A stronger data base will surely make things easier for the authorities.

Regarding the issue of smoothing debt-service payment, our view has been throughout that we should be concerned with the net resource transfer, namely the decisive factor in determining the availability of resources to fight poverty. We also note that the recent data revision further smooth the hump in absolute debt service, thereby undermining in our view the case for Option 1. Overall, we would have much preferred to go for the baseline strategy with the option to augment the PRGF arrangement if resources were found to be insufficient to fully finance the poverty reduction effort. Having said that, we are ready to go along with the Board consensus on this matter, provided however that an appropriate ring fencing of the modifications of the interim relief would be decided upon.

Mr. Donecker made the following statement:

This Board is known for its capability to achieve a general consensus for its decisions, which are backed by all Directors. This Board is also known for the high degree of openness and frankness of its discussions, as well as the discretion of its members. The experiences since the last Board discussion on Zambia are, therefore, rather worrisome. Every formal and informal channel has been used to interfere with our decision making. Not only official letters have been part of that effort, but also an unusual amount of standard letters from non-governmental organizations (NGOs). More disturbing is the fact that confidential details of Board discussion must have been leaked, given that, for example, major NGOs in my country already know what Directors have said at the last Board meeting on Zambia. I hope this kind of targeted leak-based attempts at pressurizing Board members will remain a single occurrence, although I am skeptical about that. The fact that such leaks occurred at all is most disconcerting.

With regard to the central issue before the Board today, this chair is prepared to support a smoothing of Zambia's profile of debt service payments by providing accelerated interim HIPC Initiative assistance in connection with an elevation of the existing ceilings and notwithstanding serious concerns about the weakening of the agreed HIPC-PRGF architecture. However, we have to insist on appropriate ring-fencing, which should establish that accelerated interim HIPC Initiative assistance can only be provided in possible future RAP cases with a debt service situation similar to that of Zambia today. Therefore, the replacement of the old limits with the higher ones of 25 percent annually and 75 percent cumulatively in the PRGF-HIPC Trust Instrument should be accompanied by clear language that these new limits can only be applied under similar, truly exceptional circumstances and only in cases of countries with a Rights Accumulation Program.

Regarding other countries with arrears to the Fund, we would like to associate ourselves with Mr. Callaghan's call for a more careful design of RAPs, taking into account the impact on the profile of a country's debt service payments so that the situation that occurred in Zambia will not arise elsewhere.

On the decision point document, this chair agrees that Zambia is eligible for assistance under the enhanced HIPC Initiative. Zambia's positive track record is short, and in my personal view, too short and mixed. While positive steps toward macroeconomic stabilization and structural reforms have been taken, it is more than unfortunate that we have to reach a decision today without adequate knowledge about Zambia's most recent performance under the current PRGF-supported program. We do not know whether the performance criteria and the structural benchmarks have been met or whether the program has come off-track. Therefore, we join other colleagues in urging Zambia to use the increased funds solely for effective poverty reduction measures.

I would like to confine my additional remarks to two specific points—the possible need for downward revisions to the economic outlook and an amendment to the completion point triggers. Regarding the first point, I would be interested in Mr. Rustomjee's and the staff's view on the press report of last week that the Zambian treasury has made a downward revision to its 2001 growth forecast. According to that report, the treasury expects only 2.2 percent instead of 4 percent annual growth in 2001. Could the staff comment, in which way this revision is likely to affect the medium-term policy framework, which is based on an annual growth rate of 5 percent, according to Mr. Rustomjee's statement?

Secondly, we agree to the planned completion point triggers. However, while governance problems and the inefficiency of the civil service in Zambia are clearly pointed out in the otherwise rather Zambia-friendly staff assessment, we, too, find measures to improve governance sorely lacking in the list of completion point triggers. The commitment by the Zambian government to improving governance and the Board's firm expectation that they will do so, should be clearly reflected in the summing up of this discussion.

Mr. Maino made the following statement:

We welcome this decision point assessment of Zambia's eligibility for assistance under the HIPC Initiative. We would like to commend staff of both the Fund and IDA for a succinct and accurate analysis of the Zambian debt sustainability situation and the update on the conditions towards eligibility under the HIPC Initiative.

Given its recent economic performance and track record under the PRGF arrangement—also depicted by Mr. Rustomjee in his very comprehensive preliminary statement—Zambia sets a robust case to receive HIPC Initiative support. Despite negative shocks on the terms of trade and social problems such as the HIV/AIDS epidemic and the incoming war refugees from neighboring countries, Zambia is clearly showing signs of commitment and recovery towards reform.

The achievements made on macro framework are encouraging. The government efforts to pursue deregulation and privatization of large utilities and state monopolies will surely help to consolidate the medium-term macroeconomic strategy of the government—along the lines agreed in the Interim PRSP under the PRGF arrangement. Nevertheless, there is still room to provide a more stable mechanism for the exchange rate that is consistent with the rules set for monetary policy—and provided that the monetary targets have not been made. Only by providing a stable macroeconomic environment, Zambia will be able to fulfill a sustained reduction in poverty and to generate the conditions to foster growth. We welcome the good news provided by staff yesterday on the progress made in the reduction of the stock of domestic arrears. In this regard we found quite advantageous that IDA conducted a public expenditure review to analyze the nature of expenditures and also the ideas envisaged by staff to increase technical assistance for fiscal management.

On the topics for discussion proposed by the document we would like to note the following:

Eligibility. The updated debt sustainability analysis shows that the ratio of the net present value of debt-to-export ratio, once traditional debt relief is incorporated, will stay around 475 percent. More than half of this debt is in the hands of multilateral institutions. Given the genuine efforts to model a strategy to fight poverty and the harsh circumstances that have prevailed in Zambia in recent years, we agree with an earlier preliminary determination to allow the country to be eligible for assistance under the Enhanced HIPC Initiative.

Decision Point. Based on debt figures that will rise even after the assistance is provided, the progress achieved under the PRGF and the advanced stage to finalize a comprehensive PRSP, we would like to support staff proposal that the country could reach its decision point today. We concur with staff and management recommendation to provide interim assistance before the completion point in line with the HIPC Initiative guidelines.

Floating Completion Point. The inclusion of social indicators in Box 2 as potential trigger measures for the floating completion point is a positive step. Education and health are clearly in the realm of the most urgent social needs. We would like staff to comment on the absence of governance indicators in Box 2 (especially when it is underlined in the document that the government recognizes some shortcomings of its previous policies and the efforts made to improve the situation). Nevertheless, we would like to ask staff whether the addition of quantitative indicators on the macro side is something worthwhile trying.

Under the umbrella provided by a full PRSP and macro stability supported by a PRGF arrangement, Zambia is ready to tackle the difficult task of rebuilding basic social infrastructure and to achieve the goals set in the PRSP.

On the Options to Smooth Debt Service Payments

We welcome the alternative options to smooth service payments provided by Staff, especially after the revised debt service figures for the country—based on a loan-by-loan clarification—asserts that the overall debt stock has increased slightly. The higher cash debt service payments following the provision of HIPC Initiative assistance might jeopardize the effectiveness of the initiative.

In this regard, the resulting strategy for Zambia should be evaluated in the context of all-available additional bilateral debt relief and net foreign assistance as has been mentioned today by Mr. Faini. It is in Zambia's own interest to deliver a solid spending plan that gives more reliability to the use of freed-up resources. As money is fungible, the HIPC Initiative assistance and, even more, the umbrella delivered by the PRGF arrangement should rely on clear budgetary procedures to ensure effective poverty reduction.

Considering the new options advanced to further smooth Zambia's debt service payments we would like to note that the frontloading interim assistance emerges now as the best alternative for the country in order to reduce the amounts of debt serviced.

The details on the budgetary resources uses provided by HIPC debt are consistent with the poverty reduction framework of the Enhanced HIPC Initiative. The use of resources for the health sector, education and infrastructure (water and sanitation systems) is in accordance with PRSP lines and with the whole HIPC Initiative. The accelerated interim assistance option proposed by staff is clearly consisted with the budget and the immediate implementation of poverty-related programs.

Finally, we welcome Zambia's effort to improve budgeting mechanisms as detailed in Mr. Rustomjee's preliminary statement. The country should provide extra reassurance to the Fund on the use of HIPC Initiative resources. In this vein, we would urge the reinforcement of institutional mechanisms, such as the Commitment Monitoring Unit, to help control and facilitate a transparent allocation of freed-up resources and to contribute to improved public expenditure management.

Ms. Lissakers made the following statement:

Let me start by noting the sobering fact that at the moment Zambia will receive HIPC Initiative debt relief, its per capita GDP will be 25 percent lower than it was ten years ago, over 70 percent of the population will still be living in poverty, and over 20 percent of the adult population will be infected with HIV-AIDS. I note this by way of clearly stating that Zambia's needs are great, but also that we are not dealing here with an example of a sustained track record of strong economic performance. As others have suggested, bringing Zambia to its decision point today involves a bit of a leap of faith. And, as we said in the preliminary discussion, we would strongly have preferred at least to have the data on Zambia's performance for the full year 2000.

Having said that, on the basis of preliminary data, performance appears to be somewhat mixed. Inflation is significantly higher, although oil prices have something to do with that. But more troubling is that money supply growth seems to be so significantly out of line with the program path, resulting not surprisingly in a very sharp depreciation of the kwacha, which in turn feeds back into the inflation picture. The banking system claims on the government have increased by more than 40 percent in 2000, and this is also very troubling. Stabilizing the economy is an essential component of an effective poverty reduction effort.

We also recognize that there are some real accomplishments. Most notably, at long last, we see the privatization of the ZCCM, which we have said for many years is a critical action that should have positive implications on many fronts, including on the budgetary front. Nonetheless, it is clear that in the privatization area, there still is a lot to be done. I note, for example, that only 15 percent of the population have access to electricity and having an effective and efficient delivery of power is necessary to really reduce poverty in Zambia. There is a lot to be done on the structural front, and privatization should be an effective means of doing that.

The I-PRSP is pretty good in Zambia's case, although it has some shortcomings that others have noted. But achieving the goals of the HIPC Initiative will require two things: effective controls over public expenditures, and making the right decisions in spending the freed up resources on the right things. Both of these propositions will be sorely tested next year, when Zambia will have an election, and also will be hosting the Organization of African Unity (OAU) summit. Both of those events can drive governments to overspending and to spend money on the wrong things. I hope we will not see that pattern repeat itself in Zambia next year.

Zambia has completed a public expenditure review, which is a critical tool. Now, the task is to carry out an effective medium-term expenditure framework.

On the PRSP front, and specifically fighting poverty, we think there is still a long way to go. There is a lack of specificity on social expenditures and the plans moving forward. We also think that the I-PRSP places too much emphasis on the privatization of ZCCM as generating the growth necessary to reduce poverty. We think a more complex and aggressively targeted growth strategy will be necessary. Also, something has to be done to deal with the HIV-AIDS problem. The section in the I-PRSP that addresses current government efforts to attack poverty fails to mention HIV-AIDS, and there are no AIDS strategies in the policy matrix, which is surprising. We also need to have more information and clearer plans on public participation in the formulation of the final PRSP. We would also add our voice to those who noted the importance of improving governance in the PRSP framework.

On the smoothing issue, we remain of the view that the baseline would be preferable because the option favored by staff does not eliminate the debt hump. It only moves the hump into the out years, and we think it is in the out years that Zambia would be best placed to actually use the freed up resources effectively. Be that as it may, we recognize that there is a clear majority favoring the staff recommendation, so we are willing to go along with the staff recommendation on Option 1, provided there is clear and strong ring-fencing language that would restrict eligibility for the higher limits on interim relief to cases like Zambia's, where debt servicing requirements increase as a result of obligations to the Fund, arising from encashment of rights accumulated under a successful RAP. As others have said, we ought not to repeat this mistake in future RAPs, and we should have a better design on the payment timeframe.

We also would like to see more specificity in the performance requirements for the completion point, and on the poverty expenditures. We would like to see continuing reports and updating to the Board regarding the improvements in expenditure and commitment tracking and management in Zambia. Specifically, we would want to have clarified as soon as possible, how exactly we are defining the HIPC Initiative savings in this case, since there are different ways of measuring those savings, as that is a necessary step toward defining and measuring how interim resources and freed up resources are being used.

We also think, as we have argued in other cases, that there should be a trigger added to the completion point which would require verification through some sort of monitoring body of how interim resources were actually spent and that they were spent as specified. We have asked that this be a standard trigger for HIPC Initiative completion points because it applies to the root purpose of the HIPC Initiative instrument. Moreover, my legislative authorities, who have committed very large sums for this effort, have made it very clear that their continued financial support for the HIPC Initiative rests on being able to say with some confidence and facts to back it up, that these HIPC scarce resources really have been well used, where well used should be defined in a clear way. And we still think we have not refined the completion point approach to allow that to be done. This trigger would be of clear benefit to the country as well.

Echoing others, I would also include in this initiative more on governance, especially given the problems that Zambia has had in that area in the past. I thought there were some good suggestions from others on this issue.

Mr. Lehmussaari made the following statement:

Since we have had several discussions on this topic recently I can be brief but I want to comment on three issues; the decision point, the floating completion point and the interim relief.

First, I on the decision point. I have to admit that I am quite puzzled about staff's assessment of the track record. According to the staff the program is "proceeding in a broadly satisfactory manner." This assessment is based on macroeconomic performance through September. The fact, however, is that Zambia has not been able to draw on its PRGF since the initial drawing in connection with the approval of the program in March 1999. This is because the program has been off track as explained in the preliminary decision point document. In other words, the Fund has committed SDR 254 million to Zambia of which they have been able to draw only a minimal fraction due to the weak macroeconomic performance. The resources that Zambia could have drawn from the Fund could easily have covered the so called hump.

I have one other important observation as regards the track record. When the original HIPC Initiative was launched, the track record period before the decision point was three years as a rule. This morning, as we are discussing Zambia, its track record is, de facto, less than three months. So we have come an awful long way down the path and I am afraid that, at the end of the day, this will be reflected in the quality of the whole HIPC Initiative.

Second, on the completion point, my authorities have provided me with an assessment of the governance issues, which, without going into details, is very worrying. Like Mr. Cippà and others I would have liked to see some concrete triggers relating to governance issues for reaching the completion point. Having said this, I can go along with the staff's proposal as regards the floating completion point.

On the issue of interim relief. I still prefer the baseline scenario for four reasons. First, Option 1 will only postpone the hump which, by the way, starts to look more like a pimple as time goes by. In a few years time, when Zambia hopefully reached its completion point, we are facing the same hump again. Second, it seems that Option 1 will do little or nothing to alleviate the outside criticism. Thirdly, and perhaps most importantly, I believe that the front-loading option will weaken the conditionality of the process. And finally, like Mr. Cippà I have some concerns as to the authorities' capacity to deal with extra revenue in an efficient manner.

To conclude, while my strong preference is for the baseline scenario, in the spirit of compromise, I will not go against Option 1, if this turns out to be a majority view. However, I would like to see very strong ring fencing of the increased interim relief and here I fully support the proposal made by Mr. Faini and Ms. Lissakers.

Mr. Jacoby made the following statement:

On the smoothing of Zambia's debt service payments, let me repeat that we strongly prefer the baseline scenario. We cannot consider Option 1 a valid alternative for several reasons.

The first is that it will not meaningfully alter the debt service profile but will merely delay the hump in Zambia's debt service payments. In addition, the latest figures on Zambia indicate a substantial easing of the hump problem, which is one more reason to stick with the baseline scenario. Second the uncertain nature of Zambia's past macroeconomic policy performance does not justify a further front-loading of the Fund's interim assistance. Third, if after we agree to even faster debt relief Zambia's macroeconomic performance continues to falter, the result will be an erosion of the Fund's credibility. Can the staff tell us how the delivery of interim assistance would be affected if the program did go off-track? More precisely, does the instrument stipulate that interim assistance will immediately be suspended if such circumstances materialize?

In the unfortunate event that this Board endorses Option 1, we would give our full support to Mr. Faini's proposal that the instrument be modified to make it clear that an interim assistance of 75 percent can be considered only very extraordinary circumstances, which Mr. Faini suggest should be detailed in the Chairman's summing up. Indeed, ringfencing Option 1 appears to be unavoidable.

