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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 97/115

2:30 p.m., December 3, 1997

Contents

Decisions Taken Since Previous Board Meeting

Executive Board Attendance

S. Fischer, Acting Chairman
A.D. Ouattara, Acting Chairman

Executive Directors	Alternate Executive Directors
	S.M. Al-Turki
	R. Fernandez
T.A. Bernes	
	R.J. Heinbuecher, Temporary
	J.N. Santos, Temporary
D.Z. Guti	J.P. de Morais
	W.K. Gruber, Temporary
A. Kafka	H.F. O'Brien
	V. Rigász, Temporary
	M. Budington, Temporary
	S. Rouai, Temporary
	B.M. Lvin, Temporary
G. O'Donnell	J. Shields
	M. Kell, Temporary
A.S. Shaalan	M.H. Elhage, Temporary
	W.F. Abdelati, Temporary
	R. Kannan, Temporary
E. Srejber	
	A.G. Yakub, Temporary
	T. Brizuela, Temporary
	E. Rodriguez, Temporary
	P.I. Botoucharov, Temporary
	T. Presečan, Temporary
	E.T. Rădulescu, Temporary
	A. Barro Chambrier
	D. Fujii, Temporary
	H.W. Cocker, Temporary
	Zhang F., Temporary
	Qi J., Temporary
A.G. Zoccali	O. Otazú, Temporary

R.H. Munzberg, Secretary
A. Mountford, Acting Secretary
P. Cirillo, Assistant
S. Soromenho-Ramos, Assistant

Tanzania—1997 Article IV Consultation; and Enhanced Structural Adjustment Facility—Second Annual Arrangement
Staff representatives: G.G. Johnson, AFR; Burton, PDR

Antigua and Barbuda—1997 Article IV Consultation
Staff representatives: W.E. Lewis, WHD; Pujol, PDR

St. Vincent and the Grenadines—1997 Article IV Consultation
Staff representatives: E.S. Williams, WHD; Pujol, PDR

Also Present
IBRD: J.W. Adams, Africa Regional Office; C. Symeonides-Tsatsos, Latin America and the Caribbean Regional Office. African Department: E.A. Calamitsis, Director; G.E. Gondwe, Deputy Director; R.K. Basanti, G.G. Johnson. Asia and Pacific Department: V. Cerra. European I Department: M.C. Deppler, Director; J. Canales-Kriljenko. Fiscal Affairs Department: M. Mered. Legal Department: D.E. Siegel. Middle Eastern Department: P. Chabrier, Director; M.A. El-Erian, Deputy Director; S. Eken, A. Jbili. Policy Development and Review Department: D. Burton, W.C. Keller, J.P. Pujol. Research Department: C.F. Kramer, C.A.M. Pattillo. Secretary's Department: P. Gotur, B.A. Sarr. Statistics Department: C.S. Carson, Director. Western Hemisphere Department: D.J. Dunn, O. Gronlie, K. Honjo, R.F. Krieger, W.E. Lewis, J. Ma, O.-J. Mandeng, F. van Beek, E.S. Williams. Office of the Managing Director: O.J. Evans, J.A.P. Clément. Advisors to Executive Directors: P.A. Akatu, O.L. Bernal, S.S. Farid, C.M. Gonzalez, K.M. Heinonen, A.R. Ismael, J. Jonáš, T. Turner-Huggins. Assistants to Executive Directors: A.S. Alosaimi, N.R.F. Blancher, M.A. Brooke, J. Chelsky, D. Chen, C.K. Duenwald, S. Fukushima, H. Javaheri, K. Kask, T.-M. Kudiwu, M.Z. Maatan, J. Mafararikwa, S.D. Melese-d'Hospital, F. Mercusa, W. Merz, L. Palei, A.R. Palmason, L. Pinzani, U.Y. Tilyayev, R.P. Watal.

1. REPORT BY FIRST DEPUTY MANAGING DIRECTOR

The First Deputy Managing Director reported on his recent travel to Qatar to address the Middle East and North Africa Conference, to the Philippines to participate in meetings on Asian regional issues, to Israel to attend a symposium in honor of Michael Bruno, and to Egypt and Jordan for discussions with the authorities.

2. TANZANIA—1997 ARTICLE IV CONSULTATION; AND ENHANCED STRUCTURAL ADJUSTMENT FACILITY—SECOND ANNUAL ARRANGEMENT

The Executive Directors considered the staff report for the 1997 Article IV consultation with Tanzania and Tanzania's request for the second annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) (EBS/97/209, 11/19/97), together with a policy framework paper for the period 1997/98–1999/2000 (EBD/97/128, 11/19/97; and Cor. 1, 12/1/97). They also had before them a statistical appendix (SM/97/273, 11/21/97).

The staff representative from the African Department noted that on November 27, 1997 the Paris Club had informed Tanzania that the January 1997 rescheduling had been put in effect. As the staff had pointed out in its paper, the effectiveness of that agreement had been delayed until Tanzania had made certain payments.

Mrs. Guti made the following statement:

> Tanzania began dismantling economic controls in the mid-1980s. However, the past two years have seen a much stronger effort to accelerate the transition to a market-oriented economy in the context of a stable macroeconomic environment. It is to be noted that major strides have been made toward the liberalization of prices and markets, contributing to the rapid growth of the private sector; the export base is being diversified; inflation has been sharply reduced; the fiscal position has been substantially strengthened; and international reserves have increased significantly. Most encouraging of all is the fact that economic reform has begun to have an impact on the standard of living, evidenced by the rise in per capita income.
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> The program supported by the first annual ESAF arrangement was a success, and many of the performance criterion were met with wide margins despite lower GDP growth due to the impact of the drought. The new revenue authority was instrumental in reducing discretionary exemptions, collecting tax arrears and enforcing tax laws. Overall, revenues performed in line with program expectations. On the expenditure side, the cash management system continued to play a critical role in controlling recurrent expenditures. The authorities also undertook reforms in the civil service pay system and the program target for the wage bill was met. Total expenditure was kept below the program target. Consequently, the government recurrent savings reached 1.3 percent of GDP, more than the program target of 1.1 percent and after several years of substantial fiscal dissaving. This allowed for a reduction in net domestic financing of the budget by 1 percentage point of GDP, an achievement that surpassed the program target.

Inflation was slightly higher than programmed, reflecting mainly the impact of the drought on food prices. However, the picture should be viewed with caution because of the high weight of food items in the consumer price index basket. An exercise is under way to rationalize the consumer price index weights. Nonfood inflation continued to decline, reflecting the strong fiscal performance.

A number of structural measures have been undertaken. These included the retrenchment of 14,000 civil servants, introduction of legislation on value-added tax, the removal of 50 public enterprises from government control, major improvements in national accounts and foreign trade statistics and harmonization of tax and other financial arrangements with Zanzibar. The restructuring of the National Bank of Commerce could not take place as planned because more preparatory work was required. Nevertheless, the bank was split into two, and the new banks are now functional. Bids are being invited for their complete privatization.

To ensure the success of the privatization progress, the authorities have invested a great deal in mobilizing public support for this endeavor. Indeed, they have emerged with a national consensus for, not only a broader and accelerated privatization program, but also for the commercialization of some government functions and the decentralization of the delivery of central government services to the regional and local level.

Export volumes, particularly nontraditional exports went up during the program period, responding to favorable prices and buoyed by the reform effort. Inputs growth was due to the slow down in economic activity. The current account deficit declined to 12.4 percent of GDP, half its level of two years ago. This provided room for the authorities to double the amount originally programmed for gross reserves, despite shortfalls in balance of payments support and higher debt service payments. The exchange rate remained stable and market determined.

Notwithstanding these impressive achievements, Tanzania still faces many challenges, among which are: widespread poverty; a narrow productive and export base; a heavy debt burden; and, a high dependence on foreign assistance. The authorities are well aware that these challenges require a sustained effort toward prudent macroeconomic management and ambitious poverty alleviation programs.

In this regard, the authorities have formulated a strong program for 1997/98, and their plan for the medium term remain ambitious. Their program is premised on the maintenance of government recurrent savings above 1 percent of GDP, the reduction of inflation to 13 percent in 1997/98 and to about 5 percent by 1999/2000 and an increase in gross reserves to at least four months of imports. The authorities are aiming at raising the investment-to-GDP ratio to about 23.5 percent, from the current 19.5 percent, and accelerating the rate of economic growth to 6 percent, which is necessary to have a meaningful impact on unemployment and poverty.

Fiscal measures would include the introduction of value-added tax in 1997/98 and the continued strengthening of the revenue authority in order to further raise the revenue-to-GDP ratio. The focus of expenditures will be on increasing the outlays on infrastructure, education and health. The decentralization of the delivery of public services is expected to improve efficiency and reduce pressure on the central government.

Monetary policy will be geared toward maintaining low inflation while meeting the credit needs of the growing private sector. Interest rates will be kept positive in real terms in order to encourage savings and attract inflows of capital. Also it is expected that the privatization of NBC and the broadening of money market instruments as well as the activation of a secondary market and a stock exchange will boost efficiency and competition in financial intermediation. To assist in reducing the costs of intermediation, minimum reserve requirements were recently reduced and the central bank intends to continue reducing its reliance on this instrument. The authorities are also taking steps to eliminate weaknesses in banking legislation, with a view, among others, to strengthening the supervisory role of the central bank as well as enforcing loan recoveries.

The authorities intend to pursue well coordinated and accelerated privatization strategy that will accord the highest priority to the restructuring and privatization of infrastructure entities, including public utilities in order to promote efficiency and expand the role of the private sector in the economy. During 1998/99, fifty more parastatal entities will be removed from government control through sale, lease liquidation or divestiture, and the remaining ones will be disposed of in 1999/2000. The authorities have also attached great importance to ensuring transparency in the privatization process and instilling confidence in the investment environment. The necessary regulatory reforms are being put in place and the new Investment Act provides for expedited approval procedures.

Prospects for exports are encouraging as volumes are expected to increase by 8.5 percent per annum. Receipts from tourism and other nontraditional activities are also expected to rise significantly and a further reduction in the current account deficit is envisaged. The authorities will aim at increasing the central bank's net foreign assets with a view to reducing the vulnerability of the country to drought and other exogenous factors. Of immediate concern, however, is the additional food import requirements that have been induced by the drought and have resulted in a residual financing gap for 1997/98. In this connection, my authorities are requesting the Fund to increase the amount to be disbursed under the second annual ESAF arrangement by SDR 20 million to cover this gap.

Tanzania's debt indicators show a heavy burden both on the budget and external sector, particularly for a least developed country that is in dire need of resources for development. The intention of the Fund and the Bank to have a detailed analysis of this matter by April 1998 is most welcome. Meanwhile, while persevering with their adjustment effort, the authorities are expediting their negotiations for debt reduction with creditors, and they look forward to the catalytic role of the Fund.

The government intends to launch a National Poverty Eradication Strategy in early 1998. The goal is to significantly reduce poverty by 2010. This will be done mainly through the liberalization of markets and the integration and monetization of the rural economy, the strengthening of rural infrastructure, the decentralization of the banking system and adequate investments in education, health, water, sanitation and family planning.

The Tanzanian authorities are thankful to the Fund for its continued support of their reform effort. They are grateful to the donor community who have responded generously to Tanzanian's request for food aid to mitigate the impact of the drought.

Mr. O'Donnell made the following statement:

I would like to begin by congratulating the Tanzanian authorities for a good performance under the first annual ESAF arrangement. Almost all the benchmarks under the program have been met, which was not easy given that this has been a drought year. Once again, the government has shown that it is willing to push ahead with quite difficult structural reforms in the economy. So, I fully support their request for a second annual arrangement under this ESAF.

Particularly pleasing is the strong fiscal adjustment and the fact that the government has been able to reduce domestic debt. The Tanzania Revenue Authority (TRA) has continued to perform well and meet government revenue targets. There has been some progress on civil service retrenchment, which has kept the public wage bill within programmed targets. There are some further efforts to liberalize international trade, but I will be keen if the staff would tell us more about this. There is not much in the paper about trade liberalization. It is one of my ongoing requests that, in all Article IVs consultations, we should use the Fund's own research and tell us about how the staff views the index number that the staff has generated for the degree of trade liberalization in countries and what change is expected. I note with pleasure what the staff has said about debt and the Paris Club.

But I think there are some more fragile areas of the program which may demand more attention over the coming year. First of all, it is extremely important that the government presses ahead with the public expenditure reforms. I know that the Fund staff has been out there helping on this, and I think that work is extremely important. I think the idea of monthly flash expenditure reports is important, but it is essential that social spending is not only protected but allowed to increase more quickly than other expenditures within their program.

In that context, I am rather worried that nonsalary recurrent expenditures for 1996/97 were 8 percent below target and development expenditures were 14 percent below target, even though government revenue was in line with its projections. I wonder whether the kind of cash management system and the requirement for recurrent budget surplus before grants, combined with the impact of the drought, have placed a great strain on Tanzania's already weak capacity, which has caused a break on development.

I think the intention to raise government saving further will probably compound that problem. I therefore urge the Fund to engage government and other donors in a wider discussion of aid finance for the budget. I stress this as a general issue about how one allows for aid flows in terms of fiscal targets for the Fund. I know there has been some discussion between U.K. staff and the Fund staff on this issue, but I would be grateful for staff views on this.

I would also be interested to hear from the staff whether the benefits of ongoing efforts to increase efficiency in the social sectors will be retained and redirected within those sectors, or how they see the benefits being redistributed. I think it is an important incentive that some of those efficiency gains are retained in the social area. Could the staff tell us when the paper on rationalization of the military—which is something that will free up more resources for what I call priority areas—will be available?

On the revenue side, the TRA had a strong first year, but there are some indications that the TRA is focusing too heavily on a few, what one might call, good firms who agree to pay arrears. I am therefore pleased that a national tax appeal board is planned. I am also interested in the proposal for direct funding of a roads maintenance agency from fuel levies. As a good finance ministry person, I do not believe in hypothecated revenues, but this seems to me an interesting second best approach to what I am told is a perennial problem. I would be keen to know whether the staff thinks that this is a feasible solution.

On debt, I note that Tanzania is not at present a candidate for the Initiative for Heavily Indebted Poor Countries (HIPC), but its position remains fragile. I would be interested to hear from the staff whether external shocks on the scale of last year's drought could change that position.

On privatization, we welcome the government's commitment to privatization, but I think in practice this has proved rather more difficult. There have been some privatizations which I understand have caused problems, and I would be interested in the staff's comments on the transparency of the process for privatization, and anything they would like to say about the privatization of the Dar es Salaam Water and Sewage Authority, whether that might have been pushed forward a little too quickly.

Finally, I am somewhat surprised that we see no mention of how the Fund intends to apply its new governance and anti-corruption strategy in Tanzania. Again, this is not something which I stress is specific to Tanzania as a country; this is a general point. I think that, in the context of the work that the Fund is doing in terms of codes of good behavior on the fiscal side and looking at transparency, it would be interesting to see what the Fund thinks Tanzania should be doing and what sorts of things should we be pressing for.

The kinds of ideas that come to mind are monitoring how discretionary tax benefits are applied under the new investment act. It would be also important to strengthen the TRA; perhaps its investigation, audit, and internal control functions could be strengthened. There is a Prevention of Corruption Bureau, which is doing good work, but I think it is somewhat starved of funds. I stress that I am not trying to pick out Tanzania as a particularly bad case in this. I am saying that I think these are general areas where a new strategy should be applied in all cases.

Finally, let me say that I commend the Tanzanian authorities for a sound performance under the first annual arrangement, and urge them to press ahead with the essential structural reforms in the coming year. I hope that government and staff can work together to ensure that essential developmental objectives, particularly in the areas of health, education, infrastructure and capacity building, are not threatened by the constraints of a tight program or any weakening of government resolve.

