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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 01/26

2:45 p.m., March 14, 2001

Contents

Executive Board Attendance

S. Sugisaki, Acting Chairman

Executive Directors	Alternate Executive Directors
	J.G. Borpujari, Temporary
A. Barro Chambrier	
	J.A. Chelsky, Temporary
	W.C. Mañalac, Temporary
	S. Bonomo, Temporary
	D.H. Kranen, Temporary
	J.N. Santos, Temporary
	H.E. Phang, Temporary
	V. Bhaskar, Temporary
	A. Jacoby, Temporary
	T. Elkjaer, Temporary
	E.S. Weisman, Temporary
	S. Boucher, Temporary
	S. Rouai, Temporary
	I. Zakharchenkov, Temporary
	E. González-Sánchez, Temporary
	B. Kelmanson, Temporary
	A. Maciá, Temporary
C.D.R. Rustomjee	
	S.A. Bakhache, Temporary
	Liu Fushou, Temporary
	A.D. Marinescu, Temporary
	K. Harada, Temporary
	L. Ocampos, Temporary

J. Prust, Acting Secretary
C.E.L. Andersen, Assistant
K. Kundu, Assistant

Tanzania—Poverty Reduction and Growth Facility—Review and Modification of Performance Criteria; Additional Interim Assistance; and Annual Program for 2001
Staff representatives: Basu, AFR; Hadjimichael, PDR

Also Present
IBRD: J. Adams, Africa Regional Office. African Department: G.E. Gondwe, Director; A. Basu, Deputy Director; G. Kalinga, M. Nowak, H.A. Snoek. External Relations Department: C.N. Lotze. Fiscal Affairs Department: A. Fedelino. Legal Department: R.B. Leckow, M.B. Luedersen. Policy Development and Review Department: M.T. Hadjimichael, M. Hussain. Research Department: S. Collins. Secretary's Department: T. Turner-Huggins. Western Hemisphere Department: S.V. Dunaway. Office of the Managing Director: R.S. Teja. Advisors to Executive Directors: N. Guetat. Assistants to Executive Directors: T. Belay, D.B. Waluyo.

1. TANZANIA—POVERTY REDUCTION AND GROWTH FACILITY—REVIEW AND MODIFICATION OF PERFORMANCE CRITERIA; ADDITIONAL INTERIM ASSISTANCE; AND ANNUAL PROGRAM FOR 2001

The Executive Directors considered a staff paper on the second review under the three-year arrangement for Tanzania under the Poverty Reduction and Growth Facility, its request for modification of performance criteria and additional interim assistance, and its annual program for 2001 (EBS/01/26, 2/28/01; and Cor. 1, 3/13/01).

Mr. Rustomjee submitted the following statement:

> I would like to express my Tanzanian authorities' sincere gratitude to the staff for the intensive and fruitful policy dialogue during the second review in the context of the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), and the negotiations for the annual program for 2001. The annual program reaffirms their commitment to a meaningful stabilization and reform process, which should help make a significant dent in poverty.
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> Tanzania held its second post independence multiparty general elections on October 29, 2000, which resulted in the ruling Party's returning to office and in the re-election of President Mkapa as President. The re-elected Government is convinced that its will to succeed, the assistance of the multilateral financial institutions, and the financial support from donor countries will enable it to set Tanzania on the firm path of sustainable growth and poverty alleviation. The authorities fully recognize that, to sustain a high rate of economic growth and to address the problems of poverty, significantly stepped-up efforts will be necessary to ameliorate social conditions.
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> My authorities continued to demonstrate their firm commitment to the adjustment process in 2000. As acknowledged by the staff report, economic developments in 2000 were, on the whole, encouraging. Despite the continued decline in the terms of trade, thanks to the improved performance in agriculture and the continued expansion of mining and tourism, real GDP growth was in line with the target. On account of the efforts in the fiscal and monetary policy fronts and the continued relative stability in the exchange rate, inflation continued to decline for the fourth successive year, declining from 15.5 percent in 1996 to 5.5 percent at end-December 2000, despite the rising cost of fuel. Moreover, the improvements in the external current account helped the accumulation of foreign reserves, which were considerably higher than expected.
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> Fiscal developments in 2000 were satisfactory as tax revenues, partly reflecting the elimination of exemptions, were significantly higher relative to the target and expenditures, in spite of elections-related pressures, remained

lower than targeted. However, despite the authorities' effort to significantly improve fiscal operations, which was also demonstrated by considerable payments of past domestic arrears, weaknesses in budgeting, expenditure management, and the cash-rationing system caused the accumulation of new domestic arrears. In the course of 2001, the Government will implement a number of measures to improve expenditure planning, execution, and control, and to avoid the emergence of new arrears.

Monetary policy continued to aim at reducing inflation. Intervention through the Treasury bill auctions remained the Bank of Tanzania's main monetary policy instrument, supplemented by repurchase operations with the banks.

Tanzania also continues to make good progress in implementing the structural reform agenda. A large number of entities were privatized, including the Tanzania Telecommunications Corporation. Much preparatory work was also done on the restructuring and privatization of the remaining large public utilities and monopolies. The Government also recently launched the national microfinancing policy initiative. Once lending operations of the new National Microfinance Bank commence, access to credit by the poor is expected to considerably improve.

On governance issues, considerable progress continued to be made. The newly established commercial court is resolving disputes promptly and efficiently. The Government also remained committed to resolving the power tariff dispute between the Electric Company, TANESCO, and the Independent Power Tanzania Limited, and is currently reviewing the recent international arbitration ruling on the matter.

The positive developments of 2000 have allowed Tanzania to meet all quantitative performance criteria and most benchmarks for end-September 2000 with wide margins. All structural performance criteria and most structural benchmarks were also met.

The policies for 2001 have been mapped out in line with the Government's poverty reduction strategy outlined in the Poverty Reduction Strategy Paper (PRSP) that was endorsed by the Boards of the IMF and the International Development Association in late 2000. My authorities are keen to demonstrate their usual strong determination to further improve macroeconomic performance and deepen structural reforms in 2001.

Accordingly, in the area of fiscal policy, programs will be drawn up on the basis of the objectives outlined in the original PRSP and the update of the PRSP now under preparation, taking into account the need to increase resources for programs aimed at growth promotion and poverty alleviation, while ensuring a sustainable overall fiscal balance. One of the key aspects of strengthening fiscal operations will comprise efforts to improve commitment and expenditure control. The newly established Finance Control Unit in the Accountant General's Department is an important step in this direction. Moreover, the enactment of the new Public Finance Act and the new regulations based on this legislation are expected to further facilitate control and avoid spending outside the new Integrated Financial Management System, which is government's main accounting mechanism.

In the area of monetary policy, the authorities will continue to be committed to maintaining the gains on the inflation front and protecting foreign reserves. Efforts will also continue to be made to further improve the soundness of the banking system. Exchange rate intervention will aim at smoothing out undesirable fluctuations and safeguarding the foreign reserves position.

The authorities will continue to attach high importance to structural reforms in view of their salutary impact on enhancing economic efficiency and the overall poverty reduction strategy. Privatization will focus on restructuring and divesting the large utilities and monopolies. The authorities are giving utmost attention to resolving the serious financial difficulties of the Tanzania Electric Supply Company, TANESCO. Important steps have already been taken, including the clearance of budgetary arrears to TANESCO. Measures are also being put in place to strengthen the management of TANESCO, and the Government has identified ways to improve TANESCO's efficiency. In particular, the industrial sector is expected to gain from these measures as high electricity costs have been negatively impacting on the profitability of the sector.

In the area of governance, efforts will continue to aim at reducing unwarranted practices and improving the delivery of services. Such measures should help to, in particular, reduce the vulnerability and insecurity of the poor.

Despite many difficulties, my authorities have continued to demonstrate their strong commitment to the adjustment process. Their expressed intention to continue with the reforms with a firm hand should provide assurance that, with generous external support, they can meet the various challenges directly. Therefore, I request the Board to complete the second review under the PRGF arrangement, and to also support the staff's recommendation that the Fund provide a further year of interim assistance under the Highly Indebted Poor Countries (HIPC) Initiative. Finally, I am pleased to indicate my authorities' willingness to have the staff report published.

Mr. Guinigundo and Mrs. Mañalac submitted the following statement:

Over the past few years, Tanzania has made significant progress in achieving macroeconomic stability and implementing structural reforms. Given that the country has largely been on track with the program, we support the completion of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) and the provision of additional interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

As we broadly agree with the staff's appraisal, we shall limit our comments on a few issues that continue to lengthen the authorities' path towards their objectives of sustained growth and poverty alleviation.

We note that revenue generated was much higher than programmed. However, in spite of this good performance, the level of arrears increased due to weaknesses in cash allocation and expenditure management. In this connection, we concur with the authorities' intention to shift from a cash-budgeting system to a cash-planning and management scheme. Accompanied by the introduction of quarterly indicative cash-allocation targets for nonwage expenditure for all budgetary votes and the monthly provision of cash releases, we support the authorities' view that these measures would enhance the predictability of cash disbursements to implementing ministries and lessen the probability of arrears. We also look forward to the implementation of measures to improve expenditure planning, execution, and control, which would include strengthening the capability of ministries and subtreasuries in these areas. In this regard, we note that all central government votes are now included in the Integrated Financial Management System (IFMS), although would welcome the staff's comments on whether the security concerns that led some votes to stay out of the system have been resolved and whether it is still possible for budgetary votes to withdraw from the system, as did the State House.

We would also encourage the authorities to change the current system of tax exemptions to a budgetary outlays-based system. The staff paper notes that in the area of tax exemptions for nongovernmental, religious, and charitable institutions, the authorities decided not to move to an outlays-based arrangement but rather tightened the present system of exemptions because it would be faster, and, administratively, it was the least complicated approach. We feel the benefits in terms of control and transparency of an outlays-based system would far outweigh any administrative gains of maintaining an arrangement based on tax exemptions.