As to the decision point document, we agree that Zambia is eligible for debt relief under the enhanced HIPC Initiative framework. But let us point out that it is very hard to determine, based on a program barely two months old, whether or not Zambia qualifies for assistance. We can only say that we wish the Board had not rushed the decision point discussion. Like Mr. Cippà, we deplore these premature discussions based on incomplete, inconsistent, and very tentative data.

As to the floating completion point, we can agree that completion of the measures listed in Box 2 is an appropriate condition for reaching it. Here we have two observations. First, the requirement for Zambia to improve its poverty database and its ability to monitor poverty, listed in Box 3 of the preliminary document, has disappeared. We regret this because such a requirement would further improve the monitoring of their PRSP implementation. Second, though paragraph 31 of the document recognizes the importance of clean water and sanitation, the formal requirement to repair water and sewage facilities has also disappeared. Could the staff enlighten us on the fate of these two issues?

Mr. Charleton made the following statement:

First, let me commend staff both for the present documentation and for their forbearance on what has seemed like an endless series of meetings in recent weeks. Those of us who feared that the decision to bring 20 countries forward for decision by end year would result in a rubber stamping exercise can be reassured.

The Decision Point document does not attempt to gloss over what is a difficult, complex situation. This country has been on the path to reform through most of the 1990s but the results have been disappointing. The track record has been less than stellar and some aspects of the current situation are less than reassuring. If one was inclined to be negative, it would not be difficult to find weaknesses. But we must recognize that in all of these HIPC Initiative cases, we are dealing with countries with problems that could easily overwhelm them and we should not have unrealistic expectations. We ourselves have also created expectations which we would find difficult to frustrate.

We cannot ignore the facts of the situation but our judgment should be driven by our assessment of the Government's commitment to reform, liberalization and concrete action on poverty reduction. In this respect we must acknowledge that Zambia has persevered with liberalization since the early 1990s, even in the face of disappointing results and mounting problems. They should also be commended for avoiding entanglement in the conflicts in bordering countries and for accepting large numbers of refugees, despite their own difficult circumstances.

For years, we were frustrated with Zambia's unwillingness or inability to privatize the ZCCM, which was a millstone around the neck of the economy. Freed from this, we saw a realistic chance of a major improvement. Albeit belatedly, this has been achieved and we should give due recognition. I am also reassured that Zambia sees the need to press forward with privatization of the other parastatals (ZESCO and ZNCB).

On fiscal policy I found it somewhat difficult to judge. The expenditure pattern is not as expected, which may or may not be hiding underlying slippage. The end-September situation on arrears is also far from clear. At least revenue collection seems to be ahead of target. On balance, I am willing to accept that the fiscal side is at least not seriously off-track.

The various end-September quantitative targets under the PRGF-supported program appear to have been met, but again the picture is not so clear cut as there have been adjustments. The structural performance criteria and benchmarks were observed.

On monetary policy, there clearly has been slippage. The classic signs of a large increase in credit to the public sector, excessive money supply growth, depreciating exchange rate and significantly above target inflation are all present. As with others, I would appreciate some elaboration from staff on the conduct of monetary policy. What strategy on interest rates is being adopted? Is a tightening of monetary policy being considered?

On the specific question posed on page 25, this country is clearly eligible for HIPC Initiative relief and we can agree to it reaching a Decision Point now.

We also accept the proposed figure of $2.5 billion relief in NPV terms.

On the floating completion point, we welcome the more limited but more concrete and measurable set of trigger conditions. We continue to emphasize strongly the adoption of a good quality PRSP.

Given that HIV/AIDS is devastating this country the inclusion of triggers (full staffing of the secretariat to the National HIV/AID/TB Council and mainstreaming HIV/AIDS awareness and prevention programs) is entirely appropriate. The increase in the share of expenditure on education is also welcome but perhaps we should also include a specific target date for this increase.

The triggers related to the Medium-Term Expenditure Framework (MTEF) and Integrated Financial Management Information System (IFMIS) are crucial both in terms of expenditure control and ensuring that debt relief is productively used. Weak expenditure control and monitoring are integral to the governance issue and may well be a key reason why reforms to date have not been more successful.

We are less inclined to specify the privatization of ZESCO and ZNCB as completion point triggers. These are indeed essential but they should already be part of the PRGF arrangement and linking these reforms to debt relief raises questions about the link to poverty reduction.

On the question of smoothing debt service payments, we accept that having HIPC Initiative relief directly associated with a large increase in repayments to the Fund is problematic, regardless of the size of the net transfer to Zambia. Equally, accelerating debt relief will not satisfy our critics and we do certainly run the risk of simply postponing the issue for a couple of years. But, hopefully, we are doing more than buying time. The argument that accelerating relief increases the risk that the money will not be well spent has some merit but it could equally be argued that the extra resources early on enhance the prospects of success. The needs of Zambia are great and there is a high degree of urgency. Thus, we can support accelerated interim relief.

Mr. Bauche made the following statement:

We can agree with the staff's proposal concerning Zambia's decision point, and we can also go along with the staff's recommendation to provide interim HIPC Initiative assistance before the completion point. I must say that we have some concerns regarding Zambia's performance so far compared with the program objectives, especially since uncertainties remain regarding the performance criterion on net bank claims on the government. Given the cautiousness demonstrated by the staff in reporting on developments under the program for 2000, I find it not surprising that some Directors are somewhat concerned. However, I am ready to give the authorities the benefit of the doubt, since most of the end-September quantitative as well as the structural performance criteria and benchmarks have been met.

We can also go along with the reforms and objectives identified by the staff as conditions for reaching the floating completion point, albeit somewhat reluctantly, as we believe that more precise objectives could have been defined with regard to HIV-AIDS and progress in health sector reforms generally. However, at the same time, we also acknowledge the difficulty to identify precise quantitative targets in areas where weak capacity prevents the elaboration of a definitive diagnosis.

Regarding the possibilities to smooth the profile of debt service payments, I share Mr. Donecker's concern and hope that the type of interference with our decision-making process that we have seen during the last days can be avoided in the future.

> We still feel uncomfortable with the front-loading proposed under Option 1, since the issue of the hump in debt service payments appears to be of much smaller magnitude than we previously thought. Therefore, given that we are faced with a moving target or perhaps a floating hump, we still feel that Option 1 may be an inappropriate solution to a vanishing problem. However, the authorities have gone a long way to address some of our concerns, and we would not object to Option 1, if adequate ring fencing language is part of the decision. We could go along with the suggestion made by Mr. Faini and Ms. Lissakers in this regard.

The staff representative from the African Department, responding to Mr. Donecker's question relating to a press report about a downward revision of the authorities' growth forecast for 2001 from 4 to 2.2 percent and its implications for the medium-term growth scenario, noted that the government's concern had arisen because of the impact of high oil prices and the solvency problems of a small mining company that might terminate production. At the occasion of the previous staff mission, sentiment in the mining sector had been rather upbeat about the prospects for recovery. Therefore, it was possible that the government was being excessively cautious. In any event, the medium-term growth outlook of 5 percent was attainable despite any near-term difficulties. Zambia was a country with exceptionally good prospects and might perform even better than currently forecast. In that regard, the staff representative agreed with the remarks made by Ms. Lissakers about the sobering situation faced by Zambia at the current stage and the weak growth and public policy record of the past. Going forward, it would be critical to strengthen the control and prioritization of public expenditure. Also, fostering a sound environment for private sector activity could be conducive to higher productivity growth. The program and the underlying growth projections were based on expected policy action on those matters. If the structural measures required under the program were implemented as planned, the growth target of about 5 percent was attainable.

The same factors were relevant with regard to the questions raised by Directors about the increasing debt-service-to-exports ratio in NPV terms and regarding new debt, the staff representative said. If the program moved forward, concerns that debt provided on terms similar to that of the IDA could pose a problem were unfounded, given that a country with Zambia's potential was in a position to use such resources profitably. It should also be noted that the assumptions underlying the analysis presented in the staff papers were cautious with regard to the terms of the new debt taken on by Zambia. Table 12 of EBS/00/233 provided details about the conditionality of various types of debt and listed the grant element in new debt taken on by Zambia. For 2000 the grant element represented 58 percent of new debt, and in 2001 the figure would be 55.6 percent. While the debt figures for 2000 had not yet been revised to reflect the most recent developments, it should be noted that—aside from Fund loans totaling SDR 10 million—all other debt contained a substantial grant element or was on terms better than those provided by the IDA.

Responding to questions relating to the causes for the increase in inflation, the staff representative noted that the year-on-year rate of inflation had increased to 28 percent in October 2000, while it had been at 25 percent in October 1999. Under the program, inflation had been expected to decline somewhat in 2000. The 15 percent increase in prices for oil and the more substantial rise in prices for petroleum products had had a considerable impact on overall price developments in Zambia. Therefore, the increase in inflation was largely attributable to the pass-through of the surge in oil prices, given that Zambia had no possibility for domestic substitution. The relative inefficiency of the parastatal oil company had added to those problems. While the main cause for the increase in inflation was therefore oil price-related, the conduct of monetary policy was also a cause of concern, given that it would be inappropriate to tighten monetary conditions under the prevailing circumstances. It was important, in that context, that the fiscal targets were met and that government borrowing would not contribute to more rapid money supply growth. The same applied to borrowing by public sector enterprises and the parastatals.

With regard to the issue of whether there should be a trigger related to governance and Mr. Pickford's question as to whether the issue could be addressed in the context of the PRGF-supported program, the staff representative noted that issues of increased transparency, openness, liberalization, and improved public administration were all elements of good governance, that were part of the PRGF-supported program. That program also included an audit of cobalt sales as a prior action. In his letter to the Managing Director, the minister of finance and economic development had also referred to governance issues as one critical area of government action. It should also be noted, that governance issues had not been listed as a trigger in the preliminary HIPC Initiative document, nor had the issue been raised at the Board meeting at that time. That might be the reason why governance issues were being addressed in the context of the PRGF-supported program only.

On Mr. Cippà's question as to whether the government had the absorptive capacity to deal with the additional spending made possible through HIPC Initiative relief, particularly in view of the trigger suggesting that at least 80 percent of budgeted social expenditure should be disbursed, the staff representative considered that it might be more appropriate for the staff representative of the World Bank to answer that and other questions relating to social spending. However, it should be noted that the staff report explicitly addressed weaknesses in public administration and data management. Improvements in those areas were important to increase Zambia's absorptive capacity and constituted a major focus of the program. The 80 percent rule relating to cash releases to social ministries was of considerable importance in circumstances where, at times, political clout influenced the disbursement of budgeted funds. Such political interference was highly disruptive and the 80 percent rule was one way of limiting the negative effects of that situation.

The staff representative from the Policy Development and Review Department, responding to a question from Mr. Rustomjee on previous cases of interim HIPC Initiative assistance, confirmed that only two of the 12 countries that had reached their HIPC Initiative decision points had made use of the full Fund interim assistance of 20 percent per year. The average amount of interim assistance actually provided had been around 10 percent.

On Mr. Jacoby's question about the cause for the variation in the use of interim HIPC Initiative assistance, the staff representative observed that it reflected differences in the countries' debt service profiles, their individual needs to alleviate poverty, and their absorptive capacity rather than the amounts of payments falling due to the Fund.

With regard to the implications for the delivery of interim HIPC Initiative assistance of a program going off-track, the staff representative clarified that, with the approval of the decision point, interim assistance for the first year would be placed in an account and would be used by Zambia unconditionally over the course of the following year. In one year's time, the Board would convene and take a decision on the amount of interim assistance for the second year, based on the country's track record. If the program were to go off-track during 2000, it was likely that the decision on the second tranche would be taken only after a delay, until the situation had improved to a point at which a Board decision on the second tranche was deemed appropriate. That process provided conditionality on an annual basis.

Mr. Jacoby, stressing that his question was mainly one about the principles applying to interim assistance and did not relate directly to the case of Zambia, wondered whether it would be possible to halt the disbursement of interim HIPC Initiative assistance at any stage even between the annual Board decisions on the subsequent tranches. With regard to the fact that only two out of twelve countries receiving interim HIPC Initiative assistance had exhausted the annual 20 percent limit, he would appreciate the staff's view on whether any of the other countries would have been in a position to do the same, if the Board had agreed to that.

Ms. Mañalac asked the staff to confirm whether the amount of interim assistance provided was limited by the amount of exposure to the Fund at the decision point—an issue raised also by Mr. Callaghan and Mr. Jacoby. That question arose as, in the case of São Tomé and Príncipe, it had been stated that the Fund would not provide any interim assistance, given that the country did not owe any debt to the Fund at the time of the decision point. That case suggested that the decision regarding interim assistance reflected, at least in part, a country's debt exposure vis-à-vis the Fund.

The staff representative from the Policy Development and Review Department, responding to Mr. Jacoby's question on the conditionality of interim assistance, noted that, as a matter of general policy, once the Board had decided to provide an annual tranche of interim assistance, there were no further conditions attached to those funds. The assistance was a grant and the decision on its provision was final. The funds would be transferred to the country's account and would be used by that country to pay amounts falling due to the Fund over the following year. Thus some safeguards existed with regard to how the disbursements were used. The interim assistance provided in 10 of the 12 cases mentioned, had not been limited by the amounts falling due to the Fund, but had reflected the absorptive capacity of each individual country as well as its broader debt service situation. There had been one case where the amount of assistance under the original HIPC Initiative had been so large that no further debt service had fallen due, with the consequence that, under the enhanced Initiative, no interim assistance was provided. The staff assesses each individual case on the basis of the particular debt service profile.

Responding to Mr. Callaghan's question as to how the contribution of each creditor was determined, the staff representative noted that it was based on the amounts outstanding at a set point in time—in the case of Zambia 1999. Ultimately the amount of HIPC Initiative assistance was limited by Fund exposure. However, the underlying formula used to determine the precise amount of assistance was rather complicated. As there had been no outstanding debt to the Fund in the case of São Tomé and Príncipe, the Fund's HIPC Initiative assistance had been zero. The individual contribution to HIPC Initiative debt relief by each creditor was proportional to the respective shares of outstanding debt (in NPV terms), which was called the common reduction factor. The total amount of HIPC Initiative assistance was determined by the common reduction factor and the total NPV of external debt. Interim assistance was currently limited to 20 percent of the total on an annual basis for a maximum of 3 years.

With regard to Mr. Cippà's comment on the revised data calculations that had been provided to the Executive Board on the previous day, the staff representative noted that it was standard practice, before a Board meeting, to update the calculations for the precise SDR amount that would be allocated to the authorities' account on the basis of the most recent exchange rates. The calculations for HIPC Initiative assistance from each creditor were based on exchange rates at one particular point in time—in Zambia's case end-1999—so as to ensure that all participating creditors would be treated equally. Each creditor was permitted; however, to use their own mechanisms to provide interim assistance. The exchange rate variation contained in an update recently provided by the staff had occurred as a consequence of the fact that the amount of interim assistance, which was expressed in U.S. dollars for HIPC Initiative calculations, had to be converted back into SDRs, because Zambia's obligations vis-à-vis the Fund were denominated in SDRs and SDRs were deposited into the country's account. Each time a country approached its HIPC Initiative decision point, the same procedure was applied for interim assistance. In the case of Zambia, the exchange rate movements that had occurred were large and the amount of debt falling due to the Fund was substantial and therefore the modifications were more noticeable than in previous cases.

Responding to Mr. Faini's question regarding the debt service ratio, the staff representative confirmed that there were concerns about the increase in the NPV of the debt-to-exports ratio, two-thirds of which was the consequence of new debt and one-third due to changes in export projections. The increase in the NPV of debt was the counterpart to the net resource transfer to Zambia, which amounted to about 15 percent of Zambia's GDP for 2001. Apart from the question of the appropriate balance between adjustment and financing, which was an issue that had been determined in the context of the program, the size of the grant element in the resource transfer was crucial to the future path of the NPV of external debt. The assumed grant element was smaller than the grant element that was in fact delivered in the past, and the staff would encourage official creditors to provide a significantly larger grant element than had been assumed initially. In this connection, it would be appropriate, under the program, to change the definition of acceptable concessionality for such flows so as to provide a larger grant element and to prevent the NPV of debt from rising as sharply as under the debt sustainability analysis currently provided in the staff paper.

Mr. Faini thanked the staff for the candid assessment and noted that the degree of concessionality envisaged by the staff was rather pessimistic. Given that the staff paper appeared to imply that exports were expected to grow at a rate of about 80 percent over the ten years from 2001, it would be important to learn whether the staff was confident that the envisaged reforms would enable Zambia to achieve such a strong export performance.