Mr. Barro Chambrier made the following statement:

I would like to commend the Tanzanian authorities for their determined adjustment efforts which have led to a remarkable improvement in the macroeconomic situation. Indeed as noted by Mrs. Guti in her statement Tanzania's adjustment under the first annual arrangement has been a success. This performance is all the more encouraging as it happened during a time of severe drought, and reflects the significant improvement made as regards macroeconomic management and the implementation of a wide range of structural reforms. As a result inflation has been reduced, and the external sector position is strengthening.

The macroeconomic stability that has now been achieved provides the authorities with a good opportunity to deepen the reforms and to address other imbalances. In this regard, the program for the second annual arrangement under ESAF places appropriate emphasis on a number of areas where the authorities will need to focus their efforts, mainly on measures to consolidate the gains in the fiscal and monetary areas, and on measures to increase private sector activity. The successful implementation of this program which remains ambitious will go a long way toward placing the Tanzanian economy on the path of sustainable growth.

In the fiscal area, I welcome the emphasis being placed on improving the quality of fiscal adjustment, and budgetary procedures. The recent revenue performance, despite adverse exogenous factors, has shown that the well implemented reforms introduced in the tax and customs area have been appropriate. However, given the large social and infrastructure needs of the country, it is important that more efforts be focused on increasing government revenue. While I welcome the significant progress made to eliminate sources of revenue loss, I also welcome the additional measures envisaged to widen the tax base, and to rationalize the tax system. In this respect, I note that, among others, a value-added tax will be introduced, and a reduction in the level and a narrowing of custom duties are envisaged. I can broadly agree with these measures. However, I would note that in the beginning they have the potential to lower revenue. Therefore, it is important that their introduction be properly sequenced, especially the value-added tax.

As regards the custom duties, reducing the levels could improve trade, and may even lead to higher receipts, provided exemptions are kept to a minimum and custom administration remains strong. In this regard, I note that the new Investment Code will allow for many tax exemptions. Could the staff comment on the reason for the rather wide range of exemptions, and have these exemptions not made the code less transparent?

On the subject of custom duties, I note that Tanzania belongs to the SADEC. Could the staff indicate whether membership in SADEC will have an adverse impact on Tanzania's custom revenue, given the custom harmonization requirement of this organization?

On the expenditure side, I note that the cash management system has helped to control recurrent expenditure, and that the reforms in the civil service pay system have been well implemented as the program target for the wage bill was satisfied. The slight increase in current outlays for next fiscal year is appropriate given the tight budget constraints, although I would note that there is still a need to increase outlays in several areas, namely education and health. However, the improved budget management procedure, if followed strictly should help to make more resources available to the priority sectors.

In the monetary sector, in the past, the financial problems of the National Bank of Commerce have been a source of concern as they have undermined efforts to have a strong monetary policy. Therefore, I welcome the agreement reached as regards the privatization of the NBC as well as the indication that this reform has now been placed on a fast track. This privatization, together with the use of the new instruments by the Bank of Tanzania should help to strengthen monetary policy, and thus contribute to the strengthening of the program. The banking system , nevertheless, remains weak in Tanzania, and I would encourage the authorities to continue their efforts to eliminate the weaknesses in banking legislation, enforcing loan recoveries and strengthening bank supervision. The spread between lending and saving rates are still too wide, and point to the need for an acceleration of the efforts to reform the financial system.

As regards structural reforms, I welcome the strong commitment shown by the authorities to privatize the public enterprises. While the privatization process has been slow, the authorities have been right to build a consensus on the modalities to be followed. With the achievement of such a consensus, the authorities can now increase the pace of privatization, as indicated by their statement to complete the privatization process by the year 2000, as well as extending the privatization program to cover the utilities companies and other parastatal activities. Nevertheless, I wonder if this timetable is not too ambitious, given that a few of the major enterprises are still in the government's hands.

The authorities' efforts to improve macroeconomic management and liberalize the economy have also been translated by an improvement in the external current account balance and by a strengthening of the international reserve position. The policies presently in place should lead to further improvement of the external sector. However, I note that Tanzania' debt burden remains large, although the staff expects the debt service to be manageable over the medium term, with further stock-of-debt reduction from the Paris Club, and other bilateral creditors. This being said, I would note that the Tanzanian economy remains vulnerable to exogenous shocks, and that the current account deficit and the debt ratio will remain high. In this regard, it would be important that the staff monitor the situation closely to see if Tanzania may not need additional debt relief to ensure a sustainable medium term external position.

Finally, despite the external financial assistance obtained by Tanzania in 1997, it is regrettable that the effect of the drought has been such that there is still a small residual financing gap. Given the excellent performance under the first annual ESAF arrangement , and the strong commitment shown by the authorities to the adjustment program, I can support the request to increase the second annual ESAF arrangement by SDR 20 million. However, given the fact that this gap was due to exogenous factors, and also given the excellent performance, I wonder why it has been necessary to bring this amount forward from the third annual ESAF arrangement, and why has it not been possible to make an outright increase for the second year ESAF arrangement . Staff comments will be appreciated.

With these words I wish the Tanzanian authorities continued success with their ambitious adjustment program.

Mr. Gruber made the following statement:

We would like to commend the authorities for the performance under the first–year ESAF–supported program. Most success was achieved in macroeconomic stabilization, where the authorities have succeeded in implementing a rigorous fiscal reform program accompanied by a cautious monetary policy. Impressive progress was also made in structural reforms, in particular as what concerns the civil service reform, the adoption and implementation of a Tax Reform Strategy (including the passing of the value-added tax legislation) and the improvement of economic data. However, key parastatal reforms fell substantially behind schedule. In order to realize its growth potential, a substantial acceleration of privatization and of reforms of the regulatory framework is needed. This will be the touchstone for the government's willingness, commitment and capacity to put Tanzania's economy on the footings of a market economy.

Having said this, let me make some specific remarks and highlight some points where we would appreciate getting some more clarification from the staff:

The authorities should indeed be commended for the implementation of the ambitious fiscal reform program, which was at the core of the macroeconomic stabilization program. Revenue collection and expenditure management have clearly improved as a result of the establishment of the Tanzania Revenue Authority (TRA) and a rigorous application of the cash management system respectively. The overall deficit before grants (checks issued) could even be kept significantly below program, due to smaller than expected expenditures for goods, services and transfers, and lower development expenditures. However, although such over performance is generally welcome, we wonder in this case, if some savings should not have been used for increased outlays in the social sector which were severely squeezed in the 1996/97 budget.

Moreover, we do not know if we should really be pleased about the noted shortfall of development expenditures which seem to reflect severe limitations of project implementation capacity. In view of the poor quality of the local infrastructure, development expenditures should have high priority. Moreover, a shortfall in government's development expenditures means a much higher reduction in overall development project financing due to the absence of bilateral assistance by donors which is usually tied to the fulfilling of the government's commitments to development expenditures. We wonder if the staff has some more information on the effects of the considerable shortfall of development expenditures on the realization of bilateral assistance programs. Additionally, although we welcome the substantial increase in the allocation of domestic resources for development expenditures in the 1997/98 budget, we wonder if the projected increase is realistic in view of the obvious limitations on project implementation capacity.

We welcome the passing of the new Investment Act last August. The new law represents certainly an important step to an improvement of the investment climate in Tanzania. As we could gather from the staff report, the revised law, however, still contains a number of exceptions (tax exemptions and reductions) and vague definitions, which make the law still lacking transparency, may ask for voluminous bureaucracy for its implementation, and might provide the basis for bribery. We urge therefore the authorities to create clear rules for the implementation and appliance of the new law so as to guard against abuses. The assurances given by the authorities in this respect are encouraging.

We agree with the staff that the key reform for achieving greater efficiency in financial intermediation is the privatization of the National Bank of Commerce (NBC) and share its hope that now that a decision on a new structure has finally been taken, privatization can proceed on a fast track. Still we wonder, however, if the now chosen two-way split in a full service NBC subsidiary and a National Microfinance Bank is appropriate to address the current problems of Tanzania's financing sector. This solution does leave the new NBC in a monopoly position on the market for deposits and credits (with prohibitive cost for credits) as well as in the foreign exchange market. Unfortunately, the staff report does not elaborate much on the reasons for having dropped the idea of the three-way split of NBC, on the expected effects of the new two-way split on Tanzania's banking system, and on remedies which could be taken into consideration to prevent possible negative effects of the chosen two-way split. Further staff comments on this issue would therefore be appreciated.

On the debt situation, we can take from Supplement 1 to the staff report that the debt sustainability analysis has to be redone because of improved balance of payments data and additional information on outstanding debt. The earlier analysis clearly showed that Tanzania's debt is sustainable (even under the lower export estimates) with a net present value ratio projected to decline to 184 percent at end-June 2001. And also the present report mentioned that "on the basis of the baseline scenario, and assuming a future Paris Club stock-of-debt rescheduling on Naples terms, the net present value of Tanzania's public external debt would decline from 209 percent of exports of goods and services in 1997/98 to 160 percent in 1999/2000." Tanzania's debt seems therewith to be sustainable and we assume therefore that the country is not to be considered eligible for the HIPC Initiative. Perhaps the staff could elaborate more on the reasons for the revision of the debt sustainability analysis and the expected outcome of the revised debt sustainability analysis.

Finally, let me make some remarks on the requested increase of the second annual ESAF arrangement to mitigate the effects of the drought. Although we can broadly agree with the explanation outlined in the staff report, which points to the increased need of food and fuel imports and suppressed exports due to a decline of production, we still have some reservations concerning the requested increase of the second ESAF arrangement. It is difficult to understand why the second ESAF arrangement has to be increased if one considers that the end-December 1997 net international reserves considerably exceeded the original program target (by $38.1 million). Based on the original reserve program target the Bank of Tanzania would have enough *marge de maneuver* in the reserve accumulation to fill the additional balance of payment gap opened by the drought. It is therefore not clear why an increase of the ESAF arrangement is necessary. Staff comments also on this issue would be appreciated.

With these remarks we wish the authorities well for their future endeavors.

Ms. Budington made the following statement:

As a number other Directors have noted, the Tanzanian authorities have made impressive progress over the past two years in stabilizing their economy. The overperformance in the first year of the program on such measures as expenditure reduction and reserves accumulation, as well as the strong improvement in the current account and inflation, demonstrates the sea change in policy discipline and this government's commitment to macroeconomic stabilization and reform.

Looking ahead, the staff rightly points to the need to consolidate macroeconomic gains and to push forward with an aggressive program of structural reforms. I would broadly concur with the priorities that staff outlined in their report for achieving these objectives and would like to make just a few comments regarding the fiscal program and needed structural reforms.

Improvements in fiscal control in recent years have driven a strong adjustment in terms of a lower deficit, higher savings and a decreased requirement for domestic financing. On the expenditure side, the implementation of a cash management system has made an important contribution to this effort. However, as the authorities recognize, such a system cannot be relied upon indefinitely and further reforms are needed to move toward a commitment based system that supports the efficient allocation of resources and ensures adequate funding for priority sectors.

In this context, the reduction of domestic arrears last year has been a critical step forward in improving both the credibility of the fiscal program and in addressing the widespread culture of nonpayment that has plagued Tanzania in the recent past. I was troubled, however, to see that new arrears have accrued in the past year and view as an important element of this year's program the stated objective of eliminating all arrears.

On the expenditure side, the ongoing civil service reform—including the reduction this year of 14,000 positions—is allowing for needed improvements in public sector wages while keeping overall wage costs moderate. However, I would join Mr. O'Donnell's and Mr. Gruber's comments regarding the need for increased social spending. The gaps in provision of basic health services and in access to education evidence the importance of further investments in these areas. Notwithstanding room for efficiency gains and for some reliance on nongovernment resources, the overall levels of government social funding are moderate in context of the pressing need for improvements in these sectors. I would urge the authorities to increase commitments in these areas going forward as possible under overall fiscal constraints.

On the revenue side, authorities have made a good start in recent years in improving collections, but tax revenues remain far too low at 12.5 percent of GDP. I also remain concerned by the heavy reliance on trade taxes—which is in fact set to grow as a percent of total revenues and as a percent of GDP in the next year. As the recent ESAF review emphasized, such measures represent an enormous burden on economic efficiency and early reductions are a critical element of liberalization efforts.

In this context, I am pleased to see that the authorities intend to eliminate the export tax on traditional exports and further reduce import tariff rates. I hope that they will move forward with these reforms in the next year as anticipated. Likewise, it is essential that over the next year necessary attention and resources are devoted to the introduction of the value-added tax and to the administrative reforms detailed in the report.

In terms of quantifying the gains from these reforms, the projections for changes in revenues over the program period are limited. I recognize that this reflects conservative assumptions. But, I wonder if the staff could provide some indications of the gains they would expect from these reforms in the near and medium term.

As the government continues to consolidate its macroeconomic gains, it will be critical to deepened efforts to advance the structural reforms needed to support private sector led development and an efficient public sector. Of particular note is the need for early progress in terms of the privatization program. In this context, the steps taken to date in terms of setting hard budget targets and putting in place performance contracts for key public enterprises are an important start. And the authorities' stated intention to "substantially complete" privatization of virtually all government enterprises by the turn of the century sets the right tone as these efforts move forward.

But the fact that the initial targets under the program have slipped does give me pause. The stated rationales—"the need for further evaluations" in the case of the NBC and the fact that "internal consultations on modalities required more time than earlier envisaged" for other parastatals do not bode well for meeting the appropriately aggressive objective of substantially completing this process in the next 3 years. As we have seen in so many cases, a firm and uncompromising commitment by the authorities to early action is the first requirement to building the needed consensus and momentum to drive completion of divestitures and the accompanying sectoral reforms. As a first measure of this commitment, it is critical that the time line outlined for the NBC divestiture be strictly observed. Likewise, it will be critical that the government move forward expeditiously to complete the privatization of the telecommunication company and the oil refinery, as well as the decontrol of petroleum product pricing and imports.

The privatization of the NBC is critical to advancing the nascent development of a private banking sector needed to address the enormous inefficiencies that have existed in financial intermediation in Tanzania. I understand that there has already been a substantial reduction in the share of deposits held by NBC with the emergence of a number of private banks, including some foreign institutions, though the process is still at an early stage and spreads between deposit and lending rates remain high. I also understand that the basic regulatory foundations to support a competitive, efficient banking sector are being developed, with support in terms of technical assistance. It will be critical to watch developments in this sector closely, and I look forward to an updated report at the next review.

The recent passage of the Investment Act should simplify procedures for investors, though we agree with the caveats indicated in the staff report. We would encourage the authorities to take further action to streamline and rationalize investment regulations in order to address the disincentives to potential investors created by bureaucratic delays and overlapping jurisdictions.

I was pleased to note the staff's comment regarding the transparency that has characterized the privatization program to date, though I would join Mr. O'Donnell's request for further details on this point. I also understand that the authorities have aggressively worked to address the problems with corruption and evasion in tax and customs areas. More broadly, Tanzania's success will depend upon an ongoing effort to improve the efficiency and accountability of the public sector and support the population as full and active participants.

Finally, I concur with the proposed decision, including the increase in the second year program by SDR 20 million due to the drought. This represents a vote of confidence that the authorities will sustain the reform momentum throughout the program even if the amount of financing declines in the final year of the program.