Tax revenue was significantly higher than anticipated and the staff noted that, given developments in the first five months of the fiscal year, there is the prospect of considerably more excess revenue than in the budget. While the authorities have been appropriately cautious in lifting their revenue projections and have indicated that any additional revenue would in the first instance be used to clear arrears, we would appreciate any estimate the staff can give on the likely magnitude of "excess" tax revenue.

We welcome the substantial increase in spending for the priority sectors, which amounted to an even higher amount than relief under the HIPC Initiative. We hope that this trend continues in order to address continuing social concerns more effectively.

On the banking sector, we note the continued wide spreads between commercial banks' lending and deposit rates. In this regard, we welcome plans by the authorities to adopt measures that would increase competition in the industry, such as the establishment of a credit information bureau that could reduce lending risks. We endorse the Bank of Tanzania's (BoT) monitoring of the interest rate structure that the banks effectively apply by compiling and reporting weighted-average lending rates. Going a little further, more competition could be encouraged by mandating banks to publish their rates; e.g., on a daily basis, to provide prospective borrowers with adequate information which can be used as basis for their eventual choice of bank from where to borrow. Lowering banks' intermediation costs (partly determined by reserve requirements) could also be explored as one possible solution to narrow the spread between lending and deposit rates.

To encourage bank lending, the authorities will issue regulations by June 2001, which would facilitate the use of land and real estate as collateral. While we support this measure, in our view such a move should be accompanied by the necessary prudential regulations and continued strengthening of banking supervision in order to avoid the possibility of banks' overexposure to these types of collateral.

Even as Tanzania has made considerable progress in its debt negotiations with Paris Club members, we regret that no significant steps forward have been achieved in terms of its debt with non-Paris Club official creditors. We therefore urge the authorities as well as their creditors to exert greater effort to arrive at rescheduling agreements in the near term.

Finally, in a recent news report, we learned that the authorities intended to introduce legislation that would restrict foreign investments in a bid to encourage investments by local black entrepreneurs. In our view, an alternative approach could be to lay down the necessary groundwork that would provide a level-playing field for both foreign and domestic investors. As there was no mention of any problem with regard to foreign investments in the staff report, we would appreciate the staff's clarification on this matter.

We wish the authorities success in their endeavors.

Mr. Kelkar submitted the following statement:

We are thankful to the staff for a focused document and Mr. Rustomjee for his helpful preliminary statement. The performance of the Tanzanian economy continues to be reassuring after the approval of the PRGF arrangement nearly a year ago. GDP growth has been as per target, while inflation has declined though slightly less than as per projections. The fiscal deficit is under control. All quantitative and structural performance criteria as well as most benchmarks under the facility have been met. We therefore support the completion of the second review and the provision of interim assistance for a further year, under the HIPC initiative.

Fiscal performance during the past year has been strong with increased revenue collections accompanied by controlled expenditures. The only disquieting feature is the accumulation of new expenditure arrears even as the authorities make efforts to clear the old ones. It is pointed out in paragraph 26 that this was partly because of 'inadequate cash allocations to make unavoidable expenditures—e.g., food for the military and prisoners.' While we agree with the staff that this reflects continued weakness in the financial management system, could it also possibly reflect the lack of a pragmatic approach while making the budgetary allocations in the first place? The steps proposed to be taken by the authorities to improve the functioning of the IFMS; the passage of the Public Finance Act, strengthening the audit and financial capacities in the ministries appear to be appropriate. We presume that results—in the form of improved functioning—will be seen during the current year.

The increased allocation for priority sectors made in the budget, as shown in Table 8 is encouraging. As pointed out by the staff, this increase is beyond the savings generated through interim assistance provided under the HIPC initiative and demonstrates the commitment of the authorities to hasten progress in this critical sector. However, the allocation for agriculture, on which the Tanzanian economy is critically dependent, appears to have been reduced in the budget. This seems to be attributable to reduction of personal emoluments in this sector by more than 50 percent. We would like to know how this has been achieved and invite the staff's comments on whether this emphasis is consistent with the strategy on agriculture, which the authorities are proposing to finalize by June 2001 for incorporation in the PRSP.

Given how the power sector has hamstrung the economy in the past, we commend the commitment shown by the authorities to resolve the financial problems faced by the TANESCO, including clearance of its arrears from government ministries, departments and agencies. TANESCO needs to be developed into an efficient and financially viable entity as early as possible. In this connection we are concerned by the statement in paragraph 34 that if the arbitration ruling is accepted by the authorities, the high cost of tariff payments to Independent Power Tanzania Ltd (IPTL) may need to be supported through the budget. Though the staff has pointed out that this will mainly affect next year's budget, it is not clear how long this budgetary support will be required. Understandably this will be linked to the pace of efficiency improvements in TANESCO, as well as the need to maintain the competitiveness of the industrial sector. However in view of newspaper reports on IPTL, we welcome the staff's comments on the long-term viability of power purchased from this source.

In regard to the banking sector, we support the efforts of the authorities to address the twin problems of the high cost of as well as access to credit. Dissemination of credit information, improving debt recovery procedures, as well as strengthening of bank supervision, will doubtless reduce spreads and bring down cost. We are confident that steps to improve the functional efficiency of banks will also be taken in parallel. In regard to credit access, it is heartening to note the emphasis being placed on microfinance as a direct consequence of the PRSP consultations. The setting up of the National Microfinance Bank, and the issue of legal and operational regulations for microfinance by mid 2001, would doubtless be focused on expansion of credit in the rural sector with the poor being directly benefited.

The risks to the program from adverse weather conditions as well as infrastructure constraints remain. The authorities would also need to foster an atmosphere of regional security and peace to enable them to proceed with the implementation of their poverty alleviation and growth agenda in an uninterrupted and efficient manner.

We wish the authorities success in their challenging policy endeavors.

The staff representative from the African Department said that the staff had recently learned that the World Bank was considering the Songo Songo gas development and power generation project, which was supported by IDA credits and would involve the private sector. While all of the details were not presently available, some of the agreements relating to the project had already been signed, including one agreement signed in 1996. Other parts of the transaction had not been finalized yet. Based on the information available, it appeared that the project could involve external debt and exchange rate guarantees. As such, it could have implications for the Tanzanian program. Notwithstanding these uncertainties, however, the staff and management would still recommend completion of the second review.

Mr. Barro Chambrier made the following statement:

At the outset, I would like to thank the staff for the well-written report and Mr. Rustomjee for his helpful preliminary statement.

Tanzania's economic performance and implementation of structural reforms in 2000 was in line with the program. Although important challenges lie ahead as the authorities seek to alleviate poverty, they should be commended for their continued efforts.

Since I agree with the staff's analysis and recommendations, I support the proposed decision. I will limit my comments to a few points of focus. In the fiscal area: there is still a need for strong actions by the authorities to improve revenue performance and expenditures management. In this connection, the timely implementation of measures outlined in Box 2, will be critical. In the same vein, I support the authorities' plan to develop a reform program aimed at helping local governments strengthen their budgetary procedures and revenue collection, with technical assistance from the Fund.

I note that monetary policy will continue to aim at the achievement of the inflation target. In view of the anticipated increase in demand for money in 2001, a close monitoring in inflation developments by the Bank of Tanzania, with a view to tightening the monetary policy stance should the need arise, will be critical to the attainment of the inflation target.

Like Mr. Kelkar, I welcome the authorities' resolve to address the issue of the high cost and access to credit. The establishment of a credit information bureau is an important step, but more is needed to increase competition in the sector, in order to reduce the spread between banks' deposit and lending rates.

Although the banking system is rated sound, the continued focus by the Bank of Tanzania to strengthen banking supervision is welcomed, particularly with the planned introduction of legislation facilitating the use of land and real estate as collateral. In the same vein, we commend the authorities' efforts to improve the judicial system, since weaknesses in the legal framework and processes is one of the constraints to the development of private sector activities as indicated in Box 1.

Measures taken to develop microfinance are in line with the authorities' poverty reduction objectives, as they will increase access to credit for the poor.

On poverty issues, I commend the authorities for formulating their policies for 2001 in line with the PRSP prepared last year. The continued good performance in the implementation of sound macroeconomic policies and structural reforms will contribute to the achievement of poverty reduction objectives, and I look forward to Tanzania's progress report on the implementation of the PRSP. Specific actions targeting agricultural production, as described in paragraph 8 of the letter of intent are important, but measures aimed at increasing efficiency should also receive proper attention.

On structural reforms, one of the key measures is the privatization of the remaining utilities, particularly the energy sector. For the latter, the clearance of public sector's arrears to Tanzania Electric Supply Company (TANESCO), and actions taken to strengthen the company's management are steps in the right direction. Since the current dispute with Independent Power Tanzania Ltd (IPTL), might require an important disbursement by TANESCO, I would like the staff to clarify whether this company could reach a sound financial situation before privatization, and also, some comments on the timeframe envisaged for its privatization will be welcomed.

On governance issues, I appreciate the authorities' determination to implement an anti-corruption plan and to bring corrupt officials to justice as soon as any evidence of corrupt practices is revealed. The Public Service Reform Program that will set guidance on disciplinary action will also enhance accountability. The reinforcement of the Ministry of Justice notably by the recruitment of new magistrate will also contribute to improving good governance.

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

Mr. Kelmanson made the following statement:

We endorse the staff's appraisal and support the proposed decisions. Once again, I commend the authorities for maintaining stable economic management and progressing with structural reforms, which continue to facilitate solid economic growth and low inflation. The better export performance in recent years is welcome—the increase in volume and signs of diversification are encouraging. As the staff notes in its well-written report, the country's encouraging outlook owes much to the implementation of sound macro, monetary, and structural policies, which continue under this program.