The staff representative from the African Department responded that the export projections were consistent with the overall program targets, and the staff was confident that those targets could be attained, if the current course of economic policy was maintained. However, there were some risks related to possible terms of trade shocks.

The staff representative from the Policy Development and Review Department noted that the increase in the debt-to-exports ratio seen in Zambia was not a general feature of HIPC Initiative cases that the Board had deliberated so far. There were only two other countries whose debt-to-exports ratio in NPV terms would increase after the decision point. Such a debt profile was therefore the exception rather than the rule.

Ms. Lissakers considered that the staff's responses relating to monetary policy had not been convincing. Monetary policy was off-track, and the authorities needed to take the appropriate action to correct that. The question arose as to whether the central bank was currently more committed than in the past to following the appropriate policies. Mr. Rustomjee's response to that question would be welcome, as his otherwise informative preliminary statement had not shed much light on the reasons for the large overshooting both in bank credit to the government and in base money growth.

Mr. Rustomjee responded that the minister of finance had acknowledged shortcomings in that area in his letter to the Managing Director, and that the authorities were fully committed to strengthening monetary policy and intended to rise to any challenges in that regard.

Ms. Lissakers noted that, unlike structural reforms, monetary policy did not require time but could be implemented without any delays. The authorities' intention in that context should therefore be immediately evident from their policy. It was inconceivable that the Board should commit a significant amount of resources while real interest rates in Zambia were negative, as they appeared to be at the current stage. Monetary policy—while under the direct control of the authorities—was evidently off-track, and there was no indication that the authorities had taken any measures to correct that. It was not customary for the Board to provide additional resources before adequate policies were in place. While it was understandable to allow for additional time in the case of structural reforms, such an exception with regard to monetary policy was not appropriate.

The staff representative from the African Department said that there had been an increase in the domestic oil price of more than 100 percent in some cases, partly owing to inefficiencies in the domestic oil market. That price increase had to pass through and was probably the main factor behind the additional inflation currently seen. The conduct of an appropriate monetary policy under such circumstances was difficult, and careful decisions had to be taken with regard to the choice of instruments that should be used to tighten monetary conditions. The staff was not aware of any information on negative interest rates. The interest rate in the treasury bill market for a 91-day maturity was currently positive at 5.4 percent. For the six month bill, the interest rate was somewhat higher. Public sector finances were a matter of considerable concern with regard to the impact of the weakening in the fiscal position on monetary policy, both in the government budget and the parastatals. However, as the staff had not yet addressed that matter directly with the central bank and also needed to collect additional information, it was inappropriate to comment further at the current stage.

The number of instruments available to the central bank to control monetary policy was limited, and the sale of treasury bills to the commercial banking system was the main way of tightening liquidity, the staff representative noted. Given the increase in the oil price, it appeared early to assess whether commercial banks' liquidity should be tightened substantially. It was difficult to interpret the increase in currency deposits in the banking system and those developments needed to be studied further on the occasion of the upcoming staff mission.

Mr. Houtman said that, while he supported the accelerated provision of interim HIPC Initiative assistance, he shared the views expressed by Ms. Lissakers, Mr. Faini, Mr. Donecker, and others with regard to ensuring that such an acceleration remained confined to extraordinary circumstances and that a higher ceiling for interim assistance would not become a target. The case of Zambia should thus not be regarded as a precedent for other countries. The staff's comments on appropriate ring fencing would be welcome.

Mr. Lushin supported the views expressed by other Directors with regard to ring fencing.

The staff representative from the Policy Development and Review Department said that the proposal provided for appropriate ring fencing in the view of the staff.

The staff representative from the World Bank, responding to questions on the completion point triggers, noted that a well-performing investment program for basic education was in place in Zambia. That program was also supported by a number of bilateral donors. The remuneration of teachers in rural areas and the retention rate particularly in the northeastern part of the country were low, and performance criteria with regard to addressing those particular issues would be helpful. With regard to the question raised by the U.K. chair about a trigger on the issue of water supply, the staff representative confirmed that the initial intention to include such a trigger had been deemed unrealistic by the staff. While the issue was still regarded as important and had been retained in the text of the decision point document, it had been determined that the triggers should focus on specific measures whose implementation could be realistically expected within a reasonable timeframe and that could be monitored easily. The fact that the Bank Board had recently approved a project on water supply in the mine township and the plans to work on the commercialization of the water supply sector with private sector participation also demonstrated that the issue was considered important and that progress was being made. The resources that would become available in the context of the HIPC Initiative would also help increase the assets available for increasing the water supply in rural areas.

With regard to the 80 percent rule applied to social expenditures, the staff representative noted that the expenditure system currently existing in Zambia was far from optimal in terms of implementation and monitoring. Under the system, resources allocated for social sectors would not necessarily be disbursed in the districts where they would have the strongest impact on poverty reduction. Ensuring that at least 80 percent of those resources would be adequately spent was one of the interim measures taken to improve the situation of the poor in the rural areas until the reform of the entire expenditure system was completed.

Mr. Villavicencio made the following statement:

> At the outset, I would like to thank the staff for the well-written and informative set of papers prepared for today's discussion on Zambia, and Mr. Rustomjee for his very helpful and informative preliminary statement.
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> On previous meetings, the Boards of the IMF and IDA considered Zambia's eligibility for assistance under the enhanced HIPC Initiative in view of its high indebtedness, its track record of reforms, and its status as an IDA-only country and as a country eligible for assistance under the Poverty Reduction and Growth Facility (PRGF). This decision was made after discussing a preliminary document on the HIPC Initiative and reviewing the joint staff assessment of an Interim Poverty Reduction Strategy Paper (I-PRSP) prepared by the Zambian government, which presented plans for developing a comprehensive poverty reduction strategy. Both Boards agreed that Zambia could reach the decision point in late November, if the macroeconomic performance under the PRGF-supported program remained satisfactory.
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> According to the staff's report, the economic performance of Zambia under the PRGF-supported program continues to be broadly on-track, despite the significant terms of trade shock due to higher oil prices, and delays in disbursements of balance of payments assistance. In fact, quantitative targets for end-September were met, and structural performance criteria and benchmarks for end-September were observed. These results are clear signals of the authorities' commitment to stability as a foundation for sustained economic growth.
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> As noted by the staff and Mr. Rustomjee, the social situation in Zambia has deteriorated during the last years, as shown by social indicators, which continue to be below the average for Sub-Saharan countries. Since social problems cannot be solved in a short period of time, we agree with the authorities that the main objective of the medium-term policy framework must be a sustained reduction in poverty by fostering poverty-reduction growth and

increasing social expenditure efficiency to ensure that the benefits of growth reach the poor.

A relevant issue to consider in the medium-term policy framework is governance and accountability which are important to gain domestic and foreign confidence. We recognize the authorities' efforts to improve economic governance, including improvements in the management and control of public expenditure and a consolidation of government bank accounts. However, we encourage the authorities to continue improving monitoring and control systems to assure the adequate channeling of resources towards poverty-reduction-oriented activities.

We commend the authorities' efforts already made in the privatization of public enterprises, and we encourage them to move expeditiously in the privatization of the remaining state-owned enterprises as it will contribute to economic efficiency, competitiveness, and to increase savings to attend social demands. We also urge the authorities to move fast with the financial sector reform and further deregulation of the economy.

It is clear that the successful implementation of the reform program of Zambia, while undertaking the task of poverty alleviation, demands for an amount of resources larger than the resulting from the HIPC Initiative, along with an strategy to smooth debt-service payments. We share the view that the financial assistance of the international community is critical for the authorities' efforts to fight poverty and foster economic growth.

Therefore, we reiterate our favorable opinion of Zambia's eligibility for relief under the enhanced HIPC Initiative and, based on the staff reports on Zambia's recent economic performance under the PRGF-supported program, we recommend approval of Zambia's decision point.

We also support that the IMF and IDA provide interim assistance to Zambia before the completion point, in line with the HIPC Initiative guidelines. As other speakers, we agree that Zambia's completion point under the HIPC Initiative be triggered by successful implementation of the measures specified in Box 2 of document EBS/00/233. However, we would welcome adding specific measures to improve governance and monitoring social expenditure.

On the issue of debt service relief we fully support Zambia's authorities request to access the option of accelerated HIPC Initiative assistance (Option 1), as presented by the staff.

With these remarks, we wish the Zambian authorities all success in their efforts to promote non-inflationary growth and to reach a sustained reduction in poverty.

Mr. Houtman made the following statement:

I would like to associate myself with the statement by Mr. Callaghan. Based on Zambia's broadly satisfactory track record and the most recent information provided by the staff and the Zambian government, I can support the decision point under the enhanced HIPC Initiative. Like Ms. Lissakers, I find it rather disappointing that poverty has actually increased over the past decade, and in this context, I would like to associate myself with the remarks by Mr. Pickford and Mr. Charleton on the conditions for reaching the floating completion point. I also echo the concerns expressed by some Directors about the medium-term debt sustainability even after the provision of HIPC Initiative debt relief. While the staff has already addressed that issue, it remains a matter of concern.

As I said at the previous meeting on Zambia, we should make it clear to the outside world that Zambia does benefit substantially from debt relief under the HIPC Initiative, even with the hump in debt service payments. The Fund should make a strong effort to communicate that to the public.

While I can support the accelerated provision of interim assistance, I would like to specify in the text of the proposed decision that such front-loading is only applicable in highly exceptional circumstances, the conditions of which could be further elaborated in the summing up. I would like to hear which options are preferable in the view of the staff. While I can be flexible on that matter, more specific language is certainly needed in the decision in order to avoid setting precedents.

Finally, like others have noted, there will be another hump in debt service payments in 2004, which, at that point, may lead to renewed public relations problems. This highlights the importance of additional bilateral donor support in the form of grants and other loans. Like Mr. Faini, I think that a more concerted donor effort is essential, and The Netherlands will commit extra grant support to Zambia. I hope that other donors will do that too.

Mr. Alosaimi made the following statement:

At this stage of the discussion and since the Board has just completed the discussion on Zambia's HIPC Initiative preliminary document, I will be brief.

I agree that Zambia's social conditions and its mixed track record on adjustment and reform satisfies the requirements for reaching the Decision Point under the Enhanced HIPC Initiative. In this regard, I am reassured by the Minister of Finance letter to the Managing Director in which he reiterates the authorities' commitment to reform and to poverty reduction. I also endorse the provision of interim assistance to Zambia. While I remain of the view that it will be useful to smooth Zambia's debt payments by increasing interim HIPC Initiative Assistance to 25 percent annually, like Mr. Pickford, Mr. Rustomjee makes a convincing argument that this change should not create a precedent.

I broadly agree with the conditions laid out in Box 2 for reaching the completion point. As staff notes in paragraph 41, these actions will complement and reinforce policies and reforms included in the PRGF-supported program.

Mr. Yépez made the following statement:

Zambia has made commendable progress in opening its economy to competition and promoting private sector participation through structural reforms and divestment of state-owned enterprises. It has privatized ZCCM, which alleviated a heavy fiscal burden despite the debt obligations assumed by the government earlier this year. The role of the government in the economy has been reduced to a large extent, and major steps have been taken to improve regional integration initiatives and trade reforms.

Larger mining output and growth in agricultural production improved the economic stance during 2000, while petroleum prices affected negatively the inflation target. Broad money and credit to public enterprises also increased beyond the targets. The domestic fiscal balance through end-September was largely on track. Quantitative targets under the PRGF-supported program were mostly attained, and all structural performance criteria and benchmarks were also met for end-September.

The PRGF-supported program and the I-PRSP pursue macroeconomic stability, further reforms in the financial sector, privatization of state enterprises, deregulation of the oil sector, trade liberalization, and efficiency in social expenditures. In particular, the implementation of the medium-term expenditure framework system for effective monitoring of priority social program resources would provide for a most needed control of public expenditures and strengthening governance measures. Zambia has become eligible for relief under the HIPC Initiative. We concur with the staff recommendation that the decision point be reached today.

The updated debt sensitivity analysis estimated Zambia's reconciliated debt stock at about 160 percent of exports, in NPV terms, at end-1999. The sensitivity analysis also showed that the NPV of the debt stock will remain above 150 percent of exports through 2020. The assistance required under the HIPC Initiative is about US$2.5 billion to bring the debt to export ratio down to 150 percent at end-1999. We favor the provision of interim assistance before the completion point as explained in paragraph 38.

We agree that Zambia's floating completion point under the HIPC Initiative be triggered by successful implementation of the measures specified in Box 2, and support the proposed request of the authorities and Mr. Rustomjee's helpful preliminary statement regarding Option 1 as the best alternative to achieve the objectives set under the HIPC Initiative.

We wish the authorities well in their endeavors.

Mr. Lushin made the following statement:

Let me say at the outset that we can go along with approval of a decision point and staff's proposals on the floating completion point. Now we would like to touch the issue of the Interim debt relief for Zambia. We have a number of concerns about the proposed decision addressing the smoothing of Zambia's debt payments to the Fund.

By supporting the proposed amendment to the HIPC Trust Fund instrument the Board is creating an unfortunate precedent of making alterations to the format of HIPC Initiative to better suit the needs of one particular country. This may open the door for further alterations as any country is unique in its own way.

The only debt smoothing option currently under consideration—Option 1 (i.e. to increase the amount of interim relief assistance from 60 to 75 percent)—does not properly address neither presentational nor substantive problems. This option will provide only a temporary fix and will simply delay the occurrence of a hump in debt payments for a very short time.

We are not entirely convinced that there is a need to change the HIPC instrument to deal with this hump issue. We believe that this problem can be addressed by traditional Fund instruments. In this context, we can refer to the proposal of Mr. Faini to increase Zambia's access limits under the PRGF arrangement. In our opinion, this option has a number of advantages.

It does not require any alterations to the HIPC instrument.

It may be better suited to deal with the hump issue. The PRGF allows for longer repayment period (10 years with 5.5 years grace period) thus smoothing debt service payments over longer period of time than the provision of interim relief.

Like in Option 1, the schedule of disbursements can be structured in such a way that actual assistance will begin in July 2001 together with debt repayments to the Fund. This will allow the country to accumulate a track record of policy implementation for additional 6 months and will address concerns of many directors about an extremely short and uneven track record thus far.

Our preferred option would be to stick to the baseline scenario. As far as the smoothing of debt payments is concerned, in the case of Zambia we would prefer to achieve it by increasing the access limits under the PRGF. However, since the majority of the Board wishes to follow Option 1, we will not object to doing so. At the same time, we think that this decision should be strongly ring fenced. Concerning the specific modalities of such a ring fencing, we can go along the lines proposed by Mr. Faini and Mr. Houtman.

Mr. Rouai made the following statement:

Zambia has come a long way since it was in arrears to the Fund. It was a shared interest to help Zambia clear its overdue obligations. This achievement should serve as a background for today's discussion. I agree with Mr. Rustomjee that today is another milestone in the history of the relations between Zambia and the Fund. However, for the authorities to successfully reach debt sustainability and reduce poverty, they need to deliver on their commitment to adjustment under the PRGF, and the international financial community should help Zambia in this process.

In this regard, the privatization of ZCCA is a clear indication of the authorities' commitment to achieve macroeconomic stability.

On the issue of debt relief, I agree with the staff's assessment that Zambia is eligible for assistance under the enhanced HIPC Initiative and support the triggers for reaching the floating completion point.

Regarding the issue of smoothing Zambia's debt service payments, my preference is for a sustainable solution, and not for one that merely postpones the problems. This is why our chair supported a blend of HIPC grants and loans. I am, however, aware of the resource implications of this option and, therefore, support Option I.

In this context, while I agree with the proposal to add a ring fence, I note that the decision No. 97/10 already includes a ring fence in paragraph 3(d), which states: "the amount of such assistance in any twelve-month period does not exceed the amount of debt service falling due to the Fund during the period."

Finally, I share staff's concern regarding the direct impact of the HIV/AIDS on Zambia's public administration capacity. It is to be hoped that the additional health expenditures originating from debt relief will help improve this situation.

Mr. Bakhache made the following statement:

I have only a few comments.