Mr. Kannan made the following statement:

The Tanzanian authorities deserve our commendation for their remarkable achievements in a number of areas; and in particular for meeting many of the performance criteria, their strong commitments and putting in place the right type of policies, and the efficient way in which they handled the recent drought. We are equally happy to note a turn around in government's recurrent savings from a deficit of 0.8 percent of GDP to a surplus of 1.3 percent of GDP and the improvement in the level of gross international reserves. On the structural reform policy, considerable progress was achieved even though much remains to be done. There is no room for complacency. Tanzania still faces a number of important challenges and in particular, in the area of heavy debt burden, narrow production base and a high dependence on foreign assistance. Overcoming these challenges require sustained efforts toward prudent macroeconomic management and perseverance of reform efforts. Furthermore, the authorities should aim to raise the rate of growth to at least 6 percent, bring down the rate of inflation to not more than 5 percent and augment international reserves to cover four months of imports in view of the risks facing food grains production.

As I am in broad agreement with staff suggestions, let me emphasize the following.

In the fiscal area, the new revenue authority successfully achieved reduction of discretionary exemptions and collection of tax arrears. These efforts must be continued and the fiscal policy must aim at the quality of fiscal adjustment. In this context, it should be the endeavor of the authorities to broaden the revenue base, reduce reliance on taxes on external trade, rationalize the structure of both revenue and expenditure and continue the positive trend of government savings. We welcome the recent increase in government expenditure toward social sector and also the increase in the allocation of domestic resources for developmental expenditures. However, we would like to caution them that this trend could be continued only if they have a close watch on the wage bill and also continue with the civil sector reform. While we welcome the new Investment Act, it is important that disruptive fiscal incentives must be avoided. With the further consolidation of planned expenditure, after some time, it could be possible to move away from the current practice of cash management to more orderly and efficient techniques of expenditure control. Regarding civil sector reform, we encourage the authorities to expedite the pay reform where all benefits are properly integrated into the wage bill.

In the field of monetary sector, the objective of the monetary policy should be to reduce the rate of inflation further with adequate support from fiscal restraint. We welcome the recent move of the authorities to reduce the interest rates in keeping with the decline in the inflation rate. However, we emphasize that positive real interest rate must be a minimum requirement to encourage savings in the economy. In this context, the spread between lending and deposit rate is still high and authorities must initiate necessary steps to bring the spread further down.

Minimum reserve requirement is an important monetary policy instrument. While we acknowledge the authorities' plan to reduce their reliance on this instrument and move toward indirect instruments, we would like to caution the authorities not to be in haste. Before they embark on indirect instruments fully, they must ensure that the interest rates are market determined. Staff comments on this are welcome.

The recent increase in the gross domestic savings is an encouraging development. With adequate financial sector reform efforts, financial savings in the economy must increase so as to reduce the resource gap. We also encourage the authorities to initiate steps for developing a secondary market for treasury bills. With a view to improving the investment climate in the economy and also to augment savings, we encourage the authorities to expedite the establishment of commercial courts, activate stock exchange and strengthen the supervisory role of the central bank.

We approve the present exchange rate arrangement. However, with a view to increasing the external reserves and also to improve the competitiveness of the economy, the authorities must watch the exchange rate developments very carefully and act swiftly to avoid significant erosion of competitiveness. At the same time, deep depreciation should be avoided in view of large capital goods requirements of the economy.

In view of additional food import requirement consequent to the drought, we support the authorities' request to increase the amount of disbursement under second annual ESAF arrangement. With this, we wish the authorities all success and support the proposed decision With this, we wish the authorities all success and support the proposed decision

Mr. Elhage made the following statement:

We would like to compliment the staff for a well-written and focused report. Notwithstanding the recent adverse weather conditions, Tanzania's economic performance continues to improve. Economic growth, while still below potential, has averaged about 4 percent annually over the past two years, and inflation dropped by more than 10 percentage points since 1994/95. Economic management in Tanzania has generally been prudent and the country's prospects are encouraging. This favorable outlook will, however, require continued pursuit of appropriate policies to address emerging challenges, maintain progress on inflation, and consolidate the gains achieved thus far. As I am generally in agreement with the staff's recommendations and can support the proposed decision I will limit my comments to fiscal policy and structural reform issues.

On the fiscal front, as indicated by the staff, further fiscal consolidation is an important ingredient for achieving a higher rate of growth. In this regard, the authorities should be commended for achieving the revenue target while maintaining total expenditures and net lending below program target despite higher interest payments in 1996/97. However, at 14 percent of GDP, revenues are still relatively low when compared with countries in roughly the same circumstances. In this regard, we are encouraged that the 1997/98 budget included new revenue measures that are projected to yield net additional revenues equivalent to 1.4 percent of GDP. The authorities' tax reform strategy as highlighted in Box 3 appear appropriate and full implementation of this strategy would further strengthen the country's finances. However, the critical next step is the scheduled introduction of the value-added tax on July 1, 1998. We would appreciate hearing from the staff if the country is ready for this step, and whether additional technical assistance is needed?

On the expenditure side, we commend the authorities for their efforts to contain expenditures below 18 percent of GDP during the program period, while increasing social sector and development expenditures. These expenditures will be offset by savings in domestic interest payments. Emphasis should be given to not only meeting the fiscal targets, but also to eliminate domestic arrears, in order to ensure transparency of fiscal policy and secure the credibility of the government's resolve to enforce payments discipline.

Turning to structural reform, where much has been done, we are encouraged by the scope and depth of the reform agenda under the program and by the authorities' plans to further reduce public sector involvement in the economy. If implemented fully, the planned measures should help improve the efficiency of resource allocation and to move growth to a higher path as envisaged in the program. Particularly noteworthy are the steps taken in September to split National Bank of Commerce into the National Microfinance Bank and a single full-service bank, as a first step toward privatization, and the removal of 50 parastatal entities from government control. We commend the authorities for carrying out key reform measures that were not covered by benchmarks, such as, the liberalization of petroleum product imports, and the passage of new investment and mining acts. This will no doubt provides incentives to private sector initiative and investments.

With these remarks, we support the proposed decision and wish the authorities continued success. authorities all success and support the proposed decision.

Mr. Fujii made the following statement:

As Mrs Guti's helpful statement and previous speakers noted, it is welcome that Tanzania achieved a generally favorable economic performance under the first annual ESAF arrangement. I encourage the authorities to continue their reform efforts under the second annual arrangement.

In view of the effects of the drought, I support the proposal to increase the disbursement by SDR 20 million. However, I would note the importance of further strengthening the external position in order to be able to respond adequately to such unexpected shocks in the future. This ESAF program projects that gross official reserves will increase up to 4 months of imports by 1999/2000. In my view, given that this three-year ESAF arrangement is expected to be completed in 1998/99, it is important to bring forward the reserve target of four months of imports to one year earlier.

I endorse the thrust of the staff's policy recommendations and would just like to mention some policy points for emphasis.

Among the various challenges facing the authorities, further fiscal consolidation is the most important. On the revenue side improvement of tax collection by Tanzania Revenue Authority is welcome. It is also a step in the right direction to begin simplifying the tax system and broadening the tax base. As the next step, it is important to introduce the value-added tax in a timely manner. On the expenditure side, an efficient control of expenditures should be maintained. At the same time, as previous speakers noted, in order to reduce poverty and stimulate private sector activities, more money should be allocated for social and development expenditures.

Regarding monetary policy, it is important to reduce inflation to a single digit as soon as possible, even though the program calls for it to be reduced to 13 percent in 1997/98. The authorities should pursue a prudent monetary policy more vigorously. As the staff rightly pointed out, the authorities need to pay more attention to the exchange rate and real interest rates, as well as reserve money. I would also note the importance of promoting financial intermediation. In this regard, it is encouraging that the Bank of Tanzania continues to develop new instruments for increasing the efficiency of the financial system, such as repurchase operations with commercial banks and harmonization of reserve requirements across local and foreign currency.

Regarding the privatization of the NBC, it is an important first step to split it into two institutions in September. The authorities need to advance the privatization process in a timely and transparent manner. In addition, the two institutions should be managed competitively and efficiently. The privatization programs for other public enterprises should also be accelerated.

Finally, it is encouraging that the external debt situation remains sustainable, although it assumes continued financial support and debt relief by donors. In this regard, in order to ensure donors' assistance, the authorities have to pursue appropriate macroeconomic policies as well as press forward with structural reforms. They also need to not only avoid nonconcessional borrowing, but also to seek additional bilateral rescheduling agreements.

With these remarks, I wish the authorities every success.

Mr. Al-Turki made the following statement:

Tanzania's adjustment and reform effort has made remarkable progress. Last year, output continued to expand, inflation slowed, and the fiscal and external positions strengthened further. The outlook for growth and inflation has also improved. However, the challenge is far from over and additional action is essential to reach the economy's potential.

Regarding macroeconomic adjustments, a fiscal improvement equivalent to 4 percent of GDP in three years is indeed commendable. The focus is now rightly on improvements in the quality of the fiscal adjustment. It is thus encouraging that the projected strengthening of revenue performance is to be achieved mainly through tax reform and strengthening of the tax administration. Here, I will be interested in staff views on the administrative capacity to implement the changes, including the new value added tax.

On the spending side, the reallocation of spending to priority areas, emphasis on further civil service reform, and steps toward privatization of government functions are welcome. However, a more proactive stance is needed for improved expenditure management. Specifically, the emergence of new domestic arrears last year is a concern. I am therefore looking forward to the detailed discussion of the arrears issue that the staff anticipates for the midterm review.

Given the still relatively high rate of inflation, the authorities are right to maintain a tight monetary stance. In that connection, the recent rise in real rates of interest from the sharply negative levels earlier this year is to be welcomed. While there has been some progress in development of indirect instruments for monetary management, a more proactive approach is needed for reform of the financial sector.

The progress in trade liberalization has already begun to pay off in strengthening of the external payments position. The program's priority for further reduction in trade barriers is thus well placed. The focus on an additional build up of reserves is also appropriate at the current juncture and, given the heavy debt burden, I also share staff's emphasis on avoidance of nonconcessional financing and timely clearance of arrears. Regarding capital account liberalization, however, it is critical that any policy moves be properly sequenced. Indeed, staff discussion of the authorities' plans in this area appears premature in view of the acknowledged need for extensive financial sector reform.

An acceleration of the structural reform effort is also critical for full realization of the economy's potential. In particular, privatization has to extend beyond the NBC to include other core public enterprises. Adherence to the program's schedule of parastatal reforms will be an important test of the authorities' resolve in that regard.

With these remarks, I support the proposed decision including the request for drought-related augmentation of the Fund's support for the ESAF program.

Mr. Rodriguez made the following statement:

I would like to commend the staff for a well-written and informative set of papers. Under the first annual ESAF arrangement, Tanzania has performed well, even if GDP growth was less than expected and inflation ended up higher than originally envisaged, because of weather related factors. On the fiscal front, government savings were larger than anticipated, because of tight expenditure control, and on the external sector the current account deficit was less than half the targeted level, allowing an additional increase in gross official reserves. Progress on structural reforms has been significant as well. The Tanzanian authorities are commended for all these efforts.

In general, I share the views expressed by the staff. I support the proposed decision and I would like to make some comments.

The medium-term program general objectives remain ambitious, yet the macroeconomic targets for 1997/98 are more moderate. The fiscal program seems modest in terms of its fiscal targets, although its elements are remarkable. On the revenue side, the strengthening of the tax administration and the tax reform strategy are welcome. In spite of the drought, the government is reducing the maximum import tariffs and the number of tariff rates, and it is eliminating some low yielding taxes. The implementation of the value-added tax, following the recommendations of the Fiscal Affairs Department's technical assistance mission, looks promising.

The protection of spending on the social sector and the increase in development projects are positive elements on the expenditure side, although maybe the program could even be more ambitious in these areas. The civil service reform, which is expected to continue with a study to assess the possibility of contracting out services to the private sector and a job evaluation program to match pay with responsibility, has been commendable.

Monetary policy objectives for 1997/98 are adequate to ensure further gains in price stability. Several developments in this area are noteworthy and deserve some comment. The new system for monitoring reserve money, which takes better account of seasonal factors, is particularly important. It should facilitate achieving more stability in the money market, reducing the volatility in the interest rate observed earlier this year. In this way, it should also serve to ensure avoiding negative real interest rates.

The introduction of repurchase operations with commercial banks, enhancing the authorities' capacity to implement monetary policy, is another positive development. A third one is the harmonization of reserve requirements, which has meant a reduction in such requirements for domestic deposits. It should bring more efficiency to the financial system, reducing the spread between the savings rate and the lending rate. However, this spread still will remain high, imposing a high cost on credit, and, clearly, a deep reform of the financial system is needed. In this regard, the authorities' intention to proceed on a fast track with the privatization of the National Bank of Commerce, which is key in this reform process, is encouraging.

The exchange rate system of Tanzania has suited well the stabilization efforts, while the objectives of the intervention policy of the central bank, achieving reserve targets and smoothing short-run fluctuations, seem adequate in general. Nevertheless, there has been a real appreciation of the exchange rate in terms of relative consumer prices since 1992, 14 percent during 1996/97, and, in addition, there has been a significant reduction of import tariffs. Although, the staff considers that all this may not have affected much competitiveness in light of the efficiency gains, a continuation of this pace of real appreciation in the future could eventually become a problem. Intervention policy on the exchange rate market and monetary policy in general could do better, if more attention were paid to the behavior of the real exchange rate and the real interest rate.

The consensus that has emerged about the privatization of public services is excellent and it should serve to proceed faster with parastatal reform, including the large core enterprises, given that there are still a fairly large number of public enterprises. The authorities' commitment to accelerate privatization, ensuring transparency in the process, according to Mrs. Guti's statement, is encouraging. The emphasis on simplifying procedures of the new Investment Act is also welcome, although some of the benefits permitted, particularly the discretionary capacity to grant them, remain a matter of some concern.

With these remarks, I wish the Tanzanian authorities continued success in their adjustment program.

Mr. Santos made the following statement:

We cannot help having mixed feelings after reading the staff report on Tanzania. While it is clear that a remarkable turnaround has been achieved over the past two years, namely with regard to the macroeconomic situation, it is equally clear that much remains to be done on the structural front to enable the Tanzanian economy to realize its growth potential. Progress achieved thus far needs to be complemented by an acceleration of reforms, geared to address remaining structural impediments to private investment and growth. The authorities need to accelerate the withdrawal of the public sector from activities that can be more efficiently handled by the private sector and remove impediments to private sector expansion.

One of the main lessons to draw from recent developments is that Tanzania needs to diversify its economy to become less vulnerable to adverse shocks, as the drought had recently hit the country. Until such a change does take place, we believe that Tanzania will need to be prepared to strengthen its adjustment efforts if the impact of the shocks are more prolonged than expected.

In this regard, we would have preferred that the remaining balance of payments gap for the program period would be closed through a further tightening of policies rather than by a front-loading of ESAF disbursements. It is worth noting that the amount requested is relatively small compared to balance of payments flows and consequently we believe that it should not be necessary a significant tightening of policies in relation to their current stance.

Having said that, we would like to underline some specific areas. On the external side, we note that the current account deficit before grants is still very high and more importantly is not projected to improve over the program period. Moreover, we wonder whether the recent appreciation of the real effective exchange rate, coupled with the loss in terms of trade, has not led to a deterioration in competitivéness, which may translate in a further widening of the external imbalance. If such tensions do materialize, we believe that a depreciation of the real effective exchange rate may become necessary. This would also lead to accumulation of reserves possibly above the program target, which is all the more important as reserves are still at a low level and the country is extremely vulnerable to adverse shocks.