On fiscal issues, the authorities acted prudently in strictly limiting allocations under the cash-rationing system in anticipation of election-induced spending. It is a welcome sign that Tanzania avoided excessive election costs. While this action is prudent in preserving macro stability, the authorities should also guard against the adverse effects on public service delivery, which the cash-rationing system prolongs. We, therefore, welcome government plans to provide quarterly cash allocation targets and hope that as fiscal sustainability is consolidated, the authorities will be able to move to quarterly releases.

The key challenge for the government over the next few years will be to ensure a stable macroeconomic environment and to improve service delivery with high levels of government expenditure. Sound public expenditure management will be central to that end, which was also a point raised in the general discussion some weeks ago on tracking poverty-related expenditures in HIPC Initiative countries. This is essential to facilitate more predictable budgeting and to prevent the recurrence of arrears. Local government reforms are important too, since delivery of many priority sectors depends critically on local levels of government.

We, therefore, welcome the priority given to these issues in the 2001/02 program, and also welcome the introduction of new budgeting procedures under the Medium-Term Expenditure Framework. In particular, we are encouraged by the extension of the budget preparation period, the focus on PRSP priorities, the preparation of a set of fully costed contingent priority expenditures that can be implemented if resources permit, and recent parliamentary approval of the finance act and procurement bills. However, we hope that greater attention can be paid to integrate privatization into next year's budget.

Consistency in revenue flow is also an important prerequisite for predictable expenditure management. The proposed revenue reforms and the tax reforms that have already been implemented are welcome in this regard. However, external support from bilateral donors and debt relief need to be reliable and timely in relation to the budget cycle, as well as being channeled through the budget.

As we said at the time of the last review, donor coordination needs to be advanced by changing the way in which external assistance is provided and integrating it into a budget program supported by the PRSP.

It is important, especially given the progress on the macro and budgeting side, to adhere to a floating completion point for Tanzania under the HIPC Initiative and maintain flexibility in assessing this. If Tanzania makes adequate progress in meeting the trigger points before June, the completion point should be reached thereafter. Debt relief should then be coordinated with the 2001/02 budget.

Aside from expenditure management reform, we welcome progress on other structural reforms, including those in the banking sector, governance, and public accountability. Improving the country's reputation as a place for investors to conduct new business is needed. We also welcome the gradual progress on trade and tariff reform, which seems to have offset the real appreciation of the currency and preserve Tanzania's global competitiveness.

The appreciation of the exchange rate and the accumulation of reserves bring me to a point on which I would welcome staff clarification. Clearly, the nominal exchange rate has increased with additional aid inflows. However, with the significant buildup in reserves, it is not clear how those inflows have been spent. I would be grateful for a staff explanation on the underlying factors contributing to the accumulation of reserves, the reasons that imports have not increased to offset aid inflows, and the authorities' response.

To conclude, we see much to commend the Tanzanian authorities. We are grateful to Mr. Basu for his update on the new gas and power project that could involve external debt and exchange rate guarantees. Clearly, foreign direct investment is exactly what Tanzania needs to assist in economic diversification and growth. That is welcome, but we look forward to a further assessment by the staff on the possible implications of the project on program compliance.

Mrs. Boucher made the following statement:

We thank the staff for its report. Since previous speakers and Directors have already raised several issues in their statements, I would like to emphasize a few points.

I would like to join other Directors in commending the Tanzanian authorities for their significant progress in macroeconomic stabilization and structural reforms. GDP growth has increased consistently over the past three years, inflation has declined to a satisfactory level, and the level of foreign currency reserves is high. As indicated by Mr. Rustomjee's useful statement, the Tanzanian authorities appear to be firmly committed to implementing their poverty reduction strategy—addressing the major impediments to growth and aiming to allocate more resources to priority sectors. The fiscal area, however, remains a major concern. Despite encouraging improvement in revenue collection, the share of revenue to GDP of about 10 percent remains relatively low and is projected to only increase to 10.8 percent by 2002/03. It would have been preferable to target higher levels in order to reduce the dependence on external financing.

Moreover, the accumulation of new arrears is a sign of weak public expenditure management. Like other Directors, we believe that the enactment of the new finance act and the implementation of new regulations will require close monitoring.

In reviewing the list of performance criteria that have been met over the course of last year, there is no question that the authorities have managed the overall program agenda well. However, the staff has appropriately stressed the problem of TANESCO's performance and the potentially adverse impact on the government's budget from the recent ruling in favor of IPTL. In this respect, I would like to associate myself with the comments made by Mr. Barro Chambrier and Mr. Kelmanson. It would be useful to know whether the consultants, who are due to prepare a detailed plan for TANESCO's divestiture, have been selected as that is one of the benchmarks that has not been fulfilled yet. As structural conditionalities have been streamlined under the new program, and given, the importance of moving toward improving TANESCO's management and financial situation, it might be sensible to maintain a performance criterion to assess that issue.

It is expected that the Board will be kept apprised of the proposed gas and power project that has been envisaged by the authorities and discussed with the World Bank. Could the staff comment on how the project will be monitored through the World Bank's program assistance?

Finally, I would like to associate myself with the comments made by Mr. Guinigundo and Ms. Mañalac on the need to finalize the near-term rescheduling agreements with non-Paris Club creditors.

With these comments, I confirm our support of the proposed decision, and we wish the authorities all the best in their endeavors.

Ms. Bonomo made the following statement:

I would like to thank the staff for this document, Mr. Rustomjee for his preliminary statement, and state at the outset that I support the proposed decision. In the last years, Tanzania has achieved macroeconomic stability. The measures envisaged under the current program will further sound macroeconomic management, and I concur with the staff's assessment that the authorities are committed to maintaining macroeconomic stability, implementing structural reforms and pursuing a vigorous poverty reduction policy.

However, risks still exist, especially on the fiscal side. I, therefore, welcome the emphasis on fiscal issues for the coming year, or, as Mr. Barro Chambrier put it: There is need for strong actions. Although revenue collection has been improved, the revenue-to-GDP ratio is still low, even compared to other similar sub-Saharan African countries. Increasing revenue collection is essential for Tanzania to finance development-related expenditure and ultimately reduce dependency on external assistance. Therefore, I welcome the measures that are being implemented to rationalize the tax system and to strengthen the tax administration, like the establishment of the Large Taxpayer Unit, and the review of the exemption given to charitable institutions. However, while broadening the tax basis is the only sustainable way to improve tax revenues, important tax exemptions have been granted to investors in some key sectors such as mining or tourism. Such exemptions might be explained by the high costs of doing business in Tanzania, especially for pioneering investments. Nevertheless, I would welcome an assessment of these exemptions, given the dominance of these sectors in the growth prospects. What is the economic impact of these exemptions and what is the cost for the state budget? Could a case be made to revise the scope and level of these incentives?

On the expenditure side, I am concerned with the continuing occurrence of arrears, which clearly highlight weaknesses in the budget process. Some arrears might have been induced by the cash budget management. However, the recurrence of arrears shows the need to urgently move towards a more realistic budgeting process and to improve prioritization of expenditures. While the clearance of past arrears by the government is a welcome step, it is not enough and a solution must be found to prevent the systematic build-up of arrears.

Moreover, I am concerned with the resurgence of extra budgetary expenditure and hope that they will be avoided in the future. A third risk to the budget stems from TANESCO and IPTL. I would like to urge the authorities and the staff to pay particular attention to these issues in the course of the implementation of the program.

On improving the working of the Integrated Financial Management System, I have three comments: First, I welcome the measures that are presently being taken to control commitments outside the System. Second, according to the paper, the production of monthly flash commitment and expenditure reports (one of the benchmarks) has not yet begun and I would like to ask for the reasons for this delay. Third, the extension of the IFMS to the local governments represents a major challenge. It seems that its extension is likely to take more time than initially envisaged and I would welcome staff comments on the difficulties encountered.

On the functioning of the cash budget management system, the staff noted with some concern the abrupt expenditure cuts last year due to the strict implementation of this system. I welcome, therefore, that measures are being taken to address the unpredictability of cash flows to line ministries. I particularly welcome the requirement for ministries to submit cash-flow projections and the decision to indicate quarterly allocations. This is important to increase the efficiency of expenditures and to meet the objectives set out in the PRSP.

Last but not least, regarding the fiscal policy, I would like to commend the government for the planned sharp increases in allocations to the priority sectors. This reflects for us the high and continuous priority that the government has given to poverty reduction. The next challenge will be to increase the impact of public expenditures to achieve the poverty reduction objectives set out in the PRSP.

Turning to private sector development, despite recent economic and structural reforms to improve the business environment, the cost of doing business is still relatively high and further structural reforms are needed. In this regard, I welcome the planned divestiture of major utilities companies and the strengthening of the management of TANESCO. This is of high importance given the cost for the economy of irregular electricity supply and high electricity tariffs.

Moreover, the burden of the central and local tax systems and the linked administrative procedures seem to create many difficulties for private entrepreneurs. I, therefore, welcome the intention of the government to develop a comprehensive reform program, including the preparation of guidelines for a reform of local revenue systems. Of course it is difficult to reconcile different objectives such as improving revenue collection, implementing a decentralization program and promoting private sector activities. However, I hope that this reform will create a tax system that is not only conducive to private sector development but that also provides adequate local revenue.

On external debt, I note with satisfaction that Tanzania is making progresses regarding the negotiation of debt relief agreements with Paris Club creditors. I would like to know if any progress has been made in relation to non-Paris Club creditors. Regarding the ongoing commercial debt buy-back, I would like to underscore that it is important to include as many creditors as possible in this operation. Moreover, I am a bit worried about the staff's announcement today on plans for government guarantees on external debt for a gas project and would like to have further clarification either today or on the next possible occasion.