The HIPC Initiative objective is to reduce the debt burden of poor countries to sustainable levels. Debt relief provided under the initiative is intended to free resources initially allocated for debt service payment with a view to use these resources to finance poverty reduction programs. In all cases, as Mr. Faini has argued clearly argued, this objective is being achieved. In the case of Zambia, the profile of debt service payments which results in higher payment after HIPC relief represents an oddity but is not necessarily incompatible with the HIPC Initiative objective.

Having said that, there is no doubt that this situation presents serious difficulties for Zambia and therefore needs to be addressed. The bunching of payments at a time when the country is in dire need for resources is highly problematic for Zambia and is not fully conducive for combating poverty.

We very much appreciate the staff's efforts to find a solution to the peculiar debt service payment profile for Zambia. While we see merit in Mr. Rustomjee's proposal, particularly given that it achieves the best smoothing, and we ideally would be willing to support it, we feel that the difficulties of mobilizing the needed loan resources will likely present it with major obstacles. We are therefore more inclined to support option one, i.e. increasing interim assistance.

Mr. Keshava made the following statement:

I can be brief at this stage of the discussion. Like previous speakers, we agree that Zambia qualifies for reaching the decision on point under the enhanced HIPC Initiative. We also feel that the triggers for reaching the completion point in Box 2 are adequate. We therefore support the proposed decision.

We also agree with Mr. Rustomjee's view that front-loading of interim HIPC Initiative assistance will contribute to an improved implementation of poverty reduction programs. Given the exceptional circumstances of Zambia, accelerated delivery of interim HIPC Initiative assistance will be appropriate. Therefore, we support Option 1. With these brief remarks, we wish the authorities success

Mr. Pickford noted that Footnote 18 on page 22 of the decision point document said that it seemed unavoidable, given Zambia's high debt service obligations, that HIPC Initiative debt relief accruing to the Bank of Zambia would need to be used to meet the central bank's external obligations. That suggested to the reader that debt relief from the Fund would simply be used to meet external obligations rather than to contribute to poverty reduction. That appeared to be misleading, as it ignored the fungibility of those resources and as it appeared to suggest that the resources to be provided by the Fund had been earmarked for meeting external obligations, whereas debt relief provided by other creditors could be used for poverty reduction. That statement posed considerable presentational problems and was not helpful for the Fund. It would be appropriate to reformulate the language of that footnote to state that substantial debt service payments would remain due even after HIPC Initiative assistance.

The staff representative from the Policy Development and Review Department noted that previous HIPC Initiative decision point documents had been made public without deletions. A change in the current case would therefore be unprecedented. The Fund's policy on publications limited deletions to market-sensitive information only, which did not appear to be the case in the footnote mentioned by Mr. Pickford. Also, given that the decision point document was a joint document of Fund and Bank, any change would require the consent of the Bank Board.

Mr. Jacoby wondered whether Mr. Pickford's concerns could be addressed by dropping the words "through the reduction in payments to the Fund," as it appeared to be the major concern not to convey that expectations of reducing external obligations were solely linked to the reduction in payments to the Fund.

Mr. Pickford agreed with Mr. Jacoby and specified that the text should say "it would seem unavoidable that a part of the savings from HIPC debt relief," as it would otherwise imply that the entire savings from debt relief would be used for reducing external obligations.

Ms. Lissakers said that she shared Mr. Pickford's wish to amend the text of the footnote, but considered that the existing policy on publications should not be violated because of that. However, the publications policy also allowed for correction of factual errors, and Mr. Pickford had stated that the text was factually misleading in its current form and was not an accurate portrayal of the connection between the debt relief from the Fund and the Bank of Zambia's action with regard to its external obligations.

Mr. Donecker agreed with Mr. Pickford and Ms. Lissakers and considered that the current formulation of Footnote 18 was unfortunate, as it seemed to suggest that the accelerated provision of interim assistance would be used by the Bank of Zambia to meet its external obligations. That misconstrued the impact of the assistance and produced confusion with regard to the purpose of interim assistance. The hump in debt service payments should have been foreseen by the government. The fact that the authorities had not taken appropriate action to address that hump did not alter the fact that the Fund's interim assistance provided substantial help to Zambia. In view of that, Footnote 18 could not be more misleading.

Mr. Bauche supported the views expressed by Ms. Lissakers and by Mr. Donecker and considered that the Fund would have considerable public relations problems, if no precise explanations could be given in which way the savings from debt relief would be used by Zambia. It was therefore desirable, if the staff could provide a report on tracking social expenditures as soon as was feasible.

The Acting Chairman suggested that the words "a part of" could be inserted before the words "the savings from HIPC debt relief" to provide the factual correction sought by Mr. Pickford.

The staff representative from the Policy Development and Review Department confirmed that the Fund's policy on publications permitted factual corrections and suggested that a draft correction would be circulated to the Board that would also be discussed with the Bank staff so as to be available for consideration by the Bank Board.

The Acting Chairman noted the Board's agreement to proceeding in the manner suggested by the staff representative from the Policy Development and Review Department.

Ms. Lissakers reiterated that she could support smoothing the profile of debt service payments, provided the issue of appropriate ring-fencing was addressed. There was also a need for staff to clarify how HIPC Initiative savings and their use for poverty reduction would be defined. That should be specified in the completion point document.

The staff representative from the African Department, responding to the comment from Mr. Pickford about Footnote 18 of the decision point document, considered that the sentence could be deleted or redrafted to reflect Directors' views. The rationale behind including it in the footnote had been to be transparent about the fact that not the entire relief provided would be included in the budget for 2001. Given that the budget had not yet been finalized, it was difficult to determine the precise share of the relief that would eventually be included in the budget. Monitoring the use of debt relief was a different matter.

Ms. Lissakers considered that the problem of appropriately monitoring the use of debt relief arose as a consequence of what many Directors regarded as a premature decision point, given that one requirement for HIPC Initiative relief was that the resources should be devoted to social spending. The information provided by the staff indicated that the decision point was being reached, while the tools for the monitoring of debt relief were not available. It would be appreciated, if the staff or the authorities could indicate when those tools would be available. That information should be provided with the forthcoming budget, and a date should be set by which the Board should receive detailed information on the monitoring mechanism. That should include identifying the savings from debt relief and the social expenditure items in the 2001 budget. The use of those resources would be tracked so as to establish some benchmarks for the completion point. The completion point triggers currently presented in Box 2 were far too general to provide an adequate basis for a Board decision on the completion point. Those triggers were too general as well in view of the obligation of the U.S. chair to report to Congress about the use of HIPC Initiative resources provided to the HIPC/PRGF Trust Fund. Given the current weaknesses in expenditure control, it was in Zambia's self-interest to be more specific about the savings from debt relief and the use of those resources. For the Fund, the Bank, and for the credibility of the HIPC Initiative, it was important to be able to know precisely for which purposes the money had been used and to tell the public that it had been used for the purposes that the HIPC Initiative intended to support. Staff should indicate a date by which specific information on those matters would be provided to the Board.

The staff representative from the African Department, responding to Ms. Lissakers's request for a detailed report on social expenditure controls, noted that a staff mission was already in Zambia and that additional staff would depart to join that mission after the current Board session. It was not certain whether a staff report could be provided by March, given that a second mission might be necessary. However, the Boards of the Fund and the Bank could be briefed informally.

Mr. Rustomjee noted that the issue of fungibility played a role in any case where debt relief was provided. The Zambian authorities had provided numerous assurances to the Board of their intention to use the proceeds of debt relief for poverty reduction. They had provided detailed information with regard to their spending priorities for the 2001 budget. While he had not consulted the Zambian finance minister on the matter, he had no doubt that the authorities would be ready to set a time for providing a detailed report to the Board on the matter of social expenditures using resources freed up through debt relief under the HIPC Initiative. The authorities would also be ready to provide further information on their priorities for the 2001 budget. However, given the numerous significant revisions of the amount of available resources recently, the authorities should be given a reasonable period of time to provide the requested information.

With regard to Mr. Donecker's comment that the authorities should have made some provision for the hump in debt service payments, Mr. Rustomjee considered that, while that expectation was reasonable, one should keep in mind that the hump was of a rather large magnitude. Also, the Zambian government had assumed a debt burden equivalent to 19 percent of GDP in the context of the privatization of one corporation. Those were unique circumstances and one should hope that such events would not be repeated. The devastating consequences of HIV-AIDS should also be taken into consideration. Thus, the circumstances for the Zambian authorities at the current juncture were unique. They faced the consequences of the difficulties relating to ZCCM and the AIDS pandemic. In that context, the hump in debt service payments was appropriately being addressed in the way that the Board was currently deliberating.

Ms. Lissakers agreed that the Zambian authorities should be given adequate time for producing more specific information on social expenditures and expenditures control and welcomed that Mr. Rustomjee regarded the provision of more specific information as possible and desirable. Given that the 2001 budget was about to be finalized during the current staff mission to Zambia, it would be useful if the staff could provide the Board with information on changed spending priorities as a short paper. There was no need to have a Board discussion on that. The staff paper would only constitute a starting point for further work to be finalized under the PRSP. However, that would already mean significant progress toward the quality of information required under the HIPC Initiative. The information currently provided on those matters in Box 2 was rather vague.

Mr. Donecker broadly agreed with Mr. Rustomjee's views and acknowledged the particularly difficult situation faced by Zambia because of HIV-AIDS and other problems. However, the presentation to the public of the issues currently debated had to be fair. That also related to the way in which the Zambian government presented its case.

The Acting Chairman agreed with Ms. Lissakers that the Board should be informed about developments in the Zambian budget. That could be done informally.

Ms. Lissakers wondered whether the staff could address the question relating to the inclusion of more specific completion point triggers in Box 2.

The staff representative from the Policy Development and Review Department noted that Box 2 also made satisfactory performance under the PRGF arrangement a precondition for reaching the completion point. In the context of developing the program in future reviews, it would be possible to add governance and the other areas that Directors had mentioned during the current Board session to those program requirements listed in Box 2.

Mr. Barro Chambrier shared the views expressed by Mr. Bakhache and Mr. Wei that ring-fencing was not needed, given that interim HIPC Initiative assistance was provided in line with Fund exposure, as had been explained by the staff representative from the Policy Development and Review Department. However, in the spirit of consensus, Mr. Faini's proposal could be accepted, if the language of the HIPC/PRGF Trust Instrument would not specify the precise circumstances under which the 25 and 75 percent ceiling for the interim assistance could be adopted. Specifying those special circumstances at the current stage was not appropriate, and a case-by-case assessment would be preferable.

Mr. Donecker insisted that an accelerated provision of HIPC Initiative interim assistance had to be confined to exceptional cases, such as Zambia, where a debt service hump had occurred as a consequence of an inappropriately designed RAP program. Such ring fencing was necessary, and it would be inappropriate to provide accelerated interim assistance generally.

After adjourning at 1:00 p.m., the meeting reconvened at 2:30 p.m.

The Acting Chairman noted that, during the recess, some information had been received on Zambia that might have some bearing on the Board's current considerations.

The Associate Director of the African Department said that the staff had received information during the morning that a supplementary appropriation of expenditures had been approved by the Zambian parliament. The minister of finance had provided assurances that the appropriation was a routine operation and was required by law, as there had been an increase in revenue above budgeted levels. In such circumstances, the finance minister was required to introduce a supplementary budget. The Fund's resident representative had confirmed the minister's statement. However, it appeared that a reallocation of expenditure had taken place under the supplementary budget. The staff was currently in contact with the authorities to establish the facts, and a more complete report on the nature of the reallocation of spending could be provided shortly.

Ms. Lissakers suggested that Mr. Rustomjee proceed with his concluding remarks and that the Board meeting could resume later in the day for the assessment of the information about the supplementary budget. Should the information be as benign as suggested by the staff, the decision could be adopted at that stage. If the information were to raise more serious concerns, the Board could decide to wait with the final decision.

Mr. Cippà said that the absence of a budget for 2001 had already been a matter of concern. New information about changes in the current budget would only reinforce those concerns.

Mr. Barro Chambrier supported Ms. Lissakers's proposal to continue the meeting and to assess the new information at a later stage.

Mr. Donecker agreed with Mr. Cippà's view that the Board had to be fully informed about the supplementary budget and its implications for the program. The relationship with Zambia could not be regarded as "business as usual." While the Fund was willing to help the country, the Board needed a solid basis for its decisions.

Mr. Faini agreed with Mr. Cippà and Mr. Donecker that the staff should provide the most comprehensive and recent information possible. However, there appeared to be a consensus to listen to Mr. Rustomjee's remarks, suspend the session, and resume the discussion at a later stage, when the necessary information was available.

Mr. Rustomjee made the following concluding statement:

> I would like to ask Directors not to prejudge the issue of the supplementary budget until the staff has had the opportunity to provide additional information. In a phone conversation with the finance minister during the Board recess earlier today, the minister confirmed that the supplementary budget is a procedural issue that has been publicly discussed and that no additional spending is envisaged in that context. The normal budgetary process in Zambia requires that funds allocated for contingencies have to be appropriated by parliament, if and when a specific contingency occurs and a reallocation of expenditures among budget items is required. When the current minister of finance came to office, that process had been two years behind schedule. The current supplementary budget is thus part of the minister's efforts to ensure that the process of appropriations does not fall behind again.
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> I would like to thank Directors for their detailed and constructive comments and for their agreement to the decision point and the smoothing debt service payments at this meeting. I will communicate each of the many issues that have been raised by Directors to my authorities, regardless of the final outcome of this meeting.
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> The authorities are mindful of the magnitude of the debt relief, which would be released subject to our decision. They are also mindful of the fact that it should be used and be accounted for properly. I can assure you that the authorities are grateful for that and that they will, as they have done in their

track record, faithfully and diligently apply those standards when using the resources made available to them.

Mr. Barro Chambrier said that having a supplementary budget was an entirely normal procedure that always entailed a preparatory process. The Fund's resident representative should provide such information, and it would be inappropriate and counterproductive for the Board to dramatize the situation.

Mr. Pickford stated that his chair had received a report from the British representative in Zambia during the current session about a supplementary budget. While the report had not been particularly detailed, the supplementary budget had apparently been passed by parliament on November 19, 2000. The information was thus not new, but it had appeared appropriate to inform the staff and to request a clarification. The report had, unfortunately, been received rather late.

The Acting Chairman noted that the mission chief for Zambia was currently in touch with the resident representative and agreed with Mr. Barro Chambrier that there was no cause for dramatizing the situation.

After adjourning at 3:00 p.m., the meeting reconvened at 5:45 p.m.

The Associate Director of the African Department informed the Board that expenditures and the deficit under the budget remained unchanged. The staff had, earlier in the day, received information suggesting that the finance minister had gone to parliament for a supplementary budget of K 571 billion, which was a rather large amount, equivalent of 5 percent of the approved budget for 2000. That information had proved to be incorrect. The procedure followed by the finance minister had been a reconciliation exercise that was required by law before the end of the year, and that consisted of the allocation of amounts that had previously been budgeted but not specifically allocated to individual ministries. The gross amount of those warrants was K 571 billion, while reductions of K 266 billion of other warrants had occurred. The exercise was thus the allocation of already budgeted contingency funds to specific ministries, reflecting actual expenditures that had taken place during the 2000. A part of the increased expenditure was for wages, as the rate of wage increases in April and October had not been known when the budget had initially been passed. The amounts covering those wage increases had therefore only been allocated under the supplementary budget. The contingency funds were used for a number of ministries, in particular for the ministry of defense, for the army, the police, and the boarder guards. Those expenditures were associated with the difficult security situation at the borders between Zambia and the Democratic Republic of Congo as well as Angola. The massive influx of refugees, but also the formal invasion of part of the territory of Zambia by foreign troops in pursuit of rebels had contributed to higher outlays for security.

The minister of finance had assured the staff that that was the nature of the operation and that there was no increase in expenditure, the Associate Director of the African Department said. More importantly, the Zambian president had also called the Managing Director and had provided the same assurances. While that information related to the budget as an accounting entity, Fund staff in Lusaka had provided a preliminary assessment on the basis of data through October 2000, that confirmed that the fiscal situation was broadly on-track, with revenues being somewhat stronger than expected.

The Acting Chairman noted that the Board had approved the decision on the amendment of the HIPC/PRGF Trust Instrument. The revised decision stipulated that the ceiling for interim assistance under the enhanced HIPC Initiative would remain at 20 percent annually and 60 percent cumulatively, while, in exceptional circumstances, interim assistance could be raised to 25 percent and 75 percent, respectively.