Regarding the monetary sector, we believe that the key goal is to improve the capacity of the banking system to serve as an instrument to promote economic growth. At present, financial management is still hampered by structural impediments which have led to an inefficient financial intermediation and kept domestic lending at low levels. This is clear in the still high differential between lending and deposit rates, reflecting the inefficiency of domestic banking system. While thus far the high cost and the limited availability of domestic credit have been somewhat offset by increased foreign financing, we wonder whether it is wise to rely on foreign sources of financing on a sustained basis. Hence, we believe that one of the program priorities is the reform of the financial sector. With that in mind, it is particularly important to complete the restructuring and privatization of the NBC whose condition has taken a toll on the economy. Progress in this area will be an important test of the authorities' resolve to implement the program.

Finally, regarding the fiscal sector, despite the fairly ambitious agenda of broadening the tax base and improving tax administration, including implementation of a value-added tax, government revenues are projected to remain almost constant at a very low level, even by African standards, during the program period. We would ask the staff when the payoff of the broad agenda of reforms in this area is expected to take place.

Mr. Otazú made the following statement:

It is encouraging to note that despite the adverse weather conditions, Tanzania's economic development under the first annual ESAF arrangement was generally on track. I commend the authorities for their continuing commitment to the bold financial policies contained in the "Memorandum on Economic and Financial Policies of the government of Tanzania for 1997/98."

While I welcome the favorable macroeconomic turnaround, I also note that the financial situation remains fragile. The economy continues to be vulnerable to exogenous shocks and greater efforts are needed to face the challenges ahead, acceleration of structural transformation and modernization of the economy. In particular, further efforts need to be directed at overcoming very low per capita income and short life expectancy, improving the supply of services for health, education and infrastructure, and enhancing the provision of basic utilities. Tanzania has shown positive development under the first annual arrangement, but there are continuous substantial unmet needs which call for strong financial support from the international community. Consequently, I agree with the proposed decision to increase the second annual arrangement to SDR 20 million.

Since I am in agreement with the objectives and policies envisaged under the program, I will limit myself to a few comments.

A milestone of the program has been the country's strong fiscal stance, which is based on both a permanent effort to increase revenues and on strict control of public expenditures. It is therefore commendable that actions have been taken to expand the revenue base, reduce reliance on taxes on external trade, and rationalize the allocative process. Nevertheless, much more is necessary to reduce government dependence on bank financing and foreign savings. In addition, with the growing financing needs of the priority sectors, mainly education, health, and basic infrastructure, fiscal policy has to play a primary role in promoting domestic savings. This can be done through higher fiscal saving which could, in turn, promote confidence in the private and external sector.

In this regard, I welcome the government's effort to strengthen tax administration through the recently established Tanzania Revenue Authority (TRA). This should significantly improve tax collection and reduce deficiencies in compliance, especially considering the professionalism that the new TRA authorities are trying to put in practice. This, together with the Aspects of the Tax Reform Strategy and the Program for Strengthening Tax Administration, could help improve the fiscal position and reduce exemptions.

Nevertheless, Tanzania's fiscal problems have also been due to a culture that tolerates nonpayment. In short, taxpayers do not pay the government, borrowers do not pay state banks, and the government does not pay its creditors nor its utility bills. I therefore wonder whether the staff could explain why the program does not include a downward adjustment factor for the domestic arrears (government's net domestic financing and net central bank credit to the government).

Turning to the expenditure side, it is crucial to address several deficiencies in order to keep outlays under control, achieve a clear budgetary process and ensure the strong commitment of all public sector heads (ministers) to an expenditure ceiling. Measures should include the civil service reform. In this regard, I welcome tighter control on the wage bill as a proportion of GDP, because I understand there should be more room for reducing and rationalizing the cost of public service and improving its efficiency.

With respect to monetary policy, I urge the authorities to maintain tight control over monetary expansion during 1997/98 and to more actively introduce market instruments. I wonder if a tighter monetary policy should be in place in order to play a more active role in reducing inflation. Here, the acceleration of the reform of the state-owned banks is of paramount importance, and I call for more effective actions in this direction.

Consequently, in the banking sector the delay in adequate reform of the National Bank of Commerce (NBC) is a cause for concern. This institution has 80 percent of the banking assets in the country, and 77 percent of these assets are nonperforming. If not addressed, this situation could cause severe problems in the financial and fiscal sector and it therefore calls for prompt actions and for a review of the banking supervision system. The development of private banks in the country could be constrained by the present situation. In this regard, I call for closer observance of this aspect in the evaluation of the program and strict adherence to the performance criteria.

In the external sector, it is encouraging to see the process of liberalization and the intention to rebuild the stock of international reserves beyond the original program target, in spite of the country's precarious external position and huge current account deficit (12 and 14 percent of GDP for 1996/97 and 1997/98). Given the urgent need to increase foreign exchange supply, the imposition of taxes on traditional exports and tourism-related activities seems inconsistent.

The authorities should be congratulated for the good progress made on a wide range of structural reforms, but there is still long way to go. We are now concerned with a more critical step in the reform program. The large parastatals are still to be privatized. I understand the importance of the political consensus for reform, but contend that these actions would not cause any additional obstacles because they are vital for maintaining and improving any reform process. In this connection the reform of the financial sector, the approval of the new Investment Act and the introduction of the value-added tax are crucial. Clear progress in this area is needed to provide basic confidence for the financial sector, which is fundamental to resuming growth and delivering the precise signals to potential investors. In light of the current dynamic situation, I believe that these actions are not to be postponed.

Finally, I would encourage the Tanzanian authorities to maintain their firm commitment for further reforms, and create conscience among the citizens regarding the need for a foundation for a sustainable adjustment and structural reform process. To reap the benefits of adjustment it is necessary to succeed in the first step and carry out a second generation of policies. This, in turn, necessarily takes time and the citizens need to see a light at the end of the tunnel.

With these remarks I wish the Tanzanian authorities the best in their laudable efforts.

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

On the revenue side, there was the question about what we can expect in the way of increases in tax revenues from the reforms that are under way and also from administrative efforts. As the Board is aware, we always try to be conservative in our projections. So, in the projections, we have not made allowance for the effects of either tax reforms or administrative efforts. We would hope that, in fact, revenues would come out rather higher than projected, which would mean that in future years Tanzania could make more adequate provision for social expenditures and achieve the other expenditure goals that the government has set for itself.

That being said, we would expect that the value-added tax should make quite a difference over time, because it is reasonable to expect to see an increasingly monetized and developed economy, so that more of the economic product should be captured within the net of the value-added tax. However, we know that there will be some declines in customs duty rates. We are not quite sure how much that would affect things, because we are also expecting an increasingly open economy with rising levels of imports. So there are many factors to take into account, but the bottom line is that the projections in the staff report are considered conservative on the revenue side.

There was a question in that connection about administrative capacity for implementation of the value-added tax. Administrative capacity is a major concern in any country that is going through the kind of change occurring in Tanzania. In fact, the original program timetable was for the value-added tax to have been introduced rather earlier than the current timetable. We felt that this delay, while somewhat regrettable, was good in that it provided time to improve administrative capacity in preparation for the new system. The authorities are implementing it in an orderly way, and they have a detailed plan laid out for it. As far as we are aware, they are following it rigorously. They also have the benefit of not only technical assistance from the Fund, but also resident technical assistance supplied by donors to help them design and implement the value-added tax.

One other point is that the current sales tax system is itself complex. It causes an enormous administrative burden and is one of the reasons, I think, for the reaction in the community at large to the aggressiveness of the TRA. As the sales tax is complicated and difficult to understand, the value-added tax in this case is likely to be a simplification, at least in terms of the comprehensibility of the system.

Turning to the question of the budgetary constraint, many of the Directors' concerns about the social expenditures related to what happened last year, the first full year in which the cash management system had operated. One of the problems last year was that the budget, as originally adopted in June 1996, in fact turned out not to be feasible when the program was put together and brought to the Board in November. The authorities, effectively, had to put together a new budget for the program, in many areas, which involved lower levels of expenditures than had been budgeted. Many of the comparisons that people have made are related to what was in the budget and what was actually delivered. In fact, under the cash management system, the amount that went to health and education was quite reasonable. It was certainly as good as the year before, and it was not unduly constrained by that system. It is fair to say that the authorities did manage to protect those sectors to some extent. That being said, it was a disorderly system, and arrears did arise. We look on the current year as one that should go considerably better, simply because there is now what we consider a realistic budget. Ministries thus were told in June what they should be able to count on. It appears that the budget is on track, and the allocations that have been given are more or less in line with what one would expect after the first four months of the fiscal year, so we think the problems of a disorderly contraction of control of expenditures will be lessened. We have a technical assistance team in Tanzania looking at the expenditure management system to see whether it can be further improved.

On a related issue, there is the question of development expenditure. There are quite a few technical aspects, and perhaps I can follow up on them bilaterally with those interested Directors. However, I should note a few things here. First, development expenditures are not well accounted for. It is one of the aims in expenditure control to get better accounting of such expenditures. Second, there is a definitional issue. It was mentioned that there was a sharp rise in development expenditures in this year's budget. That is because, at the request of donors, the government has brought more of its development expenditures, financed by donors, into the budget itself. So, the increase is, in part, artificial, as the definition of development expenditure has effectively changed from one year to the next. There also is a coherent effort to reduce the complexity of the development budget. There has been a major reduction in the number of projects this year. These are the type of steps being taken to make the development budget more transparent and to have it work better. I might respond to one point that Mr. O'Donnell made in this connection. He said that he was worried about the squeeze that increasing government saving could have on social expenditures and on development expenditure. Actually, when we are talking about government savings, the effect can be favorable for development expenditure, and that is one of the reasons we are looking for higher government savings on recurrent expenditures. It is true that one has to be very judicious in setting government savings targets to make sure that they do not hamper health and education expenditures unduly, but for development purposes, the two should go well together.

Turning to financial sector issues, one issue is the privatization of NBC. The question was raised why the bank was split into two parts rather than three. A three-way split implied dividing the commercial part of the operation into two, which looked to be a good thing from the viewpoint of competition.

However, it was not clear that two commercial banks would both be attractive, so there were these legitimate worries about whether the split was viable. Moreover, concern about the monopoly aspect has been alleviated over time. Even though the commercial part of the NBC has not been split, it is still only one-third of the banking system, quite a long way from being in a monopoly position, in sharp contrast to the situation four or five years ago.

There was a question whether the authorities should be moving more quickly to reduce inflation through, perhaps, a stricter monetary policy. One thing that should be noted is that inflation in the nonfood area has come down quite well. On an end-of-year basis, year over year, it has been about 10 percent for some time, a substantial improvement over past performance. Thus, if it were not for the drought, we could probably be expecting to see inflation at 10 percent or lower right now. So, from that point of view, we do not see that there is a need for a particularly tighter policy.

Also on tightness of policy, as some Directors mentioned, there are worries about competitiveness; the exchange rate is being pushed up by the strength of the external sector, and that issue has had to be addressed as the authorities have moved along. For that reason, they have sometimes been caught, in the conduct of monetary policy, between trying to avoid appreciation of the currency and trying to strike the right balance in how hard they fight inflation. In general, we have little reservation about the correctness of the monetary policy they have followed. It was mentioned by one Director that the more precise targeting of reserve money, taking account of seasonal factors, should make the whole process go smoother. We would hope that would be the case, as there have been many ups and downs in interest rates. Nonetheless, one has to say that the anti-inflation part of the program has definitely been a success.

On other aspects of parastatal reform, again we are faced with competing objectives. People want to see a very honest, transparent, and orderly system, but that can take a long time, and in part explains why there have been problems in meeting timetables on privatization. The important thing is to try to strike the right balance between these two objectives.

The Dar es Salaam Water and Sewage Authority is one company in which the president felt very strongly that he had to move more rapidly than had been the case until now. The authorities are negotiating directly with some reputable investors. The World Bank is involved and is not entirely pleased with the speed at which it is progressing, because it raises some questions and poses certain risks in terms of transparency; however, it could achieve faster results. We hope that with that experience, they will be able to move more quickly in other aspects of the parastatal reform process.

On governance issues, I would speak not so much about what we are doing there, as about what the authorities are doing. Messrs. Barro Chambrier and O'Donnell mentioned some issues, such as the question of discretionary tax benefits. One of the strengths of the new Investment Code is that it provides only quite limited incentives, and the degree of discretion is quite small. The main innovation is a fast-track procedure—approvals have to be given within two weeks at each stage or go into effect automatically. There are a number of ways that this can cut through the formerly cumbersome bureaucratic processes, which were also subject to abuse.

The question of tax exemptions, which was mentioned as an issue on the fiscal side, seems to be less of a problem at the present time. It was a major problem that contributed to the breakdown of the adjustment effort in 1994 and 1995, but has now been significantly addressed. The TRA, no doubt, is not yet a perfect institution, but it is a major improvement that represents, major gain in dealing with corruption.

The corruption bureau will, we hope, play a very active role. The question of funding is something that will have to be addressed. We might note that a major report on corruption over the past few years that is on the president's desk. The president has also received a recommendation that he should appoint a special prosecutor who would report directly to the corruption bureau. As far as we know, he is favorably disposed to that, but we have not yet heard the outcome. I would be pleased to provide more information bilaterally.

On the HIPC issue, Mr. O'Donnell wondered whether the external shocks would affect the issue. To be specific, the effect of the current drought has been to reduce exports somewhat, but the main effect has been to raise imports, which we hope will be temporary. On the export side, the effect was relatively limited, reflecting the diversification that Tanzania has achieved. Of course, if there are major changes in the climatic picture, one would have to review the matter, but at this point we have not considered the climatic factors to be a major factor that will change the analysis.

On the debt sustainability analysis, I do not have much to say at this point.

On trade liberalization, the index of trade restrictiveness developed by the Policy Development and Review Department currently has the value of 7 for Tanzania. I understand it goes from 1, which is good, down to 10, which is bad. I am not sure that it entirely reflects the current situation, because Tanzania has virtually eliminated quantitative restrictions on trade. Tariff rates in Tanzania are still relatively high, but, as has been noted, they are programmed to come down.

There are some residual concerns in other areas. The decentralization and permission to local authorities to raise taxes is apparently raising problems for farmers. One of the issues to be addressed in future is what impediments to agricultural trade are posed, for example by residual controls of one sort or another.

In terms of regional arrangements, what Tanzania is doing at the present time is focusing on its relationships with Uganda and Kenya, its main neighboring trading partners. Tanzania is very actively engaged in negotiating with them on how to revive what used to be virtually a common market among the three countries. How that will fit into the broader regional arrangements remains to be seen.

The staff representative from the Policy Development and Review Department confirmed that, as pointed out by Mr. Barro Chambrier, the authorities had originally requested an augmentation of the purchases under the arrangements. The staff had considered carefully the many factors related to the issue, including, first, that the amount of reserves at the end of 1996/97 had been substantially higher than originally programmed, but they had been still at a relatively low level at about 2.5 months of imports of goods and nonfactor services. A second consideration had been that the cost of the drought was estimated to be considerable, but the final cost was currently uncertain. A third consideration had been that the three-year arrangement had been originally back loaded, reflecting the poor track record of Tanzania prior to the current arrangement. However, given that the performance under the first annual arrangement had been satisfactory, the staff believed that positive performance needed to be reflected in the decision. Taking such considerations into account, the staff had decided that the appropriate response was to rephase access from the third annual arrangement to the second annual arrangement, rather than to augment the overall amount.

Mr. Shields clarified that the concern about fiscal savings had related to the impact on current spending. Essentially, that had been tied up with the more general concerns about accommodating within the program likely donor support for recurrent spending and ensuring that, if that support were available, it would go into spending totals rather than simply being absorbed.

Ms. Srejber made the following statement:

I am encouraged to notice that Tanzania has made significant progress in stabilizing the economy in the past year—the GDP growth has been respectable, the inflation has decreased and significant structural reforms, especially in the trade area, have been carried out. The authorities' commitment to the program has been noticeable, thus also giving assurances for policy implementation in the coming year. Against this background, I support the proposed refacing. However, there are big challenges facing the authorities ahead to achieve a sustainable macroeconomic development and external viability.