I would finally like to stress that political stability is essential for economic growth and poverty reduction. Some important sectors such as tourism represent a significant source of revenue for the country. In this respect, I welcome the steps initiated recently to address the Zanzibar crisis. Efforts to mediate between the different parties should continue and be strengthened. With these remarks, I wish the authorities continued success in their endeavor.

Mr. Weisman made the following statement:

The staff report generally describes a record of continued good performance, broadly in line with what we have come to expect from Tanzania. Progress on GDP growth and reducing inflation, as well as improvement in revenue generation and the continuing fall in short-term interest rates, are encouraging and are all the more impressive given the sharp rise in oil prices.

With regard to fiscal performance, however, continued problems with domestic arrears, coupled with some off-budget spending, is disappointing, especially since these were among the problems the IFMS was designed to address. We support the staff's assessment in paragraphs 40 and 41 on the need and means to address these problems, and would ask the staff if there is an updated estimate of when the IFMS is due to be fully operational and whether these fiscal-management difficulties raise concerns about possible shortcomings with the design or functioning of the IFMS?

Spreads between bank deposit rates and lending rates remain high, due primarily to "inadequate competition and structural rigidities in the financial system." Yet the government's success in selling off state-owned banks and in attracting new foreign-owned banks to Tanzania were justifiable points of pride last year, and reason the Central Bank expected the banking sector to be much more competitive and efficient. Is the government revising that expectation, or are there other steps that need to be taken? Further to this point, the authorities' intention to facilitate the use of land and real estate as loan collateral is promising. This is a problem that has constrained investment in several African countries, and we hope that a successful approach in Tanzania can provide a model for others.

We endorse the government's decision to divest from utilities and other monopolies, particularly in the electric-power sector where improving performance by TANESCO is critical to the economy. Moreover, we look forward to a more detailed assessment of the budgetary effects of the very unfortunate IPTL affair as soon as the staff has more information. We also would welcome any information from Mr. Rustomjee as to progress in clarifying responsibility for the scandal and bringing charges against those involved. This is especially relevant given that progress on governance issues is a key element in President Mkapa's program, a necessary condition for attracting more private investment, and a major building block in an effective poverty reduction strategy.

The authorities' intention to increase social-sector spending by more than the programmed savings from the HIPC Initiative is laudable. We wonder, though, about the possible effects of the weaknesses in fiscal control and the IFMS on the government's ability to manage and account for the use of savings from the HIPC Initiative and would appreciate comments from the staff.

We await the completion of the agricultural strategy by June 2001 as an important component of improving growth and reducing poverty, and expect the PRSP progress report will take this into account. On another growth-related issue, we notice the absence of any discussion of HIV/AIDS in this paper. While we recognize that this is not fully within the Fund's area of expertise, the potential economic and financial consequences of the epidemic warrant some attention, and we would appreciate the staff's comments.

The authorities indicate that further significant trade liberalization is on hold, in part because of concern about a possible loss of revenue. Yet the report suggests that conditions are conducive to moving more expeditiously, as revenue collection is improving, foreign reserves are rising, and competitiveness is climbing. We would ask Mr. Rustomjee to comment on the prospects for more rapid action on tariff reduction.

We welcome Tanzania's participation in the General Data Dissemination System (GDDS) as an important step in improving its statistics, and we urge the authorities to publish the PRGF document.

Finally, we join others in looking forward to further information on the project and the exchange rate guarantees and government debt guarantees on which the staff reported to open the meeting.

Mr. Borpujari made the following statement:

This chair commends Tanzania's continued strong implementation of adjustment and reform under the PRGF. This is clearly a major factor in the economy's resilience in the face of the recent terms of trade deterioration. The growth in per capita income picked up again last year, accompanied by lower inflation and improved fiscal and external positions. The challenge is to keep up the momentum for full realization of the country's potential for sustained growth. I find a strong basis for optimism in that regard in view of the authorities' past and prospective policy commitment, as acknowledged in both the staff report and Mr. Rustomjee's comprehensive preliminary statement.

Regarding fiscal policy, the authorities are to be commended for the improved revenue performance and spending controls underlying the favorable overall outcome. That said, I fully share the staff's stress on a lasting solution to the arrears problem. An orderly and comprehensive budgetary process is crucial in that regard. Here, the increased lead-time for budgetary preparations this year is a welcome move. I also urge the authorities' close consideration of the staff's several suggestions in that context.

The monetary authorities' focus on inflation containment and maintenance of a strong reserve position has served the economy well and should be continued. Regarding the practice of limited interventions in the foreign exchange market, I agree with the staff on the need for developing a suitable set of objective indicators to guide such action. I also share the consensus here on the need for further trade liberalization. Regarding the external debt, I welcome the progress in reaching agreements with Paris Club members and urge that relations with all external creditors be regularized at an early date.

The authorities' continued priority for structural reforms is critical for longer-term growth. Here, I welcome in particular the importance attached to the crucial power sector. That said, given the statement from Mr. Basu, close monitoring of the fiscal and external debt implications of the initiatives is crucial. In that connection, Mr. Kelkar raises an important issue on the possible fiscal implications of the recent international arbitration ruling on additional "capacity payments" to the power provider. Specifically, I will appreciate staff comments on viability of the open-ended fiscal commitment in this regard, as set out in paragraph 34 of the staff report and paragraph 30 of the authorities' policy memorandum.

Before I conclude, I thank the staff for a succinct and insightful report focused on issues central to the Fund's mandate.

With these remarks, I support the proposed decisions and wish the authorities further success.

Mr. Santos made the following statement:

Let me start by thanking the staff for producing a well-written and focused report and Mr. Rustomjee for his informative preliminary statement. Once again Tanzania has delivered a good economic performance proving that when commitment and perseverance are present results follow. Having said that, we would offer only a few words of caution.

First, on monetary policy, the authorities take comfort in an apparent increase in demand for money to accept a monetary growth above the BoT target and negative short-term real interest rates. While we understand the authorities concern not to squeeze economic growth by unduly tightening the monetary stance, we believe that evidence of an increase in demand for money is not very firm yet, and consequently we would urge caution. Indeed, if the higher demand for money does not materialize then the easing in monetary policy may in time fuel inflation, particularly if the strong pace of exchange rate appreciation subsides, and thereby stops supporting anti-inflationary policy. In our view, by firmly supporting a low inflation environment conducive to stronger private sector activity, monetary policy would deliver employment and growth dividends.

Second, on exchange rate developments, the authorities claim that increased efficiency and lower costs, dividends of the structural reforms implemented under Fund-supported programs, may have offset the effect of the appreciation of the shilling in real effective terms, thus preventing an erosion in competitiveness. We fear, however, that exchange rate appreciation over the past few years may place an unduly heavy burden on traditional exports. Let me advance three reasons: i) the appreciation has been very steep, particularly over the past year, and although the effect on total exports is not visible yet, it may well be in the pipeline since it is normally felt only with a lag; ii) over the past three years the appreciation of the shilling has coincided with a sizeable loss in terms of trade, which compounded the negative effect in competitiveness; coffee and cotton sectors may have been particularly affected as those commodities experienced a drop in their international market prices; and iii) the appreciation of the exchange rate may reflect to a great extent the coming on stream of new exports, such as gold, and the availability of foreign exchange due to the high levels of foreign assistance, factors that are not necessarily related to increased efficiency and lower costs in the economy resulting from the structural reforms. In light of all the above, we fear that the appreciation of the exchange rate may not fully reflect a corresponding appreciation of the fundamental equilibrium exchange rate, explained by increased efficiency of the economy, and consequently in time may entail some loss in competitiveness, particularly of traditional exports.

On fiscal policy we would just note that while on-target revenues are still at a very low level, even by sub-Saharan Africa standards. Moreover, despite a number of measures aiming to boost tax administration, revenues are not projected to increase substantially over the program period. This is an area where much stronger progress is needed as, in the long run, a solid revenue base is of fundamental importance to ensure financing of expenditures in all priority areas that are currently funded with the help of substantial foreign assistance and debt relief. A good revenue base is a key precondition to have PRGF countries graduating from external aid and Fund support. If we fail to achieve that then we will just be promoting addiction to foreign aid and perpetuating dependence on Fund support.

Finally, a question on conditionality of the program, specifically regarding the issuance of regulations for implementing the Public Finance Management Act and Public Audit Act. In the previous review it was proposed, and I believe approved, that the timing for implementation of this measure, February of 2001, be subject to a performance criterion. However, in table 2 we see that this measure continues to be qualified as a benchmark. In principle this should not be relevant. However, the fact that there may be a small delay in the implementation of this measure, as implied in paragraph 14 of the Letter of Intent, may make a difference, as nonobservance of a performance criterion would call for the need to grant waiver to have the review completed. We would appreciate if the staff could clarify whether implementation of this measure is indeed considered as a performance criterion and if so why a waiver has not been requested.

The staff representative from the African Department said that the President of Tanzania had made a firm commitment that the Integrated Financial Management System (IFMS) would include all budgetary votes. Past incidents in which votes had remained outside of the system would not occur. The authorities had resolved the problem of safeguarding the confidentiality of sensitive information by limiting the underlying details that could be accessed. Once the system was firmly in place, most ministries would be using it as the main accounting mechanism.

The estimate of tax revenues for 2001 was increased to T Sh 835 billion from 805 billion, the staff representative continued. In other words, excess tax revenues for 2001 were estimated to be T Sh 30 billion, or 0.4 percent of GDP.