Ms. Lissakers wondered whether the decision on the HIPC Initiative decision point should not include a governance provision.

Mr. Faini noted that such a suggestion had been made by Mr. Cippà and had been supported by the Italian chair and a number of other Directors. It was not entirely clear whether the completion point would be reached on condition of implementing the measures discussed in Box 2, and whether a modification of the Box 2 would need to be made at some stage to reflect the concerns expressed by the Board during the current session. Given that the decision did not enumerate all measures to be included in Box 2, the staff might want to clarify whether Box 2 would be modified as had been suggested by Mr. Cippà.

Mr. Pickford noted that he had also supported the inclusion of a governance trigger in Box 2. However, the staff response on that matter appeared to suggest that those issues would best be addressed in the context of the PRGF-supported program. That suggestion was appropriate and acceptable to the British chair.

Ms. Lissakers disagreed with the view expressed by Mr. Pickford and considered that the solution to address the issue of governance in the context of the PRGF-supported program was not fully satisfactory, particularly in view of the fact that the current Board session on the HIPC Initiative decision point for Zambia occurred at a time when the country was not in full compliance with the PRGF-supported program. Therefore, the issue of governance should be linked to reaching the completion point through a completion point trigger. That could be achieved, as Mr. Faini had suggested, by mentioning in the decision that an amendment to Box 2 with regard to governance would be required.

Mr. Cippà supported Ms. Lissakers's position, and recalled that he had proposed to introduce the setting up of an anticorruption unit as an additional completion point trigger.

Mr. Pickford considered that the Board had two options—one was changing the content of Box 2 of the HIPC Initiative decision point document, the other was to achieve the equivalent in the context of the PRGF-supported program, which, at the current stage, appeared to be the easier and therefore preferable solution. The Board's view on the substance of the matter was clear, and governance issues would have to figure prominently in the next set of program negotiations. That would be preferable over changing the completion point triggers, also because prescribing rather specific triggers at the current stage might be premature.

Mr. Rustomjee shared the view expressed by Mr. Pickford to address the Board's concerns with regard to governance in the context of the PRGF-supported program rather than by introducing an explicit governance trigger in Box 2 at the current stage. While there were numerous reasons for that preference, the main fact was that Box 2 already contained a rather comprehensive set of completion point requirements, which were detailed with regard to the social sectors and explicit as well in their macroeconomic and structural aspects. All of those issues would, as a matter of course, also feature prominently under any PRGF arrangement based on a participatory process. Therefore, governance issues could be included as a strong component in the PRGF-supported program itself.

The staff representative from the African Department said that staff approached governance issues, which were an important concern in Zambia, firstly through improving public administration. Incentives for corruption were directly related to weaknesses in public administration and a lack of liberalization and transparency. One way in which such efforts moved forward was through publication of an increasing number of data, according to established benchmarks and performance criteria. During the current quarter, one benchmark related to the publication of budget data, quarterly budget estimates, and the actual budget allocation. Apart from that, those efforts focused on areas of concern, such as an audit of cobalt sales, in view of discrepancies between the world market price and the realized price in Zambia. The Zambian government had, on its own accord, also conducted a thorough study of the privatization of ZCCM, which was supposed to be published and followed by appropriate action. That would be a matter for discussion at the forthcoming staff mission.

With regard to the issue of how the concerns of the Board should be addressed going forward, the staff representative noted that an anticorruption unit had already been formed in Zambia at the ministry of legal affairs, and that anticorruption efforts figured prominently in the discussions of the consultative group that had taken place in July 2000. A major donor had just committed additional finances for the funding of the anticorruption unit.

On Mr. Pickford's comments on following up on the auditor general's report, the staff representative welcomed the suggestion but considered that a recommendation to that effect should be country-specific, as it did not appear appropriate for the staff to follow up on any report by the auditor general, given existing resource constraints. The staff would follow up on the report about ZCCM, and the context of the PRGF was the more appropriate forum to do so.

The staff representative from the Policy Development and Review Department confirmed that the staff preferred to enhance governance through the PRGF arrangement. Given that satisfactory performance under that arrangement was also a condition for the completion point, the objective outlined by Mr. Cippà and other Directors with regard to governance issues could be reached through the PRGF arrangement, which also provided more time for defining the specific conditions in discussion with the authorities. Given that an anticorruption unit was already in place, that proposed condition for a completion point trigger relating to governance would already have been met.

Mr. Faini agreed that pursuing progress with governance issues through the PRGF arrangement represented a reasonable option under the current circumstances. The Board faced the problem that, owing to the early discussion of the HIPC Initiative decision point, the consideration of the review of the PRGF-supported program was not held simultaneously. In view of that, the concerns that had been expressed by the Board during the current session should be an integral part of the summing up. That would represent a substantive commitment by the staff to modify the PRGF arrangement in such a way as to reflect those indications of the Board. It was hoped that the authorities would be open to those suggestions.

Mr. Donecker supported Mr. Faini's position.

The Acting Chairman made the following summing up relating to the smoothing of Zambia's debt service payments:

> Executive Directors considered the options to smooth Zambia's debt service payments in connection with the debt relief which it would receive under the Enhanced HIPC Initiative.
>
> The Executive Board decided to amend the PRGF-HIPC Trust Instrument to allow, in exceptional circumstances, annual and cumulative ceilings of 25 percent and 75 percent, respectively, on interim assistance under the HIPC Initiative. Directors emphasized that, in the absence of exceptional circumstances, interim assistance should continue to be at an appropriate level, up to annual and cumulative ceilings of 20 percent and 60 percent, respectively.
>
> Directors noted that the decision on the amount of interim assistance extended to Zambia was taken because of the exceptional circumstances of Zambia, in the context of a hump in total debt service payments after HIPC Initiative assistance, owing to payments to the Fund arising from the encashment of rights under a Rights Accumulation Program. Directors urged the staff to review the repayment profile of countries with arrears clearance operations in the future, to avoid a hump in debt service payments.

The Acting Chairman made the following summing up relating to the HIPC Initiative decision point:

> In view of Zambia's status as PRGF-eligible and IDA-only country and its unsustainable external debt burden, even after taking into account the relief provided under traditional debt relief mechanisms, Executive Directors agreed that Zambia qualifies for debt relief under the Enhanced HIPC Initiative. They also agreed that Zambia could reach its decision point now, taking into account its track record of economic performance in the context of IMF and World Bank-supported adjustment and structural reform programs. Some Directors, however, expressed concern about the persistence of a

number of macroeconomic weaknesses and regretted that information on the budget for 2001 was not yet available.

Directors agreed that Zambia requires assistance of $2.5 billion in end-1999 net present value terms to reduce external debts to the sustainability target of a net present value of debt of 150 percent of exports, implying a common reduction factor of 62.6 percent for all creditors after the full application of traditional debt relief mechanisms. Directors agreed in principle that the IMF should disburse interim assistance in the period up to the completion point. This decision is contingent upon World Bank approval of the Decision Point document.

Executive Directors took note of the updated debt service projections for Zambia, which indicate that Zambia's debt service payments during 2001–03 will be lower than initially estimated in Zambia's preliminary HIPC Initiative document, resulting in a smoother profile of debt service payments after HIPC Initiative assistance. They agreed that Zambia's debt service profile should be assessed in the context of total resource flows to Zambia and the financing needs of its reform efforts. In this regard, they noted that assistance under the Enhanced HIPC Initiative would reduce the net present value of Zambia's debt stock from 400 percent of exports to 150 percent and more than halve its debt service payments. This relief, and positive net flows from the Fund to Zambia in the context of the current PRGF arrangement, would contribute to an increase in total net flows to Zambia to 15 percent of GDP in 2001, from 13 percent in 2000.

Several Directors considered that the debt relief provided by the Fund through grant HIPC Initiative assistance within current ceilings for interim assistance was sufficient to support Zambia's reform efforts, especially when seen in the context of the total net flows to Zambia. Most Directors, however, considered that further efforts were needed to smooth Zambia's debt service payments and supported front-loading of interim assistance to 25 percent per annum or a cumulative 75 percent of total HIPC Initiative assistance provided by the Fund. Directors noted that the anticipated additional relief from Paris Club creditors, which goes beyond HIPC Initiative relief, and the improvement in Zambia's economic performance would help to mitigate the impact of higher debt service payments in 2004 and 2005 resulting from front-loading HIPC Initiative assistance. Directors noted that, after HIPC Initiative relief, and with annual interim assistance from the Fund of 25 percent of total Fund HIPC Initiative assistance, Zambia's debt service payments are projected to decrease from US$169 million in 2000 to US$153 million in 2001 and to average US$145 million in 2002 and 2003.

Directors emphasized the importance of ensuring that budgetary resources released by debt relief be used for poverty reduction and social sector development in a transparent manner with appropriate performance indicators. They urged the staff to work with the authorities to ensure that such expenditure programs are fully incorporated in the 2001 budget and that monitoring and control mechanisms are put in place to ensure the effective utilization of debt relief. The Board asked the staff to report back on progress in this area in the first quarter of 2001. Directors noted the current weaknesses in budgetary management and underscored the importance of early implementation of a Medium-Term Expenditure Framework as well as an Integrated Financial Management Information system, to improve budgetary planning and expenditure control.

Directors agreed that Zambia could reach its floating completion point after adoption of a full Poverty Reduction Strategy Paper (PRSP) prepared through a participatory process and satisfactory implementation of the PRSP for at least one year, maintenance of a stable macroeconomic environment, as evidenced by satisfactory implementation of a program supported by a PRGF arrangement, and the adoption of key measures, particularly in the areas of HIV/AIDS, education, health, expenditure management, and structural reforms. These measures and objectives for reaching the floating completion point are included in Box 2 of the HIPC Initiative Decision Point document (EBS/00/233). Directors also indicated that satisfactory progress to improve economic governance should continue to be an important element of the PRGF-supported program.

The stagnating or declining social indicators and the high incidence of HIV/AIDS in Zambia was noted, and Directors encouraged the authorities to develop effective programs in response. In particular, Directors urged the authorities to implement their HIV/AIDS, health, and education sector strategies with determined efforts, and to improve the delivery of basic social services as core elements in the fight against poverty.

The Executive Board took the following decisions:

Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point; and Smoothing Debt-Service Payments

1. Based upon the updated external debt sustainability analysis for Zambia (EBS/00/233, 11/20/00), the Fund, as Trustee (the "Trustee") of the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations ("Trust"), established by Decision No. 11436-(97/10), February 4, 1997, decides that:

(i) in accordance with Section III, paragraphs 1 and 2 of the Trust Instrument ("Instrument"), Zambia is eligible and qualifies for assistance under the enhanced HIPC Initiative as defined in the Instrument;

(ii) the completion point for Zambia will be on the date when the Trustee determines that:

(a) Zambia has satisfactorily implemented the policy reforms described in Box 2 and elaborated in paragraphs 41-46 of Zambia's decision point document under the enhanced HIPC Initiative (EBS/00/233);

(b) Zambia has a stable macroeconomic position and is satisfactorily implementing its Fund-supported program; and

(c) Zambia has prepared a Poverty Reduction Strategy Paper and satisfactorily implemented its poverty reduction strategy for at least one year;

(iii) the external debt sustainability target for Zambia is 150 percent for the present value of debt-to-exports ratio;

(iv) in accordance with Section III, paragraph 3(a) and 3(b) of the Instrument, the equivalent of SDR 468.8 million of assistance shall be made available by the Trustee to Zambia in the form of a grant to permit a reduction in the net present value of the debt owed by Zambia to the Fund.

(v) in connection with the interim assistance contemplated under Section III, paragraph 3(d) of the Instrument,

(a) satisfactory assurances have been received regarding the exceptional assistance to be provided under the enhanced HIPC Initiative by Zambia's other creditors, and

(b) the Trustee shall disburse to Zambia as interim assistance the equivalent of SDR 117.2 million to an account for the benefit of Zambia established and administered by the Trustee in accordance with Section III, paragraph 5 of the Instrument; and the proceeds of the grant shall be used by the Trustee to meet Zambia's debt service payments on its existing debt to the Fund as they fall due, in accordance with the following schedule: 70.4 percent of each repayment obligation falling due until December 31, 2001.

(vi) in accordance with Section III, paragraph 3(e) of the Instrument, the Trustee shall disburse the remainder of the assistance committed to Zambia under paragraph (iv) of this decision at the completion point, together with interest on amounts committed but not disbursed during the interim period, calculated at the average rate of return per annum on investment of resources held by or for the benefit of the Trust.

2. This decision is in principle and shall become effective on the date on which the Fund decides that the World Bank has concluded that Zambia has reached the decision point under the enhanced HIPC Initiative. (EBS/00/233, Sup. 1, 11/22/00)

Decision No. 12348-(00/118), adopted
December 1, 2000

Instrument to Establish a Trust for Special PRGF Operations for HIPC Initiative and Interim PRGF Subsidy Operations—Amendment

Section III, paragraph 3(d) of the Instrument to Establish a Trust for Special PRGF Operations for Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations, annexed to Decision No. 11436-(97/10), adopted February 4, 1997 shall be amended by adding the following new sentence:

"In exceptional circumstances, interim assistance could be raised to 25 percent and 75 percent, respectively."

Decision No. 12349-(00/118), adopted
December 1, 2000

3. TANZANIA—POVERTY REDUCTION STRATEGY PAPER AND JOINT STAFF ASSESSMENT

The Executive Directors considered the poverty reduction strategy paper for Tanzania (EBD/00/93, 11/13/00) and an assessment of the poverty reduction strategy paper, prepared jointly by the staffs of the Fund and the International Development Association (EBD/00/94, 11/13/00).

The staff representative from the African Department submitted the following statement:

> This update on recent political and program developments in Tanzania is provided for the information of Executive Directors. In presidential and general elections on October 29, Mr. Benjamin Mkapa was reelected as Tanzania's president. The elections on the mainland are considered to have been free and fair, but irregularities in Zanzibar resulted in continuing tensions. The new government there is endeavoring to ease the situation through steps such as the release of opposition members who had been imprisoned on treason charges. A new cabinet was sworn in November 25. Mr. Frederick Sumaye continues as prime minister, and Mr. Basil Mramba was appointed Minister of Finance. The new government has indicated that it endorses the PRSP as the basis for its poverty reduction policies.

Macroeconomic developments in 2000 so far have been broadly in line with those envisaged in the current PRGF-supported program. The growth target of 5.2 percent is expected to be realized, led by a sharp increase in export volumes in traditional as well as nontraditional exports. The latter more than offset the adverse effects on the balance of payments of the increase in petroleum prices and lower export prices for coffee and cotton, and net international reserves are substantially above target. In recent months, the inflation rate has remained just below 6 percent (year-on-year), with sharp increases in petroleum product prices delaying further progress toward the end-year target of 5 percent.

The quantitative performance criteria for September 2000 were met by wide margins. Tax collections were much better than targeted for the first quarter of 2000/01, and, with continuing expenditure restraint, net domestic financing of the government was considerably below the ceiling. Some domestic arrears may have been incurred, however, despite continuing progress in implementation of the Integrated Financial Management System; a recent Fund technical assistance mission provided the authorities with a number of suggestions for further strengthening expenditure control. The process of restructuring and privatizing the major utilities continues.

Discussions with the Tanzanian authorities on the second review under the PRGF arrangement are to begin shortly, and the review could be discussed by the Executive Board in February 2001.

Mr. Rustomjee submitted the following statement:

My Tanzanian authorities wish to express their gratitude to the Executive Board, Fund management and staff, as well as to the donor community, for the support received during the difficult and long journey that has accompanied the adjustment process. In particular, recent efforts at addressing poverty and enhancing human development could not have been successful without this support. The authorities also take this opportunity to commend the staffs of the Fund and IDA for the valuable assistance and advice rendered in the preparation of the PRSP.

Since the mid-1980s, Tanzania has made determined efforts to reverse the economic decline of the 1970s and early 1980s by implementing wide-ranging reforms. Substantial progress has been made in liberalizing the economy. As a result, Tanzania, once an inward looking and public sector dominated economy, is today among the more open and private-sector led economies in sub-Saharan Africa. Significant progress has also been made toward restoring macroeconomic stability. Accordingly, inflation has been reduced to a single digit level from around 30 percent in the early reform years, and tangible effort has been made, in particular, to ensure fiscal prudence.

