

FOR  
AGENDA

EBS/85/256  
Supplement 1

CONFIDENTIAL

November 22, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Tanzania - Overdue Financial Obligations to the Fund -  
Review of Decision on Complaints Under Rule K-1 and Rule S-1,  
and Notice of Failure to Settle Trust Fund Obligations

The attached supplement to EBS/85/256 (11/20/85) has been prepared on the basis of additional information. A revised draft decision appears on pages 2 and 3.

Att: (1)

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INTERNATIONAL MONETARY FUND

Tanzania - Overdue Financial Obligations to the Fund -  
Review of Decision on Complaints Under Rule K-1 and Rule S-1,  
and Notice of Failure to Settle Trust Fund Obligations

Prepared by the Treasurer's, African, and Legal Departments

Approved by W. O. Habermeier, A. D. Ouattara, and G. P. Nicoletopoulos

November 22, 1985

This is to inform Executive Directors that confirmation has been received of a payment of SDR 1.9 million by Tanzania. <sup>1/</sup> This is the first payment that has been received from Tanzania since the member fell into arrears in March 1985; it has the effect of reducing Tanzania's total overdue obligations to the Fund to SDR 18.3 million.

In the paper for the Board's review on November 25 of its decision to limit Tanzania's use of the Fund's resources (FBS/85/256, 11/20/85), the draft decision provided, in view of the lack of any payment by Tanzania at the time of the paper's issuance, for a declaration of ineligibility with effect on January 6, 1986. It was mentioned, however, that if payment were made by the time of the review, other options would be considered and the staff would intend to present an appropriate alternative decision for the consideration of Executive Directors.

In telexes from the Tanzanian Minister of Finance and the Governor of the Bank of Tanzania that arrived following the payment (attached), it was indicated that another payment of SDR 1.1 million would be effected before end-December 1985 and that a program would be submitted according to which periodic payments would be made so as to be current with the Fund within eighteen months at a maximum. Tanzania's total arrears have risen from SDR 8.0 million at the time of the complaint to SDR 18.3 million at present. In considering other options, the following may be relevant.

Liberia had made no payment since the issuance of the complaint at the time of the first review, its arrears had risen from SDR 19.8 million to SDR 40.2 million, and the Board decision provided for a

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<sup>1/</sup> The payment received was equivalent to SDR 1,881,927. It fully discharged the CF repurchase of SDR 1,875,000 due March 15, 1985, leaving a small balance of SDR 6,927. The staff is in contact with the authorities regarding the attribution of this amount. The remaining overdue obligations amount to SDR 18,317,933.

further review in three months' time with an expectation of ineligibility. Between the first and second reviews (the latter is scheduled for November 25), Liberia has made payments of SDR 17.7 million and total arrears to the Fund have decreased from SDR 40.2 million to SDR 34.3 million. In view of this, two alternative decisions have been presented for the consideration of the Executive Board at the second review (EBS/85/257, 11/19/85): immediate ineligibility in line with the expectation expressed at the first review; or ineligibility to become effective in six weeks' time if Liberia has not become current by that date.

Sierra Leone made payments of SDR 3.0 million between the issuance of the complaint and the first review, and indication of another payment of SDR 1.0 million was received just before the review. Nonetheless, Sierra Leone's arrears rose from SDR 4.0 million to SDR 8.5 million. In this case, the Board decided on a further review in three months' time without an expectation of ineligibility or consideration of further steps.

Tanzania's case would appear to fall somewhere in between those of Liberia and Sierra Leone at the comparable (i.e., first review) stage. Some payment has been received as well as the indications mentioned above regarding future payments. An approach which would appear consistent with these earlier precedents, and which would be in keeping with the indication in EBS/85/256 that if payment were made a lesser action could be proposed, would be for the Board to adopt a decision setting a further review within three months and indicating that if Tanzania were not current with the Fund at that time, consideration would be given to the appropriateness of further steps, including the possibility of declaring Tanzania ineligible to use the Fund's general resources and suspending its right to use SDRs. Such a decision was taken at the time of the second review in the cases of Guyana, Nicaragua, and Sudan. This decision would also appear appropriate in light of the new Government in Tanzania, the Minister's and Governor's telexes, and the Article IV mission that is scheduled for early December; the mission will discuss with the highest priority prompt clearance of the remaining arrears, and would be in a position to provide a progress report upon its return.

If this approach were deemed acceptable by the Executive Board, paragraph 2 and paragraph 4 of the draft decision in EBS/85/256 could be replaced and the draft decision would therefore read as follows:

DRAFT DECISION

1. The Fund has reviewed Decision No. 8056-(85/126), adopted August 26, 1985, in light of the facts described in EBS/85/256, November 20, 1985, pertaining to Tanzania's overdue financial obligations to the Fund.