The continued accumulation of arrears reflected the authorities' practice of overestimating revenues and setting expenditures to be consistent with that expected income stream, the staff representative explained. The shortfall in revenues had often led to spending cutbacks that were not adequately prioritized. In addition, certain expenditures, such as food provisions to prisons, had been underbudgeted. The staff had urged the authorities to improve the procedure of budgeting by ensuring that budget proposals were based on prudent revenue forecasts and a thorough and realistic costing of programs. As a result, the budget guidelines for 2000/01 had been issued early in order to allow more time for preparation. Improvements had been made on the issues of cash budgeting and quarterly allocations, as the ministries were now required to submit monthly cash flow projections with their budget proposals.

It was too early to assess the impact on the budget from TANESCO's capacity payments to IPTL and to determine IPTL's long-term viability, the staff representative continued. The growth in the demand for power was uncertain at this stage, and it was expected that the IPTL plant would utilize gas from the Songo Songo project that was currently under consideration. In addition, the government was undertaking to identify cost savings within TANESCO, and the World Bank was assisting the authorities with reviewing a revision of the tariff structure, which could increase TANESCO's revenue. Moreover, the government had plans to strengthen TANESCO's management.

The bids on the sale of TANESCO were under consideration, the staff representative commented. The technical and financial proposals were being reviewed, and the government was negotiating with contractors. However, there was no firm idea of when the divestiture would occur, but full privatization of TANESCO would take two to three years.

All of the options in dealing with TANESCO's financial difficulties were already under consideration. However, the staff representative explained that because of the uncertainties involved—regarding the tariffs that would be adjusted and the impact of the tariff restructuring on TANESCO's balance sheet and income statement—it was difficult to put in place an appropriate benchmark or a performance criterion to monitor the situation. Moreover, the World Bank was closely following developments and underscoring those policy options that the government should be considering. On that basis, it was decided that the Fund staff would wait until its next mission in April 2001 to review which policy measures were feasible and how the Bank was expecting to monitor TANESCO's progress.

Leveling the playing field between local entrepreneurs and large investors was needed, the staff representative commented. A variety of tax exemptions and concessions were currently offered to attract foreign investment. There was no such framework in place to encourage the small, local investor—a concern that needed to be addressed by the authorities.

The share of the budget allocated to the agricultural sector had been reduced for two reasons, the staff representative explained. First, there had been a transfer of personnel to the district council payrolls from the central payroll, so that staff would be accountable to the district government. Second, the past agricultural strategy had endorsed a decentralized provision of agricultural services, which had resulted in a diminished need for budgetary allocations for agriculture. The new agricultural strategy, however, would incorporate various initiatives into the budget to help with agricultural development over the long run.

There were two considerations in evaluating the country's exchange rate, the staff representative said. One concern was price stability. A two-digit inflation rate was the historical trend in Tanzania, but the country had recently experienced inflation in the single digits. The second and more important concern was that if the exchange rate were to be held stable to achieve further disinflation, appreciation of the real exchange rate might result. A prolonged appreciation was not desirable, especially in the agricultural sector. As the economy was primarily agrarian in nature, agricultural goods represented the bulk of total exports. An appreciation of the domestic currency in real terms would lead to a loss of global competitiveness, which, in turn, would impact the country's growth.

Imports had not grown in spite of continuing capital inflows because of the mining projects that had been under development, the staff representative said. Factoring out imports associated with those mining projects would result in an upward trending of imports.

Mining companies had been receiving substantial tax incentives under the mining policy of 1997, the staff representative explained. Tax payments were mainly limited to three percent of royalties received on gold exports. Tax exemptions in Tanzania were not overly generous relative to similar schemes in other African countries. As the mining policy had been successful in attracting new large-scale investments to that sector, the government felt that a reassessment of the mining policy was unwarranted at this early stage. Maintaining a stable investment environment for the sector was paramount.

Of the non-Paris Club creditors, only China had agreed to a rescheduling of Tanzania's external debt obligations, the staff representative said. Efforts were still underway to negotiate rescheduling agreements with other non-Paris Club creditors.

Forces were in motion to reduce the interest rate spread between lending and deposit rates in the banking sector, the staff representative remarked. The National Bank of Commerce had the largest share of deposits and loans in the country's banking system, which had led to the large disparity in lending and deposit rates. However, the small pool of low risk customers available was creating momentum for increased competition among other banks to attract those clients, thereby narrowing the interest rate spread. An international bank was planning to enter the market in Tanzania, promoting further competition, while a Monetary and Exchange Affairs technical assistance mission would assess other measures needed to further close the gap between lending and deposit rates.

Implementing policies to combat HIV/AIDS was one of the priority areas in the authorities' poverty reduction strategy, the staff representative commented. The staff intended on its next mission to review the authorities' planned expenditures and propose measures in addressing the pandemic.

Mr. Weisman asked whether in future reviews, the staff could address the impact on the country's revenues and on other macro indicators of measures taken to fight the incidence and prevalence of HIV/AIDS. It was hoped that the signs of progress observed in countries in the southern part of the continent could be replicated in Tanzania.

Mr. Rustomjee commented that the large-scale foreign direct investment, such as the Songo Songo project, was exactly what a country like Tanzania needed.

It was important to emphasize that the authorities intended to accelerate trade reforms, Mr. Rustomjee remarked. Tariff reforms planned for 2002/03, for example, were advanced by one year to 2001/02. Tanzania was also becoming more involved in the reduction of external tariffs in line with regional initiatives under the Southern African Development Community (SADC) and the East African Development Community (EAC). A tariff reduction schedule had already been agreed within SADC, which Tanzania would begin implementing in July 2001. Negotiations with partners on a protocol for the establishment of an EAC customs union were also ongoing. It was clear that strong measures were being taken by the authorities to improve trade performance.

In keeping with the possibility of granting an early completion point, a few developments on the PRSP would be worth mentioning, Mr. Rustomjee continued. The authorities intended to accelerate expenditures in priority areas. A considerable amount of donor resources had been flowing in, prompting the authorities to prepare a contingency schedule that would allocate unplanned revenues from donors for potential projects in the priority areas. In addition, the government was moving forward on improving governance. The Public Service Reform Program, launched in July 2000 with the support of the World Bank, was an important part of the authorities' efforts to reduce corruption and improve delivery of government services. The government was also addressing capacity weaknesses, including in the fiscal area, as well as avoiding excessive election costs.

It was clear that the authorities planned to better integrate donor resources into the budget, Mr. Rustomjee commented.

Mr. Kelmanson asked for a clarification on whether developments at TANESCO were now considered a benchmark rather than a performance criterion.

The staff representative from the Legal Department confirmed that the measure requesting TANESCO's performance was currently a benchmark; however, that did not preclude the Board from taking into consideration the authorities' implementation of this measure in deciding whether to complete its review under the arrangement.

Mr. Chelsky commented that donor coordination in the provision of resources would enable the authorities to better integrate those funds into the budget. In fact, donors could do more to help the authorities in reaching an earlier completion point. If donors could coordinate their efforts so that the authorities were able to focus their limited administrative resources on meeting the trigger points, rather than on fulfilling reporting requirements to donors, then there would be a better chance of moving more efficiently toward the completion point. Obviously, this was an issue for all countries that were recipients of donor assistance.

Mr. Santos said that the Letter of Intent indicated that parliament had enacted the Public Finance Act in February 2001, and that the new regulations based on the legislation would be drafted and issued in March 2001. He asked whether those regulations had been issued yet.

The staff representative from the African Department responded that the new regulations were currently under discussion in parliament.

Although the incidence of HIV/AIDS was not as acute as in the southern African countries, an analysis of its impact on the Tanzanian economy should be undertaken, the staff representative continued. Such an assessment had already been conducted for the southern African countries, which focused on the potential impact of HIV/AIDS on productivity and growth, the effect of the disease on the revenue base and its subsequent impact on the social security system, and the costs of reducing the spread of HIV/AIDS. The Integrated Financial Management System and the Public Expenditure Review conducted with the consultation of donors were part of the monitoring process, while the medium-term expenditure framework would be updated to reflect the expenditures made on programs to combat the disease.

Mr. Kelmanson asked for the staff's views on the authorities' progress in the specific areas in which Directors had expressed concerns in the past. The staff's comments in this context would also help make the case for approving an early completion point.

Mr. Jacoby made the following statement:

> Tanzania's macroeconomic performance, as evidenced by the satisfactory implementation of the PRGF-supported program, remains encouraging. With some minor exceptions, the Tanzanian authorities were able to meet the quantitative performance criteria and benchmarks. And, progress on the structural front also appears to be of good quality. Against this background we support the completion of the second review under the PRGF arrangement and the staff's proposal for an additional year of interim assistance under the HIPC Initiative framework.
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> Since I am in broad agreement with the staff's appraisal I will only comment shortly on the need to support rural sector growth. The success or failure of Tanzania's Poverty Reduction Strategy will be determined ultimately by the authorities' ability to diversify the economic base and, above all, by the government's aptitude to increase the productivity of the agricultural sector.

This being said, I am certainly not willing to play down the crucial role of sound monetary and fiscal policies, but one has to be aware that the agriculture sector still accounts for nearly 50 percent of GDP and that three-quarters of the population live and work in rural areas. Poverty is by and large a rural phenomenon. Unsurprisingly, the authorities' poverty reduction strategy focuses on promoting growth in the rural sector. In this connection I share Mr. Kelkar's concerns about the reduction in spending on the agriculture sector in the 2000/01 budget. This seems to be quite problematic as agriculture is meant to be a priority sector of the authorities' poverty reduction strategy.