Despite genuine and sustained efforts over a long period to address the country's economic and social problems, the incidence of poverty remains widespread, with about 50 percent of the population living below the poverty line. A major challenge, in this regard, is to increase resources to expand the basic services essential to improving the welfare of the poor. As an integral part of the process of combating poverty, the authorities have endeavored to produce the Poverty Reduction Strategy Paper (PRSP) that is now before the Board. The preparation of the PRSP has been a formidable task. It is to be noted that the process was new to Tanzania and there were no examples to follow, as Tanzania is one of the pioneers in the effort. It has also meant seeking a fuller participation of the poor, the civil society, NGOs, and various other stakeholders.

The PRSP provided a strong basis for attacking poverty and represented a significant leap forward from past poverty reduction efforts. In this regard, the authorities fully recognize that the poverty reduction strategy will be refined as new information becomes available. The government is also aware of the importance of adequate and reliable information for poverty analysis and monitoring and is adopting, with donor support, a comprehensive approach to upgrade the database and its statistical capacity. A new household budget survey is at present under way, and is expected to be completed by mid-2001.

The authorities fully recognize that a critical aspect of poverty alleviation is promoting growth through the maintenance of macroeconomic stability and further structural reforms. As poverty in Tanzania is largely a rural phenomenon, the PRSP recognized the importance of accelerating reforms in agriculture, which is the means of livelihood for most of the poor, while ensuring the sustainable management of natural resources. The need to further improve the business environment is also well acknowledged. Moreover, an important element of the PRSP was its focus on governance. Sectoral plans are now being developed within the National Anti-Corruption Strategy and Action Plan that was adopted in 1999.

The government budget will play a key role in expenditure allocation toward fighting poverty. Accordingly, in line with the priorities that emanated from the assessment of the incidence of poverty and the consultative process, increased resources will be devoted to primary education, primary health care, agricultural research and extension, rural roads, water, the judiciary, and HIV/AIDS.

The PRSP embodied the macroeconomic framework and a program of structural reforms supported by the current PRGF arrangement. As such, it represents a substantial task for the coming years. The PRSP preparation process has been transparent and comprehensive. My authorities' commitment to the objectives laid down in the PRSP is in my view beyond question. At the same time the staff are right in noting certain risks. The PRSP would be entering uncharted waters as regards the implementation at the local level. Moreover, institutional weaknesses and capacity limitations are real and, in the case of capacity limitations, significant. There is therefore a real hazard that shortfalls in expected external financing could threaten the achievement of targets.

The PRSP represented a genuine and credible effort of the authorities toward ensuring lasting poverty reduction in Tanzania. Indeed, it is an important element of safeguarding the gains of a decade and a half of substantial reform and of making significant strides toward ensuring a better future for all Tanzanians. I, therefore, request the Executive Board to endorse the PRSP.

Mr. Beauregard submitted the following statement:

The Poverty Reduction Strategy Paper is a well-balanced analysis that identifies the main causes of poverty in Tanzania and puts forward a strategy to tackle the problem. It also recognizes failures due to bad policies implemented in the past. We also have to recognize that poverty in Tanzania had not only been caused by the implementation of bad policies, but also due to internal and external shocks.

The differentiation between income and non-income poverty is important to clearly identify the best way to deal with the problem. With respect to the former, an economic policy designed to promote sustained economic growth is important to create better job opportunities for the population. On the other hand, the non-income poverty problem has to be dealt with more selective and efficient government social expenditures. But it is important that the authorities and the civil society recognize that to finance in the long run the Poverty Reduction Strategy (PRS), the implementation of the proposed reforms and the consolidation of the economic stability in the country are necessary conditions to generate the resources to fund these efforts. Only so it will be possible to reduce poverty in a permanent way.

Thus, we agree that the participation of the civil society and NGOs in evaluating the causes of poverty is an important step towards gaining credibility and support to implement the proposed economic policies and structural reforms. As stated by Mr. Rustomjee in his helpful preliminary statement, substantial progress has been made in liberalizing the economy and in restoring macroeconomic stability.

We would also like to emphasize the importance of having good statistical information. Only by this means the authorities and the international organizations involved in this process will be able to assess the implemented strategy. As important regional differences exist, this information will also be useful to assess the strategy on a regional basis. We therefore commend the authorities for their efforts to lift-up the Household Budget Survey (HBS). However, this effort should not conclude there. A continuous work to develop more and better social indicators is crucial to assess the PRS progress. We would like to ask the staff if there is any plan to improve the statistical information beyond the HBS.

Finally, transparency and accountability at all government levels are crucial to foster internal and external confidence in the proposed strategy. We thus welcome the efforts to create the National Anti-Corruption Strategy and Action Plan. As the authorities decentralize the poverty reduction spending actions, clear auditing procedures should also be developed.

In relation to the statement by the staff distributed today, does the staff think that the Zanzibar tensions could spread out, placing at risk the PRS?

With these remarks, we wish the authorities success in their endeavors.

Mr. Kelkar submitted the following statement:

We wish to compliment the authorities for the preparation of a comprehensive and extremely relevant Poverty Reduction Strategy Paper through an extensive consultation process. Mr. Rustomjee in his insightful preliminary statement has emphasized the ownership of the authorities and their commitment to its implementation. We also thank Fund and Bank staff for their balanced assessment of the paper.

As the PRSP document indicates—poverty is deeply rooted in the country with its incidence highest on the most disadvantaged—the youth, the old, large households, and women. Social indicators reinforce this view. Further, the decrease in life expectancy recorded during the past decade, and attributable to the spread of AIDS and other communicable diseases, is disturbing. Recent reports on the drought situation in the northern part of the country underscore the need in such a strategy, to address the vulnerability of the poor to adverse conditions.

We support the broad thrust of the strategy directed at reducing income poverty, enhancing social indicators as well as containing extreme vulnerability. The impact/outcome indicators detailed in the logical frame in Annex II to the PRSP were extremely bold and reinforce the commitment of the authorities to poverty reduction. We also agree that this exercise must be undertaken against the background of sound macroeconomic policies, fiscal restraint, and an emphasis on social expenditures and structural reform measures.

Given the major contribution of agriculture to the GDP, we support the thrust on development of the rural sector and the need to provide extension as well as credit to farmers through appropriate mechanisms. While the interventions proposed by government have been singled out in the PRSP, we would caution against a "one size fits all" approach for all the regions in the country. For example the efficient functioning of the farmer's cooperatives, proposed to be set up to improve access to credit and inputs, would also be dependent on other factors including quality of infrastructure as well as literacy levels in a particular region.

The analysis in the PRSP of the spatial distribution of poverty over the mainland was an illuminating exercise, with five of the twenty states being identified as the most deprived. It is not clear, whether the devolutions to local authorities under the priority sectors indicated in Table 3 incorporate preemptions in favor of these regions. We feel that this emphasis may be necessary to provide a justification for the assumption made in page 14 of the PRSP that the projected growth in agriculture and the rest of the economy is distribution neutral—on the basis of which assumption the overall poverty reduction targets in the PRSP have been set. We would suggest that specific measures to enhance program implementation capacity in these deprived regions be also included in the strategy. We therefore support staff recommendations that a regionally differentiated strategy be incorporated in the first annual PRSP report.

We are in agreement with staff that description of policy and proposed actions to contain population growth, manage the country's natural resources in a sustainable fashion as well as address AIDS and gender issues would need to find place in the first annual report of the PRSP. We also support their emphasis on development of a participatory poverty monitoring and evaluation framework to analyze the impact of the program at regular intervals. In addition, we would have been happy to see more details in the PRSP on interventions to combat vulnerability of the poor through development of a specifically targeted social safety net. It is also necessary to develop detailed action plans for reform of the judicial system, including the cost implications for incorporation in future versions of the PRSP.

We agree with the contention of the authorities that the preparation of the PRSP would be an ongoing and iterative process, and would have to incorporate in the future, developments arising from the macroeconomic and structural reforms undertaken. However, we feel that the effectiveness of the PRSP could have been enhanced by incorporating in it the finalized strategies for key sectors like agriculture, education as well as underpinning it with the respective cost implications. In addition, details of the efforts taken to dovetail the PRSP with the other initiatives simultaneously being taken up by the government—the Vision 2025; the National Poverty Education Strategy and the Tanzania Assistance Strategy would have been useful. Page 4 of the PRSP points out that "substantial efforts towards poverty reduction by international partners are still being implemented outside the Central Government budget" and "these efforts need to be rationalized and realigned progressively to reflect PRSP priorities." Such a situation may not be conducive to the promotion of budgetary discipline. Further, given the consultative and participatory nature of the PRSP preparation process, during the course of which donors were also consulted, we are not clear why this should have been so. Staff may like to comment.

During the implementation of the PRS, while projecting outcomes, other factors that may adversely impact the economy may need to be factored in. The dependence of the Tanzanian economy on rainfall—as underlined by recent news reports about the 35 percent power rationing imposed by the national electric company and the severity of the drought in the northern part of the country is an example. The cost of providing shelter to refugees from neighboring countries, escaping from conflict in the region, may add to the fiscal burden of the government. We invite staff comments on the sensitivity of the projections made in the PRSP to such shocks.

Having said this, we do recognize the pioneering work undertaken by the authorities in the preparation of the PRSP and commend their commitment to ensure its effective and efficient implementation. There can be no final answers to what is still essentially a learning process, and to a first approximation, the PRSP prepared by the authorities is an excellent document to commence work on. We therefore agree that the PRSP would be a sound basis for Fund concessional assistance and wish the authorities well in their efforts at implementing the strategy.

The staff representative from the African Department commented that the World Bank had reviewed Tanzania's Poverty Reduction Strategy Paper (PRSP) the previous day and had endorsed it as the basis for its lending operations, with the stipulation that further work be done to elaborate the poverty reduction strategy by the time of the first annual progress report.

Mr. Pickford made the following statement:

Let me start with a general observation on Tanzania's progress. First, the authorities' development of the PRSP has been a significant effort. It builds on a number of existing documents and the Tanzanian transition strategy. We welcome the fact that it is strongly owned by the government, and that it was widely and openly discussed, reflecting a strong political commitment to the participatory process.

Second, I would note the strong progress that Tanzania has achieved with macroeconomic reform over the past five years. In recent years, the country experienced budget surpluses and the inflation rate dropped to six percent. The government has established a strong public expenditure review and developed an MTEF, which allowed the authorities to increase social sector spending.

Third, the authorities have formulated an anti-corruption strategy, and are committed to ensure its implementation, as well as to strengthen public service and local government reform efforts.

The staff assessment recognizes that the PRSP would be polished over time and also stresses a number of areas where further work will be necessary to ensure that the PRSP becomes a more meaningful framework for poverty reduction in the future. The ongoing process of strengthening and implementing the PRSP will be the true test of the government's commitment to poverty reduction. As such, we endorse the PRSP as a basis for moving forward.

Nevertheless, I think that the following issues would need to be addressed in moving forward and refining the PRSP—issues on which we hope to see further progress in time for the upcoming PRGF reviews. There are three main areas that I would like to highlight—fiscal measures, governance, and education. First, we believe that further discussions are necessary on fiscal policy. The MTEF needs to reflect the priorities of the PRSP, and the PRSP, in turn, needs to reflect the expenditure allocations of the MTEF. We welcomed the cost estimates that were prepared in some of the sectors and would encourage similar efforts for next year's budget.

Second, we believe that a more comprehensive strategy to promote governance should be developed. We welcome the government's existing anti-corruption strategy and look forward to seeing it implemented. Furthermore, we urge adoption of sector-specific anti-corruption plans, approval of the public finance and public audit bills, further progress with the implementation of the integrated financial management system, and greater openness in the dialogue on public-sector reforms, and progress on local government reform.

Third, the PRSP demonstrates a strong commitment to education. However, we expect the authorities to further develop and implement a strategy, especially for primary education, to help meet the PRSP's objectives and targets.

In summary, our view is that Tanzania made a serious effort to develop the PRSP, which deserves our endorsement. It is true that the PRSP would evolve over time and we look forward to seeing the next version, addressing the points that I have noted. We are confident that this will be the case, given Tanzania's strong track record on reform and clear commitment to poverty reduction.

As far as the completion point for the HIPC Initiative, we believe that the essence of a floating completion point is that, once all the triggers have been met, the completion point should be reached. However, for Tanzania, we would emphasize the importance of fulfilling all conditions, especially on governance and education.

Mr. Ondo Mañe made the following statement:

I welcome Tanzania's PRSP document and the commitment demonstrated by the authorities in producing the paper in such a short period of time. Their strong determination to address the country's poverty problem is clear.

I am in broad agreement with the overall staff assessment of Tanzania's PRSP and I agree that we should provide a message for firm financial assistance and for moving speedily toward the completion point. Tanzania's PRSP, characterized by strong country ownership and broad participation of civil society, presents a solid foundation for addressing poverty issues with a substantial agenda for the medium term. Macroeconomic and structural reform play important roles in the poverty reduction strategy and I note that the macroeconomic framework in the PRSP is consistent with the PRGF. Systemic implementation of macroeconomic and structural reforms will be of critical importance to the achievement of the poverty reduction objectives. In that context, I welcome the readiness of the authorities to implement measures that can contribute to accelerating the rate of economic growth. It will be important for the authorities to continue their endeavors to strengthen tax administration and expenditure control mechanisms, as well as the privatization process and business development.

The agricultural sector can play an important role in the achievement of both growth and poverty reduction. It is essential that the authorities hasten reform measures in this sector.

I would like to note that the development of basic skills should also be an important objective of the country's economic program, as this would contribute significantly to reducing poverty, especially among the young.

I would like to make three additional comments on the lack of data, governance, and financial risks to the program. One of the weaknesses of the PRSP, identified by the staff, is the lack of consistent data. Therefore, I welcome the importance placed by the authorities on improving the country database and statistical capacity, as this will be a critical component in monitoring and evaluating the policies to be implemented. I urge the authorities to develop some key annual indicators that can be utilized to help monitor the country's progress toward medium- and long-term targets. In that way, the authorities would be prepared to develop remedial action, if necessary.

I note the emphasis placed in the PRSP on improving governance, as that is a major concern of those who participated in the consultation process. I also welcome the development of the National Anti-Corruption Action Plan, as well as the increased effort to strengthen the judicial system and the spending allocated for that sector.

The staff identified a lack of transparency and accountability—notably, at the lowest level of government administration—as a major concern. I urge the authorities to develop a clear plan of action to address this concern.

Tanzania's poverty reduction strategy needs significant resources to succeed. In that respect, it is encouraging that the government budget will allow for the provision of a good portion of the needed financial resources. I note that expenditure allocation toward priority sectors will be increased significantly over the medium term, and the authorities' commitment to improve revenue will be pivotal in ensuring that this will be possible. It is clear, however, that domestic resources will be inadequate to achieve all of the objectives described in the PRSP. For instance, I note that Tanzania would have the ability to deliver only the minimum acceptable services and education to the entire population. Therefore, it is regrettable that additional sources of financing have not yet been identified. We should strongly emphasize that any endeavors by the authorities to attain the medium and long-term objectives of the PRSP could be accelerated with proper assistance. It will be important for the donor community to maintain, even augment, its assistance to Tanzania. It will also be important to better coordinate the donor program and align it more closely with the objectives outlined in the PRSP.

In endorsing the PRSP, I note that there are certain risks associated with it. Financial exposure such as the magnitude of the country's debt could be associated with institutional weaknesses and capacity limitation.

I am encouraged by the authorities' strong commitment to achieve the objectives set out in the PRSP and to develop a system in the current fiscal year for monitoring and evaluating the country's progress. I agree that if the program is well financed, there will be a stronger chance of ensuring poverty reduction in Tanzania.

With these remarks, I wish the authorities success.

Mr. Alosaimi made the following statement:

Tanzania is to be commended for the speedy presentation of this comprehensive Poverty Reduction Strategy Paper (PRSP). The authorities rightly note that the focus on poverty and the related problems of illiteracy and poor health is not a new national priority in their case. Indeed, the novelty is mainly in the important shift away from centrally directed planning to a more decentralized approach based on broad-based consultations. It is thus only appropriate that Tanzania is also a pioneer in the design of a PRSP. As underscored in Mr. Rustomjee's helpful preliminary statement, it represents a significant leap forward for a strong basis to the authorities' poverty reduction efforts. That said, I also share Mr. Beauregard's view that the root causes of poverty go beyond domestic policies.