2. The Fund welcomes the payment made by Tanzania on November 21, 1985. However, the Fund regrets the continuing nonobservance by Tanzania of its financial obligations to the Fund and notes that further substantial obligations will fall due in the near future. The Fund urges the Tanzanian authorities to make full and prompt settlement of the overdue financial obligations to the Fund.

3. The Fund calls on Tanzania to adopt urgently a strong and comprehensive program that would result in necessary economic adjustment.

4. The Fund shall again review Decision No. 8056-(85/126) not later than February 24, 1986, taking into account any further developments. Unless at the time of that review Tanzania is current in its financial obligations to the Fund, the Fund will consider the appropriateness of further steps, including the possibility of declaring Tanzania ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a), and of suspending the right of Tanzania to use SDRs it acquires after the date of the review pursuant to Article XXIII, Section 2(b).

Attachments

22.11.85

IMF

INTERFUND ATT. MR. J. DE LAROSIERE, MANAGING DIRECTOR

DEAR MANAGING DIRECTOR,

I ACKNOWLEDGE RECEIPT OF YOUR TELEX OF 20 NOVEMBER ON TANZANIA'S OVERDUES TO THE FUND. THIS LIABILITY HAS BEEN A MATTER OF GREAT CONCERN TO THE GOVERNMENT. HOWEVER AS YOU ARE AWARE OUR EXTERNAL PAYMENTS SITUATION OVER THIS YEAR HAS BEEN EXTREMELY TIGHT. THE GOVERNMENT IS DOING ITS UTMOST TO DEAL WITH THE SITUATION. THE COLLAPSE OF THE PRICES OF OUR MAJOR EXPORT COMMODITIES COUPLED WITH DELAYED SHIPMENTS HAVE MADE THIS ALREADY TIGHT SITUATION WORSE.

NOTWITHSTANDING THIS SITUATION, EFFORTS ARE BEING MADE TO PROGRESSIVELY REDUCE THE OVERDUES WITH A VIEW TO BEING CURRENT IN OUR INSTALLMENTS PAYMENTS IN DUE COURSE. IN THIS CONNECTION BANK OF TANZANIA HAS ALREADY REMITTED SDRS 1.875.333. ANOTHER PAYMENT WILL BE EFFECTED BEFORE END DECEMBER 1985. THE BANK OF TANZANIA IS SUBMITTING TO THE FUND A PROGRAMME ON HOW THE BALANCE OF OVERDUES WILL ULTIMATELY BE CLEARED.

I HOPE THAT MANAGEMENT WILL APPRECIATE THIS SITUATION AND BRIEF THE EXECUTIVE BOARD ACCORDINGLY SO THAT THIS MATTER CAN BE TREATED WITH UNDERSTANDING. I LOOK FORWARD TO YOUR COOPERATION.

REGARDS

C. D. MSUYA

MINISTER FOR FINANCE, ECONOMIC AFFAIRS PLANNING

Received in Cable Room, November 22, 1985.

MR. E. I. MTEI  
EXECUTIVE DIRECTOR  
IMF  
WASHINGTON DC

MR. J. DE LAROSIERE  
MANAGING DIRECTOR  
INTERFUND

22-11-85

I HAVE RECEIVED YOUR TELEX OF 21-11-85 SENT TO MINISTER MSUYA REGARDING OUR OUTSTANDINGS WITH THE FUND. PLEASED TO INFORM YOU THAT YESTERDAY WE REMITTED THROUGH FED RESERVE NEW YORK TO THE FUND SDR 1,875,000 REPRESENTING THE OBLIGATION OF 15-3-85. WE ALSO WILL PAY SDR 1,089,530 WHICH WAS DUE ON 1-4-85 BEFORE THE END OF DECEMBER 1985. WE WILL SUBSEQUENTLY BE MAKING REGULAR PERIODIC PAYMENTS SO AS TO BE CURRENT WITHIN EIGHTEEN MONTHS. WE WILL AIM AT A SHORTER PERIOD.

REGARDS

C. M. NYIRABU  
GOVERNOR  
BANK OF TANZANIA  
DAR ES SALAAM

PLEASE NOTE THAT WE HAVE TODAY SENT THE ABOVE QUOTED MESSAGE TO THE MANAGING DIRECTOR

REGARDS  
BANK OF TANZANIA  
DAR ES SALAAM

Received in Cable Room November 22, 1985.