As can be seen from the staff paper, the GDP growth for Tanzania is expected to be around 5–6 percent. This might look impressive, but one has to keep in mind that the population growth rate in Tanzania has remained on a very high level, even when compared to other countries in the sub-Saharan region. The GDP growth per capita is estimated to be only around 1.8 percent in the next year and around 3 percent thereafter. Thus it would take considerable time to increase living standards if the authorities do not manage to hike the GDP growth further and/or press down the population growth.

Although the staff says on page 18 in the staff report that Tanzania's current account deficit (excluding official transfers) is projected to decline relative to GDP, table 9 on page 39 tells a different story. After impressive improvements since 1994–96, the deficit seems to stabilize around 12 percent of GDP (excluding the increase to 14 percent due to weather effects 1997/98). The external transfers are thus estimated to amount about 8 percent of GDP in the forthcoming years. If I interpret table 6 on page 35 correctly, the fiscal situation (excluding grants) does not seem to improve during the program. Instead, the overall balance which had improved to a deficit slightly over 1 percent is programmed to be over 3 percent in the coming 3 years. As the tax revenues would broadly remain on the same level of GDP in the coming 3 years, the recurrent expenditure, which had decreased from 15 percent of GDP to just under 13 percent of GDP in 96/97, will have to be kept close to 12 percent during the program period. External and internal viability of Tanzania will thus not be much closer it seems by the year 2000, even after several ESAF programs have been implemented by that time. The authorities would be well advised to tackle these problems in the nearest future.

Mr. Botoucharov made the following statement:

Tanzania's performance under the first annual arrangement under the ESAF should be clearly welcomed. The implementation of a strong fiscal adjustment program supported by prudent monetary policy and structural reforms have brought about a considerable degree of macroeconomic stability and a more viable business environment. Not surprisingly, the adjustment efforts of the authorities have led to observation of all financial and the majority of the structural benchmarks under the first annual arrangement. This together with the authorities' commitment toward establishing a stable macroeconomic environment, accelerating structural reforms and improving social indicators, gives me confidence that Tanzania's performance under the arrangement will continue to be strong. To this end, this chair supports the authorities' request for a second annual arrangement under the ESAF and its augmentation by SDR 20 million on the account of the third arrangement.

Notwithstanding the results achieved over the past year, a word of caution is in place, as further success is contingent upon consolidation of financial policies' gains and further deepening of structural reforms. I broadly agree with the objectives of the program and the medium-term framework for structural reforms, but I would like to emphasize two issues related to Tanzania's fiscal policy and budgetary management.

On fiscal policy issues, I welcome the achievement of a strong fiscal position, and the strategy followed by the authorities to broaden the revenue base and reduce reliance on taxes on external trade. To this end, the parliamentary approval of the value-added tax and its planned introduction in July 1998 is a major milestone in the authorities' tax reform strategy. It is important, however, that in the interim period the Tanzania Revenue Authority continues its efforts to collect taxes. Strong revenue performance in the period ahead would assure a smooth introduction of the value-added tax and consolidation of the fiscal position, the latest being a core element in the overall adjustment program

As to Tanzania's budgetary management, it is of some concern that, despite the strong fiscal position, some essential budgetary items such as development and social expenditures have shown actual disbursement levels below the already low allocations set in the budget. The staff has already elaborated on the subject and it seems that rationalization of operation costs has occurred, which has resulted in budgetary savings in the health, education and transportation sectors. If this is the case, I would like to join Messrs. O'Donnell and Gruber in urging the authorities to provide us with a more transparent budget, which adequately reflects the allocation of expenditures. This would also improve the awareness of donors to the allocation of the financial support provided to Tanzania.

Mr. Zhang Fengming made the following statement:

We are pleased to see the remarkable turnaround Tanzania has made in its macroeconomic situation within less than two years. The first annual ESAF arrangement bore much fruit as a result of generally good policy implementation. Despite delays in parastatal reform, macroeconomic and financial objectives under the program have largely been achieved.

Among the policy initiatives accredited for the striking economic performance has been a strong budget, the core of the adjustment program as the staff points out. I am of the same view and feel that a stronger budget position ought to be pursued in order to ensure efficient government operation. Toward this end, the development of an expenditure commitment monitoring system will play a key part and is therefore welcomed.

As the staff rightly point out, a prudent monetary policy largely contributed to the much reduced inflation. We encourage the authorities to continue to do so, and, meantime, to explore more policy instruments so as to increase the Bank of Tanzania's capacity to implement monetary policy. The authorities' efforts to enhance the efficiency of the financial system also deserves great applause and it is necessary that these efforts be maintained.

Finally, we support the proposed decision and wish the authorities every success in meeting the challenges ahead.

Mr. Rigász made the following statement:

We are pleased to agree with Mrs. Guti that Tanzania's first annual ESAF arrangement is a success. Over the last two years, Tanzania has made remarkable progress in stabilizing and transforming its economy, which attests not only to the authorities' success with prudent economic management, but also to their ability to obtain the necessary domestic consensus about the need to reform. We therefore have no problems supporting the authorities' request for a second annual arrangement, nor for increasing the originally scheduled disbursement by SDR 20 billion.

Since I generally agree with the staff's appraisal and recommendations, I can limit my statement to a few remarks about the vulnerability of Tanzania's economy to shocks.

While Tanzania adjusted impressively under the first annual arrangement, it remains vulnerable to various exogenous and endogenous shocks. Obviously much of the problem is due to the unbalanced structure of the economy, in which agriculture accounts for over 50 percent of GDP and employs over 80 percent of the total workforce. Any adverse shock to this sector will take a large toll on growth and the well-being of most of the working population. Recent droughts, for instance, have seriously affected food crops, which some media stories predict will fall 50 percent below last year. In addition, power rationing due to the drought forced most of Tanzania to go without power 18 hours a day, five days a week during October and must have affected other industries as well. The negative effects of the drought on output are therefore probably larger than the staff's predicted 1.3 percentage points of GDP. Be that as it may, the underlying reality is that no country where 50 percent of the population lives below the poverty line can afford to let its growth performance become the toy of factors beyond human control. A medium-term effort to diversify the economy, powered by private sector initiative, should be complemented by effective short-term measures specifically aimed at eradicating existing problems in sectors like the agriculture sector. We are encouraged to see that the authorities' policy framework paper indeed goes in this direction. The strategy for agriculture, water, and roads, set forth in paragraphs 35–37 of the policy framework paper, presents a package of measures geared to eliminate output fluctuations, and also contains important measures to achieve broad-based growth in the incomes of rural households. Considering the fact that the income share of the lowest quintile of the population has grown by a mere 1.9 percentage points over the past 20 years to the total of 6.9 percent, this seems the only way of addressing the root causes of the widespread poverty.

We would also like to congratulate the authorities on their decision to accelerate privatization in order to complete the process by the turn of the century. Increased efficiency of the economy will be the reward for their efforts. I assume that the stock exchange will play a major role in this process, as in the more efficient mobilization of resources for investment. In this connection, I wonder whether the staff could explain the reasons for the long delay in activating the Dar ès Salaam stock exchange.

Finally, there is word that Zanzibar Island is threatened with an economic decline due to farmers' neglect of its cash-crop economy. Since the staff visited Zanzibar Island and held discussions with its authorities, I wonder if they can confirm or deny this claim.

Mr. Fernández made the following statement:

I agree with the staff appraisal and the comments of previous speakers. The Tanzanian authorities can be commended for the good results achieved in the past year, even though progress remains to be made in various areas, as for instance stressed by Mr. O'Donnell. I also shared Mr. Gruber's interrogations about the NBC privatization process, but I can understand the staff's explanation.

> I will make only one brief comment regarding debt issues. As the staff indicated at the beginning of this meeting, the Paris Club agreement has entered into force very recently, but further efforts remain necessary. In order not to compromise the orderly implementation of the Paris Club agreement, it is essential that Tanzania clears all its remaining areas to the creditor countries. This is a compulsory prerequisite for the implementation of the second stage of debt consolidation, which applies from January 1, 1998 to December 31, 1998.
>
> With these comments, I support the proposed decision and the increase by SDR 20 million of the second annual arrangement.

Mr. Heinbuecher said that he would like to express his chair's support for the thrust of the staff appraisal and for the proposed decision. He would also like to echo the call of Ms. Srejber and Mr. Fujii for a further strengthening of Tanzania's external position under the ESAF–supported program to allow for a more visible progress toward a viable balance of payments position in the period ahead, also in terms of the external current account.

Mr. Lvin said that, as all major points of his statement had been taken up by other speakers, he would limit himself to congratulating the Tanzanian authorities for the truly remarkable progress achieved during the ESAF arrangement and to supporting the proposed decision.

The staff representative from the African Department noted that much of the delay in the establishment of the Dar es Salaam stock exchange could be attributed to a shortage of listable stocks, which would be alleviated as privatization proceeded. However, the authorities were expected to move quickly on the establishment of the stock exchange in the near future.

There were a number of ways of looking at the current account of the balance of payments. The present situation demonstrated Tanzania's heavy dependence on aid, which was likely to continue for some time, particularly on account of the substantial debt service burden, the staff representative continued. However, it was also true that Tanzania had demonstrated a willingness to apply that aid. Many donors, particularly the Scandinavian countries, had been very active in providing aid to Tanzania, and, in terms of the short-term projections, those levels of aid were expected to continue. In line with Mr. Shields's views, the staff was keen to ensure that, if aid was available, there would be nothing in the program to prevent its utilization. The staff would nonetheless expect that, over time, as Tanzania developed, it would become less aid dependent. The issue of what projections of aid dependency were reasonable would be among the issues analyzed by the staff for the debt sustainability analysis. Indeed, there were many factors that affected such figures. For example, in 1994/95 and 1995/96 there had been a significant reduction in aid because of the problems that Tanzania had with donors. So an increase in measured aid dependency from that situation would just reflect the fact that Tanzania was currently considered an aid-worthy country once again.

Mr. Morais, speaking on behalf of Mrs. Guti, made the following concluding statement:

> I would like to thank Mr. Johnson and his team for the wonderful job they are doing on Tanzania. I do not have anything much to add. Tanzania is a country that is certainly moving forward, and the commitment is there at the

highest political level. We have seen structural reforms, particularly privatization, moving slowly in many countries, mainly due to lack of public support and political commitment. This problem has been dealt with in Tanzania.

There has been public debate on the way forward, and consensus has been reached on a much broader strategy and accelerated pace of reforms and privatization. I would like to assure the Board that transparency and enforcing the rule of law are essential ingredients of the authorities' strategy, and they believe this will make the investment climate more business friendly. I would like to thank Directors for their useful comments, which I will immediately pass on to my authorities.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They commended the Tanzanian authorities for their continued strong implementation of appropriate macroeconomic policies during 1996/97, as well as for the better than expected fiscal and external sector performance, especially during a period of drought. At the same time, Directors noted that Tanzania's economy remains vulnerable to external shocks. That highlighted the importance of structural reforms to complement sound financial policies to strengthen Tanzania's prospects for rapid and broad-based growth and rising living standards. Directors underscored the importance of continuing to press ahead with such reforms under the second annual ESAF-supported program.

Directors commended the Tanzanian authorities for maintaining a strong budgetary policy aimed at achieving high budgetary savings, and they recognized the critical role of the cash management system in ensuring fiscal restraint. However, noting past shortfalls in development and social spending, Directors called for increased funding for such expenditures. They also stressed the need to monitor effectively expenditure commitments and to eliminate domestic arrears. They urged the authorities to maintain strict control over the government wage bill, while continuing to rationalize the civil service to be able to offer more adequate remuneration. Noting that the revenue ratio was still low, Directors endorsed the tax reform strategy, and called for adherence to the timetable for the introduction of the value-added tax and the plans to simplify further the tax and tariff structures. They welcomed the planned cuts in customs duties, and noted that these should be accompanied by improvements in tax administration and compliance and strict limitations on duty exemptions. Directors welcomed the strong revenue measures taken in the 1997/98 budget. They urged the authorities to be vigilant in the implementation of fiscal policy and to be prepared to take further action, if necessary, to meet the fiscal targets.

Directors welcomed the prudent monetary policy that had complemented fiscal restraint in achieving lower rates of inflation, and urged the authorities to aim at further strong declines in inflation in the coming year. Directors also stressed the importance of monitoring a variety of indicators of monetary conditions, such as real interest rates and the exchange rate, in conducting monetary policy.

A key element for growth was a more efficient financial system. In that regard, Directors welcomed the fact that the National Bank of Commerce (NBC) had been restructured as a prelude to privatization, though some expressed concern that the new structure did not go as far as it might have in enhancing competition in the banking system. Directors urged the authorities to adhere strictly to the fast-track schedule for the privatization of the new NBC subsidiaries, which they regarded as being crucial for achieving greater efficiency in financial intermediation. They stressed the importance of close supervision to ensure their development into efficient and readily marketable banks, as well as, more generally, strict banking regulation and supervision.

Regretting that privatization had not moved ahead as fast as programmed over the last year, Directors urged the authorities to accelerate privatization. They welcomed the expansion of its scope to cover the large utilities and other core parastatals. A further prerequisite for strong and sustained private sector growth was an environment of transparency in the public sector, and a good regulatory framework for business. In that regard, Directors welcomed the enactment of the new Investment Act, but the importance of strict administration and avoidance of special treatment was noted.

Given the fragility of Tanzania's balance of payments and the continuing importance of external assistance to Tanzania, Directors noted that a sustained commitment to strong macroeconomic policies and structural reforms would improve the prospects for obtaining the necessary financial support from the creditor and donor community. Directors stressed the need for Tanzania to avoid nonconcessional official borrowing, to meet in a timely manner its debt service obligations, and to negotiate promptly the remaining bilateral agreements with Paris Club and other bilateral creditors.

It is expected that the next Article IV consultation with Tanzania will be held on the standard 12-month cycle.

The Executive Board took the following decision:

1. Tanzania has requested (a) the second annual arrangement under the Enhanced Structural Adjustment Facility, and (b) that the amount of the second annual arrangement be increased to the equivalent of SDR 71.415 million.

2. The Fund has appraised the progress of Tanzania in implementing the policies and achieving the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper set forth in EBD/97/128.

3. The Fund approves the second annual arrangement set forth in EBS/97/209, Supplement 2.

Decision No. 11612-(97/115), adopted
December 3, 1997

3. ANTIGUA AND BARBUDA—1997 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1997 Article IV consultation with Antigua and Barbuda (SM/97/265, 11/7/97). They also had before them a background paper on recent economic developments in Antigua and Barbuda (SM/97/266, 11/10/97).

Mr. Bernes made the following statement:

On behalf of the authorities of Antigua and Barbuda, I would like to express appreciation for the efforts and advice of the staff mission in the context of this year's Article IV consultation. For a small island economy like Antigua and Barbuda, annual Fund surveillance provides an opportunity not available elsewhere for a thorough and objective study of economic policy and underlying fundamentals—a study for which many micro-economies clearly lack the resources to undertake themselves. Further, the existence of Press Information Notices, given the attention they are receiving worldwide, provides a welcome, effective, and efficient vehicle for countries like Antigua and Barbuda to disseminate information about their economies to potential investors. As such, the Press Information Notice initiative is heartily endorsed by all the countries in this constituency, which I represent. It would therefore be unfortunate if the option of consultations on an annual cycle were ever to be diluted.