The World Development Report comprises a very interesting case study on how Tanzania could transform its rural economy into an engine of growth. In this context I would like to know to what extent the authorities have integrated the World Bank recommendations into their poverty reduction strategy. More precisely, do they share the World Bank's findings that exploiting rural-urban synergies is the key to jumpstart rural growth? Furthermore, in the presence of such a comprehensive analysis and given the urgent need to speed up the agricultural reform process, I am surprised that we have to wait until December 2001 for the authorities' rural development strategy. What are the reasons for this slow pace? If the authorities want to reach the floating completion point early, they should finalize their rural strategy in due course. Now, I am definitely not opposed to precipitating the attainment of the floating completion point but I think we need to make sure that the poverty reduction strategy is anchored in a robust and comprehensive set of agricultural and rural development strategies.

Ms. Phang made the following statement:

We support the recommendation to complete the second review under the PRGF arrangement for Tanzania and to provide further interim assistance under the HIPC Initiative, which is based on Tanzania's good track record over the past three years. Macroeconomic performance has been improving steadily, and all of the performance criteria and structural benchmarks set out for September 2000 have been fulfilled.

The Tanzanian authorities have made progress on many different fronts, including the completion of the inventory of arrears, which is a performance criterion for the second review, and their commitment to clear previous years' arrears and any new arrears during the first half of 2001.

Although we agree with the staff's assessment, we would like further insight on a number of issues. In the case of financial sector reform, we commend the authorities on developing microfinance under the PRSP and on improving credit accessibility for the poor, especially for small-scale enterprises or SSEs. The National Microfinance Bank (NMB) has been established for the purpose of extending microcredit; however, based on the experience of other developing countries, that endeavor will only be successful if the NMB has sufficient resources and branches in locations that are accessible to SSEs. Moreover, does the staff have any idea of whether a complementary institution exists, which provides credit guarantees on loans to SSEs?

We are uncertain about the robustness of the medium-term forecast. The authorities' monetary program allows for credit to the private sector to grow by about 31 percent in 2001. We would like to know whether such credit growth would intensify inflationary pressures, given that the inflation rate is forecasted to be 4.5 percent at end-2001.

There are several discrepancies that make me wonder about your medium-term forecast. According to the staff report, foreign direct investment (FDI) rose by 10 percent in 1999/2000, while FDI only increases by less than one percent in 2000/2001. Moreover, the current account deficit is still high and unsustainable. The services deficit was seven times the forecast in 1999/2000, while it is in line with projections for 2000/2001. In addition, the volume of nontraditional exports was actually much lower than projected in 1999/2000. However, when comparing the volume of nontraditional exports in 2000/2001 to that in 1999/2000, the growth is calculated to be 36 percent—as if exports had met projections in 1999/2000. So, we are wondering whether the medium-term forecast was revised to take into account recent developments.

Finally, I am concerned that one of the conditions for TANESCO's privatization is the government's exchange rate guarantee to investors. I would highlight that we do not dismiss the lesson of Indonesia lightly, where the government had extended a similar guarantee and had subsequently faced extreme difficulties when the exchange rate depreciated sharply. Although the exchange rate has been relatively stable in Tanzania, I would caution against such a guarantee scheme, as a considerable currency depreciation would bankrupt the government.

Mr. Liu Fushou made the following statement:

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

We are pleased that the current review of the Tanzanian PRGF arrangement indicates encouraging economic developments in 2000. Real GDP growth and underlying inflation were broadly in line with program targets. Especially encouraging are the improvement in exports, contributing to much higher reserves than targeted for end-2000, and the high revenues during the first five months of 2000/01. All quantitative performance criteria and most benchmarks for end-September 2000 were met with wide margins. Most structural benchmarks were also met. The authorities should be commended for their resolute implementation of needed adjustment and reform policies, recounted in the well-written staff report and by Mr. Rustomjee. Given the program's good performance, we can fully support the proposed decisions. That being said, I would like to comment on two points for emphasis.

First, on fiscal policy, the authorities are to be commended for further improving the fiscal situation despite expenditure pressures connected with last October's elections. We welcome the fact that the authorities will implement a number of measures to improve expenditure planning, execution, and control, and to prevent the emergence of new arrears. We hope the enactment of the new Public Finance Act and the regulations based on this legislation will play a key role in facilitating control and avoiding expenditure outside the new Integrated Financial Management System.

Second, on monetary policy, given the evidence of a stronger demand for money than earlier estimated, it is advisable that monetary policy continues to aim at reducing inflation. It is appropriate that intervention through Treasury bill auctions remains the BoT's main monetary policy instrument, supplemented by repurchase operations with the banks. With regard to bank supervision, it is encouraging that the authorities continue to strengthen banking supervision by facilitating the use of land and real estate as collateral and updating the complete set of prudential regulations regarding capital adequacy, concentration of credit, and risk management. We hope the soundness of the banking system will provide a good foundation for the sustainable growth of the economy.

Finally, I would appreciate it if the staff could make comments on the early completion point on Tanzania.

With these remarks, we reiterate our support of the proposed decisions and wish the authorities further success.

Mr. Maciá made the following statement:

Strong economic growth under the PRGF-supported program has continued, and last year's expansion in agriculture, mining, and tourism promises sustained overall growth despite difficulties in the power sector and a weakening in the terms of trade. Inflation has been wisely monitored to bring it to lower levels. The fiscal stance remains strong with higher revenues collected, and while a larger portion of old arrears was repaid, new arrears have remained under target. All quantitative performance criteria for end-September were met, as was the benchmark for revenues, which surged with higher import and petroleum taxes. The external current account deficit improved as machinery imports declined, and gold exports and larger export volumes offset lower prices. Reserves increased well above target levels.

For 2001, several tasks are envisaged within the PRSP program. The authorities will pursue higher growth levels, enhance conditions for private sector participation, and reduce the incidence poverty. The poverty reduction strategy calls for targeted attention to key sectors, the definition and costing of strategies, and the completion of the household and labor survey. The expectation of a lower fiscal deficit, an increase in foreign financing of the budget, and excess revenues should all improve the prospects to clear arrears and increase expenditures in priority sectors, a most desirable objective.

The authorities are committed to tackle tax evasion, improve tax administration, review the exemptions system, and make operational the Large-Taxpayer Unit. On the other hand, further work is needed to make the IFMS fully operational. The steps in Box 2, which pursue overall cash planning and improve fiscal and expenditure management, are most desired and welcomed. Monetary policy, though envisaged to control inflation, will enhance credit availability to private sector, and promote microfinancing, which should be properly targeted and with parallel services to guarantee its effectiveness. Also, the authorities will continue the policy of allowing the interest rates and the exchange rate to be market-determined despite the appreciation of the real effective exchange rate that has taken place. Trade reforms are in progress with the elimination of dutiable values, goods subject to split duty, and other reforms will come about under regional arrangements.

Though structural reforms are progressing, we look forward to the strengthening of the expenditure management system and the civil service wage reform and to engage expeditiously in the resolution of the electricity and hydro resources issue. The authorities must also press for resolving governance issues in the delivery of public services, procurements, customs, the judiciary, land titling, and other areas explained in Box 1. Improving the poverty database, other macroeconomic statistics, and assuring resources for the census and the household survey remain as challenges ahead. This chair agrees with the staff's recommendation, and urges the continued support of multilateral financial institutions and donor support for Tanzania given the progress attained.

We wish the authorities success in their endeavors.

Mr. Chelsky made the following statement:

I fully concur with the favorable analysis contained in the staff report, and associate myself with the general comments made by Mr. Barro Chambrier. More specifically, to reiterate my earlier point about donor coordination, I agree with Mr. Kelmanson's remarks, and also draw the link again with what donor coordination could do to help facilitate reaching an early completion point. I also associate myself with the comment made by Ms. Bonomo about the importance of a stable investment environment and the need to resolve the situation in Zanzibar at the earliest opportunity.

I appreciate that the staff's preliminary information on the exchange rate and debt guarantees related to the Songo Songo gas project. I also appreciate Mr. Rustomjee's comments about the importance of that sort of investment in Tanzania. The real issue, however, is determining how to manage the risk exposure. I wonder if the staff could clarify the magnitude of risks involved in this venture.

My last comment is directed to the Policy Development and Review Department (PDR). Page 15 of the staff report contains a disturbing statement on structural reform. It states that the Fund will limit its conditionality under the PRGF to critical reforms in its core areas of responsibility. That is clearly in conflict with the Managing Director's interim guidelines on conditionality, which make it clear that the Fund does not limit its conditionality only to its core areas of responsibility. A reform critical to the success of a program but outside of the Fund's core area of responsibility is still part of Fund conditionality, even though the Fund, in such a case, would not necessarily undertake the design and monitoring of that measure. My sense is that the statement was a mistake or an inadvertent drafting error because when I turn to page 16, it states, "…although restructuring and privatization of TANESCO belongs to the areas monitored by the World Bank, solving the present issues [of financial difficulties and weak management] is critical for attaining the objectives of the program supported under the PRGF, and, therefore, measures in this area have been included in the conditionality of the program for 2001." It appears that the substance is correct after all.

Mr. Rouai made the following statement:

The PRGF arrangement for Tanzania is progressing well, and poverty alleviation performance is improving. I share the staff's analysis and conclusion, and have only two comments to make: First, I note from Mr. Rustomjee's statement and the staff's report, particularly Table 2, that the program of structural reforms is on track, with all performance criteria met and almost all structural benchmarks implemented. The authorities have reiterated their commitment to structural reforms in their Letter of Intent, paragraph 28, as the main element of their poverty reduction strategy. They also pointed out that many of these reforms are supported by the World Bank. Therefore, I find the reduction in the number of structural benchmarks from 20 in 2000 to only 5 in 2001 appropriate.

Second, because of the important progress in addressing poverty reduction—already achieved under the PRGF-supported arrangement—I encourage the authorities to accelerate their reform agenda so as to satisfy the conditions for the floating completion point at an early date. In the meantime, I support the provision of interim relief for another year.

Finally, I welcome Tanzania's participation in the GDDS, and wish the authorities success in their endeavors.