Here, I will add a few general remarks.

First, the joint staff assessment stresses that this PRSP would remain a work in progress that is yet to be fully developed. The targets, principles, and actions of a poverty reduction strategy thus need to be continually adjusted in the light of the changing circumstances and the availability of new information.

Second, I welcome the general view that the poverty reduction strategy is an integral part of the ongoing macroeconomic and structural reforms. Indeed, as noted in paragraph 35 of the joint staff assessment paper, this broader perspective should be more explicit in the PRSP. The challenge here is essentially to adjust and reform the economy with focus on improve the living conditions and reducing the vulnerabilities of the poor. In that regard, I welcome the specific goals to improve the productivity of the poor that the authorities have laid out as part of a strategy for overall stability and growth.

Third, I agree that a comprehensive update of the poverty data will help improve the monitoring and evaluation of the PRSP. However, the available data already provide ample evidence of poverty's high incidence, spread and persistence. The indicator agenda laid out in Section VI of the PRSP thus appears excessively ambitious. The authorities are therefore right to first focus on a few readily usable core indicators. Indeed, given the close link between growth and poverty reduction, the PRS monitoring effort should begin with improving the national accounts and related statistics critical for macroeconomic policies. This will also help to optimize use of the limited Fund-Bank technical assistance resources by saving on the large costs of dedicated poverty data exercises such as the Living Standards Measurement Surveys (LSMS).

Fourth, I agree in principle with the joint staff suggestion that the PRSP consultation process should be transformed "into a fully institutionalized and sustainable process of public accountability." However, it is important to be realistic on the likely pace of progress toward this desirable goal. This also underscores the importance of further technical assistance to help build the necessary institutional and administrative capacity.

With these remarks, I fully endorse this PRSP as a key step toward reaching the completion point.

Mr. Fenton made the following statement:

We welcome the Government of Tanzania's PRSP. This PRSP is characterized by a strong sense of country ownership and broad-based participation of civil society. And it builds on previous work done under Tanzania's Vision 2025, the National Poverty Eradication Strategy, the Tanzania Assistance Strategy and various other poverty-related studies.

The PRSP is correctly based on the premise that sustained poverty reduction cannot be achieved without pursuing policies that are conducive to economic growth. We welcome the emphasis on maintaining macroeconomic stability and the need for addressing structural reforms to increase growth.

We believe that the PRSP is a living document that needs to be revised and refined continuously, taking into consideration new developments and lessons learned. In this spirit, we would like to note that there are elements of the PRSP that need to be strengthened.

More work needs to be done in improving the transparency and accountability of public sector activities especially at lower levels of government administration. As the responsibility for key elements of the poverty reduction strategy is shifted to the districts, municipalities and communities, it will be essential that their governance and expenditure management systems are adequate to the task. Also the fight against corruption should continue to receive specific attention as the strategy evolves.

Gender information and analysis, although included in the PRSP, requires further strengthening. The paper does not consistently address the significant gender issues that limit equitable progress in poverty reduction. We would hope that the gender dimension of poverty reduction will be high on the agenda during implementation strategy.

The government clearly recognizes the threat that HIV/AIDS poses to the development process in Tanzania. However, the implications of HIV/AIDS should be further internalized in the discussions of how growth and human resource development should be facilitated through the budget.

This will require strengthening of the target indicators (district awareness campaigns) to clarify the incidence and impact of HIV/AIDS.

As I mentioned at the outset, one of the strengths of the PRSP is the emphasis on the link between economic growth and poverty reduction. In that context, we think more effort should be given to elaborating strategies for export promotion.

Finally, with regard to the timing of the floating completion point, given Tanzania's long track record of satisfactory adjustment and the government's demonstrated commitment to poverty reduction, we agree with Mr. Pickford that if Tanzania fulfills all of its completion point triggers before the end of the stipulated one-year implementation period for the PRSP, then we should exercise some flexibility in granting the completion point.

Ms. Lundsager made the following statement:

Tanzania has an impressive record of economic reform, conducive to growth and poverty reduction. The document we are discussing today reveals a considerable amount of work on the part of the Tanzanian government toward developing a credible, comprehensive, and ambitious strategy to reduce poverty, all within a participatory framework.

However, like Mr. Kelkar, we would have preferred to have seen a more fully fleshed out PRSP. The Joint Staff Assessment (JSA) even explicitly states that the government has rushed the PRSP process in order to reach the completion point quickly. The PRSP does not provide detailed costing estimates, detailed plans for a participatory framework going forward, nor clear monitoring mechanisms. Lack of recent poverty data has complicated this process and may have left some key issues unaddressed in the PRSP.

This creates a serious concern that we are in danger of giving in to pressure to compress completion points—either through accepting insufficiently developed PRSPs, or accepting less than one full year's performance period under a PRSP.

Taking sufficient time to flesh out the PRSP adequately and make it operational is the linchpin for the success of the enhanced HIPC Initiative. Cutting corners on the process will only lead to delivering inferior services to improve health and education and to reduce poverty. We recognized these dangers when we designed the enhanced HIPC Initiative program and addressed them by provision of interim relief.

However, recognizing the PRSP process is an evolutionary one and recognizing the substantial progress Tanzania has made, we can go ahead and support endorsement of the PRSP today. But let me emphasize that a full year of implementation of the PRSP is needed before we will be willing to consider Tanzania's completion point. In that time, we expect to see successive iterations further improving the poverty reduction strategy, its costing and its monitoring, including the role of civil society in that monitoring.

Mr. Vogel made the following statement:

We welcome the progress made by Tanzania in macroeconomic stabilization and structural reforms, however poverty indicators have not shown significant improvement and their absolute level is worrisome. With respect to the economic activity, projected growth of GDP for the next years appears more favorable than in the past. An important advance towards economic stability has been made, with a significant reduction in inflation that has reached a single digit level. It should also be noticed that the present inflation rate is already comparable to Tanzania's main trading partners. Therefore, the advance in economic and political stability should contribute to reduce poverty, provided that the authorities continue with their structural reform process that favors the reallocation of resources towards this goal.

On the fiscal side, and as Mr. Rustomjee points out in his informative preliminary statement, significant efforts to ensure fiscal prudence are observed. In addition, a cautious management of expenditure and public funds would allow to channel resources towards education, health, nutrition and communications, therefore contributing to efficiently reduce poverty. In this regard, we welcome the considerable progress that has already been made in the fiscal area, such as tax administration, expenditure control mechanisms, privatization of public enterprises, restructuring of the financial system and the tariff reduction program. Moreover, we are confident on the benefits of the national Anti-Corruption Strategy and Action Plan that would enhance management and transparency of public expenditure. Indeed, confidence is essential for a country like Tanzania that depends on external aid to reduce poverty.

Also, there are reforms that show certain weaknesses in their implementation. One of the most important is the agricultural reform process. In this regard, and as pointed out by staff, weakness in the management of the agricultural reform process and partial implementation of many market liberalization measures are observed. This situation tends to slow down the development of agricultural, the most important sector of Tanzania's economy, that employs half of the work force. In this regard, a reform in this sector is essential for the attainment of the objectives of the authorities since, to a great extent, the rural area is where a greater deterioration of the living standards exists. As it is exposed in the Poverty Reduction Strategy Paper, poverty is largely attributed to a rural phenomenon and estimates suggest that the incidence may have increased.

Finally, the poverty indicators in Tanzania continue to be worrisome. In this regard, although some advance can be seen in the fight against poverty, they have been partial and insufficient. Besides the limitation of statistical information makes these estimations difficult. We agree with staff on the need to improve statistical information for poverty analysis and monitoring, so that a greater donor confidence and support is attained.

Finally, we commend the Tanzanian authorities on their efforts and value the strong country ownership of this program. We wish the Tanzanian authorities every success in their future endeavors and expect that the first annual PRSP progress report will show more advances in the fight against poverty.

Mr. Haupt made the following statement:

We appreciate the authorities' sincere commitment to fight widespread poverty and we welcome the participatory process whereby the PRSP was developed. Nevertheless, to be frank, we would have welcomed some more progress in elaborating a consistent and comprehensive Poverty Reduction Strategy. In our view, the shortcomings identified by the staff are significant—notably, the lack of an updated statistical basis, the incomplete elaboration of sectoral strategies, the resulting uncertainties in terms of costs, and the insufficient treatment of the broader poverty reduction framework.

We understand the authorities' ambition to reach an early completion point in an environment of limited administrative capacities. However, the urgency of the process must not unduly undermine its quality. It is therefore important that considerable progress in the above mentioned areas be made by the time of the first annual progress report.

Having said this, we can endorse the PRSP as a basis on which to move forward. I will focus on three specific aspects of the PRSP, since I broadly agree with the staff's recommendations:

On sectoral policies, we agree with the selection made by the authorities, although some other activities such as population policies must not be neglected. As to the prime areas of intervention, we see the risk of further delays in policy formulation and implementation, given past experience, for example, in the education sector. In this sector, as a consequence of repeated delays, funds from the European Union could not be used in recent years.

Secondly, we would have welcomed a more explicit analysis of the macroeconomic ramifications. For instance, the PRSP lacked detail on the concrete measures that are planned to promote the declared aim of improving the investment climate. Also, we note the authorities' intention to "manage the monetary program flexibly, to allow for some compensation in unforeseen shortfall of projected external financing." Such flexibility must not go so far as to jeopardize stabilization goals or to allow for the contracting of new commercial loans. Staff's latest information on better-than-targeted revenues is encouraging in this regard.

Finally, a remark on good governance and financial accountability: We are pleased to learn from Mr. Rustomjee's preliminary statement that sectoral plans are being developed within the National Anti-Corruption Strategy and Action Plan. Like Messrs. Pickford and Fenton, we would expect a detailed account of these and related activities in the context of the first annual progress report. Likewise, we urge the authorities to specify their plans and achievements with regard to improving the control and auditing of public expenditures. For instance, the PRSP said little about the planned Public Audit Bill or about progress with fully implementing the Integrated Financial Management System at all government levels.

With these remarks, I wish the authorities every success.

Ms. Ongley made the following statement:

The PRSP seems to be quite good. I agree with the staff's assessment that the medium-term and long-term poverty reduction objectives are both realistic and well identified. More importantly, the PRSP sets out a useful starting point and a clear a progression.

However, the PRSP is not without risks. I do have some sympathy with Ms. Lundsager's position regarding the completion point. However, I am inclined to take a more pragmatic position. I believe that the focus should be on outcomes rather than time or input. To the extent that the implementation of the PRSP proceeds at a faster pace than expected, then that effort should be recognized and rewarded. Reaching the completion point should, however, be contingent upon a better designed PRSP. The country's authorities have a good record of policy implementation and I expect that record to be maintained.

Turning to the areas that need to be strengthened, I agree with the staff that developing an environment conducive to sustained economic growth should be the foundation of a poverty reduction strategy. I am encouraged to see that the macroeconomic situation is on course, but I believe that the PRSP should have given more weight to the macroeconomic foundations of the strategy. In particular, greater attention should have been placed on linking the envisaged measures with fiscal policy. I agree with Mr. Pickford and Mr. Kelkar that there is a risk that the efforts of international partners will remain outside of the central budget, and that further work is needed to avoid the potential accumulation of arrears.

The counterpart to increasing public-sector efficiency would be the role of the private sector in sustaining growth. I believe that the PRSP does not sufficiently address that issue.

A number of people referred to those aspects identified as work in progress, such as the areas of agricultural development and education, and I support their comments. The PRSP also devotes a great deal of attention to governance. With the devolution of responsibilities for implementation to the local level, however, I believe that a more concerted effort should be made to improve government at that level.

Effective monitoring and assessment will be dependent on improvements in statistical information, as well as on the analytical framework itself. We are starting to recognize that addressing the financial and capacity constraints to improving data quality should be a priority, if poverty reduction itself is to evolve in an appropriate manner. That underscores the importance of having annual indicators.

Finally, on the participatory process, my immediate reaction after reviewing the documents was that the process had been sufficiently broadened. However, it came to my attention that the international confederation of free trade unions has expressed concerns about the adequacy of the process. It may be that the speed of the process gave the impression that the consultation process has not been adequate. Even if this is just a perception, that in itself could be costly.

I would urge the authorities to keep that in mind throughout the implementation period.

The staff representative from the African Department agreed that, on the issue of statistics, there could be a cause for concern if attention were diverted away from implementation to simply collecting data. That, again, was a matter of capacity limitation. Nevertheless, there was a need to improve the database and pay more attention to statistics in general.

It was important to remember that the new household budget survey was underway, and it was designed to better gauge the consumer price index (CPI), the staff representative continued. Recently, a technical assistance mission on statistics counseled the statistical agency on strengthening capacity in that area.

Tensions had been present in Zanzibar for some time, the staff representative commented. It was the second time that the opposition felt that they had the election stolen from them. Most observers, however, believed that the election had been fair, though there was no doubt that the process had been difficult. It was encouraging that the Zanzibar branch of the ruling party was in accord with the mainland branch, as well as with the Tanzanian party. A more collaborative effort should be expected between the government of Tanzania and that of Zanzibar in reducing tensions. Much of the tension was not only between the government of Zanzibar and the opposition, but there were also tensions within the ruling party in the two regions of Tanzania. It appeared that there might be some room for rapprochement now. Tanzania had been one of the countries in Africa that had been less burdened by ethnic or religious tensions. Zanzibar, on the other hand, had a bloody history; it was a different place. However, there did not seem to be any real danger of that legacy spreading to the mainland.

Donor and aid coordination had improved over the past few years, the staff representative said. More of the aid was now passing through the budget. While different administrations still fought over program aid, the development of the PRSP was helping to bring the donors together in line with Tanzania's own vision of what could be accomplished with aid.

There was no doubt that Tanzania was vulnerable to external shocks, the staff representative remarked. Droughts, floods, and other inclement conditions had adversely affected economic growth. Such adversities would inevitably occur in the future. There were safety nets, however. The government distributed free maize, and the NGOs worked actively with the government to provide assistance in the most affected regions.

The reason for the current power shortage was that the state electricity company had not had sufficient funds to buy fuel the previous April or May, when it should have been using thermal generation to compensate for the future shortfall in power, the staff representative explained. Consequently, the company had drawn down reserves until they had become exhausted. There was not enough total capacity. That problem could have been resolved with better management and organization. Much of the work underway to improve rural transport, for example, should help to alleviate that type of problem in local areas, by improving preparation and organization.

The regional conflict had been a substantial burden on Tanzania over the previous few years, although much of the actual costs and financial burden had been borne by donors, the staff representative continued. The fact that Tanzania itself was free of internal strife indicated that the country might be better positioned than many other nations to accept and support refugees without difficulty.

On the devolution of power to regional or local governments, there were programs in place to raise the capacity of local areas, the staff representative noted. For example, financial officers had been trained to use the software that supported the government's financial system, the so-called platinum system. The Fund would also be sending out a technical assistance mission. Nonetheless, limited capacity was a critical issue. It was clear that the matter would require closer attention, especially in light of reports of—for instance—local authorities levying excessive taxes on agricultural output. Such activities were illegal, but it would take time for all parties to adjust to their new responsibilities.

The meetings that had been held as part of the consultation process had been open and accessible to all, the staff representative stated. It was only recently learned that there had been complaints from the labor unions over their exclusion from the meetings. It was important to remember Tanzania's long socialist history, which meant that labor unions had always played a minor role in the country and, perhaps, felt marginalized. The unions felt that they should have been invited to participate in a more organized and structured manner. The NGOs, too, had expressed that they thought the process could have been better. However, they felt that the most important thing was to get debt relief for Tanzania and as a result, they were willing to see the process expedited.

Mr. de los Santos made the following statement:

The Tanzanian authorities have created a solid basis on which to implement a comprehensive poverty reduction plan. They have shown strong commitment to overcome previous failures by redefining priorities and rearranging the public expenditure policy. Macroeconomic and structural reforms are basic pillars of the overall program, as sustained economic growth is indispensable for poverty reduction. The objective should therefore be to describe the medium-term strategy, identify the main causes and levels of poverty, and define the actions needed to alleviate poverty in Tanzania.