Many of Antigua and Barbuda's current economic and financial challenges have their roots in 1995, the year in which the region was struck by Hurricanes Luis and Marilyn, which collectively, as the staff notes, hit Antigua and Barbuda harder than other countries in the region. These shocks played a large role in forcing the island's "homegrown" program—which had begun to show positive results—off track and had a pronounced effect on the fiscal situation. The resulting decline in tourist arrivals reduced indirect tax revenue markedly, while the immediate need to restore infrastructure (without which the tourist sector could not function) generated a host of cost pressures.

To facilitate the reconstruction of the island's facilities in as rapid a manner as possible, the government provided import duty exemptions for materials used in restoration. This was the major source behind the large increase in the waivers of import taxes (from 3.2 percent of GDP in 1993 to 8.8 percent in 1996). As such, the authorities emphasize that the increase in "discretionary" waivers identified by the staff is temporary and not indicative of a lack of transparency in tax administration or of significant underlying problems with governance, although the authorities acknowledge the need for greater clarity in the criteria for granting import duty exemptions and, in the longer term, an update of the 1952 Hotel Aid Ordinance.

Because of the significance of tourism to the local economy (accounting for more than half of GDP), urgent repairs to supporting infrastructure were essential to maintaining the islands' market share. A portion of the financing for this purpose came from the accumulation of arrears to the social security and medical benefits plans. The accumulation of domestic arrears was an unfortunate but essential consequence of natural disaster in an economy so heavily dependent on tourism and where—as the staff notes—there is a need to "remain vigilant in preserving and enhancing the competitiveness" of the tourism sector. The authorities are beginning to rectify the domestic arrears situation with a combination of bond issues, public land sales, and the resumption of repayments in 1996. In terms of the outlook for capital spending, it is clear that the recent sharp rise will not be sustainable, but the hope is that as reconstruction proceeds, spending pressures on this front will abate somewhat.

The government has sought to contain the fiscal deterioration through the imposition of a 2-year public-service wage freeze and civil-service downsizing through attrition. Their hesitancy to undertake large-scale employment reductions derives, in part, from concern that the resulting increase in unemployment (particularly given the limited potential for alternative employment on the islands) could lead to increases in currently low rates of crime which would have a highly detrimental impact on the islands' reputation as a safe and comfortable tourist destination. This concern has more recently been compounded by the large influx of people from the nearby island of Montserrat which has become virtually uninhabitable in the wake of large-scale volcanic activity.

On the tax front, while the authorities continue to believe that the introduction of a full-scale personal income tax is politically unfeasible at this time, they draw attention to the temporary introduction in 1995 of an education levy on wages and salaries which structurally serves the same purpose as a personal income tax, albeit at a lower rate than the staff has recommended. Indeed, the progressivity of the levy has been increased by setting the rate on annual income up to EC$60,000 at 2.5 percent and income above that level at 5 percent. A further positive development is the recent Cabinet decision to make the levy permanent. Confidentially, the authorities also point to the potential to increase the rate in future.

The authorities assign high priority to regularizing relations with external creditors. However, they do not share the staff's view that it would be preferable for them to address outstanding bilateral arrears in a multilateral forum which would require the backing of a Fund program supported by Fund resources. Their hesitancy to accept what they consider to be the "standard the Fund prescription" arises from both a hope that the reform and consolidation effort can be revitalized in the context of a renewed home grown program as well as a strongly held sense that portions of the outstanding bilateral debt stemmed from expenditures for which "value-for-money" was not received. They are skeptical that their concerns in this regard will receive adequate consideration in the standard multilateral fora.

They would also note in passing that, despite the staff's pessimism with respect to the potential for rescheduling success in a bilateral framework, they have been able to achieve favorable results in 1997. It is worth noting that in last year's Article IV report, the staff assumed that no rescheduling efforts would be successful outside of the multilateral framework. Despite this assessment, the authorities have obtained much-needed debt relief from the United Kingdom and have recently come to understandings with the Japanese government. Only one large bilateral creditor remains to be dealt with and there have already been some preliminary indications of a desire on both sides to resuscitate discussions. Looking forward, they eagerly await details of the United Kingdom's debt relief initiative for middle-income Commonwealth countries announced by Chancellor Brown at the Commonwealth Finance Ministers' Meeting in Mauritius and hope to use this initiative to further consolidate their external debt position.

On data shortfalls, the authorities share a number of the concerns voiced by the staff and hope to be able to undertake many of the recommended improvements. As an element in their strategy in this regard, they are seeking financial support to undertake an organization and management study of the government and civil service to assess, among other things, the appropriateness of the current division of responsibilities and accountabilities. It is hoped that this effort will help underpin efforts to improve the transparency and accountability of government operations more generally and, as the staff argues, help to build public confidence and enhance the prospects for consensus in addressing underlying economic challenges.

Lastly, on money-laundering, the authorities welcome the supportive statements made by the staff in the Article IV report. They continue to assign high priority to efforts in this area. Having put in place the legislative framework for a sound financial system which is supportive of international efforts to curb the laundering of the proceeds of criminal activities, they understand that challenges ahead are with regard to implementation. While their resolve remains strong, they do emphasize the capacity constraints faced by a micro-economy, particularly in the face of sophisticated financial criminals with vast resources at their disposal. They therefore hope that assistance and expertise such as that recently provided by the European Union can continue to support their efforts.

Mr. Yakub made the following statement:

I must thank Mr. Bernes for a rather stimulating, if not provocative, statement. This is something that is rare and I commend him for his daring. I, for one, welcomes this constructive innovation.

It is good to know that the authorities value the Fund's appraisal and technical advice. The impression I get from Mr. Bernes' perspective is that the damage caused by the severe hurricanes of 1995 was to a large extent responsible for the poor implementation of the homegrown program. The impact has been particularly acute on the fiscal accounts in that major infrastructures had to be restored and import duty exemptions were granted for restoration materials, thus explaining the use of "discretionary" tax exemptions. The staff, on the other hand, is fairly firm, if not somewhat inflexible, in its convictions. I refer, for instance, to the staff's emphasis on introducing personal income tax and putting a stop to the tax waivers even though it is clear that, in respect of the latter, without a restoration of adequate infrastructure, Antigua and Barbuda's tourism industry would be lagging further behind than at present. In terms of the main message that it is conveying, the 1997 Article IV staff report appears to be not very different from the two preceding ones (1995 and 1996 reports). That would be acceptable if nothing had changed since then. Yet, Mr. Bernes seems to be telling us that there have been changes in the economy that warrant a new approach to surveillance by the Fund mission. Hence, it looks like you have two parties involved in dialectics. They have been talking but none are really listening to what the other is saying. This reminds me of the theme song in the movie "Midnight Cowboy." Do not worry I shall not attempt to sing it. The words are, and I quote: "Everybody's talking at me but I can't hear a word they're saying, only the echoes in my mind."

The Fund, quite rightly, wants to see the implementation of a clearly determined program that is well articulated and operating within a solid framework. The Antiguan authorities, or more precisely the political masters, seem to prefer not be bogged down with a definite set of rules. This is purely from reading the report between the lines. The staff is cautious not to make any outright reference to political will, but they refer to the lack of a strong fiscal program. I think the authorities have to prioritize on their policy actions. But the staff has to also prioritize on its policy advice rather than adopting a relatively inflexible stand. Otherwise, the annual consultations that both parties are looking forward to may not be all that meaningful or effective.

Let me illustrate my point with a couple of concrete examples and let me also add that I am open to staff comments, if any, on my assessment of the situation. If I take, say, the issue of personal income tax, Mr. Bernes tells us it is politically unpalatable to introduce that. He argues that the education levy, which I believe is now a permanent legislated levy, is a perfectly good form of earnings-based taxation. I would like to simply add that we have to bear in mind that the levy, if well administered, is just as transparent and effective as the income tax proposal and I am sure it is a lot simpler to administer. Perhaps in the period ahead, a health levy or other more innovative measures may be the way forward for future surveillance missions to consider. On the proposed retrenchment of public service, I sympathize with Mr. Bernes explanation in paragraph 5 of his statement: The vicious circle of crime, spurred on by unemployment in a place that has very limited scope for diversification, will obviously pose a serious threat to the tourism sector as the primary industry of this microstate. I think it may well be difficult to enforce a major downsizing of public service in Antigua and Barbuda. We have to be conscious of the low absorptive capacity of the overall economy. We can of course talk about right-sizing the government sector or optimizing its operations. The broad aim should be to try to do things more efficiently rather than play a "numbers game"—which does not necessarily always result in increased efficiency!

I have a few more comments to make before I end and I can be exceptionally brief this time. First, on the U.K. debt relief initiative, I welcome this bold step announced by the new Labor Chancellor. I look forward to seeing it take shape in terms of his government's implementation of this initiative. Second, I beg to differ from Mr. Bernes' comment in paragraph 8 of his statement. I think we have to recognize that the authorities debt relief from the United Kingdom is unrelated to the bilateral strategy. It's more a response to the Montserrat refugee situation. Finally and very importantly, I would like to join the staff in pressing upon the authorities to upgrade their statistical database. The authorities have received technical assistance in the past from the Statistics Department. It is regrettable that data weaknesses still prevail. Data has to be a priority if the Fund is to be able to promote or deliver better surveillance in the foreseeable future.

Mr. Bernes remarked that the negotiations to deal with the arrears and debt situation with the United Kingdom were separate from the debt relief that was to be provided as part of the response to the Montserrat refugee situation.

Mr. O'Brien made the following statement:

The staff report for the 1997 Article IV consultation with Antigua and Barbuda does not present a very encouraging picture of the medium-term outlook, without a Fund sponsored adjustment program. We are, however, grateful that the amended data show that instead of a massive decline in output for 1997, there will be moderate growth. We are also grateful for the very helpful statement from Mr. Bernes which is understandably more optimistic and empathetic, and does provide some additional information on the achievements and plans of the authorities.

The Antiguan authorities must be commended for the manner in which they addressed the reconstruction of economic plants and infrastructure following the devastations of hurricanes Luis and Marilyn in September 1995. It is indeed noteworthy that the economy grew by just over 5 percent in 1996. However, staff projections for 1997 and 1998 and beyond show a substantial moderation in growth, and there are clearly some very fundamental policy decisions to be made regarding the future course of development of the economy.

We fully agree with the staff that much more definitive action is required in the area of fiscal policy. The need to raise revenues is self-evident, since the practice of financing budget deficit through the accumulation of arrears is certainly unsustainable. It is encouraging, therefore, to learn from Mr. Bernes that the authorities are seeking to clear the backlog of arrears. We welcome the fact that the education levy has been made permanent with an element of progressivity and that future increases in the rate are contemplated. We believe that the authorities are best placed to determine the form of direct taxation which is most politically and socially feasible. Nonetheless, given the limited scope for indirect taxation in Antigua, we urge the authorities to be firm in their commitment on the education levy and to identify and implement other forms of direct taxation.

With regard to the waiver of import duties, we can certainly understand the authorities' position in granting the maximum possible support to the resuscitation of the tourism industry. We hope, therefore, that the rise in the level of exemptions is temporary, as Mr. Bernes has stated, and would certainly support the staff's position on this issue, in the medium term. We also agree with the staff that with the ending of the public sector wage freeze, there is the need for the authorities to exercise great restraint and political will to keep wages in check, particularly since the reduction of the size of the public sector is not being aggressively pursued. Indeed, on the issue of public service reform, we wonder what are the possibilities for restructuring, including redeployment of staff, and whether this has been discussed with the authorities. Comments from the staff would be welcome.

The staff report has indicated the need for a well-defined development program, with clear prioritization of projects. We certainly agree that such a program is essential, but would like some clarification from the staff as to whether no development program exists or whether the existing program is not sufficiently well defined. We also share the staff's concern with the practice of financing projects through loans based on future revenue streams, where the financial or economic viability of the project being financed may be in question. This could be particularly risky in the absence of a well-defined, transparent framework, with clearly stated criteria for project selection and prioritization.

On the issue of the external debt, it is encouraging to learn that the authorities have been making progress in their bilateral negotiations. The urgency of this issue cannot be overstated, given Antigua's limited access to foreign capital markets, the drying up of concessional and grant resources, and the pressing need for social and economic infrastructure development. We agree that a well-defined adjustment program, whether homegrown or Fund-sponsored, is necessary in support of this exercise. We would, therefore, urge the authorities to revitalize their program and bring it back on track. We believe also that the Fund should provide necessary technical assistance in this process. There should be little question of the ownership and commitment to such a program.

The staff has raised the issue of the scope, quality, and timeliness of the delivery of statistics. One need not belabor the importance of such for proper planning and development. We would only urge the authorities to place greater priority on this issue and request the staff to continue and increase the level of technical support.

Finally, we would like to commend the authorities for their declared position, and the passage of legislation on money laundering. We agree with the staff that the real test of political will is the implementation. Nonetheless, we are confident they will rise to the challenge.

We wish the authorities well in their future endeavors.

Mr. Presečan made the following statement:

Small and broadly open island economies like Antigua and Barbuda are generally more exposed and vulnerable to various shocks of different nature, and therefore, following the two particularly devastating hurricanes in September of 1995, it is indeed encouraging that the economic activity has started to pick up according to preliminary data for 1996 and 1997. Although the tourist industry has not yet fully recovered both in terms of overnights and in terms of revenues the existing trends look favorable.

However, given the existing circumstances, it could be expected that the authorities should pursue more prudent policy stance in fiscal matters. The rather high fiscal deficits which have led to an accumulation of sizable arrears should be handled more cautiously. Continuation of not paying employer and/or employee contributions for social security and medical benefits does not contribute to improvements in efficiency of the governance in Antigua and Barbuda, and the solutions for containing and reducing the wage bill as was suggested by staff should be sought elsewhere as well, in addition to relying on "attrition". It is our hope that the public investment projects that are planned in 1997 and in 1998 will not contribute to further increase in the authorities' external and internal arrears.

On the external issues, it seems to us that the existence of the additional customs service charge of 5 percent that applies to all imports does not indicate the sincere wish of the authorities to proceed with the trade liberalization in the speedy manner. It would be appreciated if the staff could provide more details on the authorities views on whether such charge is in line with introducing the Caribbean Community (CARICOM) common external tariff schedule and WTO rules.

In addition to that, we also find the authorities inclination not to embark on the multilateral framework in negotiating on their external arrears—because it would require a Fund-supported program—somewhat inconsistent with their wish to have frequent consultations with the Fund. Could the staff explain in more detail what are "the political costs" that might be entailed if the authorities were to engage in a Fund-supported program which is seen as a pre-requisite for the multilateral negotiations on their external arrears?

Finally, our chair has previously endorsed the need for selectivity with the Article IV consultations, also in view of an efficient use of limited staff resources. We have advocated the so-called Cyprus model where the staff pays the country an annual visit, leading to a formal Board discussion every other year. This will enable the country to avail itself to staff advice. Moreover, if it publishes the concluding statement it will receive the so much desired public attention as well.

Mr. Qi made the following statement:

I thank the staff for the set of informative papers. As a tiny island economy, Antigua and Barbuda is still endeavoring to recover from the severe hurricane damage that occurred in 1995. Although the real GDP picked up by 5.1 percent immediately in 1996 after a decline of 5 percent in 1995, the projected figures for the following two years are not very encouraging, reflecting the deep influence of the damaged infrastructure on the economy, and tourism in particular.

It is understandable that the Antiguan authorities have implemented a number of measures in the last two years which are centered on reviving and maintaining the activity of tourism that usually contributes more than half of the country's GDP. As Mr. Bernes pointed out in his helpful statement, the provision of import duty exemptions, the financing for repairs to supporting infrastructure which entails the accumulation of arrears to the social security and medical benefits plans, and the delay in undertaking large-scale employment reductions are helpful steps toward tourism competitiveness and maintain the market shares in as rapid a manner as possible. These are indeed not unusual in cases where countries encounter severe natural catastrophes.