Mr. Bakhache made the following statement:

Tanzania's overall economic performance under the PRGF-supported program reflects the authorities' resolve in undertaking necessary macro adjustments and reform measures as well as the weaknesses which need to be accorded high priority in the period ahead. Important progress on the fiscal front resulted in a lower than targeted fiscal deficit. This, coupled with prudent monetary policy, contributed to further lowering inflation while growth picked up to around 5 percent in 2000. The accumulation of new budgetary arrears and the occurrence of extra budgetary expenditures reveal continuing weaknesses in fiscal management practices.

We are in broad agreement with the staff's analysis and policy recommendations and can support the proposed decision. We will limit our comments to the fiscal area.

The conduct of fiscal policy has been generally encouraging. The fiscal position strengthened in the second half of 2000 at a time when grants and net foreign financing were less than projected and previous years' arrears were being repaid. In addition to expenditure restraint, this was due in large part to the commendable improvement in tax collection and the elimination of VAT exemption, which resulted in stronger than projected revenue performance. Moving forward, and with a view to maintaining fiscal discipline, the authorities should direct their efforts to improving the budgeting, expenditure management and cash-rationing system. These are critical areas that need to be addressed resolutely. In this regard, we welcome the issuance of the budget guidelines and the steps taken to strengthen the Integrated Financial Management System. We concur with the staff that budget proposals should be based on thorough and realistic costing of programs.

The 2001/2002 budget appears to be well designed and based on realistic revenue estimates. Limiting the deficit to a level that can be financed by concessional foreign financing while increasing spending on priority sectors is quite prudent. The intention to use additional foreign resources and privatization proceeds to settle arrears and increase spending on priority sectors is welcome.

> The priority given to structural issues, including privatization of public enterprises and strengthening the financial position of Tanzania Electric Supply Company (TANESCO) is well placed, given their implications on the budget as well as for promoting growth and reducing poverty. Additionally, we believe that steps to improve the functioning of the banking sector need to be directed at facilitating credit expansion. Finally, we welcome the division of responsibility in monitoring progress in structural reforms and limiting the Fund's conditionality to critical reforms in our core areas of responsibility, namely in this case, public expenditure management and tax reform.
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> With these remarks, we wish the authorities further success.

Mr. Elkjaer made the following statement:

> I can support the proposed decision. I would add two comments. First, I would appreciate some elaboration of the exchange rate guarantee. However, if that information does not lend itself to a performance criterion, an explanation can be postponed until the next review.
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> Second, this chair supports flexibility in reaching an early completion point. It was understood that the completion point could occur in mid-2001. However, given that the PRSP was only endorsed in late 2000 and that the rural development plan will only be issued in late 2000/01, the completion point set for mid-2001 may be quite ambitious. I do not want to preempt the completion point discussion and am still advocating for flexibility; however, granting an early completion point should be based on the merits of the authorities' program, and, therefore, rushing to reach it too soon may be self-defeating.

Mr. Rustomjee said that Box 3 of the Decision Point Document contained a wide range of floating completion point triggers. While it was true that it would be ambitious for the authorities to reach the completion point soon, the authorities felt that it was possible to try to strive toward an early completion point.

By design, there were no specific health and education trigger points in the authorities' rural strategy, Mr. Rustomjee continued. The authorities believed that only when the key to alleviating Tanzania's rural poverty was found would the country's poverty problem be resolved. As such, they did not feel that there was any need for explicit education and health triggers. The authorities were aware that further work would be needed on their rural development plan, and they were continuing their efforts in that direction.

The staff representative from the African Department remarked that on the issue of exercising flexibility in granting an early completion point, it would be fair to say that the authorities had organized themselves well in preparing the progress report for the PRSP, especially as all of the work was being coordinated in several units at the Ministry of Finance and the vice president's office. Although there might not be a specific document entitled

"Rural Development Strategy," the progress report would address both the issues of rural development and agricultural production.

Making progress in the areas of rural development and agricultural production was complex, as various sectors were involved—infrastructure, such as rural roads; primary education; and primary health care, the staff representative continued. Whether or not the authorities agreed with the World Bank on every aspect of the measures to take, the collaboration had provided a comprehensive set of policies for the authorities to develop the necessary initiatives, such as policies to improve agricultural production, lower local taxes levied on food shipments across districts, better target food aid, reduce trade risk, and make tax rates consistent across districts.

On the issue of rural finance, individual loans were to be made to groups of producers, thereby reducing the risk of default, the staff representative commented. The idea of needing numerous branches for rural lending was not the manner in which the NMB, or new banks in general, operated. Lending was now based on the income and capacity of the borrower, not on whether the customer had sufficient land for collateral.

Ms. Phang observed that the authorities' cooperative approach was similar to the method successfully employed by a number of developing countries. Malaysia, however, was one country where that approach had not worked. She asked whether Citibank alone was making the loans.

The staff representative from the African Department said that it was a foreign consultant, not Citibank, who was trying to establish new lending practices in the country. Although the consultant did not possess rural credit expertise, he did have skills in developing client-lender relationships and had been successful so far. It was important to note that the Tanzanian government was not subsidizing any aspect of the scheme. In spite of the small scale of the project, other institutions in different regions were undertaking similar lending activities. The results had been positive to date, and as the project was limited in scope and risk, the potential for failure was reduced.

Whether the 31 percent growth in credit to the private sector would generate inflationary pressures would depend upon the authorities' monetary program, the staff representative explained. With a money supply target of 10 percent and given the inflation and growth rates, the authorities' monetary stance was not loose.

The financial institutions remained cautious, the staff representative remarked. They had no desire to scale up their lending operations and then be faced with the possibility of non-performing portfolios. For example, the National Bank of Commerce that had recently been recapitalized had managed to strengthen its investment portfolio, and was now ready to offer its clients more competitive rates.

Of traditional exports, the volume of cashew nut exports was expected to be significantly higher in 2001, while gold exports were expected to rise sharply, the staff representative explained. During the fourth quarter of 2000, there had been a delay in cashew nut exports as a result of lower prices and an issue over packaging that had now been resolved. It was anticipated that all cashew nut inventories would be shipped before the onset of another price collapse. In addition, the fishing and tourism industries were also showing signs of strong growth for 2001.

Ms. Phang said that the concern was not over the growth in traditional exports, which had risen by more than projected, but rather the substantial growth in nontraditional exports.

Mr. Jacoby remarked that he appreciated that clarification regarding the rural development and agricultural strategies. The complexity of policy targets should prevent the authorities from pushing ahead too quickly with reforms.

Studies undertaken by the IMF or the World Bank for purposes of policy advice should not be blindly endorsed by member countries, Mr. Jacoby continued. However, those findings should be duly taken into consideration by authorities when implementing poverty reduction strategies and macroeconomic stabilization policies.

The staff representative from the African Department noted that tentative plans for the Songo Songo project involved the use of two facilities—an escrow account of about $15 million and a liquidity facility of approximately $20 million. The escrow account would seek to protect the sponsors' equity in the project, in case the government defaulted and the operation was shut down. In the event of cash flow problems at TANESCO, the liquidity facility would be a contingency reserve for the payment of external debt obligations.

Mr. Chelsky asked whether budgetary provisions had been made for the two facilities.

The staff representative from the African Department responded that there was an energy fund in the budget, where resources were available to fund a liquidity facility. As of now, the fund had not been utilized. The profitability of the Songo Songo gas development project for Tanzania and the workings of the facilities were currently under discussion by the World Bank and the other parties involved—the authorities and the Fund's Legal and Policy Development and Review Departments.

Ms. Phang asked whether there was an excessive risk in the government's exchange rate guarantee to investors for their investment in the Songo Songo project.

The staff representative from the African Department explained that, since Tanzania had a floating exchange rate regime, there were no restrictions on the buying and selling of currencies from either the market or from banks. The issue at stake was the investors who wanted guarantees on the return of their investment. It was hoped that a solution, without legal or administrative complications, could be found, whereby investors would be reassured and Tanzania would reap the benefits of increased productivity and growth.

Ms. Phang said that she understood the staff's enthusiasm for the venture and the rationale for the project, but the situation was reminiscent of the case of Indonesia. Indonesia's exchange rate was not restricted; the rupiah had been stable with no forewarning of the sharp depreciation that had eventually occurred. When the rupiah depreciated, the government's first obligation was to make sure that investors were returned their investment at the exchange rate guaranteed to them. However, the government had not been able to meet that obligation, which had contributed to the financial panic in the region.

The Acting Chairman commented that the lessons learned from other countries should be kept in mind.

The staff representative from the African Department responded that a system should not emerge in which the subsidies granted would overtax the budget. Determining how to avoid the risk of persistent exchange rate subsidies had been discussed with the World Bank.

The staff representative from the Policy Development and Review Department said that the staff was aware of the lessons drawn from the experiences of Indonesia and other crisis-struck countries. At this stage, it would be premature to elaborate further on the Songo Songo project, as the details had yet to be finalized. Most of the performance criteria and benchmarks for reaching the completion point had been fulfilled. The remaining conditions would be satisfied by the time of the next budget report. However, it was still too early to say that the completion point would indeed be achieved at a particular time.

The progress report on the annual implementation of the PRSP remained an issue to be discussed, particularly on the completion of the participatory process, the staff representative stated. It was hoped that the participatory process would continue to move forward without time being the only consideration by the authorities. Reaching the completion point a few months later than planned would not make a considerable difference, so long as the participatory process was comprehensive.

Structural conditionality, an issue under considerable debate, would continue to be adapted as the Fund's policy on that issue evolved, the staff representative conveyed. The Fund's responsibilities in the energy sector, for example, extended not only to structural reforms, but also to pricing policies and the management of arrears, given that management of arrears affected government fiscal operations.