We would like to commend the Tanzanian government for its commitment and civil society for its organization and broad participation in the development of the PRSP. The financial backing in the implementation of the PRSP will mainly be the responsibility of the Tanzanian government. Domestic revenues will finance about 70 percent of total expenditures and the remaining 30 percent will be funded by external sources. As such, we are concerned about the ability of the government to secure the revenues needed to achieve the goals established in the PRSP. We share the staff's concern that low revenue levels might make programs vulnerable to cuts necessitated by unexpected expenditure requirements or by a slowdown in economic growth. We also wonder whether it will be possible to increase the external financing component of the PRSP if such circumstances arise.

We want to stress the need for an appropriate environmental management policy, as Tanzania is highly dependent on the exploitation of its natural resources to produce raw materials and goods for export and domestic consumption. The country is also vulnerable to unpredictable droughts or floods, which affect the food supply. In particular, we welcome the government's intention to identify environmental quality indicators within the poverty monitoring system. We would also like to point out the importance of adopting a supportive supplement to achieve the poverty reduction goals. Efforts should focus on constructing better infrastructure, expanding the availability and access to credit, improving extension services, and promoting the use of more efficient technologies in the production of agricultural goods.

The success of the PRSP will depend on the adoption of sound economic policies promoting sustained growth. The Tanzanian government has demonstrated a commitment to adhere to such an economic policy framework and has made efforts to implement a viable program to alleviate poverty.

We support Mr. Rustomjee and the staff's request to the Executive Board for an endorsement of the PRSP. We also welcome and support the Tanzanian authorities' endeavors to swiftly move toward the completion point under the HIPC Initiative.

Mr. Skurzewski made the following statement:

I welcome the Poverty Reduction Strategy Paper submitted by the Tanzanian authorities. I share the overall quite positive assessment given jointly by the staffs of the Bank and Fund, and I endorse the strategy, so I would like only to emphasize a few points. As noted on the occasion of the PRGF discussion earlier this year, Tanzania enjoys now the economic stabilization phase, with quite strong economic growth, low inflation and rising reserves. Long-term economic growth will be crucial for the eradication of widespread poverty.

The Strategy that we are considering today is clearly the outcome of broad-based and substantial discussion with the social segments that have a stake in reducing the high incidence of poverty that prevails in Tanzania. It builds on the foundations already laid, namely the National Poverty Eradication Strategy, the Tanzania Assistance Strategy, and the work done under the Vision 2025. The document has the potential of enabling decisive progress in reducing poverty by allocating the proceeds from debt relief and growth to basic social services and infrastructure.

Apart from the PRGF-supported macroeconomic framework, the Strategy involves a wide range of structural and sectoral policies, with the priority given to education, agriculture and health, which I also recognize as a right order. Among other noteworthy areas there is governance, also raised by many Directors during the recent Article IV discussion. The views of the public cited in the Paper make clear that important efforts need to be made to repair the deficiencies in the transparency and accountability of government offices, and to guarantee universal access to the judicial system. I welcome the measures that have already been taken in this area, such as local government reform and the Integrated Financial Management System, but I urge the authorities to continue these improvements.

The Strategy places considerable weight on continued concessional financing by bilateral donors. A good coordination of donor assistance will therefore be very important but the Paper is rather brief in this respect. Efforts will be necessary from both the government and the donors in this area. I also agree with staff that further work needs to be done in order to secure an adequate costing of the strategies contained in the Paper. This, together with sound expenditure management, will be key to the success of the government's overall poverty alleviation strategy.

Finally, I am also glad to see measures taken to provide adequate monitoring of the implementation of the PRSP. The conduct of a household budget survey, the launching of the pilot labor survey, and the further work that is currently under way on the collection and dissemination of data can be taken as an indicator of the authorities' increased awareness of the importance of sound data for the monitoring of poverty incidence. Nevertheless, sustained efforts will be required to improve statistics, many of which are apparently outdated. Having heard the staff's response to Mr. Beauregard's question, I would expect perhaps that the current HBS would be followed by another sample-based survey by the time of the annual PRSP implementation review, unless the capacity of the statistics bureau is generally improved in the next year allowing for resumption of regular reporting.

With these remarks I wish the authorities further success.

Mr. Ioannou made the following statement:

I welcome the opportunity to discuss the PRSP. We recognize that the PRSP is a country-owned document and that excessive interference with it should be avoided. At the same time, it is the Board's responsibility to ensure that the strategy launched by the authorities contributes to the success of the HIPC Initiative and will have tangible results on poverty. Balancing these two responsibilities, this chair can endorse the PRSP, with some reservations.

Tanzania's PRSP contains many strong points, which have been outlined by previous speakers. At the same time, it suffers from a number of weaknesses. The most important one is the absence of statistical data on poverty. It is hard to explain how a country that has acquired much experience working on poverty reduction and has prepared a PRSP within the context of the enhanced HIPC Initiative has to rely on data from 1991–1992. Clearly, such an arrangement is not satisfactory. Any poverty reduction strategy must rely on recent data as a reference point upon which policies can be assessed. Without such a reference point, it will be impossible to evaluate the adequacy of Tanzania's poverty reduction strategy. I recognize the efforts that the authorities are making in this area. Nevertheless, I think that such data should be available prior to the implementation of the poverty reduction strategy.

The lack of annual targets for monitoring outcomes is also a problem. One will have to wait for at least three years to determine if the poverty reduction strategy is working or if policies have to be adjusted. Furthermore, it appears that the essential elements of the PRSP, such as the costing of various action plans, are not entirely in place yet. In addition, the delegation of poverty-related spending to local governments will occur without an appropriate monitoring and accountability mechanism.

One would have expected that by the time the PRSP was ready, the weaknesses mentioned would have already been addressed. The PRSP is a work in progress but, in my view, that only means that once a fully-integrated poverty reduction strategy is put in place, it can be modified on the basis of feedback resulting from the implementation of the program. It does not mean the gradual development of a poverty reduction strategy over time. Accordingly, I wonder if it would have been more appropriate if the presentation of the PRSP had been delayed by a few months, since the authorities would be in a position to make considerable progress in addressing those weaknesses during the first half of next year.

Rushing to produce a PRSP will be jeopardizing the attainment of tangible progress in poverty reduction by the time of the completion point. Even if such progress is achieved, we will have no way of knowing that it has taken place.

The authorities intend to address many of the issues that I have raised in the context of a first annual progress report. In my view, that is not entirely appropriate. The purpose of an annual progress report is to provide an account of the progress achieved in poverty alleviation pursuant to the implementation of a poverty reduction strategy. The annual progress report should not merely be a report of the progress achieved in developing a fair and complete poverty reduction strategy. That should have already been established. Instead, the focus of such a report should be on the implementation of the poverty reduction strategy and its impact on the country's poverty level.

Mr. Sigurgeirsson made the following statement:

I welcome the joint staff assessment of the PRSP and agree with its overall content. I would like to underline that the PRSP should remain a work in progress. I would note that some significant items could have been better explained in the PRSP. This may reflect the drive to finalize the document in a short time frame.

I would like to mention, specifically, the matters of governance and the fight against corruption. I believe that these issues should be addressed in the first PRSP progress report. I do note in the joint staff report and in Mr. Rustomjee's statement that the authorities recognize these concerns, and that, in many cases, measures to address them are well underway.

With this in mind, I would like to associate my views with those of Mr. Pickford, Mr. Fenton, and Ms. Ongley and support a flexible approach that is not time-specific as to when Tanzania can reach the completion point, once all the triggers have been satisfied.

Mr. Sipko made the following statement:

The Tanzanian authorities have been successful in macroeconomic stabilization and they have made some progress in structural reforms. In order to follow the poverty reduction strategy, it will be necessary to maintain a stable macroeconomic environment and to avoid any slippages in structural reform. Sustained economic growth for the medium term is the main condition for poverty reduction. The PRSP document was well prepared and is a good starting point in the struggle against poverty.

I would like to concentrate on some weaknesses that would need to be addressed by the time of the first annual PRSP progress report. For transparency and monitoring, it is necessary to maintain a better quality of statistical data. Without sufficient institutional capacity at all levels, including local authorities, such a task would seem to be rather difficult.

The poor performance of the agricultural sector has been a significant factor in the deterioration of rural living standards. The PRSP indicates that growth is expected in the rural areas. Before starting the process of monitoring, it might be useful to create an institutional framework to gather and disseminate data.

Other weaknesses include the feasibility of fiscal expenditures and the relevance of historical data.

For structural reform and private development, it will be necessary to improve the institutional and legal framework, as well as the judicial system of the country. We have taken into account additional measures that have been adopted by the government, such as the elimination of primary school fees and job creation.

In the area of financing and the budgeting of the poverty reduction program, the allocation for housing expenditures is questionable. According to the medium-term economic policy framework, there will be a shortfall for new housing needs. As such, improvements in public expenditure management and cooperation among the different levels of government will be required.

We commend the authorities for the progress that has been achieved in the major areas of the poverty reduction strategy, namely the national strategy for primary school education and development. We encourage the authorities to continue work in those areas. With these comments, we wish the authorities all the best.

Mr. Santos made the following statement:

We enjoyed reading the PRSP of Tanzania. It gives us assurances that the authorities are on the right track to eradicate poverty. We would just like to make three points.

First, while following the right process is good, more important is the content of the PRSP as this is what ultimately will determine the extent of poverty alleviation, and maybe even more important is the extent to which the PRSP is implemented. Hence, while the process followed the recommendations, results will depend ultimately on the extent to which the poverty reduction strategy proves to be adequate and is implemented in its entirety.

Second, as we have frequently made the case, the PRSP identifies economic growth as ultimately the key for sustained reduction in poverty. Hence, a stable macroeconomic environment and structural adjustment reforms should be important ingredients of the poverty reduction strategy. Of course growth is just a necessary condition for poverty alleviation, not a sufficient one. This is because equity in redistribution of growth dividends is an important precondition for poverty alleviation, one that depends on government policies and the pattern of growth. Hence it is necessary to make sure that in the case of Tanzania these two elements are conducive to equitable growth.

Finally, we take note that the PRSP is still very much a work in progress, also reflecting the authorities wish to move as quickly as possible to the HIPC Initiative Completion Point. While some of the refinements will be included in the first annual PRSP progress report, we will expect that the progress report provides a clear judgement on the implementation of the PRSP as it stands, with all its shortcomings. Indeed, for us the progress report is not so much an updated PRSP but an assessment of the implementation of the PRSP.

Mr. Le Gal made the following statement:

I would like to briefly associate myself with the comments made by the U.S. and German chairs.

First, on the necessity to put more emphasis on the role of the private sector and on reforms which will improve the business climate. Second, we also feel that more tangible progress should be made in the fiscal area in terms of tax revenue. Finally, I concur with the views expressed by Ms. Lundsager that it is crucial to remain consistent while applying standards which have been set in the framework of the HIPC Initiative process and to allow enough time for an extensive participatory process.

Mr. Rustomjee stated that he would discuss the major issues that had been raised—such as on education, governance, the need to improve annual indicators, and the development of the national anti-corruption strategy—with the authorities. He found it valuable that his colleagues recognized that the needs in Tanzania were significant while resources had been minimal.

There had also been considerable comments on donor coordination, the need to develop a sound monitoring system, and the impact of HIV/AIDS, Mr. Rustomjee noted.

He welcomed the support of some Directors for the possibility of allowing some flexibility in achieving an early completion point if the required conditions were met, Mr. Rustomjee said. However, he had also taken note of the fact that many other Directors felt that no corners could be cut and that there would need to be a long track record of implementation of the PRSP.

As Mr. Kelkar had stressed, a one-size-fits-all approach, even within regions of a country, should not be applied, but rather, the focus should be on an approach that varied from region to region, taking into account varying qualities of infrastructure and literacy rates, Mr. Rustomjee observed. The authorities would welcome that suggestion for a differentiated approach.

He would convey to the authorities Mr. Beauregard's comment that, as expenditure was being decentralized, there would need to be an auditing mechanism in place, Mr. Rustomjee stated. The authorities were committed to ensuring that the participatory process continued with the implementation of the poverty reduction strategy itself.

On improving statistical data on poverty, page 10 of the PRSP stated that there had already been substantial activity in that area, Mr. Rustomjee remarked. The need for current data was important, but the trouble lay in the substantial costs involved and the infrequency of the surveys conducted in the country. As the surveys were not an annual event, the people who coordinated and conducted them often were not available once the surveys were completed. The international community should therefore focus its technical assistance in the area of data gathering and monitoring. Additional resources from external sources would be needed to obtain accurate data on poverty; otherwise, the authorities would have no recourse but to rely on data from 1991–1992 during the implementation of the PRSP.

The Acting Chairman made the following summing up:

> Executive Directors welcomed Tanzania's Poverty Reduction Strategy Paper (PRSP) as providing a credible basis for sustainable improvements in the lives of the poor. Given Tanzania's strong track record in recent years of policy reform, macroeconomic stability, and growth, Directors expected that the implementation of the poverty reduction strategy would be effective. They noted, however, that some important elements of the strategy have yet to be developed.

Directors praised the strong country ownership of the strategy and the fact that the poverty assessment is built on a solid consultative process with civil society and other development partners. Within the context of sound macroeconomic policies, the strategy aims at addressing the main causes of poverty, including a history of low growth, lack of access to social services and infrastructure, and governance issues. Directors considered that the medium- and long-term targets and indicators of poverty reduction and human development are appropriate and realistic. Moreover, policies are already being reoriented in light of the PRSP process, expenditure priorities are being shifted, and specific plans are underway, including the elimination of fees for primary education.

Directors noted, however, that in a number of respects, the strategy remains a work in progress. Available data are not fully adequate for analysis of poverty incidence and trends, and a general improvement in data would be helpful. Nevertheless, Directors concurred with staff that, taking account of findings from the consultative process, there is an adequate basis for designing a poverty reduction strategy. At the same time, they considered that the PRSP could have given more attention to macroeconomic and other policies for sustaining growth, the prime prerequisite for poverty reduction, and to the linkages between poverty reduction and other policies. They also stressed the need for further work on the prioritization and costing of fiscal expenditures, and completion of the reforms currently underway in the monitoring, control, and auditing of government expenditures, at both the central and the local level. Further work is also needed in developing and costing specific sectoral strategies, such as for education, agriculture and rural development. Directors emphasized the importance of identifying a program of specific actions to strengthen governance, including the judicial system. They also considered that greater attention to gender issues, HIV/AIDS, primary education, and the environment would be desirable.

Most Directors felt that, notwithstanding these gaps, the speed with which the PRSP had been produced was justified by the effect it had had in accelerating the development of the strategy and some important related decisions. They recognized the wish of the authorities to proceed quickly, particularly given the link between the PRSP and the HIPC Initiative completion point. Some Directors, however, felt that Tanzania should have spent more time on the PRSP, to make the strategy more complete.

Directors emphasized the need for outstanding issues to be addressed convincingly in the first annual progress report on the implementation of the poverty reduction strategy to provide a basis for Tanzania to reach the completion point under the HIPC Initiative. In light of the government's commitment to implementing a comprehensive set of policies to reduce poverty, and to further developing the strategy in the progress report, they considered that the PRSP provided a sound basis for Fund concessional assistance to Tanzania.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/00/117 (11/29/00) and EBM/00/118 (12/1/00).

4. FINANCING FUND PARTICIPATION IN INITIATIVES FOR HEAVILY INDEBTED POOR COUNTRIES AND POVERTY REDUCTION GROWTH FACILITY—USE OF INVESTMENT INCOME ON PROCEEDS OF OFF-MARKET GOLD TRANSACTIONS

Pursuant to Article V, Section 12(f), the Fund decides that the remaining five-fourteenths (5/14ths) of proceeds from investments equivalent to SDR 1.76 billion on an "as needed" basis kept in the Special Disbursement Account in accordance with the last sentence of paragraph 2 of Decision No. 12063–(99/130), adopted December 8, 1999, shall be transferred and used in the same manner as specified for the other nine-fourteenths (9/14ths) of the proceeds in paragraph 2 of Decision No. 12063-(99/130). (EBS/00/224, 11/13/00)

Decision No. 12330-(00/118), adopted
November 30, 2000

5. APPROVAL OF MINUTES

The minutes of Executive Board meetings of 00/17 and 00/25 are approved.

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and Advisors to Executive Directors as set forth in EBAM/00/158, Supplement 1, 11/28/00; EBAM/00/160, Supplement 1, 11/28/00; and EBAM/00/161, 11/28/00 is approved.

APPROVAL: October 31, 2001

SHAILENDRA J. ANJARIA
Secretary