Nevertheless, these measures should be short-term in nature. I concur with the staff that in the medium term a strengthening of the fiscal position is needed. Increases in taxes and cuts in the government payroll, the so-called standard the Fund prescription, are always bitter medicines but do cure the fiscal imbalances, and could be beneficial for easing the heavy external debt burden and sustaining public investment in the infrastructure.

In times of natural disaster and thereafter, there would be a much greater need for international assistance for the reconstruction of the island economy, which has actually been obtaining few disbursements of foreign loans since 1990. It is very encouraging that Antigua and Barbuda has cleared its arrears to the CDB and is making breakthroughs in regularizing relations with several major bilateral creditors. On the issue of the homegrown program, I sincerely hope it could bear fruit as we all initially desired. But in view of the vulnerability of the country as well as the program to exogenous factors, it might be worthwhile considering a program supported by Fund resources.

Finally, I wish the Antiguan authorities success in their future endeavors.

Mr. Otazú made the following statement:

The most remarkable aspect of Antigua and Barbuda's economy is its dependance on the vagaries of the climate. The two hurricanes which struck the country in 1995 resulted in losses estimated at 60 percent of GDP for that year. These losses were focused mainly on the tourism industry but other areas of the economic infrastructure were also affected. In addition, the recurrent inadequacy of the country's economic policy is another important feature of the economic landscape all of which is reflected in the deterioration of the fiscal and external account deficits, the reduction of international reserves, and the deterioration of the social safety net. These developments call for strong actions to curb further economic and social decline. Being in broad agreement with the staff appraisal, I will only emphasize a few points.

The homegrown adjustment program initiated in 1994 lost momentum in 1996 and remains stalled. In this regard it is crucial to put into practice measures for improving the fiscal accounts to make room for assisting the damaged areas of tourism and infrastructure facilities as these are essential for a sustainable real GDP growth. In this context, I encourage the authorities to take substantive measures to contain the public sector administrative expenditure and to make resources available for the expansion of public infrastructure. The strengthening of tax administration is highly warranted and it should be the centerpiece of the fiscal effort, in view of the weaknesses experienced with revenue collection. The design of a concrete tax reform program will be essential in order to address the problem of tax evasion and discretionary tax exemptions, which, when addressed, should conduce to a better and broader tax structure. In addition, the public sector wage bill should be pared back.

Among the needed structural adjustment efforts, a substantial retrenchment of the civil service is crucial, as it is the privatization of hotels and utilities, as mentioned in the staff report. Also, I support the staff recommendation for a more transparent and competitive bidding on public procurement operations.

On the external arrears situation, the authorities remain reluctant to address this problem within a multilateral framework, which would require a Fund-supported program in order to reschedule their arrears on a standard basis since most of the arrears are to bilateral creditors.

In conclusion, I urge the authorities to proceed with a stronger and more comprehensive adjustment effort. This would make resources available for needed infrastructure development and would go a long way in restoring the confidence of the private sector, which is a necessary step to rekindling new investments. Additionally, experience demonstrates that countries that fail to combine tight fiscal policy with market-clearing exchange rates, attempt to ration imports and foreign exchange, and do not provide for a carefully planned and financed social program, have found themselves increasingly short of foreign exchange, with falling output and declining social welfare. I would appreciate it if the staff can elaborate on this issue with respect to the Caribbean countries.

With these remarks, I wish the Antiguan authorities the best in managing their economy.

Mr. Yakub asked whether Mr. Qi had meant to imply that a standard Fund prescription was a good thing irrespective of the peculiarities of a country. If so, that was a sadly misguided view. In that context, he wondered whether the staff could comment on whether it was wise to press a country to take Fund resources when it did not wish to do so and preferred to implement a homegrown program.

Mr. Kell made the following statement:

> First, I welcome the measures taken by the government to tackle money laundering, and I look forward to seeing a clear action plan arising out of the evaluation of the Caribbean financial task force, which is due early next year.
>
> Second, while I can understand the authorities' desire to remain on a 12-month consultation cycle, it is important that the Board consider the wider costs of this cycle in the context of determining the best allocation of the Fund's scarce resources for surveillance. Therefore, I support Mr. Presečan's suggestion to consider the possibility of alternating between full Article IV consultations and staff visits. I would add that it is important that the effort that is under way to streamline and focus the Fund's surveillance is consistent across area departments.

The staff representative from the Western Hemisphere Department stated that the staff recognized that the education levy bore much resemblance to an income tax. In fact, an advisory mission from the Fiscal Affairs Department (FAD) had recommended, in late 1993, the introduction of an earnings tax as the most practical form of income tax, with essentially the same base as that of the education levy subsequently introduced by the government. A key difference between that levy and FAD recommendations was that the staff thought it preferable to avoid earmarking levies for specific expenditures, thus keeping open a wider range of options for budgetary management. The authorities had spoken of the possibility of expanding direct taxation. It was difficult to say whether that would take the form of an earnings tax separate from the education levy or a modification of the education levy. The issue was politically sensitive and should be more tractable after the next election, which would be held by March 1999.

The staff did not oppose the granting of duty waivers for the importation of goods needed for reconstruction following the hurricanes, the staff representative noted. For a number of years, a significant amount of duties waived—in the range of 3 to 5 percent of GDP—had contributed to the difficulties experienced by the authorities in maintaining tax buoyancy. There was a recognition among all concerned that the high level of waivers in 1996 had been temporary, but the staff's advice focused on what the scope and basis for granting waivers in the future should be. The staff's recommendation was that such waivers should be based on transparent criteria stemming from existing legislation. Discretionary waivers beyond what was provided for in legislation should be avoided.

There was a recognition on the part of the authorities that there was overstaffing in both the government and public enterprises, the staff representative confirmed. The authorities had expressed a preference for undertaking an organization and management (O&M) study of the public sector prior to instituting layoffs on any significant scale. The staff would not recommend large-scale, immediate layoffs in the public sector. The question of the phasing of needed adjustments to public sector employment would have to be considered in the political, economic, and social circumstances of Antigua and Barbuda. In fact, in developing medium-term projections under both a baseline scenario and an adjustment scenario, the staff had found that there was scope for significant fiscal adjustment without massive layoffs. Therefore, it was important to focus on correctly diagnosing the problem, and developing a plan for action. Reference had been made to seeking financial assistance for undertaking the O&M study in Mr. Bernes's statement. Those efforts to seek financial support for the technical work to be done were welcome. Moreover, there was scope within the public sector, even before a formal O&M study was completed, and well in advance of the next general election, to do an internal assessment of activities in the different agencies of government, taking stock of the functions currently carried out by existing government employees. At issue was not only the size of the government and public sector employment, but also the transparency of procedures for hiring, promotion, and dismissal. More than half of the government service was comprised of non-established workers for which the standard procedures that would be relevant for established workers on questions of hiring and promotion did not need to be followed.

Regarding the government's development program, the capital budget (development estimates) had been presented as part of the annual budget exercise, but these budget figures had not been developed within the framework of a multi-year public investment program, the staff representative observed. There was substantial technical work that could and should be done to provide a more solid basis for choosing among competing public investment projects. Part of the continuing difficulty since the early 1990s was that the limited range of financing options unduly restricted the selection of public investment projects.

To the staff's knowledge, the 5 percent customs service charge was not in conflict with the agreements of the Caribbean Community, the staff representative stated. While the staff would prefer that revenues be raised in a different manner, there did not seem to be a conflict with the commitments to CARICOM, other members of which also had service charges in excess of 2 percent. Moreover, the authorities had indicated that they had not received any complaints from the WTO secretariat to indicate that the service charge might be a breach of their commitments to the WTO.

With regard to the perceived political costs of a Fund-supported program, both the public and a number of politicians made an association, whether correct or incorrect, between having to come to the Fund for financial assistance and an admission of past policy failures, the staff representative explained. The homegrown adjustment program that had been launched in 1995 reflected an admission that a correction of course was needed, but such a program was thought to be less onerous than the conditions for an arrangement from the Fund. The staff recognized those political sensitivities, and given the authorities' preference for a homegrown program, had welcomed their stated intentions to pursue a vigorous and strong adjustment program that could be termed homegrown. Indeed, such a program had been presented to a donors' meeting at the World Bank in June 1996, following the hurricanes of September 1995. What the staff was seeking was good, strong adjustment that would make it possible to increase public savings so as to achieve the levels of public investment needed to adequately expand the infrastructure while addressing the external arrears problem. If that could be done through a homegrown program, as had been indicated in the government's presentation in 1996, its beneficial results would be welcomed by the staff, as well as others. Unfortunately, the program had stalled.

With respect to the consultation cycle, the authorities did welcome the dialogue with the Fund's missions, the staff representative indicated. There were times when political constraints led to a different set of economic policies than Fund staff recommended, but there was value in maintaining a dialogue. That was done more readily with a 12-month cycle than with a longer cycle. In view of the need for Fund surveillance, it should be noted that despite recent progress in reducing external arrears, they still amounted to approximately two-thirds of annual GDP. The staff stood ready to maintain the dialogue and assist the authorities in developing policies to deal with the still very large imbalances.

The question of the sustainability of the exchange rate arrangement in the area of the Eastern Caribbean Central Bank needed to be addressed in relation to other countries' circumstances, the staff representative considered. It would be necessary to wait and see how some of the neighboring islands would deal with the difficulties posed by the change in the banana regime. The Antiguan authorities clearly saw substantial benefits from the stability of the exchange rate arrangement, which imposed a useful discipline on wages and prices.

The staff representative from the Policy Development and Review Department observed that there was no "the Fund standard prescription." The staff tried to analyze each case on its own merits to determine what specific problems each particular country was encountering and to see whether policies that would solve those particular problems could be devised. The staff also tried to ensure that the policies that each country was following were the best for its own development and that they did not result in difficulties for others as a consequence. The use of Fund resources was designed, in particular, for the purpose of assisting those countries that were having balance of payments difficulties in resolving them without having to resort to trade restrictions. Antigua was one case where restrictions in the form of arrears had arisen over several years, indicating that there was a certain balance of payments difficulty. That would have to be resolved through the policies that the country chose to undertake, to the extent that those policies were in the right direction and would result in the solution of the underlying problems. The Fund, as an institution, stood ready to assist its members in that regard.

Mr. Bernes remarked that he had found the discussion very interesting, but he hoped that it had not left the impression that there were significant differences between the staff and the authorities, as that was not the case. The authorities appreciated very much the work and advice of the staff, which was why they supported a 12-month consultation cycle. A 12-month cycle was important, not only for the reason the staff had mentioned, but also because, generally, it strengthened the hand of reformers within administration. The importance of the consultative process should be measured not just on the basis of the size of the country, but also by the value added through the surveillance exercise.

There was no doubt that Antigua faced very important challenges, and he had tried to present those from a different perspective in his statement, focusing on the means and timing of how to address them, Mr. Bernes stated. In particular, he had emphasized the importance of ownership. A strong homegrown program that was successful and achieved the necessary adjustments was clearly the best outcome. While the Fund did not have a formal model that was applied to every country, there was a fairly standard prescription. Without digressing too much from it, it was necessary to be conscious of the political realities in each country and of the best way to bend and shape them. It was a Chinese leader, he believed, who had said, "I do not care whether the cat is black or white, but whether it catches the mouse." The question was whether the program was capable of achieving the objectives.

The revenue base was clearly inadequate, and measures had to be taken, Mr. Bernes noted. As the income tax was considered a political taboo, other efforts would have to continue to be made to address the revenue needs.

On the question of debt rescheduling, he had been pleased to hear some speakers noting the progress that had been made in dealing with two out of the three major bilateral creditors and that discussions were about to reengage with the third, Mr. Bernes said. From a Canadian perspective, he would probably argue that a multilateral approach to debt rescheduling would be better, but one had to recognize that there were some broader issues relative to that particular situation and that progress had been made in addressing them.

Finally, with respect to money laundering, he welcomed the compliments from some chairs on the steps that the authorities had taken to date. In all of those areas, however, it was clear that there was further work to be done, Mr. Bernes concluded.

The Acting Chairman made the following summing up:

Executive Directors broadly agreed with the thrust of the staff appraisal. They noted that, while the economy had recovered somewhat in 1996 from severe hurricane damage, tourism had not yet recovered completely. They stressed the importance of safeguarding the competitiveness of the tourism sector by boosting public savings to maintain and expand investment in infrastructure, as well as by protecting the environment and pursuing a prudent wage policy. Directors recommended that the authorities undertake a comprehensive adjustment program to provide a framework for increased public savings, deal with the external arrears problem, and mobilize resources for development.

Directors expressed concern about the deterioration in the public finances in 1997. They therefore urged the authorities to strengthen the fiscal adjustment effort without delay and to establish a fiscal program with revenue and expenditure targets based on specific measures, including savings on the government wage bill from employment and wage restraint. They encouraged the authorities to formulate a public investment program that establishes clear investment priorities within a medium-term framework. They also emphasized the need to bolster tax revenues by increasing direct taxation; curbing discretionary tax exemptions, especially those on imports; and strengthening tax administration. They welcomed the decision to make the education levy permanent, and some called for other steps to strengthen direct taxation.

Directors welcomed the progress toward the reduction of arrears, but some suggested that a multilateral approach to arrears clearance would be more effective than the present bilateral debt strategy as a means of achieving a normalization of creditor relations.

Directors recommended several steps to foster good governance, including greater transparency and accountability of government operations, the curtailment of unproductive expenditure, and the elimination of discretionary tax exemptions. They welcomed the government's actions to address concerns over money laundering, in particular the introduction of a comprehensive anti-money-laundering law.

Directors emphasized the need to improve the quality, scope, and timeliness of statistics particularly in the areas of public finance and trade to help in economic policy formulation and Fund surveillance.

It is expected that the next Article IV consultation with Antigua and Barbuda will be held on the standard 12-month cycle.

Mr. Kell remarked that he had not heard any reference to the suggestion made by a couple of chairs that a different consultation cycle be considered.

The Acting Chairman noted that the majority view seemed to support the maintenance of the 12-month cycle, although two chairs had suggested a longer cycle.

Mr. Kell asked whether that could be reflected in the summing up.

The Acting Secretary noted that such a reference was not usually included in the summing up, and that the authorities had indicated through Mr. Bernes that they preferred to maintain the 12-month cycle. Only if a majority of the Board wished it would a reference to a longer consultation cycle be put in the summing up.

Mr. Bernes remarked that he was sympathetic to the broader concern about the need to conserve resources in surveillance, but it was his understanding that it had been agreed that the country concerned and the Executive Director representing it would have the final say, in consultation with the area department, on the length of the cycle. That was a case where it was quite clear that a 12-month cycle was preferred.

Ms. Abdelati expressed her support for Mr. Bernes and for the continuation of the 12-month cycle in that case, particularly in light of the current developments in the country and the usefulness of ongoing discussions with the Fund staff.

Mr. Yakub observed that the only difference, in terms of the work involved, between a 12-month cycle and a 24-month cycle with an intervening staff visit was the fact that a report did not have to be prepared in the intervening year; and that was not such a substantial difference.

The Acting Chairman remarked that, in general, the smaller the country, the more useful the Article IV reports were for the country and for the international community. Antigua and Barbuda were facing certain difficulties, and it was important for the Board to consider the situation, even though it was a very small country.

4. ST. VINCENT AND THE GRENADINES—1997 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1997 Article IV consultation with St. Vincent and the Grenadines (SM/97/264, 11/6/97). They also had before them a statistical annex (SM/97/271, 11/11/97).