Mr. Rustomjee noted that the case of Tanzania was a good example of a Fund-country relationship. There was concrete evidence of a cooperative dialogue, with the staff willing to listen to the authorities' perspective, while remaining firm with respect to its own views of what was essential for the country's future growth. That was certainly one reason for Tanzania's commendable performance.

The authorities appreciated the comments made by the Board and were willing to respond to Directors' concerns as much as possible, Mr. Rustomjee commented. Concerns over the exchange rate guarantee, the low level of revenue to GDP, the expedited operation of the Large-Taxpayer Unit, and issues in connection with IPTL in terms of bringing corrupt practices out into the open and prosecuting those who were involved would be conveyed to the authorities. In addition, Ms. Bonomo had raised the issue of the IFMS and its application to local governments, which was a long-term challenge not only for Tanzania, but also for all developing countries. Nevertheless, that was certainly also on the authorities' agenda.

The need for mechanisms to buttress the authorities' initiatives in microfinancing would be discussed further, Mr. Rustomjee commented. The issue of donor coordination—especially, large donor inflows into Tanzania—and concerns over banking sector and judicial reforms would also be conveyed to the authorities.

The willingness of the Board to consider an early completion point if the authorities had complied with all program conditions was appreciated, Mr. Rustomjee remarked. If ever there were a candidate to be granted an early completion point, Tanzania would be the one.

The Acting Chairman made the following summing up:

> Executive Directors commended Tanzania's continuing implementation of macroeconomic policies, which have contributed to lower inflation, a stronger external position, and higher growth. They also commended the authorities' policy efforts regarding education, agriculture, and rural development, and looked forward to receiving the progress report on the Poverty Reduction Strategy Paper (PRSP) in mid-2001. Directors welcomed the improvement in the poverty database and in macroeconomic and other socio-demographic statistics.
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> Directors commended the improved fiscal situation, which had occurred despite spending pressures associated with the general elections in October 2000. Despite this improvement, they noted that revenues remain low in relation to GDP, and that sustained firm fiscal policies will be needed to finance priority expenditures and to avoid excessive dependence on aid flows. Against this background, Directors saw the recent welcome increase in tax revenues as confirming the appropriateness of reducing tax exemptions, as well as of plans to eliminate the remaining exemptions for the government in the budget for 2001/02. They noted the importance of ensuring that other exemptions are well administered and targeted.
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> Directors welcomed the government's plans to boost allocations for poverty reduction in the budget for 2001/02. They also supported the continued implementation of the medium-term civil service pay reform, noting that a motivated and qualified civil service is essential for better public service delivery and governance in Tanzania.
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> Noting the continuing weaknesses in the government's accounting and financial management system, Directors emphasized the need to eliminate arrears and improve the budgeting and cash rationing system. They welcomed the recent measures to strengthen spending control, including the approval by parliament of the Public Finance Act, and encouraged the authorities to press ahead with the external audit of arrears and to settle them soon after the

exercise is completed. Directors emphasized the importance of establishing strong budgetary arrangements at the local as well as at the national level.

Directors supported the authorities' policy of avoiding a sustained nominal appreciation of the exchange rate, and suggested that development of a set of indicators to assess the need for interventions in the foreign exchange market could be helpful in this regard. They observed that a further cut in tariff rates might help in reducing upward pressures on the exchange rate. Directors encouraged the Bank of Tanzania to remain vigilant in monitoring inflationary pressures and to tighten monetary policy if needed.

Directors were concerned by the weak performance of the Tanzania Electric Supply Company (TANESCO). They urged the authorities to implement as soon as possible, in cooperation with the World Bank, all necessary measures to improve TANESCO's efficiency and phase out its dependence on budgetary support, and to address firmly outstanding issues concerning Independent Power Tanzania Ltd. (IPTL).

Directors encouraged the authorities to push ahead with structural reforms in other areas, including continuing improvements in governance and the legal system so as to establish a stable and attractive environment for investors. They underscored the need to increase the efficiency of the financial system and its accessibility to small borrowers, including through making land usable as collateral.

Directors encouraged Tanzania to continue seeking debt reconciliation with external creditors, including non-Paris Club creditors, and to regularize relations with all creditors as soon as possible.

Directors noted that Tanzania had made substantial progress in many areas relevant to their judgment on the timing of its floating completion point. On the basis of currently available information, they expressed flexibility and indicated that they generally expected to reach a positive decision in this regard early in the second half of 2001, and noted that such a decision would be reached soon after the required policies had been implemented and Tanzania's poverty reduction strategy had been fully elaborated.

The Executive Board took the following decision:

1. Tanzania has consulted with the Fund in accordance with paragraph 2(e) of the three-year arrangement for Tanzania under the Poverty Reduction and Growth Facility (PRGF) (EBS/00/44, Sup. 1, 4/6/00) and paragraph 1 of the letter dated July 18, 2000 from the Minister for Finance of Tanzania in order to review program implementation and reach understandings regarding the phasing and conditions for disbursements during the second year of the arrangement.

2. The letter dated February 24, 2001 from the Minister for Finance of Tanzania (the "letter"), together with the attached Technical Memorandum of Understanding (the "TMU"), shall be attached to the three-year PRGF arrangement for Tanzania, and the letters dated March 9 and July 18, 2000 from the Minister for Finance of Tanzania shall be read as supplemented and modified by the letter and the TMU.

3. Accordingly, the three-year PRGF arrangement for Tanzania shall be amended as follows:

(a) A new paragraph 1(cc) shall be added to read as follows:

"(cc) During the second year of the arrangement,

(i) the fourth disbursement under the arrangement, in an amount equivalent to SDR 20 million, will be made available on July 31, 2001 at the request of Tanzania and subject to paragraph 2 below; and

(ii) the fifth disbursement under the arrangement, in an amount equivalent to SDR 20 million, will be made available on January 31, 2002 at the request of Tanzania and subject to paragraph 2 below."

(b) A new paragraph 1(dd) shall be added to read as follows:

"(dd) The phasing of, and the conditions for, disbursements during the third year of the arrangement shall be established in the context of the fourth review of Tanzania's program with the Trustee contemplated in paragraph 2(ee)."

(c) Paragraph 2(a) shall read as follows:

"Tanzania will not request the disbursements referred to in paragraph 1(cc) above,

(a) if the Managing Director of the Trustee finds that with respect to the fourth disbursement the data as of end-March 2001, and with respect to the fifth disbursement the data as of end-September 2001, indicate that

(i) the ceiling on the net domestic assets of the Bank of Tanzania, or

(ii) the ceiling on the net domestic financing of the government of Tanzania, or

(iii) the floor on the net international reserves of the Bank of Tanzania, or

(iv) the limit on contracting or guaranteeing of external debt on non-concessional terms,

as set out in Table 1 of the letter dated February 24, 2001 and further specified in the attached TMU, were not observed; or"

(d) A new paragraph 2(cc) shall be added to read as follows:

"(cc) if with respect to the fourth disbursement referred to in paragraph 1(cc) above, the Managing Director of the Trustee finds that Tanzania has not carried out its intentions

(i) by end-March 2001, with regard to completing the reconciliation of the balances of all Government accounts at the Bank of Tanzania as at June 30, 2000,

(ii) by end-March 2001, with regard to completing the verification and auditing of all budgetary arrears by an external auditor, and

(iii) by June 30, 2001 with regard to completing the reconciliation of the balances of all Government accounts in commercial banks as at June 30, 2000

as set out in paragraph 14 and Table 2 of the letter dated February 24, 2001.

(e) A new paragraph 2(ee) shall be added to read as follows:

"(ee) until the Trustee has determined that the third and fourth reviews referred to in paragraph 1 of the letter dated February 24, 2001, respectively, have been completed."

5. The Fund decides that the second review contemplated in paragraph 2(e) of the three-year arrangement under the PRGF for Tanzania is completed and that Tanzania may request disbursements under the arrangement on the condition that the information provided by Tanzania on the implementation of the measures specified as prior actions in paragraphs 12, 13, and 29 of the letter is accurate. (EBS/01/26, Cor. 1, 3/13/01)

Decision No. 12443-(01/26), adopted
March 14, 2001

Tanzania—Poverty Reduction and Growth Facility—Additional Interim Assistance

The Fund as Trustee (the "Trustee") of the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (the "Trust") decides,

(a) that satisfactory assurances regarding the exceptional assistance to be provided under the enhanced HIPC Initiative by Tanzania's other creditors continue to be in place, and

(b) that the Trustee shall disburse to Tanzania as additional interim assistance the equivalent of SDR 13.34 million, which shall be made available by the Trustee to Tanzania in the form of a grant that shall be paid no later than three business days after the adoption of this decision to the account for the benefit of Tanzania established and administered by the Trustee in accordance with Section III, paragraph 5 of the Trust Instrument; the proceeds of the grant shall be used by the Trustee to meet Tanzania's debt service payments on its existing debt to the Fund as they fall due, in accordance with the following schedule: 89 percent of each repayment obligation falling due between April 1, 2001 and March 31, 2002. (EBS/01/26, Cor. 1, 3/13/01)

Decision No. 12444-(01/26), adopted
March 14, 2001

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/01/25 (3/12/01) and EBM/01/26 (3/14/01).

2. AGENDA AND PROCEDURES COMMITTEE—NOMINATION

The Executive Board approves the proposal by the Managing Director that the Agenda and Procedures Committee be reconstituted as follows:

Mr. Bernes, Chairman
Mr. Cippà
Mr. Mozhin
Mr. Yoshimura
Mr. Donecker
Mr. Anjaria, Secretary

Adopted March 12, 2001

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/01/26 (3/12/01) is approved.

APPROVAL: August 24, 2001

SHAILENDRA J. ANJARIA
Secretary