Mr. Bernes made the following statement:

My Vincentian authorities are in general agreement with the staff's analysis, and wish to express appreciation for the work during the recent Article IV consultation. Let me take this opportunity to reiterate the importance of the 12-month consultation cycle to St. Vincent and the Grenadines and to confirm the authorities' intention to have this continued. I have argued that for the small countries in my constituency, the Article IV discussions provide one of few opportunities for policy makers, the private sector, and the public in general to focus on macroeconomic issues. This important contribution must not be underestimated.

The staff report outlines succinctly the most pressing issues facing the economy and we have no difficulty in agreeing with their position that this is the appropriate time to address the economy's vulnerabilities head on through greater fiscal consolidation and improvements in the investment climate to allow for private sector-led growth. The risks associated with the declining contribution of the banana sector to the overall economy with the imminent loss of preferential market access are already apparent. Real GDP is expected to grow only minimally (less than 2 percent) for the second consecutive year in 1997.

Despite the imperceptible nature of government action since the last Board discussion, we wish to reiterate the government's overall commitment to sound policies against a background of economic slowdown and possible general elections in 1998. The authorities remain committed to pursuing the objectives of fiscal restraint; restructuring of the banana industry in order to raise productivity and competitiveness; promotion of tourism and manufacturing activities; and strengthening of the incentive framework to foster domestic and foreign private sector participation. The government is currently reviewing the staff's recommendations in a number of key areas as it prepares the 1998 budget (including tax exemptions and licensing arrangements) and will make every effort to make necessary adjustments in order not to jeopardize the fiscal position.

On fiscal policy, there is general recognition of the need to increase public sector savings as several major public capital works are ongoing—including the airport on Canouan Island. On the revenue side, the main emphasis at the Inland Revenue Department would be the continuing improvements of tax administration including computerization of the Department. Unlike the staff, the fiscal authorities do not envisage any larger dividend transfers from public enterprises but expect to begin to reap the benefits of better tax administration. The staff's concern about the capital program and problems with project implementation is well noted and the authorities have acknowledged that this is largely associated with limited human resource capacity to manage projects. On the issue raised by the staff concerning the public sector investment program and its consistency with developmental priorities, my authorities wish to reassure the Board that while this is a valid concern, projects are being considered very carefully. The major projects are concentrated in the agriculture and tourism sectors (transportation) which are pivotal to the diversification efforts. My authorities also wish to clarify that the transfers referred to in paragraph nine to cover debt service are in connection with the Diamond Dairy and the Development Corporation (newly restructured) both of which remain in operation.

On wage policy, the staff has correctly noted that no implementation date has been set for the performance-based merit system since the wage restructuring exercise commenced in 1995. The authorities are still intending to correct this method of wage awards with effect no sooner than 1999.

On restructuring of the banana industry, the government recently awarded a contract for approximately $1.3 million for the first phase of the Irrigation System. This system should be fully operational by February 1998 and is being funded by the European Union through STABEX.

In the tourism sector, efforts continue to elicit interest from new investors to take over the Ottley Hall marina project while the 300-room hotel on Canouan Island is near completion. In connection with airport development on the main island, the Caribbean Development Bank has agreed to finance a study to determine the maximum potential for the Arnos Vale Airport. These developments are crucial to the future expansion of tourism as the current landing facility at the airport on the main island (Arnos Vale) is incapable of accommodating large aircrafts.

Finally, my authorities continue to review what they consider to be some serious errors in the Caribbean Development Bank's poverty report and take seriously the staff's advice in this matter. On the environmental side, work is on target for the February 1998 implementation of the solid waste project funded by the World Bank. As stated in the staff report, the government has taken a number of measures to correct the data deficiencies, further technical assistance is to be provided early in 1998. The authorities expect to be in a position to implement the Fund's General Data Dissemination Standard by 1999.

Mr. O'Brien made the following statement:

We wish to thank the staff for a very clear analysis of the policy issues which confront the authorities of St. Vincent and the Grenadines. Indeed, St. Vincent fairly well represents the predicament of those small, open economies, which are highly dependent on preferential market access. Quite clearly, the authorities must make some very difficult policy decisions for which undue delay can only increase the costs.

The staff report has correctly identified the major economic challenge facing St. Vincent and the Grenadines, which is the need to diversify away from the dependence on the banana industry. The staff has projected that the impact of the WTO ruling and the expiration of the Lomé waiver in the year 2000 could lead to a loss of as much as 40 percent of merchandise export earnings. Indeed, as noted by Mr. Bernes, the effects are already apparent in the projected low growth for 1997 and 1998. It is, therefore, very encouraging to note the efforts being made to restructure the banana industry and the improvements made over the last two years. We can only urge the authorities to continue their efforts in this direction and to be consistent in their implementation of the irrigation project.

The gravity of the situation for St. Vincent and the Grenadines can only be fully appreciated when one considers the limitations on the options for diversification. As the report has noted, there has been a loss of manufacturing industries. Further, we would caution the authorities in their enthusiasm for offshore financial and other service industries. The supporting infrastructure is not in place and this field is extremely competitive and far less lucrative than a decade ago. The best and most obvious alternative to which the government has turned is tourism. However, while the potential for up-market tourism and cruise shipping is quite good, the infrastructural and marketing needs are great. Financing these developments will indeed pose a challenge for the authorities.

This brings us to the issue of fiscal policy. The staff report indicates that public sector savings would need to increase by about 2 percentage points of GDP over the next three years to provide counterpart financing for public sector projects. The staff report indicates, further, that the authorities are opposed to increases in tax rates and in fact are committed to a reduction in existing rates. It is difficult to conceive that in a situation where human capacity constraints impede project implementation, that improvements in tax administration can yield revenue increases of the magnitude which is required. We have already alluded to the prospects for the offshore sector, and would repeat our caution about relying on such investments.

The need for fiscal reform is urgent and self-evident. Clearly the nature of government action must be more than "imperceptible", notwithstanding the possibility of general elections in 1998. We can empathize with the reluctance of the government to reduce the size of the civil service in a situation of high unemployment, but surely greater effort is needed to contain wage and other current expenditures. We would join the staff in urging the authorities to implement the merit system of increments as early as possible, and to explore other means of improving public sector efficiency and cost-effectiveness. We would urge the staff, in its dialogue with authorities, to pursue this avenue and to provide technical support.

We also wish to support the staff's recommendation for a rescheduling of the loan to the banana industry. In addition, the government should be very cautious in guaranteeing any private sector loan. We agree with the staff that greater efforts should be made in the privatization of the Ottley Hall Mariner and the Transhipment Terminal, as well as the National Commercial Bank. However, we must concede that in an economy of the size and nature of St. Vincent's, a level of government involvement is often necessary and catalytic. In this regard also, the report notes that the government is in the process of creating a National Development Bank to provide financing for small-scale industries. My understanding is that the proposed institution is more in the nature of industrial promotion and facilitation rather than financing.

If this is indeed the case, we certainly would support such an institution, otherwise we would share the concerns of the staff.

Finally, we wish to support the staff recommendations on the need to reduce bureaucratic procedures and remove the barriers to foreign investment. We would also encourage the authorities to actively seek private sector investments in infrastructural projects. There is also the need for improvements in coverage and quality of statistics. We urge the authorities to give due priority to this with appropriate Fund support.

We wish the authorities well in their future endeavors.

Mr. Rădulescu made the following statement:

The overall picture of St. Vincent and the Grenadines' economy appears quite balanced to me: the real GDP keeps growing, in spite of a sizable decline in the banana industry; the public sector has been in surplus for years, while the shrinking current account deficit has been financed by foreign direct investment and other capital inflows; as far as inflation is concerned, a flat zero, expected for 1997, is indeed an outstanding performance. However, the vulnerability of the economy to exogenous shocks, particularly those originating externally, is a salient feature of the country, and I commend the authorities for their efforts to address that weakness. Since I find myself in broad agreement with the staff's appraisal, I will limit my intervention to a few remarks.

First, on the banana industry. St. Vincent and the Grenadines has benefited from a preferential treatment for its exports in the European Union, which is to be terminated in the next 15 months. A measure which could have proven very damaging turned out into a beneficial one, since the authorities appropriately responded with by far a more sustainable policy, i.e., to protect the banana industry through better yields and lower costs. That development makes me raise a more general question: isn't it more suitable to help inefficient industries survive through improving competitiveness, rather than protecting indefinitely their waste of resources?

Second, on the tourism industry. There was a significant increase over the last few years and it is very encouraging that the authorities are developing major infrastructure projects, in order to further develop that industry. However, such projects are always somewhat risky, and might become a huge burden for the economy, unless they are very carefully managed. There is no doubt that private sector involvement, and particularly foreign direct investment, would increase the likelihood of a success. In this respect, I would seek for the staff assessment regarding the magnitude of the private sector participation in those projects.

And last, but not least, let me reiterate a view expressed more than once by this chair: given the limited resources that the Fund has, we support the idea to have a 24-, rather than 12-month, cycle for Article IV consultations, wherever that is possible. A country in our constituency—which an island, Cyprus—has already accepted the lengthening of that cycle. It has not meant that contacts with the Fund have weakened: a mission still visits the country each year, and the way to technical assistance is not closed. I believe that, in cases like that of St. Vincent and the Grenadines, a similar procedure would keep the advantages of a 12-month cycle while reducing the overall resource consumption associated with it. The more so in a country that does not face serious balance of payments constraints. While I understand Mr. Bernes' argument indirectly referring to the usefulness of a Press Information Notice, I think that this goal can also be achieved through the publication of the concluding statement.

Having said that, I wish the authorities every success in their endeavors.

Ms. Brizuela made the following statement:

The inflation rate during 1997 in St. Vincent and the Grenadines is expected to be close to zero. However, the rate of real GDP growth is projected at about 1.5 percent, similar to that of 1996 and much lower than the rate observed in 1995 (7.5 percent). Therefore, it seems that the main challenge of the Vicentian authorities is increasing the rate of real GDP growth and reducing the actual high rate of unemployment (over 20 percent).

We agree with the staff that to diversify the economy a set of measures should be taken by the authorities in order to increase the participation of the private sector (domestic and foreign) in the production process. Besides increasing the productivity in the banana industry, to overcome the impact that the ruling of the WTO may have on banana exports, it would be important to eliminate price controls and remove the remaining barriers to foreign direct investment. Moreover, an adjustment of fiscal expenditures would be required to allow for a greater rate of public savings that would be used to finance the strongly needed investment in infrastructure.

Regarding the financial sector, we also agree with the staff recommendation that not only the state-owned National Commercial Bank must be privatized, but also that the government should not be involved in the creation of a National Development Bank. In addition, we also agree that the government should avoid giving any private sector credit guarantee, specially in light of the unsuccessful experience it already had.

In conclusion we fully agree with the staff appraisal and we hope that the Vicentian authorities implement the staff recommendation so that they may achieve the short and medium-term objectives. We wish them every success in their future endeavor.

Mr. Yakub made the following statement:

Grenadines, the overall macroeconomic accounts are in a better shape than that of Antigua and Barbuda. Plus there is some scope for economic diversification unlike the very limited scope in Antigua. I note that the successive governments have always been determined not to become overly dependent on a mono-crop industry. That is good.

To follow up on a point just raised by Ms. Brizuela on the planned introduction of a National Development Bank, to be funded entirely by government, I wonder whether the authorities, as a better alternative, could not follow the principle of Bangladesh's highly successful "Grameen Bank" as an example for microcredit schemes, with some modifications or adaptations to suit the peculiar characteristics and needs of St. Vincent and the Grenadines. The way that bank is run is on the basic principles of a cooperative, with strong peer pressure to repay from the collective borrowers themselves. Does the staff have any views on that?

Mr. Kell expressed his support for Mr. Rădulescu's suggestion of moving to a 24-month cycle.

The staff representative from the Western Hemisphere Department stated that the envisaged development bank was intended to be much more than a promotion institution. It was supposed to be a bank that channeled resources to small- and medium-sized industries. Taking into consideration the record of a similar institution, which was almost inoperative because of a backlog of nonperforming loans, the staff had encouraged the authorities not to pursue that idea, and at worst to make it an essentially private institution. However, discussions were proceeding, including with the Caribbean Development Bank. A final decision would be made before the end of the year.

The tourism industry was dominated by the private sector, except for the Ottley Hall project, for which a loan had been guaranteed by the central government, the staff representative said. Unfortunately, that project had proved to be a financial failure, and the government was now liable for $50 million.

The Acting Chairman expressed the hope that Mr. Bernes would help to persuade the authorities not to set up a development bank, because his experience with development banks had not been positive.

Mr. Bernes noted that, while his authorities agreed with the analysis of the staff, the slower economic growth in the year before an election sometimes made reaching hard decisions more difficult than otherwise would have been the case. Nevertheless, the authorities recognized the need to take the steps that the staff had recommended and were committed to making progress in that regard. The next consultation on the 12-month cycle would come at a critically important time, following the elections, when the government would be at the start of its mandate and the question of the development bank might be on the agenda. Therefore, the Fund's advice at that time would be particularly appropriate.

With regard to the consultation cycle, he would note that, as Mr. Yakub had said, the work involved in a longer cycle with an intervening staff visit was not that much less, Mr. Bernes said. Moreover, there was some value added in producing a report that was reviewed and discussed by the Board. Therefore, both he and his authorities wanted to maintain the 12-month consultation cycle.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They noted that 1997 was going to be the second consecutive year of weak GDP growth, and stressed that the key challenge for St. Vincent and the Grenadines was to strengthen the economic diversification effort in order to reduce the serious unemployment problem and achieve sustainable economic growth.

Directors welcomed the recent steps to improve efficiency and reduce costs in the banana industry, but noted that the industry could be affected severely by the recent ruling of the World Trade Organization, which is expected to reduce the preferences now being received by St. Vincent and the Grenadines' banana exports to the European Union. Therefore, they welcomed the government's decision to accelerate the start of an irrigation program and urged the authorities to complete this project as quickly as possible.

Directors welcomed the encouraging developments in the tourism industry, but expressed concern about the prospects for the manufacturing sector. They emphasized the importance of maintaining external competitiveness through appropriate financial policies and wage restraint, and saw the need for further improvements in the incentive framework in particular through the elimination of price controls and import licensing requirements, and the reduction of bureaucratic and other impediments to foreign investment.

Directors agreed that additional fiscal adjustment should focus mainly on a restrained public sector wage strategy including the elimination of the system of automatic wage increments and a streamlining of public sector employment over time.

Directors welcomed the government's initiative to improve the management and operations of the National Commercial Bank, and urged the authorities to consider its eventual privatization. More broadly, some Directors advised the authorities not to proceed with the establishment of the National Development Bank and to avoid increasing government involvement in commercial activities.

Directors recommended an urgent improvement in the coverage and quality of St. Vincent and the Grenadines' statistical base to provide better support for policy formation and to allow for closer Fund surveillance.

It is expected that the next Article IV consultation with St. Vincent and the Grenadines will be held on the standard 12-month cycle.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/97/114 (11/26/97) and EBM/97/115 (12/3/97).

5. EXECUTIVE BOARD COMMITTEES AND EVALUATION GROUP—NOMINATIONS

The Executive Board approves the proposal by the Managing Director concerning renewals in membership and changes in committee assignments as set forth in EBD/97/131 (11/25/97).

Adopted December 2, 1997

6. APPROVAL OF BOARD MINUTES

The minutes of Executive Board Meetings 97/58, 97/76, and 97/98 are approved.

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Director as set forth in EBAM/97/188 (11/26/97) and EBAM/97/190 (12/1/97) and by an Assistant to Executive Director as set forth in EBAM/97/187 (11/21/97) is approved.

APPROVAL: June 8, 1998

REINHARD H. MUNZBERG
Secretary